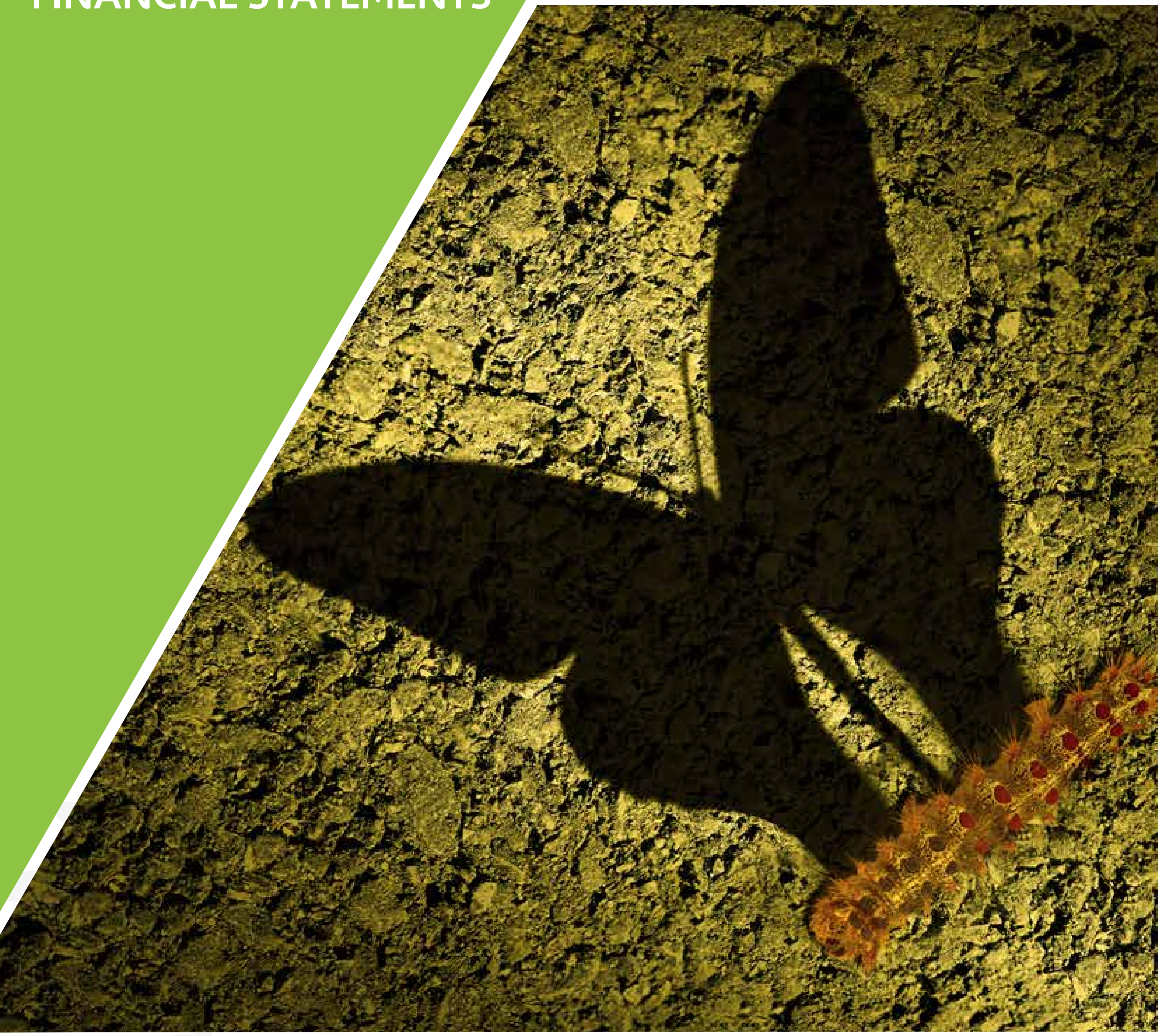
2018

INTEGRATED REPORT AND FINANCIAL STATEMENTS

nairobi securities exchange

Discover Opportunity



As the world revolves, we evolve

REAL ESTATE INVESTMENT TRUSTS (REITs)

EXCHANGE TRADED FUNDS (ETFs)

OFFERING INVESTORS ACCESS TO A WIDE

NSE nairobi securities exchange
Discover Opportunity

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ABOUT THIS REPORT

Our Approach to Reporting

The Nairobi Securities Exchange (NSE) is proud to present the integrated report for the period January 1, 2018 to December 31, 2018. The report aims at providing a holistic overview of how our business has created value to all its stakeholders including shareholders and highlighting the use of different forms of capital and the related outcomes.

The report will cover the Exchange's Strategy, Financial, Operational, Social and Environmental performance as well as highlight the opportunities and challenges presented to the business in the context of its operations which is influenced by local and international macro-economic factors. The report will thus provide our stakeholders relevant information to foster a deeper understanding of our impact to the economy and society at large.

Purpose

The NSE has made a deliberate choice to communicate its growth story through an Integrated Report; as we appreciate that traditional standards for measuring value and financial growth no longer provide a comprehensive picture of the company. We believe that entrenching such practices into our business will help drive improved governance practices through more inclusive identification and management of current and future opportunities and risks.

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

Scope of this Report

The NSE is an Investment Services company and reference to the "Group" will denotes NSE and its subsidiary and structured entities.

Preparation and Presentation

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

Assurance

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

GEOFFREY O. ODUNDO
CHIEF EXECUTIVE

NSE HISTORY

1920s to 1953

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

1991

The NSE was registered as a private company limited by shares. Share trading moved from being conducted over a cup of tea (at the Exchange Bar at the Stanley Hotel), to the floor based open outcry system.

2006

The NSE implemented live trading on its own Automated Trading System (ATS) trading equities. The ATS also had the capability of trading immobilized corporate bonds and treasury bonds.

April 2008

The NSE launched the NSE Investment Challenge to promote financial literacy and stock market investments amongst Kenyan youth.

2009

The NSE marked the first day of automated trading in government bonds through the ATS and uploaded all government bonds on the System.

July 2011

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

Jan 2013

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

NSE HISTORY (Continued)

June 2014

The NSE received formal approval from the Capital Markets Authority (CMA) to operate as a demutualized entity. The NSE also received formal approval from the CMA to offer its shares to the public through an Initial Public offer (IPO) and to self list it shares.

Sept 2014

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

Oct 2015

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

July 2016

The NSE received formal recognition as a Self-Regulatory Organization (SRO) by the Capital Markets Authority (CMA).

June 2017

The NSE became the first Exchange in the East African region to introduce Exchange Traded Funds (ETFs) and subsequently listed the Barclays New Gold ETF.

Jan 2018

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

Dec 2018

The NSE launched its incubation and acceleration program dubbed *Ibuka* (meaning 'emerge' in Swahili) to offer companies the opportunity to grow their businesses and develop scalable and impactful business models.

NSE PURPOSE AND VALUES

The Nairobi Securities Exchange (NSE) is the principal bourse in Kenya, offering an automated platform for the listing and trading of multiple securities. The NSE has consistently offered a well-regulated, robust and world class platform for the trading of equities and bonds.

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

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

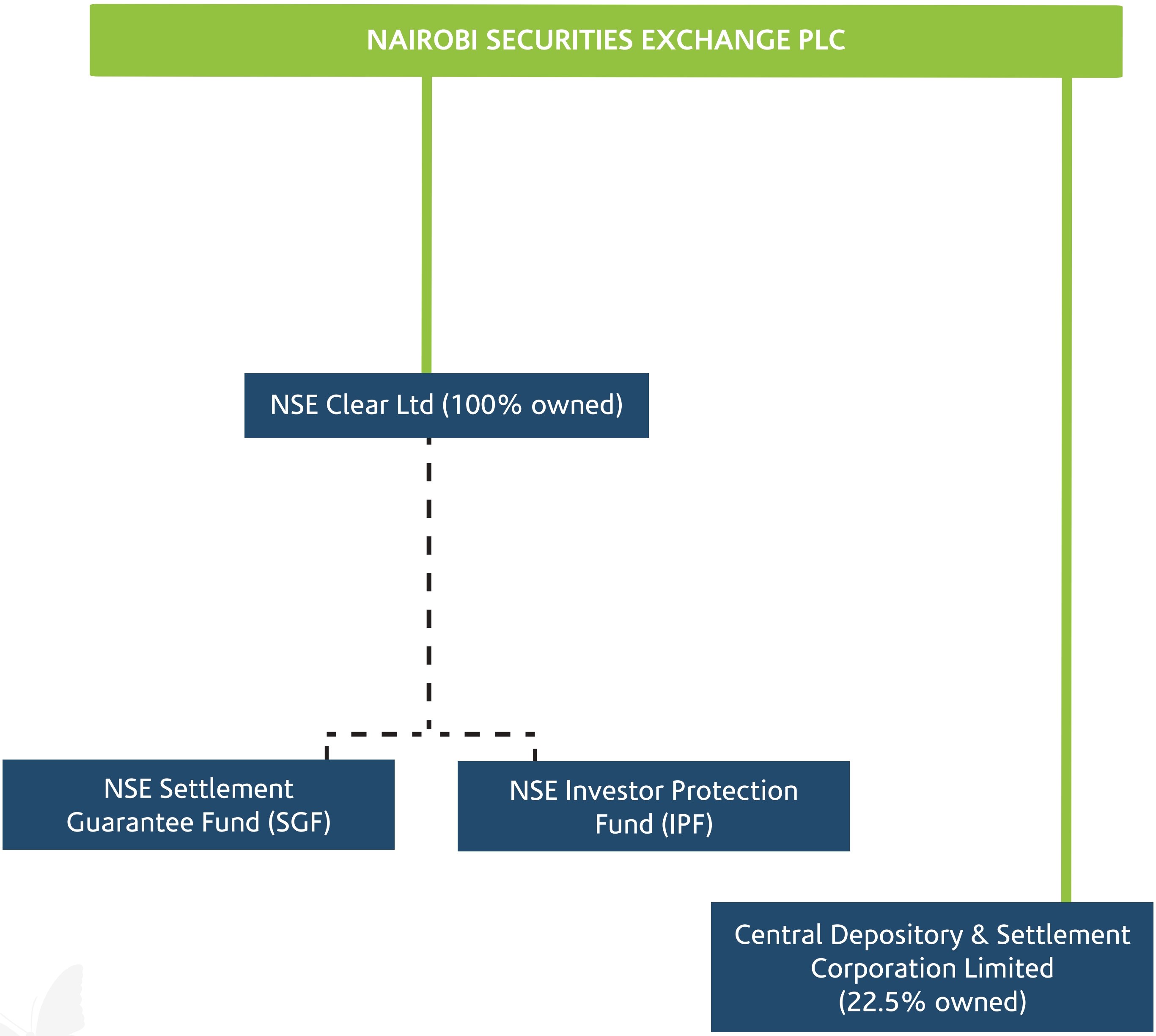
OUR VISION
To be a leading securities exchange in Africa, with a global reach

OUR MISSION
To provide a world class securities trading facility

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

OUR CORE VALUES
Ethics. Integrity. Confidentiality. Excellence. Innovation

NSE STRUCTURE



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

CORPORATE INFORMATION

Directors

Mr. Samuel Kimani	Chairman
Mr. Bob Karina	Vice Chairman
Ms. Sharon Maviala	
Mr. Hosea K. Kili	
Ms. Nasim Devji	
Mr. Michael Turner	
Mr. Paul Vollant	
Mr. Paul Mwai	
Ms. Risper Alaro	
Mr. Kiprono Kittony	
Mr. Geoffrey O. Odundo	Chief Executive

Secretary

John Maonga
Maonga Ndonye Associates
Certified Secretaries
P.O. Box 73248 - 00200
Nairobi, Kenya

Registered Office

L.R. No 209/18851
The Exchange, 55 Westlands Road
P.O. Box 43633 - 00100
Nairobi, Kenya

Bankers

Kenya Commercial Bank Limited
Moi Avenue Branch
P.O. Box 30081 – 00100
Nairobi, Kenya

Co-operative Bank of Kenya Limited
Westlands Branch
P.O. Box 48231 – 00100
Nairobi, Kenya

Auditor

PricewaterhouseCoopers
PwC Tower
Waiyaki Way/Chiromo Road
P.O. Box 43963 - 00100
Nairobi, Kenya

Legal Advisers

Hamilton Harrison & Mathews
Delta Office Suites, 1st floor
Block A, Off Waiyaki Way
P.O. Box 30333 - 00100 GPO
Nairobi, Kenya

Mboya Wangong'u & Waiyaki Advocates
Lex Chambers
Maji Mazuri Road, Off James Gichuru Road,
Lavington
P.O. Box 74041 – 00200
Nairobi, Kenya

Walker Kontos Advocates
Hakika House
Bishops Road
P.O. Box 60680 – 00200
Nairobi, Kenya

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Samuel Kimani, Chairman

Mr. Kimani, 57, holds an MBA in Strategic Management and a BSc. in Civil Engineering, both from the University of Nairobi. He is a certified Public Accountant of Kenya (CPA-K) and a graduate of the Advanced Management Program (AMP 177) from Harvard University.

Mr. Kimani was appointed Chairman of the NSE Board on March 21, 2012. He has a wealth of experience in the banking industry having served as the immediate former Managing Director and Chief Executive Officer of Jamii Bora Bank Ltd. He has also served as the Deputy CEO and Finance Director of the Kenya Commercial Bank (KCB) Group.

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

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

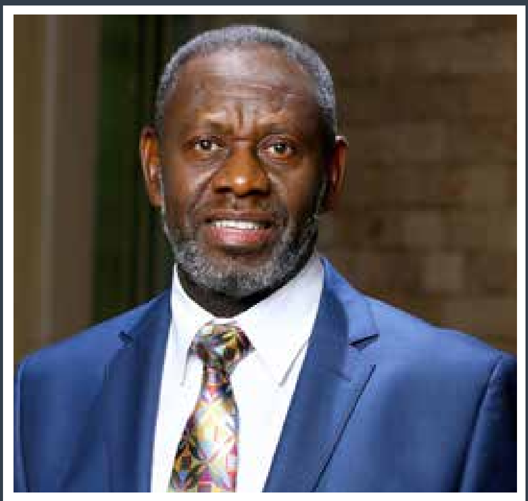
Bob Karina, Vice Chairman

Mr. Karina, 66, holds an MSc in Corporate Finance from the University of Liverpool, in the UK in addition to key technical and professional qualifications.

Mr. Karina was appointed Vice Chairman of the NSE Board on March 21, 2012. He is the Founder and Chairman of Faida Investment Bank. He is an accomplished Stockbroker, Corporate Finance Specialist and Research Analyst having served as the Chairman of Association of Kenya Stockbrokers (AKS) Nominees Ltd and Founder Member of the Institute of Certified Investment and Financial Analysts (ICIFA).

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

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



Nasim Devji

Mrs. Devji, 65, is a Fellow of the Institute of Chartered Accountants of England and Wales, a Fellow of the Kenya Institute of Bankers, a Fellow of the Institute of Directors (Kenya) and an Associate of the Institute of Taxation (United Kingdom).

Mrs. Devji was appointed a Board Director of the NSE on March 21, 2012. She is also the Managing Director and Group Chief Executive Officer of Diamond Trust Bank (DTB).

Mrs. Devji is a Director of DTB Tanzania, DTB Uganda, DTB Burundi, Jubilee Insurance Burundi and Diamond Trust Insurance Agency Limited.

Sharon Maviala

Ms. Maviala, 44, holds an MBA in Strategic Management from the United States International University - Africa and a Bachelor's Degree in Law from the University of Reading (UK). She is a member of the Law Society of Kenya (LSK), Institute of Certified Public Secretaries, Women on Board Networks, Institute of Directors and a Certified Professional Mediator.

Ms. Maviala was appointed a Board Director of the NSE on March 21, 2012. Her executive leadership is marked by over 12 years of senior leadership experience in legal and corporate services. She is the General Manager at Horizons Group Limited, a serviced and managed offices solutions provider with footprints in Kenya, Ghana, and Nigeria, where she provides in-house legal leadership on local business as well as on growth and expansion strategies.

Previously, she held numerous leadership roles including Corporate Services Director, Chief Legal Officer and Company Secretary in the real estate, insurance and financial services sectors.

Hosea Kili

Mr. Kili, 56, holds an MBA in Strategic Management from the Management College of Southern Africa (MANCOSA) and a Bachelors of Law (LLB). He is an Advocate of the High Court of Kenya, Fellow of the Institute of Certified Public Secretaries of Kenya - FCPS(K) and Fellow Member of the Kenya Institute of Management.

Mr. Kili was appointed a Board Director of the NSE on March 21, 2012. He is the Group Managing Director and CEO of CPF Financial Services Ltd. Mr. Kili is the former Chairperson of the East & Central Social Security Association (ECASSA), a regional social security body. He has extensive training and experience in legal issues, corporate governance, management and investment of pension schemes. He is currently serving as the Chairman, Association of Pension Administrators of Kenya (APAK).

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.

Paul Vollant

Mr. Vollant, 35, holds an MSc in Business Administration from the ESDES Business School at the Catholic University of Lyon (France) and is a Graduate of the Australian Institute of Company Directors.

Mr. Vollant was appointed a Board Director of the NSE on June 02, 2016. He is the General Manager for business development at TNG Limited, an Australian listed company focused on developing the world class Mount Peake project. Paul is responsible for the company's commercial developments and trading.

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

BOARD OF DIRECTORS (Continued)

Michael Turner

Mr. Turner, 60, holds a first class degree in Civil Engineering. He is a Fellow of the Institute of Chartered Accountants in England & Wales.

Mr. Turner was appointed a Board Director of the NSE on March 26, 2015. He is the Managing Director of Actis Limited in East Africa and is responsible for Actis's USD 300 million Private Equity Fund with investment in Energy and Real Estate in East Africa.

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

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

Paul Mwai

Mr. Mwai, 51, holds an MBA from Strathmore University and a Bachelors of Business from the University of Southern Queensland. He holds an Investment Management Certificate from UK Society for Investment Professionals and is an Associate Member of the Chartered Institute of Bankers. He is an Authorized Representative for the Growth Enterprise Market Segment (GEMS) of the NSE.

Mr. Mwai was appointed a Board Director of the NSE on May 30, 2018. He is the Chief Executive of AIB Capital and the Chairman of the Kenya Association of Stock Brokers and Investment Banks (KASIB). He has over twenty years' experience in the financial services industry including fund management and investment banking.

He has worked in various departments within the Barclays Group, including Barclays Merchant Finance Ltd (BMFL) and Barclays Dealing Centre, before joining the Barclay-trust Investment Services Group in 1998 as a Fund Manager. He served as a Senior Portfolio Manager at Old Mutual Asset Managers following the acquisition of Barclay-Trust by Old Mutual in October 2002 and as an Asset Allocation Strategist. He joined AIB Capital in February 2012 from African Alliance Investment Bank where he was Chief Executive.

Risper Alaro-Mukoto

Ms. Alaro, 43, holds an MBA in Finance from the United States International University - Africa and a Bachelor's Degree in Business Management from Moi University. She is a fellow of the Association of Chartered Certified Accountants (ACCA), a member of the Institute of Certified Public Accountants of Kenya (ICPAK), an International Coach Federation Associate Certified Coach (ACC), and a Certified Executive Leadership Coach. She is a fellow of the Archbishop Desmond Tutu Africa Leadership Fellowship.

Ms. Alaro was appointed a Board Director of the NSE on May 30, 2018. She also serves as a Non-Executive Director on the Board of BK Group PLC, and is a practicing Executive Leadership Coach. She previously served Centum Group PLC as Managing Director of one of its subsidiaries; Centum Business Solutions, and as the Group Finance & Operations Director.

Mr. Kiprono Kittony

Mr. Kittony, 54, holds a Bachelor of Commerce (Bcomm), Bachelor of Law (LL.B) both from the University of Nairobi and a Global Executive MBA from the United States International University (USIU).

Mr. Kittony was appointed a Board Director of the NSE on May 30, 2018. He is the current National Chairman of the Kenya National Chamber of Commerce & Industry, the premiere business membership organization in Kenya. He is an established entrepreneur and business leader having served in several capacities including being the immediate past Chairman of the Media Owners Association, an influential lobby group of Kenyan media.

He has been widely credited with the revival of the Kenya National Chamber of Commerce & Industry which has been restored to its past glory through a series of transformative initiatives undertaken during his tenure.

He serves as the chair of the Credit Reference Bureau Kenya Limited, AAR Insurance Limited, Mtech Limited and Radio Africa Group (which he co-founded in 2000). He serves on the Business Advocacy Fund amongst others, and also sits on the advisory council of International Fund for Health in Africa (IFHA) an Amsterdam based private equity fund and is one of two representatives in the Global Council in of the World Chambers Federation.

Geoffrey Odundo, Chief Executive

Mr. Odundo, 50, holds a Master's degree in Strategic Management and an undergraduate degree in Mathematics and Economics. He is an Advanced Management Program (AMP) graduate from Strathmore Business School.

Mr. Odundo was appointed Chief Executive of the NSE on March 3, 2015. He is an accomplished Investment Banker having been in the financial services sector for the last 27 years, 21 of which have been in the Capital Markets.

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

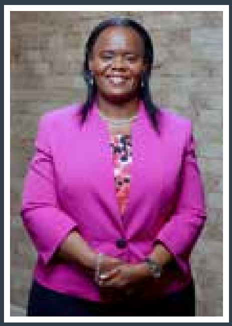
Mr. Odundo has advised on a number of corporate finance mandates in both the public and private sectors; he has also managed key mandates in the asset management industry. He has contributed to the growth of the Capital Markets in his previous role as a Director/Board Secretary - Kenya Association of Stock Brokers and Investment Banks, Chairman of the Financial Standards Committee - Kenya Bureau of Standards as well as the Board Director of the Nairobi Securities Exchange PLC. Mr. Odundo serves as a Director of the Central Depository and Settlement Corporation (CDSC) Limited, Director of the NSE Clear Limited; and a trustee of the NSE Fidelity Funds.

He is a member of the Central Bank Consolidative Forum for Domestic Debt Market (CFDDM) and a Council Member of the Institute of Certified Investment Financial Analysts (ICIFA). Mr. Odundo is also a board member of the Africa Securities Exchanges Association (ASEA), a Director of the East African Securities Exchanges Association and a Member of the Thomson Reuters Africa Customer Advisory Network.

EXECUTIVE COMMITTEE MEMBERS

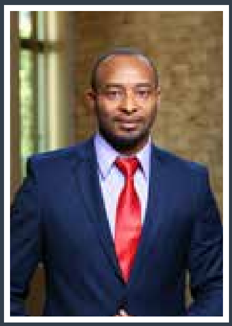
Geoffrey Odundo
Chief Executive

Kuria Waithaka
Legal and Corporate Affairs Director

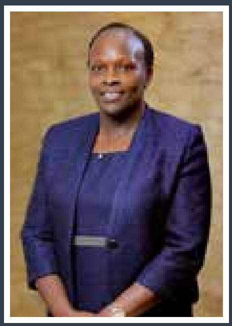


Jane Kiarie
Finance and Administration Director

Terrence Adembesa
Derivatives Market Director

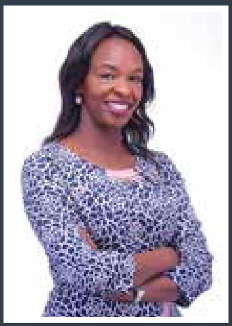


Paul Ngaragari
Internal Audit Director



Lucy Kamar
Head, Human Capital

Caleb Kivuva
Operations and Technology Director



Bahati Morara
Business Development and Commercial Director

Tom Kimaru
Regulatory Affairs Director

THE CHAIRMAN'S STATEMENT

Dear Shareholders

The year 2018 was significant for the capital markets in Kenya and the world at large. The year had mixed reactions that affected growth and performance of various markets globally. However, driven by strong core values and sharp focus on our strategic objectives and priorities, I am happy to report that we remained resilient to record strong results in the wake of challenging macro-economic factors.

The year saw emerging and frontier markets experience immense pressure on account of steady rise in interest rates and bond yields in developing economies, strengthening of the US Dollar and trade disputes which shifted investors' sentiments and confidence in the year. The aforementioned saw high movement of capital from frontier markets to developed markets. Consequently, price corrections due to capital outflows caused considerable drops in Equities in our market.

Despite the macroeconomic headwinds, the NSE continued to show resilience to consolidate its position as leading securities Exchange in the region with a global reach outperforming most African Markets in dollar returns.

Our spirited performance despite the aforementioned challenges is a testament of our focus and commitment to effectively execute our strategy in line with our vision whilst maximizing shareholder returns.

The Board is committed to ensuring the company remains focused to delivering value to you the shareholder.

As a premier Exchange that attracts global and local investors, our operations are drastically affected by significant macro-economic and geo-political developments. As I Apprise you on the growth of the company, we must first appreciate the business environment we operate in to contextualize the company's performance for the period under review.

Samuel Kimani
Chairman of the Board

Global Economic Review

According to the International Monetary Fund (IMF), the global economy started the year on a high momentum recording a global growth rate of 3.8% driven by a pickup in global manufacturing and trade through 2017.

The momentum was however affected by fundamental macro-economic developments such as the implementation of tariffs by major economies such as the United States and retaliatory measures taken by others like China. This resulted in high uncertainty in trade policy which negatively affected economic growth.

Global economic growth is projected to decline to 2.9% in 2019 according to the World Bank, given the slowing growth in developed economies and decline in emerging markets. Momentous macro-economic and geopolitical changes such United Kingdom Brexit move, China-US trade wars and financial crises in Argentina and Turkey will weigh heavily on growth.

African Economic Review

According to the African Development Bank (AFDB), the continent's general economic performance continued to show resilience posting a 3.5% growth on the back of a relatively higher commodity prices, infrastructural investments and improved capital markets access. In the medium term, Africa's GDP growth is projected to accelerate to 4.0% in 2019 and 4.1% in 2020 (AFDB).

Economic growth was broad with non-resource rich countries growing at a faster rate in comparison to resource rich countries supported by higher agricultural production, rising consumer demand and growing investments. Commodity exporting countries such as Nigeria and South Africa saw mild economic growth posting an economic growth rate of 1.9% and 0.8% respectively (World Bank).

Despite Africa's economic growth prospects being high, the continent is likely to face daunting challenges on account of economic trade wars, normalization of interest rates in advanced economies and high uncertainty in global commodity prices. Additionally, elections and political transitions as well as security concerns could also have a negative effect on growth.

The continent's general economic performance continued to show resilience posting a 3.5% growth.

3.5%

Global economic growth is projected to decline to 2.9% in 2019, given the slowing growth in developed economies and decline in emerging markets.

2.9%

Kenya's Economic Review

According to the Kenya National Bureau of Statistics, Kenya has seen significant political and economic milestones supporting economic growth. Kenya's economy grew by an estimated 6.3% against a target of 5.8%. The performance was largely driven by a stable micro-economic environment, rebound in tourism, stable oil prices and government investments in strategic infrastructure projects.

Kenya was ranked 61 among 190 economies in ease of doing business in 2018 by the World Bank reflecting a positive change of 23.7%.

Private sector credit growth remained relatively low below 5% lower than the recommended ideal figure of between 12% and 15%.

The Kenyan economy is projected to grow at an average rate of 6.01% in 2019 on account of stable economic environment and continued investments in infrastructure.

Financial Performance

The NSE's ability to record strong financial results underscores our commitment to generate sustainable returns and maximize shareholder value.

During the year, the NSE Group recorded topline growth with total income increasing by 4% from Kshs. 753 million in 2017 to Kshs. 782 million in 2018. This was driven by a 2% and 29% increase in equity and bonds turnover in 2018.

A revaluation deficit on the valuation of the NSE Building and a salary review alignment in 2018 affected the Group's profitability with Profit after Tax for the year reducing 12% year on year to Kshs. 191 million.

The NSE continued to maintain a solid balance sheet with total assets increasing by 5% to Kshs. 2.2 billion as at December 31, 2018.

A comprehensive review of the 2018 financial performance is highlighted in the Chief Executive's statement.

THE CHAIRMAN'S STATEMENT (Continued)

Dividend Policy

The Board and Management of the NSE is cognizant of the importance of dividends to owners of capital. Our dividend policy places special focus on growing shareholder returns, maintaining strong capital ratios whilst supporting the company's future growth and expansion strategies.

In line with our growth dividend policy and resilient financial performance, the Board of Directors is pleased to propose an ordinary dividend of Kshs. 0.49 per share (comprising of an ordinary dividend of Kshs. 0.29 per share and a special dividend of Kshs. 0.20 per share) up 63% from the dividend of Kshs. 0.30 per ordinary share declared in 2017.

Strategic Partnerships

We continued to explore various opportunities of driving growth at an enterprise level at cost. This was spearheaded through seeking partnerships with local and global players in the market.

In line with the above, the NSE signed a Memorandum of Understanding (MoU) with ELITE-London Stock Exchange Group's International Business support and capital raising programme, and Financial Sector Deepening (FSD) Africa to facilitate the development of the ELITE programme in Kenya. Once launched the programme will enable select Kenyan companies to scale up their businesses, access a network of industry experts and a community of international investors hence preparing them for their next phase of growth, listing on the NSE.

As part of our commitment to grow expert knowledge and expertise among players in the market, we signed an MoU with Zamara Actuaries and Management Consultants to offer specialized courses on securities and investments.

In the same spirit, the NSE sought and received accreditation as a training partner for the Chartered Institute for Securities and Investments (CISI), the largest and most widely respected professional finance and investments examinations body for securities and investments profession in the United Kingdom.

The said MoUs and the accreditation will enable us ensure professionals get requisite knowledge and skills that will give them a competitive edge in the capital markets industry.

Future Outlook

I am optimistic that our future is bright and our prospects even brighter. Over the course of the last few years, we have made great progress in developing one of the best capital market infrastructures in Africa anchored on strategic investments in our capital products and cutting edge technology.

Having built the requisite foundation, this year we will place special focus on growing the uptake of already developed products through deliberate marketing and go to market strategies. We will increase interaction with investors and issuers in order to grow the number of listed Real Estate Investments Trusts and Exchange Traded Funds in our market. We are also keen on launching the Derivatives Market in 2019.
The Kenyan economy is projected to grow at a rate of 6.01% supported by positive economic outlook, renewed confidence in the business environment and the Government's investments in the Big Four Agenda.

To spur listing, we have developed a premium incubation and acceleration program for high growth companies. The program will enable grow visibility and strengthen company's structure of select companies as they prepare for their next phase of growth - Listing on the NSE.

We will focus on enhancing operational efficiencies through optimization of resources and reduction of costs to ensure shareholder value is maximized within the business.

To cushion the Exchange against periodic revenue drops occasioned by exits in the market, we have doubled efforts to increase annuity income through the growth of other business segments. Through the year, the NSE will focus on growing revenues from data and training services segments.

Appreciation

Our success in 2018 would not have been possible without the expert and strategic guidance of the Board. I want to take this opportunity to express my gratitude to my colleagues on the Board for the unwavering support accorded to me and the company during the year.

I want to sincerely thank the NSE staff and management team for their tenacity, hard work and dedication in the fulfillment of the company's objectives. We will continue to drive a culture of innovation and excellence among our employees for business growth.

I would also like to thank our shareholders for entrusting us with their capital. We will endeavor to provide sustainable long term returns on investment through strategic investments, partnerships and prudent management of resources.

Finally, on behalf of the Board, I would like to thank our issuers, trading participants, domestic and international investors for supporting the market during the year. We look forward to a great year as we continue to offer a world class platform to investors looking to gain exposure to Kenya's and Africa's economic growth.

Samuel Kimani
Chairman of the Board

THE CHIEF EXECUTIVE'S STATEMENT

Dear Shareholders

In 2018, the NSE outperformed most African markets in dollar returns despite the bear run, helped by the Kenya shilling's gain on the dollar versus the depreciation seen on most regional currencies. It was a year of resilience, recovery and innovative growth for the Kenyan Economy as well the NSE. The company recorded a strong performance despite the uncertainty caused by macro-economic factors. The year also saw the NSE launch a number of products in line with its strategy to increase the number of products as well as increase the number of listed companies on the Bourse.

Geoffrey Odundo
Chief Executive

Trading Performance

During the year, the company registered an overall good performance across all markets, a sign of our continued leadership among premier markets in Africa.

Equity trading accounted for 54% of the Group's revenue. During the year, equity turnover increased by 2.34% from Kshs. 171 billion in 2017 to Kshs. 175 billion in 2018.

Foreign investor participation averaged 64.96% in 2017 to 64.51% in 2018, a less than 1% decline. During the same period, secondary trading activity in the Fixed Income Securities Market rose by 29% from Kshs. 435 billion in 2017 to Kshs. 562 billion in 2018.

The Exchange's benchmark index, the NSE 20 recorded a decrease of 23.66% from 3,711.94 points at the close of December 2017 to close at 2,833.84 points at the close of trading in December 2018. The NSE All Share Index (NASI) dropped by 17.97% from 171.20 points in 2017 to close at 140.43 points in 2018 while Market capitalization dropped by 16% from Kshs. 2.5 trillion in 2017 to Kshs. 2.1 trillion in 2018.

Fixed Income Securities Market rose by 29% from Kshs. 435 billion in 2017 to Kshs. 562 billion in 2018.

29%

Group Performance

The Group's profit after tax reduced by 12% from Kshs 216 million in 2017 to Kshs 191 million in 2018 due to increased administrative costs. Operating income increased by 3% from Kshs. 607 million in 2017 to Kshs. 626 million in 2018 mainly due to higher equity turnover. Interest income increased by 17% from Kshs. 99 million in 2017 to Kshs. 116 million in 2018 due to prudent management of funds.

Administrative expenses increased by 13% from Kshs. 496 million in 2017 to Kshs. 560 million in 2018 mainly arising from a salary review alignment that was done in 2018 and a revaluation deficit on the valuation of the NSE building.

Total assets increased nominally by 5% from Kshs. 2.1 billion in 2017 to Kshs. 2.2 billion in 2018. Shareholder funds grew by 4% from Kshs 2.01 billion in 2017 to Kshs 2.09 billion in 2018.

Return on equity decreased to 9.1% in 2018 from 10.8% in 2017 and return on assets decreased to 8.6% in 2018 from 10.4% in 2017. Cost income ratio increased from 66% in 2017 to 72% in 2018 due mainly to the salary review alignment and revaluation deficit on the building.

Delivering on the Group's Strategy

The NSE is continuously working with key market stakeholders to grow the existing products. In 2018, the Group achieved key milestones in line with it's mission and corporate strategy. The NSE gained admission as a full member of the World Federation of Exchanges (WFE). The membership will give the NSE the opportunity to participate in major decision making forums on policy and regulatory matters pertaining to global capital markets.

The NSE launched its incubation and acceleration programme dubbed Ibuka, which means ''emerge'' in Kiswahili. Ibuka will play a critical role in enabling Kenyan businesses access the capital markets and thus ease their listing journey and experience.

The NSE also launched its premium mobile application, the NSE App in an effort to democratize access to the NSE and also deepen the market. Additionally, the NSE hosted the inaugural National Real Estate Investment Trusts (REITs) Conference in partnership with the REITs Association of Kenya (RAK) to spur activity in the REITs Market.

> *Ibuka* will play a critical role in enabling Kenyan businesses access the capital markets and thus ease their listing journey and experience.

Our People

Our people are the most valuable intangible asset. They contribute majorly to our performance, growth and development as an Exchange. In 2018, we continued to invest in our employees to inculcate a highly innovative, diverse and robust culture in line with our strategic needs. We invested Kshs. 9.6 million in training and professional development of our people to help deepen skills and knowledge of the market.

We have continued to nature talent by ensuring that a pool of talent is ready and available to be deployed when need arises. This has been enabled through our graduate trainee program which came to place in 2018.

We also continue to tap into our internal pool of talent as a priority in supporting vacancies where necessary. On leadership, we introduced a series of defined leadership training for our top management to propel them to continue creating an empowering working environment for their team members.

In 2018, we welcomed six new employees in various cadres.We also conducted a salary review to align our remuneration package with prevailing market rates. This is in line with our Human Capital strategy of attracting, recruiting and retaining top talent for current and future needs.

Future Outlook

Our expectations on the economic activities and the general business environment in Kenya are positive going into 2019. The Government's investment in the Big Four Agenda will create new opportunities for businesses to grow. According to the International Monetary Fund (IMF), Kenya's GDP is expected to grow to 6.01% due to improved performance in various sectors, including real estate, tourism, manufacturing and agriculture.

The NSE will in the coming year focus on enhancing uptake of its various products. With the broadening of our product offering, companies can now tap into various forms of capital including debt, equity and Real Estate Investment Trusts to raise funds for their businesses. We also embarked on the full roll-out of the Ibuka program which is an incubation and accelerator platform for providing companies with visibility, capacity building and networking opportunities on a hosted basis. From a product development perspective, we envisage to launch the Derivatives Market this year. The NSE will continue to focus on its innovative strategy and in the coming year deliver its products through more accessible digital channels. During the year, we intend to support the issuance of the M-Akiba retail bond program and in addition promote sustainable financing through issuance of green bonds.

In 2019, the NSE will strengthen its operational efficiency through optimisation of its resources and management of costs.

According to the IMF, Kenya's GDP could grow to 6.01% due to improved performance in various sectors, including real estate, tourism, manufacturing and agriculture.

6.01%

Appreciation

I would wish to thank all our stakeholders for their continued support in 2018 as we continue to build the company into a leading Exchange in Africa. I would like to thank the NSE team for all the hard work they put in this year and their dedicated efforts at making the year prosperous. I look forward to our continuous partnership through the next chapter of our journey.

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

The NSE has a reputable and successful history behind it and we have so much more in store. We have always maintained high corporate governance standards that have enabled us to give value back to our shareholders. I am certain of our aptitude to maintain the growth of the company and continue to create brilliant innovations.

Geoffrey Odundo
Chief Executive

2018 HIGHLIGHTS

1. NSE Gains Full Admission to the World Federation of Exchanges

In February 02 2018, the NSE received admission as a full member of the World Federation of Exchanges (WFE) following a unanimous approval of NSE's application by the Federation's Board.

The NSE now joins an elite cadre of global leaders in the capital markets industry such as the New York Stock Exchange, London Stock Exchange and Intercontinental Exchange among others hosted by the Federation.

The admission is in line with NSE's strategy of growing a vibrant capital market in Kenya supported by enhanced local participation which is integrated with global financial markets. The WFE full membership also underscores our commitment to implement the highest standards of global best practices in our operations.

As a full member of the WFE, the NSE will be able to participate in major decision making forums on policy and regulatory matters pertaining to the global capital market. The Exchange will also benefit from the rich interactions that the WFE offers with a view to promoting the development of NSE's business and operations.

2. Ring the Bell for Gender Equality

In commemoration of the 2018 International Women's Day, the NSE joined over 60 Stock Exchanges across the globe to Ring the Bell for Gender Equality on March 8, 2018 to raise awareness on the importance of gender equality to both businesses and sustainable development.

Dr. Winnie Nyamute, NSE Board Member (now former) rings the bell to promote Gender Equality as Mr. Kuria Waithaka, NSE Legal and Corporate Affairs Director and partners from International Finance Corporation (IFC), UN Global Compact and UN Women look on.

The ceremony was followed by a full day training for business women in Kiambu County. The training which was held in partnership with the UN Global Compact, UN Women and the International Finance Corporation (IFC) aimed at economically empowering women on the savings and financial opportunities available within the capital markets.

As a member of the United Nations (UN) Sustainable Stock Exchanges (SSE) initiative, the NSE is committed to taking strategic steps to realize the UN Sustainable Development Goal (SDG) five of achieving gender equality by empowering all women and girls.

Women trained during the Ring the Bell for Gender Equality event.

5 GENDER EQUALITY

> *NSE is committed to taking strategic steps to realize the UN Sustainable Development Goal (SDG) five of achieving gender equality by empowering all women and girls.*

3. NSE Hosts the Building African Financial Markets Seminar

Deputy President William Ruto makes his keynote speech during the official opening ceremony of the 7th BAFM Seminar.

The NSE hosted the 7th Building African Financial Markets (BAFM) Seminar themed ***Adaptive Innovation as a Lever for Growth and Sustainable Development of African Financial Markets*** on April 19-20, 2018.

The two day seminar was an initiative by the African Securities Exchanges Association (ASEA) which the NSE is the Secretariat. Attended by over 200 delegates across 28 countries, the BAFM seminar aimed at engaging with delegates on key developments and changes in the African financial markets. The seminar brought together industry leaders and experts to explore opportunities and challenges in Financial Technology (FinTech), Regulatory Technology (RegTech), Cyber Security and emerging developments such as the use of Blockchain.

The seminar was officially opened by the Deputy President of the Republic of Kenya, Hon. William Ruto. He underpinned NSE's position as a leading frontier market in Africa and stated that the Exchange is on course to making Nairobi an International Finance Centre.

4. NSE Signs Memorandum of Understanding with ELITE

(From Right-Front Row) NSE Chief Executive Geoffrey Odundo, FSD Africa CEO Mark Napier, ELITE CEO Luca Peyrano, sign the MoU as President Uhuru Kenyatta (back right) and UK Secretary of State for International Development, Rt Hon Penny Mordaunt MP look on.

The NSE signed a Memorandum of Understanding (MoU) on April 17, 2018 with ELITE - London Stock Exchange Group's (LSEG) business support and capital raising programme and Financial Sector Deepening (FSD) Africa to facilitate the development and launch of the ELITE Programme in Kenya.

The signing of the MoU in London was witnessed by President of the Republic of Kenya, H.E. Uhuru Kenyatta and United Kingdom Secretary of State for International Development, Penny Mordaunt MP.

The MoU commits the three parties to undertake initiatives that will culminate with the launch of the ELITE Programme in Kenya. The parties will among other things; conduct feasibility work, identify a group of eligible small and medium sized enterprises (SMEs), select a business school partner and develop the Kenya ELITE network of advisors and investors.

Once launched, the ELITE programme will enable select Kenyan companies to scale up their businesses, access a network of industry experts and a community of international investors hence preparing them for their next phase of growth, listing on the NSE.

> *The MoU commits the three parties to undertake initiatives that will culminate with the launch of the ELITE Programme in Kenya.*

2018 HIGHLIGHTS (Continued)

5. NSE Co-Hosts the Kenya Petroleum Capital Markets Day

Delegates participate in a market open at the London Stock Exchange.

The NSE and the London Stock Exchange Group (LSEG) co-hosted their maiden conference themed: Kenya Energy and Petroleum Capital Markets Day on October 29, 2018.

The event aimed at showcasing Kenya's Energy and Petroleum sector and providing an insight into investment opportunities in Kenya's capital market to investors and market participants in London.

The inaugural conference brought together Kenya's capital markets stakeholders, thought leaders in Kenya's Petroleum and Energy sector as well as leading market participants in London.

6. Launch of NSE App

NSE Chief executive Mr. Geoffrey Odundo (second from left) is joined by other stakeholders in using the NSE App to view market information.

In its effort to reach a larger number of retail investors, the NSE launched its premium mobile application, the NSE App on June 5, 2018. The NSE App enables investors, media, financial advisors and the general public, access real time stock prices, market analytics, economic statistics, financial news, market snapshots and the NSE Broker Directory. Additionally, corporate actions are visible through the analytics module of the application.

The launch of the mobile based application comes against a backdrop of increased mobile access and internet penetration in Kenya that will see the NSE meet the growing demand for speed and convenience in receiving market related information among investors.

The application will also enable the public to monitor activity in the market easily allowing them take advantage of opportunities in the capitals markets on a real time basis.

7. NSE Signs a Memorandum of Understanding with Zamara

NSE Chief Executive, Mr. Geoffrey Odundo (left) joins his counterpart Mr. Sundeep Raichura, Chief Executive Officer, Zamara Actuaries and Management Consultants (right) in signing the MoU.

The NSE signed a Memorandum of Understanding (MoU) on July 11, 2018 with Zamara Actuaries and Management Consultants on a training partnership aimed at enhancing financial literacy to improve investors' knowledge and launch to the Zamara Kenya Equity Index.

The MoU will also enable the two parties undertake high quality trainings and education initiatives focused on investment which will enable Kenyans to achieve financial freedom. The partnership will commit the parties to make a meaningful difference and help to create a more financially secure and prosperous society.

The Zamara Equity Index will offer investors a fully investible index that can be used as a fair benchmark for institutional investors including pension funds and insurance companies investing in the NSE.

2018 HIGHLIGHTS (Continued)

8. NSE becomes an Accredited Training Partner of the Chartered Institute for Securities and Investments

(From Left) CISI East Africa Regional Representative Mr. Kimacia Gitau hands over the accreditation certificate to NSE Chief Executive, Mr. Geoffrey Odundo, during the accreditation ceremony.

As part of NSE's commitment to enhance financial knowledge among players in the Kenyan capital market, the Exchange sought and received accreditation as a training partner of the Chartered Institute of Securities and Investments (CISI) on October 2018. CISI is the largest and most widely respected professional finance and investments examinations body for securities and investments profession in the United Kingdom.

The accreditation will enable the NSE offer three main trainings focusing on; International Introduction to Securities and Investments, Kenya Regulation and Market Practice and Derivatives.

The accreditation will ensure professionals get requisite knowledge and skills that will give them a competitive edge in today's capital markets industry.

The accreditation is aligned with NSE's goal of increasing financial literacy and building capacity for the capital markets in Kenya against global standards. Additionally, the accreditation will also enable the NSE increase annuity income by offering premium training services to capital markets' players.

9. The NSE Charity Trading Day

Renowned musician Nyamari Ongegu (Nyashinski)poses with Equity Investment Bank broker Mr. Kevin Nginge during the 2018 NSE Charity Trading Day.

(From Left) Ms. Nana Gecaga, CEO Kenyatta International Convention Centre (KICC) and Ambassador Amina Mohammed, then Cabinet Secretary, for Education pose for a photograph during the Charity Trading Day.

The NSE raised over Kshs. 7.5 million in sponsorship in its fourth edition of the Charity Trading Day held on November 2, 2018 bringing the total contribution over the past four years to Kshs. 30 million.

The Charity Trading Day is NSE's flagship Corporate Social Responsibility initiative that brings together the capital markets' stakeholders and known personalities in Kenya to make calls to investors on behalf of Trading Participants encouraging them to make trades with an aim of raising funds to support various charitable causes in Kenya.

Over the course of four years, the NSE has made significant contribution towards various wildlife and humanitarian initiatives through the Charity Trading Day. The NSE is committed to supporting various charitable causes in Kenya as it seeks to impact the community it operates in and the people who make the Exchange a sustainable business.

The 2018 beneficiaries included; We the Change Foundation, Joy Children's Home, SOS Children's Home, Association for the Physically Disabled of Kenya (AFDK) and Borana Conservancy.

10. NSE Investment Challenge

NSE Vice-Chairman, Mr. Bob Karina, hands over a cheque to the 2018 NSE Investment Challenge winner, Ms. Maureen Kibet, during the awards ceremony.

The NSE held its 2018 Investment Challenge from April to August 2018. The NSE Investment Challenge is NSE's flagship public education initiative aimed at enhancing financial literacy amongst the youth while inculcating a savings and investments culture.

The NSE Investment Challenge is an online simulation of trading for securities listed on the NSE. During the competition, each participating individual or group receives Kshs. 3 million virtual capital to buy shares, bonds and other securities listed on the NSE using real time stock prices provided by the NSE through the Automated Trading System.

The annual competition takes place for three months, following which participating teams are evaluated based on their portfolio returns.

The online competition leverages on increased mobile phone and internet penetration in Kenya to spur an investment culture among the youth thus nurturing a new crop of future investors.

Since its inception, the competition has attracted over 100,000 youth educating them with fundamental financial and investments skills for personal development and growth.

11. Bank of Kigali Group Cross-Lists on the NSE

Bank of Kigali Group PLC cross-listed on the NSE on November 30, 2018 becoming the first Rwandese company to tap into the Kenyan capital market further entrenching NSE's position as the leading securities Exchange in the region enabling local and international companies access cost-effective capital.

The cross-listing was part of the Group's capital raising programme that aimed at; strengthening the Group's investor base, enhancing liquidity of its stock as well as harnessing its growth opportunities in line with its corporate vision of becoming the leading provider of the most innovative financial solutions in the region.

The Group which is Rwanda's largest lender in assets enjoys a countrywide footprint with operations across banking, insurance and investments.

Bank of Kigali Group Board and Senior Management join part of NSE's Board and key guests in ringing the bell to mark the Group's cross-listing on the NSE.

12. Launch of *Ibuka*

The NSE Chief Executive, Mr. Geoffrey Odundo (fourth from left), joins guests and stakeholders for a photo during the launch of Ibuka.

The NSE launched its incubation and acceleration program dubbed ***Ibuka*** (means 'emerge' in Swahili) to offer companies the opportunity to grow their businesses and develop scalable and impactful business models. Through Ibuka NSE hosts select Kenyan companies with high growth prospects with an aim of enhancing their visibility and brand recognition, enhancing capital markets understanding and access, providing access to expert consultancy and advisory services as well as provide a roadmap for long-term corporate sustainability.

The program will enable companies unlock their growth potential through a well-structured program that places a special focus on improving companies business structures as they prepare for their next phase of growth, listing on the NSE.

CORPORATE GOVERNANCE STATEMENT

Overview

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

The Role of the Board

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

The Key Responsibilities of the Board include:

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

Division of Responsibilities

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

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

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

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

Board Composition

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

a) Five (5) Independent and Non-Executive Directors;
b) One (1) Non-Executive Director
c) Two (2) Directors appointed to represent Trading Participants;
d) Two (2) Directors appointed to represent Listed Companies; and
e) One (1) Executive Director.

Below is the current composition of the Board:

Mr. Samuel Kimani	Chairman/Independent Non-Executive Director
Mr. Bob Karina	Vice Chairman/Trading Participant/Non-Executive Director
Ms. Nasim Devji	Listed Companies/Non-Executive Director
Mr. Michael Turner	Listed Companies/Non-Executive Director
Mr. Paul Mwai	Trading Participant/Non-Executive Director
Ms. Sharon Maviala	Independent Non-Executive Director
Mr. Hosea K. Kili	Independent Non-Executive Director
Mr. Kiprono Kittony	Independent Non-Executive Director
Ms. Risper Alaro	Independent Non-Executive Director
Mr. Paul Vollant	Non-Executive Director
Mr. Geoffrey O. Odundo	Chief Executive

The Directors' abridged profiles appear on pages 8-11 of this Integrated report.

Board Committees

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

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

Other than the Derivatives Market Oversight Committee and Trading, Technology & Innovation Committee which have external resource persons, all other Committees are now composed of Board members only.

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

a) Finance & Strategy Committee

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

b) Trading, Technology & Innovation Committee

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

c) Listing and Admissions Committee

The Listing and Admissions Committee is mandated to review and recommend approval of applications for admission to listing of new equity securities in any of the market segments, to recommend approval of applications for admission of new Trading Participants, new listing of securities and /or recommending suspension of listing of securities for a predetermined period as may be necessary and restoration of such securities to listing in line with the laid out procedures.

d) Derivatives Market Oversight Committee

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

e) Self-Regulatory Organization (SRO) Committee

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

The committee is also tasked with enforcing compliance of Capital Market Laws, Regulations, Rules, Guidelines and Directives by all Trading Participants and Issuers of Securities. Additionally, the committee reviews compliance with continuing listing obligations by listed companies and to make recommendations to the Board on the necessary action for non-compliance which include imposing penalties and other sanctions.

f) Audit, Risk & Compliance Committee

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

g) Remuneration, Nominating & Human Capital Committee

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

Members and attendance of these Committees are provided on pages 28 – 30

CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD & BOARD COMMITTEES' MEMBERSHIP AND NUMBER OF MEETINGS HELD AND ATTENDED IN 2018

Director	Classification	Designation	Membership / Attendance	Board	Finance & Strategy Committee	Trading, Technology & Innovation Committee	Audit, Risk & Compliance Committee	Listing & Admissions Committee	Self-Regulatory Organization (SRO) Committee	Remuneration, Nominating & Human Capital Committee	Derivatives Market Oversight Committee
S Kimani	Non-executive	Chairman -Board Chairman -Listings & Admission Committee	Membership	✓				✓			
			Attendance	7/7				0/0			
B Karina	Non-executive	Vice Chairman – Board Chairman - Trading, Technology & Innovation Committee	Membership	✓	✓	✓		✓		✓	
			Attendance	7/7	4/4	4/4		0/0		6/6	
S Maviala	Non-executive		Membership	✓			✓ ***	✓	✓		✓
			Attendance	7/7			2/2	0/0	4/4		3/4
H Kili	Non-executive	Chairman - Self-Regulatory Organization (SRO) Committee	Membership	✓	✓		✓	✓	✓	✓	
			Attendance	7/7	2/4		4/5	0/0	4/4	5/6	
Dr. W Nyamute*	Non-executive		Membership	*≠			**	**	**	**	
			Attendance	4/4			3/3	0/0	2/2	1/2	
M Turner	Non-executive	Chairman - Finance & Strategy Committee	Membership	✓	✓			✓	✓ **		✓
			Attendance	7/7	3/4			0/0	1/4		3/4

*** Dr. Winnie Nyamute retired as a director on 30th May 2018**
**** Stepped down from the Committee on 18th June 2018**
***** Appointed to the Committee on 18th June 2018**

CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD & BOARD COMMITTEES' MEMBERSHIP AND NUMBER OF MEETINGS HELD AND ATTENDED IN 2018

Director	Classification	Designation	Membership / Attendance	Board	Finance & Strategy Committee	Trading, Technology & Innovation Committee	Audit, Risk & Compliance Committee	Listing & Admissions Committee	Self-Regulatory Organization (SRO) Committee	Remuneration, Nominating & Human Capital Committee	Derivatives Market Oversight Committee
J Mbaru*	Non-executive		Membership	*	***	***		***			
			Attendance	2/4	0/2	1/2		0/0			
J Mworia*	Non-executive		Membership	*	***	***		***			***
			Attendance	3/4	1/2	1/2		0/0			1/2
N Devji	Non-executive	Chairperson - Remuneration, Nominating & Human Capital Committee	Membership	✓			✓	✓		✓	
			Attendance	7/7			5/5	0/0		6/6	
P Vollant	Non-executive		Membership	✓	✓			✓		✓****	
			Attendance	5/7	4/4			0/0		2/2	
R Alaro**	Non-executive	Chairperson - Audit, Risk & Compliance Committee*****	Membership	✓**			✓****	✓****	✓****	✓****	
			Attendance	3/3			2/2	0/0	2/2	2/2	
P Mwai**	Non-executive		Membership	✓**	✓****	✓****		✓****			
			Attendance	3/3	2/2	2/2		0/0			
K Kittony**	Non-executive		Membership	✓**	✓****	✓****		✓****			✓****
			Attendance	2/3	1/2	1/2		0/0			1/2
G Odundo		Chief Executive	Membership								
			Attendance	7/7	4/4	4/4	5/5	0/0	4/4	6/6	4/4

* Mr. Jimnah Mbaru and Mr. James Mworia retired as directors on 30th May 2018

** Ms. Risper Alaro, Mr. Paul Mwai, Mr. Kiprono Kittony were appointed as directors on 30th May 2018

*** Stepped down from the Committee on 18th June 2018

****Appointed to the Committee on 18th June 2018

***** Appointed as Chairperson of the Committee on 18th June 2018

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

BOARD COMMITTEES' MEMBERSHIP AND NUMBER OF MEETINGS HELD AND ATTENDED IN THE YEAR 2018

Name	External Resource Committee Members	Derivatives Market Oversight Committee
S Mwangi	Chairperson - Derivatives Market Oversight Committee	4/4
E Kigen	Membership	4/4
H Muga	Membership	2/4
A Mulisa	Membership	2/4
J Swai	Membership	4/4

Name	External Resource Committee Members	Trading, Technology & Innovation Committee
I Onyango*	Membership	1/4
N Kahoya*	Membership	1/4
F Moturi *	Membership	2/4
F Mwangi*	Membership	2/4
Chair - Fund Managers Association*	Membership	1/4

* Appointed to the Committee on 18th June 2018

NAIROBI SECURITIES EXCHANGE CORPORATE GOVERNANCE FACT SHEET

Number of Board Members	11
Number of Independent Non-Executive Directors	5
Number of Non-Executive Directors	1
Number of Non-Executive Directors representing Trading Participants	2
Number of Non-Executive Directors representing Listed Companies	2
Number of Executive Directors	1
Number of women on the Board	3
Separate Chairman and CEO	Yes
Terms of Reference for Board Committees	Yes
Independent Audit Committee	Yes
Number of financial experts on Audit Committee	3
Number of Board Meetings held in 2018	7
Number of Annual General Meetings in 2018	1
Re-election of Directors in accordance with Articles of Association	Yes

CAPITAL STRUCTURE

a) Share capital

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

b) Top 20 Shareholders at 31 December 2018

No	Shareholder	Number of shares	%
1	Standard Chartered Kenya Nominees Limited A/C KE002374	41,764,400	16.0940%
2	Standard Chartered Kenya Nominees Limited A/C KE22446	25,248,413	9.7300%
3	Stanbic Nominees Limited A/C NR1030823	12,523,399	4.8260%
4	Standard Chartered Kenya Nominees Limited A/C KE003414	11,612,856	4.4750%
5	Stanbic Nominees Limited A/C NR1030824	9,236,167	3.5590%
6	The Investor Compensation Fund Board	8,750,000	3.3720%
7	The Permanent Secretary to The Treasury	8,750,000	3.3720%
8	Standard Chartered Kenya Nominees Limited A/C KE002382	7,611,967	2.9330%
9	Sterling Capital Limited	7,000,000	2.6975%
10	Nyaga Stock Brokers Limited (Under Statutory Management)	7,000,000	2.6975%
11	Discount Securities Limited (In Liquidation)	7,000,000	2.6975%
12	ABC Capital Limited	7,000,000	2.6975%
13	Kingdom Securities Limited	7,000,000	2.6975%
14	Renaissance Capital (Kenya) Limited	7,000,000	2.6975%
15	Old Mutual Securities Limited	5,415,700	2.0870%
16	Standard Chartered Nominees Non-resident A/C 9661	4,536,800	1.7480%
17	Dyer & Blair Investment Bank Limited	4,300,000	1.6570%
18	Standard Chartered Kenya Nominees Limited A/C KE002373	4,000,000	1.5420%
19	NIC Securities Limited	3,500,000	1.3490%
20	Stanbic Nominees Limited A/C NR1031142	3,446,874	1.3280%
	Top 20 shareholders	192,696,576	74.2570%
	Others	66,804,215	25.7430%
	Total issued shares	259,500,791	100.000%

c) Distribution of Shareholders at 31 December 2018

	Number of Shareholders	Number of shares	%
Less than 500	2,224	412,385	0.159%
501 – 5,000	9,699	12,854,077	4.953%
5,001 – 10,000	619	4,445,658	1.713%
10,001 – 100,000	595	15,541,405	5.989%
100,001 – 1,000,000	54	13,529,315	5.214%
Above 1,000,000	32	212,717,951	81.972%
Total	13,223	259,500,791	100.000%

CAPITAL STRUCTURE (Continued)

d) Shareholder Analysis by Domicile at 31 December 2018

	Number of Shareholders	Number of shares	%
Individual investors			
Local	12,363	32,713,262	12.606%
East African	87	373,104	0.144%
Foreign	106	3,883,703	1.497%
	12,556	36,970,069	14.247%
Institutional investors			
Local	639	92,105,219	35.493%
East African	9	136,393	0.052%
Foreign	19	130,289,110	50.208%
	667	222,530,722	85.753%
Total	13,223	259,500,791	100.000%

e) Directors Holding Shares at 31 December 2018

	Number of shares	%
Mr. Samuel Kimani	8,000	0.003%
Mr. Hosea Kili	4,400	0.002%
Ms. Nasim Devji	45,600	0.018%
Mr. Bob Karina	85,300	0.033%
Mr. Geoffrey Odundo	49,000	0.019%
Total	192,300	0.075%

CORPORATE GOVERNANCE POLICY STATEMENTS

Code of Corporate Governance Principles

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

In compliance with the Code, NSE sought to conduct a Governance Audit and the Legal & Compliance Audit. This was with a view to laying the framework for the establishment of an on-going governance compliance program in order to ensure the Board's goals, structure and operations are consistent with the Corporate Governance principles.

Strategic Business Solutions International Limited (SBSIL) was appointed to carry out the Governance and Legal & Compliance Audits. Although it was the first time for NSE to go through a comprehensive Governance Audit and the Legal & Compliance Audit, the Company scored very well.

The noted areas of improvement were mainly around the Strategic planning and implementation process, which NSE is in the process of addressing as we review, craft and formulate the 2020-2024 Strategic Plan with the help of the PricewaterhouseCoopers (PWC).

In related matters, the NSE, Kenya Commercial Bank and Safaricom tied as the Top 3 companies with the best corporate governance practices among listed companies in Kenya in 2018. This was according to the annual Cytonn Corporate Governance Report – 2018 whose ranking is based on 24 metrics that consider different aspects of governance. The aforementioned include board composition, ethnic and gender diversity, board meeting attendance, board independence, remuneration, and overall transparency.

Board Charter

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

The NSE Board Charter outlines the:

a) Roles, functions, responsibilities and powers of the Board, individual directors and the officials and executives of the NSE;
b) Powers delegated to various Board Committees of the NSE; and
c) Policies and practices of the Board in respect of matters such as corporate governance, trading by directors, declarations and conflicts of interest, Board meeting documentation and procedures and the nomination of directors, training and evaluation of directors and members of Board committees.

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

Board Diversity

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

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

The Board Profiles on pages 8-11 have more details on age, gender and qualifications among other factors.

Board Induction and Training

The NSE Board has established a formal induction program for the Board. All Board members receive induction on joining the Board and are updated on the various skills and knowledge at regular intervals. Board members are provided with necessary orientation in the areas of the Company's business (the Company's operations, product offerings, regulatory framework and the business environment) in order to enhance their effectiveness. They are also introduced to their fiduciary duties and responsibilities. The Board has also put in place training programs for its members.

Board Remuneration

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

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

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

CORPORATE GOVERNANCE POLICY STATEMENTS (Continued)

Code of Ethics and Conduct

The Company has a Code of Ethics and Conduct Policy. All Board members and NSE employees are required to uphold the highest standards of integrity, morality, ethical standards and confidentiality in line with NSE's core values of ethics, integrity, confidentiality, innovation and excellence. The performance on ethics has been good and is monitored periodically with all staff having to sign the Annual Code of Conduct Attestations.

NSE recognizes that ethical practices brings sustainable business. We are committed to playing a proactive role in a globally competitive and prosperous nation operating on ethical business standards as evidenced by our involvement in various ethical and sustainable initiatives such as the UN Global Compact, being signatory the Code of Ethics for Business in Kenya among others.

Whistleblowing

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

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

Insider Dealing

The NSE has an insider trading policy guided by Sections 32A – 33 of Part VI of the Capital Markets Act (Cap 485A) which prohibit insider trading. The policy provides procedures and guidelines with respect to transactions in the NSE securities, the protection of Insider Information and the standard of conduct expected of the NSE directors, officers and employees. Internal stakeholders are made aware that they ought not to trade in the Company's shares while in possession of any insider information that is not available to the public or during a closed period. NSE's closed period covers between 1st January until publication of full year results and 1st July until publication of half year results.

Conflict of Interest

The Board has put in place a policy to manage conflict of interest. As a procedure, Directors declare any real or perceived conflict of interest with the Company and such disclosures are reflected in the Minutes of the Board and Committee's meeting. The Company Secretary maintains and updates the register of declared conflict of interest. The Board is appraised on the statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company.

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

Board Evaluation

The Board undertakes an annual evaluation of its performance, against the set objectives. The Board does this by engaging the assistance of external consultants to facilitate formal Board evaluation. For the period under review, Board performance evaluations for the Full Board and the various committees are scheduled to be conducted at the end of May 2019. The findings of the evaluation will be presented to the Board for discussion.

Enterprise Risk Management

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

(More notes on page35 - 36)

Information and Communication Technology

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

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

The Exchange has in place relevant ICT policies, procedures as well as enforcing the practices that are congruent to these policies.The Management and staff are actively driving a cybersecurity conscious culture within the organization. There is commensurate investment in setting up controls and monitoring tools to assure the various stakeholders of security in access and use of the ICT assets of the organization.

Procurement

We have in place a robust Procurement Policy that ensures appropriate risk assurance, integrity in all procurement activities, consistency across the organizations purchasing practices and openness and transparency of decision making when dealings with suppliers/service providers.The policy is based on notable principles: namely, value for money, open and fair competition, risk management, accountability and building mutually beneficial relationships with our suppliers. A Management Tender Committee oversees the award of tenders and reports to the Finance and Strategy Committee of the Board based on the limits as set out in the Procurement Policy and Procedures.

ENTERPRISE RISK MANAGEMENT (ERM) FRAMEWORK

The NSE's enterprise risk management (ERM) framework and risk aware culture, enables the Company to respond to a dynamic business environment with significant regulatory change, drive business performance, Innovate and grow, and protect and enhance value for our stakeholders:

Risk Culture and Key Principles

The NSE embeds a risk culture, where strategy, performance management and risk management are linked thus ensuring that risks and opportunities are effectively identified and managed appropriately. The risk culture is actively promoted by the Chief Executive and Executive Committee. The Chief Executive and overall Executive Committee discusses the NSE risk profile on a monthly basis and more regularly as necessary. Focused risk initiatives and awareness programmes are in place to improve operational stability and operational resilience. Risk management is incorporated into performance measurements, with clear risk accountability.

Governance of Risk

The Board retains the ultimate responsibility for the oversight of risk. The Audit, Risk and Compliance Committee (ARCC) assists the Board and:

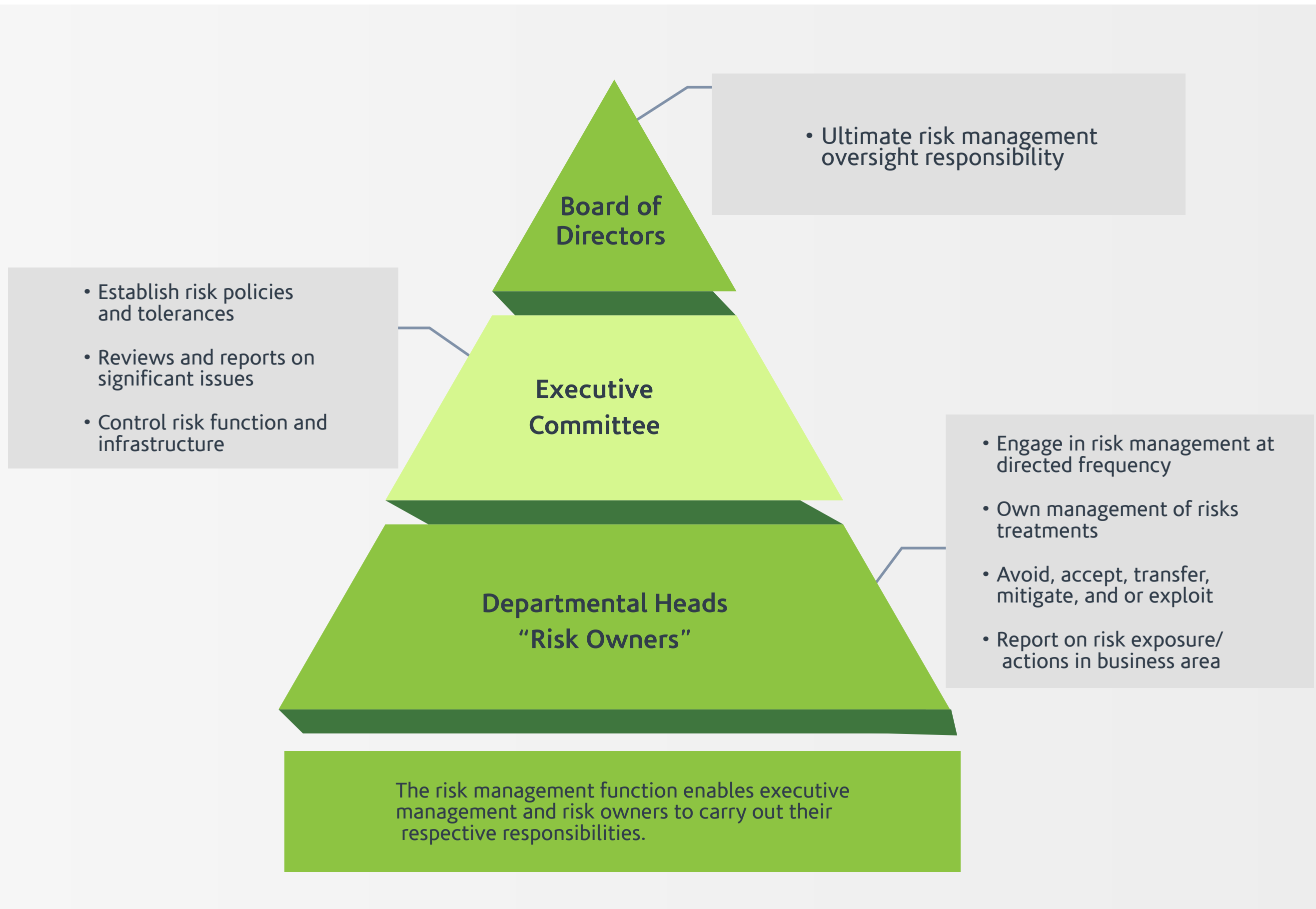
- provides risk management oversight by monitoring the implementation of the NSE ERM framework;
- drives corrective actions in instances where risks manifest as incidents; and
- is responsible for the review of all risk-related policies, frameworks and roadmaps, to ensure alignment to the Board's stance on risk management.

The Executive Committee is accountable to the Board for implementing the agreed risk management principles and monitoring the process of ongoing risk management. The executive head of each business unit is accountable to ensure adherence to these principles and for integrating effective risk management practices into day-to-day operations, in line with the NSE's risk management framework and policies

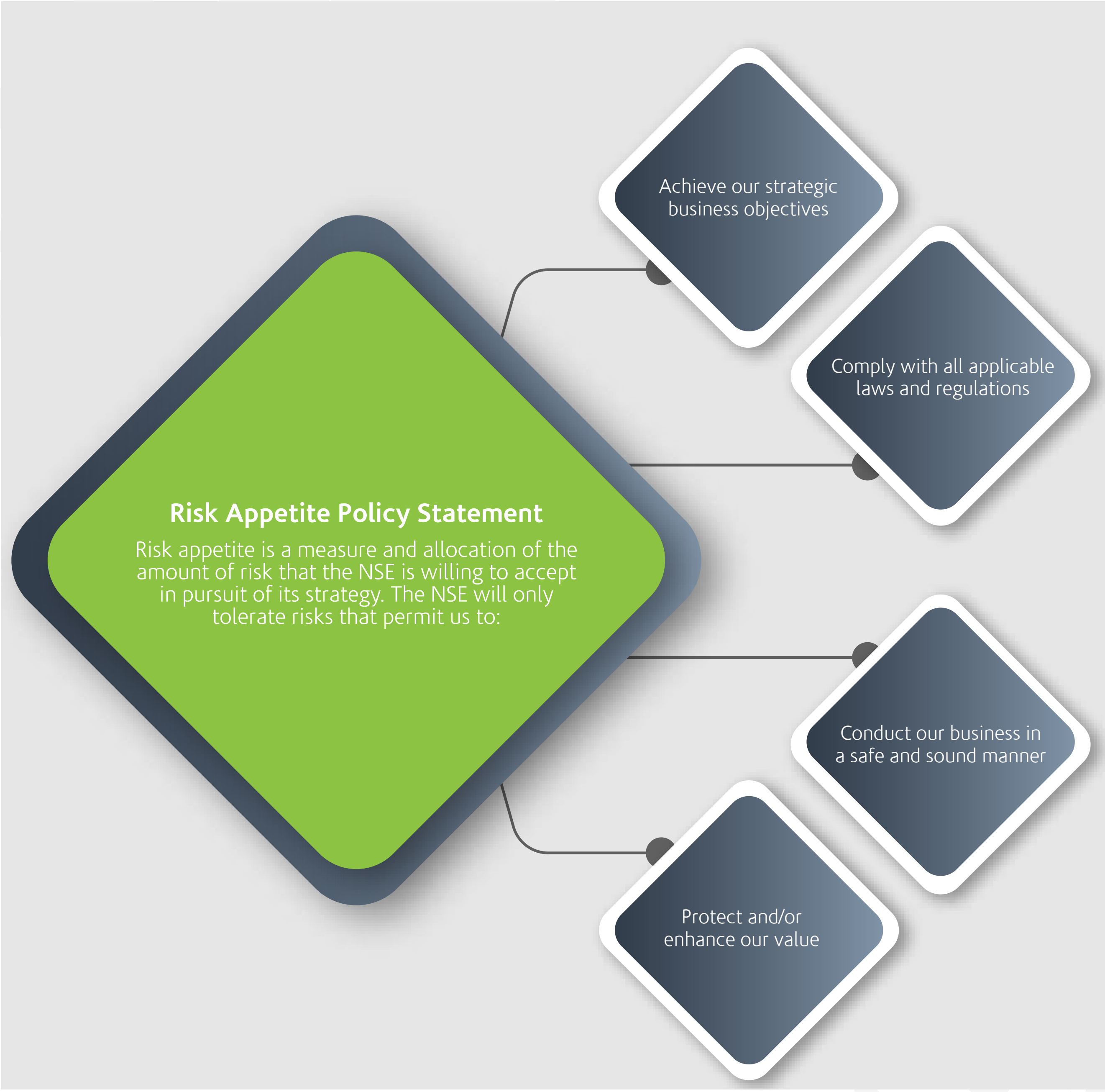
The Strategy, Risk and Compliance Department provides coordination and advisory role on strategic, operational, financial and compliance risk management with risks champions drawn from each department responsible for identification, monitoring and reporting of the key risks and incidents facing their functional units.

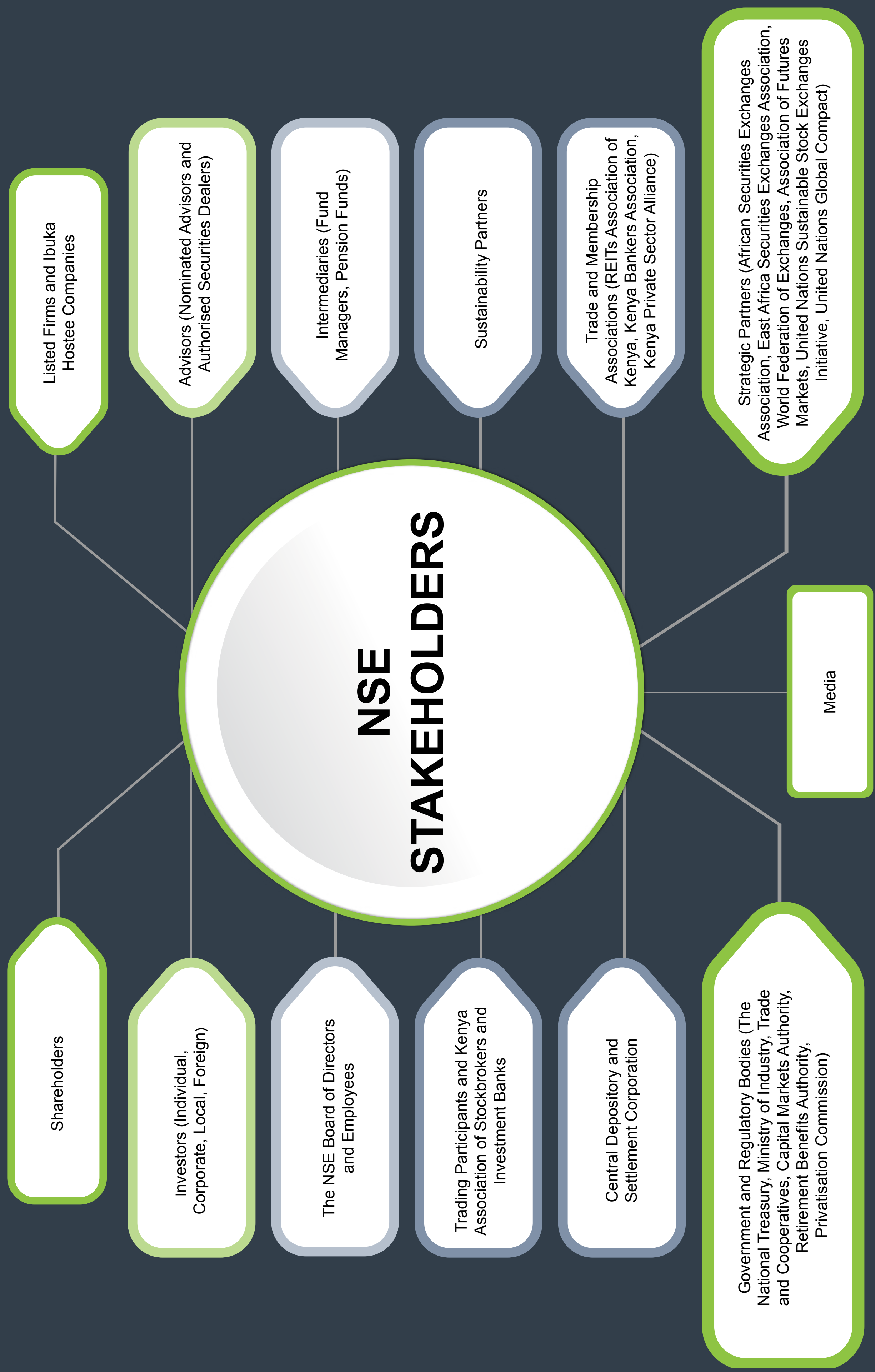
Risk Reporting Oversight

Risk disclosure and oversight are fundamental components of risk management.



ENTERPRISE RISK MANAGEMENT (ERM) FRAMEWORK (Continued)




NSE STAKEHOLDERS
Listed Firms and Ibuka Hostee Companies
Advisors (Nominated Advisors and Authorised Securities Dealers)
Intermediaries (Fund Managers, Pension Funds)
Sustainability Partners
Trade and Membership Associations (REITs Association of Kenya, Kenya Bankers Association, Kenya Private Sector Alliance)
Strategic Partners (African Securities Exchanges Association, East Africa Securities Exchanges Association, World Federation of Exchanges, Association of Futures Markets, United Nations Sustainable Stock Exchanges Initiative, United Nations Global Compact)
Media
Shareholders
Investors (Individual, Corporate, Local, Foreign)
The NSE Board of Directors and Employees
Trading Participants and Kenya Association of Stockbrokers and Investment Banks
Central Depository and Settlement Corporation
Government and Regulatory Bodies (The National Treasury, Ministry of Industry, Trade and Cooperatives, Capital Markets Authority, Retirement Benefits Authority, Privatisation Commission)

SUSTAINABILITY REVIEW

Our Approach to Sustainability

Since our inception in 1954, the NSE has continued to be part of Kenya's growth and success story. The NSE is committed to becoming a leading securities Exchange globally by offering investors innovative investment instruments to mobilize local resources and international capital flow for growth and development. This growth comes against a backdrop of a rapidly changing business and challenging operating environment both locally and internationally. Today more than ever; investors, institutions and other drivers of capital and economic growth are more concerned on how business operations are conducted in an economic and sustainable manner.

Our approach to sustainability is enshrined in our core values of supporting an ethical business, maintaining highest levels of integrity and confidentiality and embracing a culture of excellence and innovation through an enterprise wide approach. As a business, we are driven by a firm belief that investing in our communities is an essential ingredient to our long term success.

As an Exchange, we are cognizant of the fundamental role we play in the local and regional market. We offer a world class trading facility for local and international investors looking to gain exposure to Kenya's and Africa's economic growth, and optimize our capital to ensure comprehensive and sustainable business.

In this regard, we endeavour to engage in initiatives that are not only economically progressive, environmentally cautious and socially responsible in line with our mission, vision, values and corporate strategy. Additionally, our global memberships in the World Federation of Exchanges underpin our commitment to uphold highest standards of international best practices in our operations as we strive to integrate the Exchange with global financial markets.

Aligning our Sustainability with Sustainable Development Goals (SDGs)

The NSE is a member of the United Nations Sustainable Stock Exchanges (SSE) Initiative, which aims at ensuring that Exchanges are well placed to impact and foster sustainable development through placing special focus on four Sustainable Development Goals (SDGs) to which we have aligned our Sustainability Strategy as below;

SDG	TARGET	NSE'S COMMITMENT
Gender Equality (Goal 5) 5 GENDER EQUALITY	Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life. Ensure accessibility of capital markets services to female entrepreneurs and investors.	Promote gender diversity among listed companies.
Climate Change (Goal 13) 13 CLIMATE ACTION	Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning	Create and promote investment products that promote awareness or mobilize capital earmarked to support projects with benefits to the environment.
Sustainability Information (Goal 12) 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.	Provide guidance and training for companies on environmental, social and governance (ESG) reporting.
Global Partnerships (Goal 17) 17 PARTNERSHIPS FOR THE GOALS	Enhance Global Partnerships for sustainable development complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technologies and financial resources to support the achievement of sustainable development goals in all countries, particularly developing countries.	Enhance dialogue by joining the UN SSE as a partner Exchange. Participating in the SSE Global and Regional Dialogues.

SUSTAINABILITY REVIEW (Continued)

1 Striving for Fair, Transparent and Efficient Capital Markets

Capital Markets are a crucial enabler for driving the growth and development of the Kenyan economy. Our role of enabling companies and government access cost effective capital is crucial to the growth of Kenya's GDP. Transparent and efficient markets are therefore key to attracting and maintaining local and international investors whilst protecting the interest of shareholders.

To this end, the NSE has put in place effective policies and procedures to grow a fair transparent and efficient capital market. The NSE works closely with the Capital Markets Authority and other regulators to ensure that highest levels of compliance by listed companies and trading participants are upheld for the development of a more sustainable capital market.

The NSE has fostered disclosure of material information by listed companies and trading participants thus enhancing market confidence and integrity.

We are committed to streamlining our standards to global standards of best practice as we strive to integrate the NSE with global financial markets.

2 Championing Financial Education for All

Investing in financial literacy yields significant benefits for both the economy and the society. Financial literacy has the potential to reduce poverty, boost economic growth through strengthening of the financial system and enhance quality of living thus building robust communities.

Enhancing financial literacy among Kenyans is at the heart of our strategy of growing local retail participation in our market. To this end, the NSE has a dedicated fully fledged Public Education and Training department which champion's financial education programs in Kenya through strategic initiatives.

Students participate in a training on the Securities Market at the NSE.

We run a flagship financial education program dubbed, ***The NSE Investment Challenge***. The challenge, now in its eleventh year is aimed at enhancing financial literacy amongst the youth while inculcating a savings and investments culture. The annual online trading competition is a simulation of activities that happen around the trading of various securities listed on the NSE.

Since its inception, the initiative has so far impacted over 100,000 participants, equipping them with fundamental financial and investments skills.

> An investment in knowledge pays the best interest

The NSE also works with various secondary and tertiary institutions to enhance financial literacy and knowledge through sensitization visits to the NSE. The visits are targeted to Secondary school and tertiary institutions of learning and have played a fundamental role in enabling the NSE nurture a new crop of future investors in Kenya.

The NSE continues to uphold its commitment to improve financial knowledge among market players and the investing public through offering premium training programs that place special focus on growing expert knowledge and skillset among players in our market for sustainable growth.

3 Democratizing Access to the Capital Markets #MAkibaNiYetu

As we seek to consolidate our position as an attractive market to foreign investors, we are keen in enabling more Kenyans access formal financial systems of savings and investments to grow and develop themselves. Financial Inclusion is a critical part of our strategic initiative of growing Kenyans ability to participate in the capital markets. In view of the above, the NSE in association with other partners developed ***M-Akiba*** the world's first mobile traded Government infrastructure bond.

The ***M-Akiba*** bond has enabled us leverage on technology i.e. increased mobile phone penetration in providing Capital Markets services to Kenyans. The bond has a low entry point of Kshs. 3,000 which is considerably less than the minimum Kshs. 50,000 required to invest in other Treasury Bonds, enabling Kenyans from all walks of life to invest in a Government Infrastructure bond.

4. Promoting Diversity and Inclusion

Women participate in the 2018 Financial and Investments training conducted by the NSE.

The NSE has taken a strategic leadership position in promoting diversity and inclusion among listed companies for sustainable business growth. Diversity encompasses various aspects of gender, age, experience and expertise as well as education among Boards and management of listed companies.

Companies that embrace diversity and are more inclusive companies have a better understanding of the business environment they operate in. This enables the companies to identify and seize opportunities whilst minimizing risks. These companies are also well placed to react faster to changes in business and operating environment. A diversity based and inclusive corporate climate has been linked to financial success and long-term sustainability of every business.

In commemoration of the 2018 International Women's Day, The NSE joined other Exchanges globally to "Ring the Bell for Gender Equality" to raise awareness on the importance of Gender Equality to both business and sustainable development. The annual event was followed by a full day financial and investments training for business women in Kiambu County. The training which was held in partnership with the UN Global Compact, UN Women and the International Finance Corporation (IFC) had the objective of economically empowering women on the savings and financial opportunities available within the capital markets.

Women share a light moment during The 2018 Financial and Investments Training.

5. Laying the Foundation for Financing Environmentally Beneficial Projects

Climate change continues to be a leading cause of poverty and has contributed greatly to degradation of standards of quality of life among many Kenyans and other African citizens. Kenya is an agricultural based economy with over 25% of the GDP linked directly to the agricultural sector. With many African counties including Kenya highly dependent on agriculture, extreme climatic changes have highly affected growth and development. In sub-Saharan Africa, economic growth from agriculture is 11 times more effective at reducing extreme poverty than any other sector (source - International Fund for Agricultural Development) .

To counter the extreme negative effects of environmental impact, the NSE in association with other players launched the Green Bond Programme Kenya. The programme is aimed at developing a vibrant green bonds programme in Kenya.

Green Bonds are bonds whose proceeds are earmarked for projects with environmental benefits, mostly related to climate change mitigation or adaptation.

Green Bonds will enable the NSE offer investor's financial instruments that balance financial returns with environmental benefits, enable investors hedge against climate policy risk while providing issuers additional source of financing whilst diversifying their investors.

The NSE has spearheaded the adoption of listing rules incorporating listing of Green Bonds and will work with other market players to establish a vibrant domestic green market that will spur financing of environmentally beneficial projects.

6. Community Investment

(From Left) Renowned media personality Pinky Ghelani makes a call to an investor as stockbroker Sheema Shah looks on during the 2018 Charity Trading Day.

SUSTAINABILITY REVIEW (Continued)

The NSE has continued to impact communities through its annual flagship community investment initiative, the Charity Trading Day. The initiative focuses on enriching lives through the support of various strategic humanitarian and environmental initiatives. Now in its fourth year, the 2018 Charity Trading Day successfully raised over Kshs. 7.5 Million, funds which have played a significant role in social and environmental initiatives in the country.

The 2018 Charity Trading Day placed special focus on United Nations Sustainable Development Goal four of "ensuring inclusive and equitable quality education and promotion of lifelong learning opportunities for all."

(From Left) Media Personalities Jeff Mote, Shaffie Weru and Nyamari Ongegu (Nyashinski) make their way to the 2018 Charity Trading Day.

(From Left) stokebroker Tito Namu and Media Personality Sheila Mwanyigha pose for a photo during the 2018 Charity Trading Day.

The beneficiaries for this year's Charity Trading Day were aligned to this year's focus and included; We the Change Foundation, SOS Children's Home, Genevieve Audrey Foundation, Borana Ranch Conservancy, Joy Children's Home and the Association for the Physically Disabled of Kenya.

7. Cyber Security

As the principal securities Exchange and the main channel for foreign direct investments in Kenya, the NSE highly considers information security core to its successful business operations. To this end, the NSE has put in place efficient cyber security policies and regulations to ensure investor information is well protected from cyber threats emanating locally and internationally.

As cyber security becomes a leading business challenge globally, the NSE has incorporated cutting edge security aspects in its ongoing Automated Trading Systems upgrade which is scheduled to end by the first half of 2019.

Our focus is to ensure investor information is highly protected and free from any form of cyber threats.

8. Employee Development

NSE Staff receive a word of motivation from Pastor Angie Murenga during the end of year celebration at the NSE.

The NSE is cognizant of the fundamental role our people play in ensuring the group is in a position to achieve its strategic goals and objectives. As a company, we have developed a pool of highly skilled employees through strategic training and development initiatives. Guided by a strong commitment to offer bespoke services to our local and international clients, we have aligned our training and people development programs to match industry trends and developments. This year, we introduced monthly learning hours aimed at growing our people knowledge of all business segments of the group

VALUE CREATION PROCESS

Context

NSE enables value creation by providing a trusted and well-regulated financial market infrastructure to support the economy. Our value creation process is embedded in our vision (To be a leading securities exchange in Africa, with a global reach.)

Core focus of value creation

The ongoing relevance as an exchange and our ability to create long-term value for stakeholders, are dependent on various forms of capital/areas of values creation in our finances, technologies, brand equity, talent, stakeholder relationships and sustainability.

Our Finances

NSE PLC's funding is sourced from shareholders and internally generated income. These funds are used to run NSE's operations with a view to generate profits. As at December 31, 2018, these stood at Issued Share Capital of KShs.1,038 million, Share Premium of KShs. 277 million and Retained Earnings of KShs. 781 million. Financial resources are required to operate the business and support growth, expansion and innovation. NSE balances the need to distribute value to investors through a balanced return to shareholders, reinvestment and reduced prices to clients.

Our Technology

At the core of NSE's operations is a robust ICT foundation. This comprises two world class trading systems for equities (Automated Trading System (ATS)) and bonds (Broker Back Office (BBO)), coupled with comprehensive software, hardware and disaster recovery resources. The equities trading infrastructure is being upgraded and due for go-live in H1 2019. As a technology-driven entity, our key capital consists of the IT systems and infrastructure used for securely processing transactions between buyers and sellers, and processing analytical data to support our information services, as well as regulating our Primary and Secondary Markets.

Implementing world-class technology and remaining at the cutting edge of industry advances are core to our business mode. Investment in new systems and related employee skills can maximize our outputs and enhance outcomes for our brand, people and stakeholders.

Our Stakeholder Relationships

NSE actively engages with its key stakeholder groups. For example, the Green Bonds Program Kenya (GBPK) has been a key partner in the structuring of the first green bond product. NSE also works closely with the United Nations Sustainable Stock Exchanges Initiative (UN SSE) to encourage sustainable running of stock exchanges. It also sits in several working groups of the World Federation of Exchanges (WFE), influencing global policies affecting world exchanges. The NSE Investment Challenge and the annual Charity Trading Day are the flagship projects in Social Investment. We are able to respond to the needs of our stakeholders and reinforce confidence in our brand because we have reliable systems, our people are skilled and client-centred, and we apply our financial resources efficiently.

Our Innovation

Innovation is a core value of the NSE. The Company's innovative capacity is demonstrated by the design and launch of M-Akiba, the world's first mobile traded bond. NSE continues to explore other global disruptive technologies in a bid to enhance its offering to investors. The NSE's brand includes the technologies and systems in place and the intellectual know-how we need to facilitate an efficient and world-class market. The NSE brand relies on technology delivery and positive relations with our stakeholders.

Our Talent (People)

NSE takes pride in its talented staff whose aggregated knowledge and experience enable the company to grow and achieve more. The NSE is a specialized organization requiring competent, motivated and diverse employees with specialist skills in financial markets technology, governance, risk and financial products trading.

We work to attract, develop and retain high caliber employees who are instrumental in the execution of our strategy and delivery of world-class markets.

50 Total Number of Employees	54% Males	46% Females

Value Creation Schedule

	2018	2017	Variance
	KShs '000	KShs '000	%
Total Income			
	782,137	752,718	3.9%
Stakeholder contribution			
Taxes paid to Government	57,491	29,789	93.0%
Shareholders dividend paid	77,850	70,065	11.1%
Payment to suppliers	217,750	198,116	9.9%
Human capital	228,170	183,719	24.2%

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

MATERIAL ISSUES

Derivatives

The NSE was granted an approval to operate a Derivatives Market by the Capital Markets Authority (CMA) in October 2015. Subsequently and following receipt of interim no objection for Clearing Members by the Central Bank of Kenya (CBK), in May 2018, the CMA granted a provisional approval to the NSE to undertake a pilot testing phase of the Derivatives Market for a period of six months.

The participants of the Derivatives Market Pilot Test were: the Co-operative Bank of Kenya and Stanbic Bank Kenya who participated as Clearing Members and AIB Capital, Genghis Capital Investment Bank, Sterling Capital, Standard Investment Bank, Faida Investment Bank, Kingdom Securities Limited and NIC Securities who participated as Trading Members.

The overall aim and objective of the Pilot Test was to perform end-to-end tests of the derivatives systems and processes in a live environment. The Pilot Test also offered a valuable opportunity for capacity building across the various participants. The Pilot Test was comprised of two phases (Phase I and Phase II) which were largely similar, with the key distinction being the utilization of dummy cash balances and accounts in Phase I while having real cash balances and accounts in Phase II of testing.

The test scenarios and focus areas were:

- Setup of the Broker Back Office (BBO) which handles the Trading Members back-office operations such as client cash management and generation of client statements;
- Creation and mapping of client and proprietary accounts;
- Loading of cash into Trust Accounts in Phase II and virtual cash in Phase I;
- Execution of trades; and
- Completion of End-of-Day (EOD) processes.

Further exceptional tests undertaken were:

- Monthly margin interest reconciliation and distribution;
- Custodial process flow; and
- Portfolio transfers/porting.

The Exchange was satisfied with the outcomes of the overall Pilot Tests and expressed confidence in the abilities of the market participants and itself in being able to undertake the risk management, trading, clearing and settlement responsibilities required of them. The Exchange has also been satisfied with the appropriateness of the currently approved futures contracts and believes they can serve as a basis for new equity futures in the live market.

The Exchange is in the final preparatory stages and expects to roll out the Derivatives Market by the end of the first half of 2019.

MATERIAL ISSUES (Continued)

Cash Market

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

a) Enhancing and developing new cash products and markets in a sustainable and profitable way.
b) Developing strategies that enhance the growth in Real Estate Investment Trusts (REITs), Exchange Traded Funds (ETFs), Green Bonds, and Asset Backed Securities.
c) Growing a pipeline of potential issuers and selling benefits of listing on the Exchange and implementing new strategic initiatives targeting business growth including new acquisitions, establishment of new trading platforms and products and increased number of listed companies.
d) Continuous research in order to identify present and future infrastructure and market challenges as well as develop strategies to address the challenges.
e) Formulation, production, and distribution of all information on products.
f) Exploring, developing and maintaining strategic linkages with funding agencies as well as maintaining and improving strategic relationships with other Securities Exchanges.

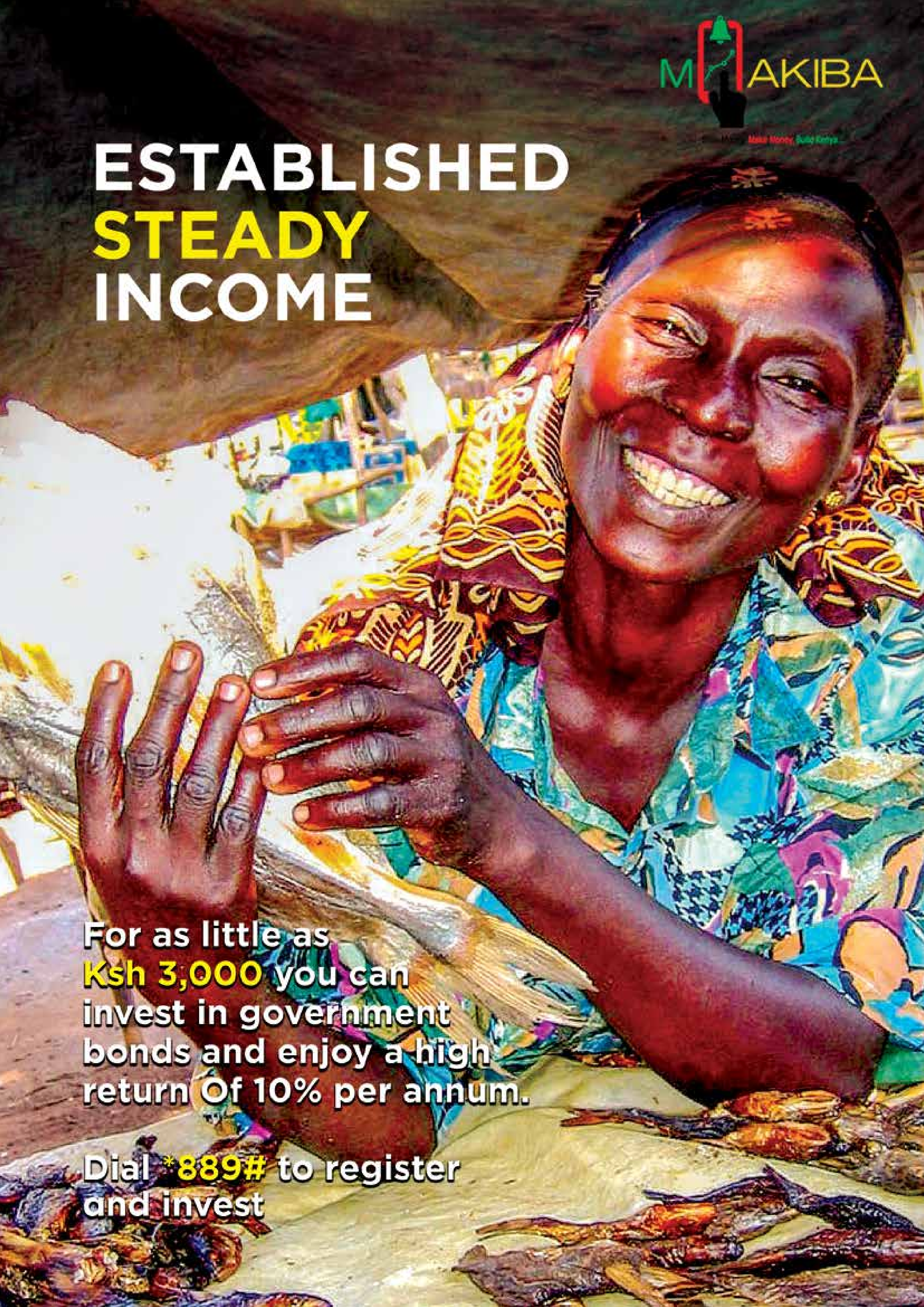
The NSE Targets more listings on the Main Market and Alternative Market Segments and renewing this year's maturing bonds and facilitating issuance of new corporate bonds. We launched Ibuka on December 17, 2018; a Non-Listed Platform for hosting aspirational entities driven by a firm commitment to embrace impactful changes that would make them investor ready. Ibuka, which is a Swahili word for emerge, is an incubator and accelerator for companies seeking to grow their potential as they leverage on intellectual capital, financial capital as well as visibility from the NSE. Through Ibuka, we are also building a pipeline of companies that eventually raise capital at the NSE hence increasing listings and uptake of NSE products.

Stanlib Fahari I-REIT was listed in November 2015 and over the three year duration the REIT has performed well. Fahari I-REIT net earnings grew by 13% to Kshs. 193.5 million in 2018 compared to Kshs. 171 million in 2017. REITs remain an attractive channel for capital rising in real estate and the NSE is engaging potential developers to explore REITs. The NSE together with The REITs Association of Kenya (RAK) is also lobbying for tax exemptions of Special Purpose Vehicles (SPVs) fully owned by REITs to encourage REITs issuers which will support the development of the REITs Market. Capacity building initiatives are going on through forums and conferences aimed at increasing awareness on REITs.

The New Gold ETF listed in March 2017 and NSE is looking into partnering with market players to increase activity in trading of New Gold ETF. The NSE is working on initiatives to reach out to potential issuers in the market and cross listings from other markets. ETFS are attractive alternative investment asset class for investors with limited risk profile and low volatility preferences.

The M-Akiba product pilot was carried out between March and April 2017 and launched in July 2017. Improved product awareness and marketing campaign was done over the two years leading to a progressive uptake on M-Akiba. The Product Review Committee (PRC) of the NSE as well as the cross-organizational team assessed the previous performances in a bid to improve future issuances.

As part of the strategy of diversifying products in the Kenya capital markets, the framework to issue listed and unlisted green bonds has been set up. A green bond is a fixed income instrument whose proceeds are used to finance or refinance projects which generate climate or other environmental benefits that conform to green guidelines and standards.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ESTABLISHED
STEADY
INCOME
For as little as
Ksh 3,000 you can
invest in government
bonds and enjoy a high
return Of 10% per annum.
Dial *889# to register
and invest

NSE FIVE-YEAR STRATEGY

The NSE strategy 2015-2019 is coming to an end in 2019. Therefore, the Company has embarked on the process of reviewing and formulating a new strategy for the years 2020-2024.

Our technology

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

Our culture

A dynamic organization that attracts and retains top talent.

Our Purpose

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

Our Goal

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

Our Strategy (2015-2019)

Priority areas were to drive market growth and build our reputation as a leading exchange in Africa.

Drive revenue growth and diversification

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

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

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

Strengthening organizational capabilities and talent management

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

Our Proposed 2020-2024 Strategy

The 2020-2024 strategy currently in formulation, is informed by our clients' needs, our assessment of the global macroeconomic context, broad financial market services as well as more specific market infrastructure trends and developments, and by the global competitive context.

FIVE YEAR FINANCIAL REVIEW

	2018	2017	2016	2015	2014
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Summary Consolidated Statement of Profit & Loss & Other Comprehensive Income					
					Income
Operating income	626,191	607,438	552,164	663,903	691,736
Interest income	116,341	98,569	94,766	101,010	39,514
Other income	39,605	46,711	70,255	43,344	90,651
Total income	**782,137**	**752,718**	**717,185**	**808,257**	**821,901**
Expenses	(560,300)	(495,856)	(487,291)	(448,323)	(403,831)
Share of profit of associate	19,012	12,324	3,221	21,560	23,741
Profit before tax	**240,849**	**269,186**	**233,115**	**381,494**	**441,811**
Profit after tax & Other Comprehensive income	**187,365**	**218,806**	**183,754**	**305,653**	**320,067**
Summary Consolidated Statement of Financial Position					
Total assets					
Property, equipment & investment property	538,824	530,238	497,638	472,074	487,276
Intangible assets	159,257	152,729	168,084	157,048	135,216
Investment in associate company	127,581	111,374	99,134	100,703	82,457
Government securities & corporate bonds	91,643	330,619	214,730	125,076	192,088
Long-term restricted investments	156,521	148,391	143,204	135,921	-
Cash, cash equivalents and fixed deposits	693,097	418,073	479,359	444,035	640,655
Short-term restricted cash & investments	338,202	302,015	292,505	333,500	-
Other assets	113,263	114,781	119,091	149,878	147,412
Total assets	**2,218,388**	**2,108,220**	**2,013,745**	**1,918,235**	**1,685,104**
Shareholders funds					
Share capital	1,038,003	1,038,003	1,038,003	778,500	778,500
Share premium	277,185	277,185	277,185	277,185	277,185
Retained earnings	781,224	694,049	547,852	718,753	486,861
Revaluation & Other reserves	(664)	2,649	105	319	516
Shareholders funds	**2,095,748**	**2,011,886**	**1,863,145**	**1,774,757**	**1,543,062**
Total liabilities	122,640	96,334	150,600	143,478	142,042
Total shareholders funds & liabilities	**2,218,388**	**2,108,220**	**2,013,745**	**1,918,235**	**1,685,104**
Key indicators					
Total dividend declared and proposed (Kshs'000)	127,155	77,850	70,066	95,366	73,957
Basic Earning Per Share - Shs	0.73	0.83	0.71	1.18	2.13
Dividend per share - Shs	0.49	0.30	0.27	0.49	0.38
Weighted average number of shares during the year	259,500,791	259,500,791	259,500,791	259,500,791	150,020,604

The current NSE dividend policy provides for a maximum dividend payout of 40% of eligible profit after tax as dividend. The proposed 2018 dividend includes a special dividend of Kshs 0.20 per share

NSE share price	2018	2017	2016	2015	2014
Annual High (Sh.)	21.75	25.00	30.25	27.50	28.00
Annual Low (Sh.)	13.60	11.00	12.85	18.00	17.00
Share price at year end (Sh.)	14.55	19.70	14.65	24.75	20.50

DIRECTORS' REPORT

The directors present their Integrated Report t together with the audited financial statements of Nairobi Securities Exchange PLC (NSE/the "Company"/the "Exchange") and its subsidiary and structured entities (together, the "Group") for the year ended 31 December 2018, which show the state of affairs of the Company and the Group.

PRINCIPAL ACTIVITIES

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

NSE Clear Limited is a wholly owned subsidiary of the NSE. The principal objectives of NSE Clear Limited are to carry on the business of a clearing house and as such, to provide clearing and settlement services for transactions in derivative securities whether carried out on or off a securities exchange, to act as a central counterparty in derivative securities transactions and to carry out all activities that pertain to a clearing house. The license to operate a derivatives exchange was issued by the Capital Markets Authority to the NSE on 19 October 2015. No transactions in derivatives were carried out in the year ended 31 December 2018 as the market is expected to be launched in the 1st quarter of 2019.

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

BUSINESS REVIEW

In 2018, the Group achieved key milestones in line with its's mission and corporate strategy. The NSE gained admission as a full member of the World Federation of Exchanges (WFE). The membership will give the NSE the opportunity to participate in major decision making forums on policy and regulatory matters pertaining to global capital markets. The NSE launched its incubation and acceleration programme dubbed Ibuka, which means ''emerge'' in Kiswahili. Ibuka will play a critical role in enabling Kenyan businesses access the capital markets and thus ease their listing journey and experience. The NSE also launched its premium mobile application, the NSE App in an effort to democratize access to the NSE and also deepen the market. Additionally, the NSE hosted the inaugural National Real Estate Investment Trusts (REITs) Conference in partnership with the REITs Association of Kenya (RAK) to spur activity in the REITs Market.

The Group's profit after tax reduced by 12% from Kshs 216 million in 2017 to Kshs 191 million in 2018 due to increased administrative costs. Operating income increased by 3% from Kshs. 607 million in 2017 to Kshs. 626 million in 2018 mainly due to higher equity turnover. Interest income increased by 18% from Kshs. 99 million in 2017 to Kshs. 116 million in 2018 due to prudent management of funds and deposits despite the prevailing lower interest rates.

Administrative expenses increased by 13% from Kshs. 496 million in 2017 to Kshs. 560 million in 2018 mainly arising from a salary review alignment that was done in 2018 and a revaluation deficit on the valuation of the NSE building.

Total assets increased nominally by 5% from Kshs. 2,101 million in 2017 to Kshs. 2,218 million in 2018. Shareholder funds grew by 4% from Kshs 2,012 million in 2017 to Kshs 2,096 million in 2018.

Return on equity decreased to 9.1% (2017 – 10.9%) and return on assets decreased to 8.6% (2017 – 10.4%). Cost income ratio increased from 66% in 2017 to 72% in 2018 due mainly to the salary review alignment and revaluation deficit on the building.

DIVIDEND

The Group profit for the year of Sh 190,678,000 (2017: Sh 216,250,000) has been added to retained earnings. The directors recommend the approval of a first and final dividend of Sh 0.49 per share amounting to Sh 127,155,000 comprising of an ordinary dividend of Sh 0.29 per share and a special dividend of Sh 0.20 per share (2017: Sh 0.30 per share amounting to Sh 77,850,000).

DIRECTORS

Dr. Winnie Nyamute, Mr. Jimnah Mbaru and Mr. James Mworia retired as directors on 30 May 2018. Mr. Paul Mwai, Ms. Risper Alaro and Mr. Kiprono Kittony were appointed as directors on 30 May 2018.

The current members of the Board of Directors are as shown on page 6.

DIRECTORS' REPORT (Continued)

DISCLOSURES TO AUDITOR

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

a) There was, as far as each director is aware, no relevant audit information of which the Company's auditor is unaware; and

b) Each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

TERMS OF APPOINTMENT OF AUDITORS

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

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

By order of the Board

John Maonga
Secretary
22 March 2019

DIRECTORS' REMUNERATION REPORT

INFORMATION NOT SUBJECT TO AUDIT

Statement of Group's policy on directors' remuneration

a) Nairobi Securities Exchange PLC

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

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

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

There were no substantial changes to the Director's remuneration policy during the year 2018.

b) NSE Clear Limited

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

There were no substantial changes to the Director's remuneration policy during the year 2018.

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

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

There were no substantial changes to the trustees' remuneration policy during the year 2018.

Contract of Service

a) Nairobi Securities Exchange PLC

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

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

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

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

The Chief Executive's contract within the period under review was for a Four (4) years period running from 1 March 2015. Under the terms of the contract, either party may, not less than six months to the expiry of this contract, notify the other of their intention not to extend the contract, otherwise the contract shall be automatically renewed for a further final period of four years. This contract has been renewed for a further Four (4) year period with effect from 1 March 2019. Either Party may also terminate the Agreement without assigning any reasons, at any time, by giving to the other not less than six months' notice in writing, or six months' salary in lieu of notice, at the end of which the Agreement shall determine.

INFORMATION NOT SUBJECT TO AUDIT (Continued)

Contract of Service (continued)

b) NSE Clear Limited

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

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

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

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

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

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

a) Nairobi Securities Exchange PLC

During the Annual General Meeting held on 30th May 2018, the shareholders approved the fees paid to the Directors for the year ended 31 December 2017 by show of hands.

At the Annual General Meeting to be held on 30th May 2019, approval will be sought from shareholders for the fees paid to the Directors for the financial year ended 31 December 2018.

b) NSE Clear Limited

During the Annual General Meeting held on 17th May 2018, the shareholders approved the fees paid to the Directors for the year ended 31 December 2017 by show of hands.

At the Annual General Meeting to be held on 14th May 2019, approval will be sought from shareholders for the fees paid to the Directors for the financial year ended 31 December 2018.

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

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

DIRECTORS' REMUNERATION REPORT (Continued)

INFORMATION SUBJECT TO AUDIT

The following table shows a single figure remuneration for the Chairman, Non-Executive Directors and Executive Director in respect of qualifying services for the year ended 31st December 2018 together with the comparative figures for 2017.

Year ended 31 December 2018

Name	Category	Fees Kshs	Sitting allowances Kshs	Gross pay + other allowances Kshs	Provident scheme contribution Kshs	Total Kshs
Samuel Kimani*	Non-Executive	714,286	1,211,429	-	-	1,925,715
Bob Karina*	Non-Executive	571,429	1,371,429	-	-	1,942,858
Dr. Winnie Nyamute*	Non-Executive	214,286	714,286	-	-	928,572
Hosea Kili*	Non-Executive	428,571	1,178,571	-	-	1,607,142
Sharon Maviala	Non-Executive	428,571	885,714	-	-	1,314,285
Jimnah Mbaru	Non-Executive	214,286	185,714	-	-	400,000
Nasim Devji	Non-Executive	428,571	864,286	-	-	1,292,857
Michael Turner	Non-Executive	428,571	750,000	-	-	1,178,571
James Mworia	Non-Executive	214,286	321,429	-	-	535,715
Paul Vollant*	Non-Executive	428,571	907,143	-	-	1,335,714
Paul Mwai	Non-Executive	214,286	428,571	-	-	642,857
Risper Alaro	Non-Executive	214,286	514,286	-	-	728,572
Kiprono Kittony	Non-Executive	214,286	242,857	-	-	457,143
Geoffrey Odundo	Executive	-	-	21,730,273	1,988,648	23,718,921
		4,714,283	**9,575,715**	**21,730,273**	**1,988,648**	**38,008,922**

*Included in the Director's fees for the year ended 31 December 2018 is amounts relating to fees earned for services rendered in other NSE Group Companies as tabulated below:

	Sitting Allowances			
	NSE Clear Kshs	NSE IPF Kshs	NSE SGF Kshs	Total Kshs
Samuel Kimani	114,286	114,286	114,286	342,858
Bob Karina	114,286	114,286	114,286	342,858
Dr. Winnie Nyamute	57,143	57,143	57,143	171,429
Paul Vollant	85,714	85,714	85,714	257,142
Hosea Kili	57,143	57,143	57,143	171,429
	428,572	**428,572**	**428,572**	**1,285,716**

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

INFORMATION SUBJECT TO AUDIT (Continued)

Year ended 31 December 2017

Name	Category	Fees Kshs	Sitting allowances Kshs	Gross pay + other allowances Kshs	Provident scheme contribution Kshs	Total Kshs
Samuel Kimani*	Non-Executive	714,286	1,031,429	-	-	1,745,715
Bob Karina*	Non-Executive	571,429	1,092,857	-	-	1,664,286
Dr. Winnie Nyamute*	Non-Executive	428,571	1,235,714	-	-	1,664,285
Hosea Kili	Non-Executive	428,571	821,429	-	-	1,250,000
Sharon Maviala	Non-Executive	428,571	514,286	-	-	942,857
Jimnah Mbaru	Non-Executive	428,571	342,857	-	-	771,428
Nasim Devji	Non-Executive	428,571	485,714	-	-	914,285
Michael Turner	Non-Executive	428,571	864,286	-	-	1,292,857
James Mworia	Non-Executive	428,571	300,000	-	-	728,571
Paul Vollant*	Non-Executive	428,571	650,000	-	-	1,078,571
Geoffrey Odundo	Executive	-	-	16,537,500	1,632,960	18,170,460
		4,714,283	**7,338,572**	**16,537,500**	**1,632,960**	**30,223,315**

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

	Sitting Allowances			
	NSE Clear Kshs	NSE IPF Kshs	NSE SGF Kshs	Total Kshs
Samuel Kimani	114,286	114,286	114,286	342,858
Bob Karina	85,714	85,714	85,714	257,142
Dr. Winnie Nyamute	114, 286	114, 286	114, 286	342,858
Paul Vollant	57,143	57,143	57,143	171,429
	371,429	**371,429**	**371,429**	**1,114,287**

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

John Maonga
Secretary
22 March 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

i Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii Selecting suitable accounting policies and then apply them consistently; and

iii Making judgments and accounting estimates that are reasonable in the circumstances.

Having made an assessment of the Company's and Group's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's and Group's ability to continue as a going concern.

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

Approved by the Board of Directors on 22 March 2019 and signed on its behalf by:

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Mr. Samuel Kimani **Chairman**	**Ms. Risper Alaro** **Director**	**Mr. Geoffrey O. Odundo** **Chief Executive**

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NAIROBI SECURITIES EXCHANGE PLC

Report on the financial statements

Our opinion

We have audited the accompanying financial statements of Nairobi Securities Exchange PLC ("NSE"/the "Company") and its subsidiary and structured entities (together, the "Group") set out on pages 58 to 105, which comprise the consolidated statement of financial position at 31 December 2018 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, together with the separate statement of financial position of the Company at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company at 31 December 2018 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Other information

The other information comprises the Corporate information, Directors' report, Corporate governance statement, Statement of directors' responsibilities and Director's remuneration report which we obtained prior to the date of this auditor's report and the rest of the other information in the Integrated Report, which are expected to be made available to us after that date but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated

If, based on the work we have performed on the other information we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the rest of the other information in the Integrated Report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

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

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

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Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Norbert's B Okundi K Saiti

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report of the Directors

In our opinion the information given in the report of the directors on page 49 to 50 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 51 to 54 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

PricewaterhouseCoopers

Certified Public Accountants **22 March 2019**
Nairobi

FCPA Richard Njoroge, Practising Certificate No. 1244.
Signing partner responsible for the independent audit

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
Revenue	6	626,191	607,438	626,191	607,438
Interest income	9	116,341	98,569	100,977	84,358
Other income	10	39,605	46,711	39,605	46,711
Total income		782,137	752,718	766,773	738,507
Administrative expenses		(560,300)	(495,856)	(556,263)	(491,319)
Share of profit of associate	15 (c)	19,012	12,324	19,012	12,324
Profit before income tax	7	240,849	269,186	229,522	259,512
Income tax expense	11 (a)	(50,171)	(52,936)	(46,875)	(50,470)
Profit for the year		190,678	216,250	182,647	209,042
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Revaluation movements on buildings		(3,208)	3,093	(3,208)	3,093
Deferred income tax on revaluation surplus	24	-	(453)	-	(453)
Items that may be reclassified to profit or loss					
Share of exchange differences from associate arising from translation of foreign operation	15 (c)	(105)	(84)	(105)	(84)
Other comprehensive income for the year		(3,313)	2,556	(3,313)	2,556
Total comprehensive income for the year		187,365	218,806	179,334	211,598
		Sh	Sh		
Earnings per share - Basic and diluted	28	0.73	0.83		

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	Notes	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
ASSETS					
Non-current assets					
Property and equipment	12	228,942	229,635	228,942	229,635
Investment property	13	309,882	300,603	309,882	300,603
Intangible assets	14	159,257	152,729	159,257	152,729
Investment in associate	15 (b)	127,581	111,374	127,581	111,374
Investment in subsidiary and structured entities	16	-	-	130,000	130,000
Government securities	18	91,643	93,104	91,643	93,104
Long-term restricted investments	19	156,521	148,391	-	-
Deferred income tax	24	5,688	-	3,711	-
		1,079,514	1,035,836	1,051,016	1,017,445
Current assets					
Trade and other receivables	20 (a)	80,526	92,346	78,126	92,346
Due from related company	29 (f)	-	-	4,023	622
Tax recoverable	11 (c)	27,049	22,435	24,155	19,695
Government securities	18	-	237,515	-	237,515
Fixed deposits	21	464,533	262,043	464,533	262,043
Short-term restricted cash and investments	21	338,202	302,015	338,202	302,015
Cash and cash equivalents	21	228,564	156,030	228,544	155,696
		1,138,874	1,072,384	1,137,583	1,069,932
TOTAL ASSETS		2,218,388	2,108,220	2,188,599	2,087,377
EQUITY AND LIABILITIES					
Equity					
Share capital	23	1,038,003	1,038,003	1,038,003	1,038,003
Share premium		277,185	277,185	277,185	277,185
Retained earnings		781,224	694,049	755,388	675,890
Other reserves		(664)	(559)	(664)	(559)
Revaluation reserve		-	3,208	-	3,208
Shareholders' funds		2,095,748	2,011,886	2,069,912	1,993,727
Non-current liabilities					
Deferred income tax	24	-	3,496	-	4,804
Tenant deposits	25 (a)	2,711	3,830	2,711	3,830
		2,711	7,326	2,711	8,634
Current liabilities					
Trade and other payables	25 (b)	93,870	66,939	92,117	65,147
Dividends payable	26	23,859	19,869	23,859	19,869
Trading members' contributions		2,200	2,200	-	-
		119,929	89,008	115,976	85,016
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		2,218,388	2,108,220	2,188,599	2,087,377

The financial statements on pages 58 to 105 were approved and authorised for issue by the Board of Directors on 22 March 2019 and were signed on its behalf by:

Mr. Samuel Kimani **Chairman**	**Ms. Risper Alaro** **Director**	**Mr. Geoffrey O. Odundo** **Chief Executive**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital Sh'000	Share premium Sh'000	Retained earnings Sh'000	Other reserves Sh'000	Revaluation reserve Sh'000	Total Sh'000
Year ended 31 December 2017						
At start of year	1,038,003	277,185	547,852	(475)	580	1,863,145
Profit for the year	-	-	216,250	-	-	216,250
Other comprehensive income, net of tax	-	-	-	(84)	2,640	2,556
Total comprehensive income for the year	-	-	216,250	(84)	2,640	218,806
Transfer of excess depreciation	-	-	17	-	(17)	-
Deferred tax thereon	-	-	(5)	-	5	-
Transactions with owners:						
2016 dividend declared in the year	-	-	(70,065)	-	-	(70,065)
At end of year	1,038,003	277,185	694,049	(559)	3,208	2,011,886
Year ended 31 December 2018						
At start of year	1,038,003	277,185	694,049	(559)	3,208	2,011,886
Impact of IFRS 9 and 15 transition adjustments:						
Additional loss allowance on adoption of IFRS 9 (note 17 b))	-	-	(7,130)	-	-	(7,130)
Deferred market access fees on adoption of IFRS 15 (note 2 b (iii))	-	-	(25,001)	-	-	(25,001)
Deferred tax thereon (note 24)	-	-	6,478	-	-	6,478
Profit for the year	-	-	190,678	-	-	190,678
Other comprehensive income, net of tax	-	-	-	(105)	(3,208)	(3,313)
Total comprehensive income for the year	-	-	190,678	(105)	(3,208)	187,365
Transactions with owners:						
2017 dividend declared in the year	-	-	(77,850)	-	-	(77,850)
At end of year	1,038,003	277,185	781,224	(664)	-	2,095,748

The revaluation reserve relates to the valuation surplus on property.
Other reserves relates to the Group's share of the translation reserve of the associate.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital Sh'000	Share premium Sh'000	Retained earnings Sh'000	Other reserves Sh'000	Revaluation reserves Sh'000	Total Sh'000
Year ended 31 December 2017						
At start of year	1,038,003	277,185	536,901	(475)	580	1,852,194
Profit for the year	-	-	209,042	-	-	209,042
Other comprehensive income, net of tax	-	-	-	(84)	2,640	2,556
Total comprehensive income for the year	-	-	209,042	(84)	2,640	211,598
Transfer of excess depreciation	-	-	17	-	(17)	-
Deferred tax thereon	-	-	(5)	-	5	-
Transactions with owners:						
2016 dividend declared in the year	-	-	(70,065)	-	-	(70,065)
At end of year	1,038,003	277,185	675,890	(559)	3,208	1,993,727
Year ended 31 December 2018						
At start of year	1,038,003	277,185	675,890	(559)	3,208	1,993,727
Impact of IFRS 9 and 15 transition adjustments:						
Additional loss allowance on adoption of IFRS 9 (note 17 b))	-		(6,623)	-	-	(6,623)
Deferred market access fees on adoption of IFRS 15 (note 2 b (iii))	-		(25,001)	-	-	(25,001)
Deferred tax thereon (note 24)	-	-	6,325	-	-	6,325
Profit for the year	-	-	182,647	-	-	182,647
Other comprehensive income, net of tax	-	-	-	(105)	(3,208)	(3,313)
Total comprehensive income for the year	-	-	182,647	(105)	(3,208)	179,334
Transactions with owners:						
2017 dividend declared in the year	-	-	(77,850)	-	-	(77,850)
At end of year	1,038,003	277,185	755,388	(664)	-	2,069,912

The revaluation reserve relates to the valuation surplus on property.
Other reserves relates to the Company's share of the translation reserve of the associate.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
Cash flows from operating activities					
Cash generated from operations	27	124,642	99,969	127,717	104,541
Tax paid	11 (c)	(57,491)	(29,789)	(53,525)	(24,485)
Net cash from operating activities		67,151	70,180	74,192	80,056
Cash flows from investing activities					
Purchase of property and equipment	12	(40,846)	(40,235)	(40,846)	(40,235)
Purchase of intangible assets	14	(22,881)	(2,283)	(22,881)	(2,283)
Interest received		116,341	98,570	100,977	84,358
Dividend received from associate	15 (b)	2,700	-	2,700	-
Proceeds on maturity of corporate and treasury bonds		-	15,281	-	15,281
Net investment in fixed deposits		(203,145)	(262,043)	(203,145)	(262,043)
Investment in restricted investments		(8,635)	(5,187)	-	-
Decrease in tenant deposits		(1,119)	-	(1,119)	-
Proceeds on disposal of equipment		551	32	551	32
Net investment in treasury bills		237,021	(131,170)	237,021	(131,170)
Net cash generated from/(used in) investing activities		79,987	(327,035)	73,258	(336,060)
Cash flows from financing activities					
Dividends paid	26	(73,860)	(66,474)	(73,860)	(66,474)
Net cash used in financing activities		(73,860)	(66,474)	(73,860)	(66,474)
Increase/(decrease) in cash and cash equivalents		73,278	(323,329)	73,590	(322,478)
Cash and cash equivalents at the start of year		156,030	479,359	155,696	478,174
Cash and cash equivalents at the end of year	21	229,308	156,030	229,286	155,696

NOTES TO THE FINANCIAL STATEMENTS

1 REPORTING ENTITY

The Nairobi Securities Exchange Plc (NSE/the "Company"/the "Exchange"), formerly known as the Nairobi Securities Exchange Limited, was incorporated in Kenya under the Companies Act and is domiciled in Kenya. The NSE is licensed as an exchange by the Capital Markets Authority (CMA) of Kenya and obtained a license on 19 October 2015 to operate a derivatives exchange. The NSE currently has the primary market services as a main line of business. The consolidated financial statements of the Group at and for the year ended 31 December 2018 comprise the Company and its subsidiary and controlled structured entities (collectively referred to as the "Group") and reflect the Company's interest in an associate company.

2 STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULTS OR FINANCIAL POSITION

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

a) Statement of compliance

The financial statements have been prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS and the Kenyan Companies Act, 2015. The IFRS are issued by the International Accounting Standards Board.

b) Basis of preparation

The financial statements comprise a profit and loss account (statement of profit or loss and other comprehensive income), balance sheet (statement of financial position), statement of changes in equity, statement of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income (OCI), are recognised in the profit or loss. Other comprehensive income is recognised in other comprehensive income and comprises items of income and expense (including reclassification adjustments) that are not recognised in the profit or loss as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to the profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the Company in their capacity as owners are recognised in the statement of changes in equity

i. Basis of measurement

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

Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or, in some cases, at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.

If the fair value of an asset or a liability is not directly observable, it is estimated by the Group using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset/ liability that market participants would take into account.

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

- Level 1 fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

ii. Use of estimates and judgment

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

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

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

The Group has not applied the following revised standards and interpretations that have been published but are not yet effective for the annual reporting periods ending 31 December 2018:

IFRS 16, 'Leases' will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

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

b) Basis of preparation (continued)

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

New and revised standards and interpretations which have been issued but are not yet effective (continued)

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard is effective for annual periods beginning 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time. The Group is still assessing the impact of adoption of the standard.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2018:

- ***Amendments to IAS 40, 'Transfers of Investment Property'*** clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

- ***IFRIC 22, 'Foreign Currency Transactions and Advance Consideration'*** addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.

- ***Annual improvements 2014-2016 cycle***, impact IFRS 1 'First-time adoption of IFRS', regarding the deletion of ***short term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10.***

- ***IFRS 9, 'Financial Instruments'.***

- ***IFRS 15, 'Revenue from Contracts with Customers'.***

The Group changed its accounting policies and made certain retrospective adjustments following the adoption of IFRS 9 and IFRS 15. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Provision has been made for either 12-month or lifetime expected credit losses (ECLs) for all financial assets measured at amortised cost. The directors have opted to apply the general approach whereby lifetime ECL are provided for from inception.

As a result, additional provisions of Sh 7,130,000 have been recognized at 1January 2018 with a corresponding decrease, net of deferred tax, in retained earnings at that date. In accordance with the transition requirements of IFRS 9, the results of prior periods have not been restated. Further details of the transition adjustments are set out in Note 17.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations.

This core principle of IFRS 15 is delivered in a five-step model framework:
- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, revenue is recognized when the Group satisfies the performance obligation and transfers control of the services to the customer at the amount to which the Group expects to be entitled and that is allocated to that specific performance obligation.

Based on the Group's assessment on IFRS 15 transition, an adjustment of Sh 25,001,000 has been made against retained earnings to recognise deferred revenue in respect of market access fees

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Nairobi Securities Exchange Plc and its subsidiary, controlled structured entities and interest in associate company made up to 31 December 2018. The subsidiary and structured entities undertakings have been fully consolidated.

i) Subsidiary

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

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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

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

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

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

ii) Structured entities

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

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

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

iii) Investment in associate

Associates are those entities which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% to 50% of the voting power of another entity. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Under the equity method, investments in associates are carried in the statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3.2 Transactions eliminated on consolidation

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Foreign currencies

i) Functional and Presentation currency

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

ii) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the respective functional currencies of the operations using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

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

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

3.4 Revenue recognition

The Group recognises revenue as and when it satisfies a performance obligation by transferring control of a product or service to a customer. The amount of revenue recognised is the amount the Group expects to receive in accordance with the terms of the contract, and excludes amounts collected on behalf of third parties, such as Value Added Tax.

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

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

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

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

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

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

Market access fees are fees charged on the admission of a market participant as a member of the Group and are recognised over a period of three years.

3.5 Property and equipment

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

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

Professional valuations on buildings are carried out in accordance with the Group policy. The fair value is determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

Increases in the carrying amounts of property resulting from revaluation is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in carrying amount arising on the revaluation of buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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

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

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

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

Gains and losses on disposal of equipment are determined as the difference between the sales proceeds and the carrying amount of the asset at the date of disposal and taken into account in determining operating profit. Gains or losses arising from changes in fair value of the building are included in other comprehensive income in the period in which they arise net of deferred taxes.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Intangible assets

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

3.7 Impairment of tangible and intangible assets

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

3.8 Investment property

Investment property, which is property held to earn rentals, is stated at its fair value, at the reporting date as determined through its revaluation by external valuers on the basis of the highest and best use. Gains or losses arising from changes in fair value of the investment property are included in profit or loss in the year in which they arise net of deferred taxes.

3.9 Restricted cash and investments

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

Short-term restricted cash and investments

As required by the Capital Markets (Derivatives Markets) Regulations, 2015, the Group is required to maintain a minimum liquid net-worth capital requirement equal to one half of the total estimated operating costs for the next twelve (12) months period. At 31 December 2018, this amount was Sh 338 million (2017: Sh 302 million). The amounts are reflected as short-term restricted investments (note 21).

Long-term restricted cash and investments

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

3.10 Financial Instruments

I. Policies applicable up to 31 December 2017

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

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

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

Financial assets at fair value through profit or loss are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments classified as fair value through profit or loss are initially recognised at cost and subsequently re-measured to fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs.

All related realised and unrealised gains and losses are included in the profit or loss. Interest earned whilst holding held for trading investments is reported as investment income.

Loans and receivables

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

Held to maturity investments

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

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

Derecognition of financial assets

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (continued)

I. Policies applicable up to 31 December 2017 (continued)

Other financial liabilities

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

Classes of financial instruments

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as follows:

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

II. Policies applicable from 1 January 2018

a) Initial recognition

Financial instruments are recognised when, and only when, the Group becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the Group commits itself to the purchase or sale.

b) Classification

The Group classifies its financial instruments into the following categories:

i) Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at **amortised cost.**

ii) Financial assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at **fair value through other comprehensive income (FVTOCI).**

iii) All other financial assets are classified and measured at **fair value through profit or loss (FVTPL).**

iv) Notwithstanding the above, the Group may:

a) On initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at **fair value through other comprehensive income**

b). On initial recognition of a debt instrument, irrevocably designate it as classified and measured at **fair value through profit or loss** if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

v) Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at **fair value through profit or loss.** The Group may also, on initial recognition, irrevocably designate a financial liability as at **fair value through profit or loss** if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

vi) All other financial liabilities are classified and measured at **amortised cost.**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (continued)

II. Policies applicable from 1 January 2018 (continued)

c) Initial measurement

On initial recognition:

i) Financial assets or financial liabilities classified as at fair value through profit or loss are measured at fair value.

ii) Government securities, deposits with banking institutions and trade and other receivables are measured at their transaction price.

iii) Trade and other liabilities are classified at their transaction price.

d) Subsequent measurement

Classification and subsequent measurement of financial assets depends on:

(i) the Group's business model for managing the financial assets; and

(ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its financial assets into one of the following three measurement categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- **FVTOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/ (losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- **FVTPL:** Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/ (losses) in the period in which it arises.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows i.e. whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest ('SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Group reclassifies financial assets when and only when its business model for managing those assets changes.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (continued)

II. Policies applicable from 1 January 2018 (continued)

d) Subsequent measurement (continued)

The measurement category of financial assets and liabilities in accordance with IFRS 9 is as follows:

Financial assets and liabilities	Classification under IFRS 9
Government securities	Amortised cost
Corporate bonds	Amortised cost
Trade & Other receivable	Amortised cost
Fixed deposits	Amortised cost
Short term restricted cash & equivalents	Amortised cost
Cash and cash equivalents	Amortised cost
Financial liabilities: Tenant deposits Trade and other payables Dividends payable Due to structured entity Trading members' contributions	Amortised cost

e) Impairment

The Group recognises a loss allowance for expected credit losses (ECL) on financial assets that are measured at amortised cost or at fair value through other comprehensive income.

The loss allowance is measured at an amount equal to the lifetime expected credit losses for financial instruments for which: (a) the credit risk has increased significantly since initial recognition; or (b) there is observable evidence of impairment (a credit-impaired financial asset). If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

In applying the IFRS 9 impairment requirements, the Group follows one of the approaches below:

- The general approach
- The simplified approach

The General Approach

Under the general approach, at each reporting date, the Group determines whether the financial asset is in one of the three stages below, to determine both the amount of ECL to recognise as well as how interest income should be recognised.

- **Stage 1** - where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Group will recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.
- **Stage 2** - where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2, the Group will recognise lifetime ECL but interest income will continue to be recognised on a gross basis.
- **Stage 3** - where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, the Group will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. As such, interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset.

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss.

The Simplified approach

Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (continued)

II. Policies applicable from 1 January 2018 (continued)

e) Impairment (continued)

Definition of default

The Group will consider a financial asset to be in default when:
- the counterparty or borrower is unlikely to pay their credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the counterparty or borrower is more than 90 days past due on any material credit obligation to the Group. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Group; or

In assessing whether the counterparty or borrower is in default, the Group considers indicators that are:
- Qualitative: e.g. Breach of covenant and other indicators of financial distress;
- Quantitative: e.g. Overdue status and non-payment of another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk (SIICR)

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month and lifetime ECL measurements.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on consideration of a variety of external actual and forecast information. External information includes economic data and forecasts published by governmental bodies and monetary authorities.

The base case represents a best estimate and is aligned with information used by the Group for other purposes, such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of the following variables:
- Probability of Default (PD)
- Loss given default (LGD) and
- Exposure at default (EAD)

To determine lifetime and 12-month PDs, the Group uses externally developed PD tables based on the default history of obligors with the same credit rating. The Group adopts the same approach for unrated investments by mapping external credit ratings. Changes in the rating for a counterparty or exposure lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, which include: instrument type; credit risk grading; collateral type; date of initial recognition; remaining term to maturity.

The groupings are subject to regular review to ensure that exposures within a group remain appropriately homogeneous.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (continued)

II. Policies applicable from 1 January 2018 (continued)

e) Impairment (continued)

Measurement of ECL (continued)

When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external benchmark information that the Group uses to derive the default rates of its portfolios. This includes the PDs provided by rating agencies.

Trade and other receivables

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

ECL = PD x LGD x EAD

f) Modification of contracts

The Group rarely renegotiates or otherwise modifies the contractual cash flows of securities. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the counterparty is in financial difficulty
- Whether any substantial new terms are introduced that affect the risk profile of the instrument
- Significant extension of the contract term when the borrower is not in financial difficulty
- Significant change in interest rate
- Change in the currency the security is denominated in
- Inclusion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered the date of initial recognition for impairment calculation purposes, including the purpose of determining whether a SICR has occurred.

If the terms are not substantially different and the renegotiation or modification does not result in derecognition, the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR.

g) Write off policy

The Group writes off financial assets, in whole or in part when it has exhausted all practical recovery effort and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity; and (ii) the Group is foreclosing on collateral and the value of the collateral is such as there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery

3.11 Cash and cash equivalents

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

3.12 Employee entitlements

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

3.13 Segmental reporting

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

3.14 Taxation

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

Current income tax

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

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

Deferred income tax

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised.

Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Taxation (continued)

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

Current and deferred income tax for the year

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

3.15 Retirement benefit obligations

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

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

3.16 Dividends payable

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

3.17 Earnings per share

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

3.18 Share reserves and share premium

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

3.19 Minimum liquid net worth requirement

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

3.20 Comparatives

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

4 ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

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

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

Taxes

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

Valuation of financial instruments

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

Valuation of land and building

The fair value model has been applied in accounting for land and building. The Group commissioned external, independent and professionally qualified real estate valuers that hold recognised relevant professional qualification and have recent experience in the location and type of property valued to determine the fair value of the property as at 31 December 2018 and 2017 on the basis of open market value. The current use of the portion of the land and building accounted for as investment property equates to the highest and best use.

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

5 OPERATING SEGMENTS

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

- Cash equities and interest rate market segment comprises the equities and bond trading business. This includes other income comprising broker back office income, rental income, data fees and other incomes; and
- Derivatives market segment comprises of the futures trading business. No transactions in derivatives were carried out in the year ended 31 December 2018 (2017: Nil) as the market is expected to be launched in 2019.

Each business segment offers different products and services, and is managed separately because each requires different technology and a different marketing strategy. The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by Group management (the chief operating decision maker) and the Board. The segment results were as follows:

Statement of Financial Position

	Cash equities and Interest rate market Sh'000	Derivatives market Sh'000	Total Sh'000
2018			
ASSETS			
Government securities	91,643	-	91,643
Long-term restricted investments	-	156,521	156,521
Short-term restricted cash and investments	338,202	-	338,202
Cash, cash equivalents and fixed deposits	693,077	20	693,097
Other assets	931,654	7,271	938,925
	2,054,576	163,812	2,218,388
LIABILITIES			
Trade and other payables	92,117	1,753	93,870
Dividends payable	23,859	-	23,859
Tenant deposits	2,711	-	2,711
Trading members' contributions	-	2,200	2,200
	118,687	3,953	122,640
2017			
ASSETS			
Government securities	330,619	-	330,619
Long-term restricted investments	-	148,391	148,391
Short-term restricted cash and investments	302,015	-	302,015
Cash, cash equivalents and fixed deposits	417,739	334	418,073
Other assets	906,382	2,740	909,122
	1,956,755	151,465	2,108,220
LIABILITIES			
Trade and other payables	65,147	1,792	66,939
Dividends payable	19,869	-	19,869
Tenant deposits	3,830	-	3,830
Deferred income tax	4,804	(1,308)	3,496
Trading members' contributions	-	2,200	2,200
	93,650	2,684	96,334

5. OPERATING SEGMENTS (Continued)

Statement of Financial Position (Continued)

	Cash equities and interest rate market Sh'000	Derivatives market Sh'000	Total Sh'000
2018			
Additions to non-current assets	33,571	10,107	43,678
	=======	=======	=======
Non-current assets	921,016	158,498	1,079,514
	=======	=======	=======
2017			
Additions to non-current assets	26,099	5,187	31,286
	=======	=======	=======
Non-current assets	887,445	148,391	1,035,836
	=======	=======	=======

Statement of Profit or Loss and Other Comprehensive Income

	Cash equities and interest rate market Sh'000	Derivatives market Sh'000	Total Sh'000
2018			
Revenue	626,191	-	626,191
Interest income	100,977	15,364	116,341
Other income	39,605	-	39,605
Total income	766,773	15,364	782,137
Administrative expenses	(556,263)	(4,037)	(560,300)
Share of profit of associate	19,012	-	19,012
Profit before income tax	229,522	11,327	240,849
	=======	=======	=======
2017			
Revenue	582,338	-	582,338
Interest income	84,358	14,211	98,569
Other income	71,811	-	71,811
Total income	738,507	14,211	752,718
Administrative expenses	(491,319)	(4,537)	(495,856)
Share of profit of associate	12,324	-	12,324
Profit before income tax	259,512	9,674	269,186
	=======	=======	=======

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

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
6 REVENUE				
Revenue recognized at a point in time				
Transaction levy	460,968	442,342	460,968	442,342
Initial listing fees	6,500	3,300	6,500	3,300
Application and additional listing fees	1,148	1,332	1,148	1,332
	468,616	446,974	468,616	446,974
Revenue recognized over time				
Annual listing fees	81,621	84,168	81,621	84,168
Broker back office subscription	26,575	26,078	26,575	26,078
Market access fee	26,000	25,100	26,000	25,100
Data vending	23,379	25,118	23,379	25,118
	157,575	160,464	157,575	160,464
	626,191	607,438	626,191	607,438
7 PROFIT BEFORE INCOME TAX				
The profit before income tax is arrived at after charging/(crediting):				
Employee benefits (note 8)	228,170	183,719	228,170	183,719
Depreciation of property and equipment (note 12)	20,703	23,925	20,703	23,925
Amortisation of intangible assets (note 14)	16,353	17,638	16,353	17,638
Directors' emoluments:				
- Executive (note 29 a))	23,719	18,170	23,719	18,170
- Non–executive (note 29 a))	14,290	12,053	13,004	10,939
Auditor's remuneration	4,280	4,110	3,147	3,001
Gain on disposal of equipment	(452)	(24)	(452)	(24)
Revaluation deficit on valuation of building	17,529	-	17,529	-
Decrease in impairment of financial assets:				
Measured at amortised cost (note 32 (b) (iii))	(1,737)	-	(1,765)	-
8 EMPLOYEE BENEFITS				
Salaries and wages	191,194	164,598	191,194	164,598
Bonus	13,810	-	13,810	-
Leave pay expense	4,847	2,544	4,847	2,544
Provident fund contribution	17,598	15,869	17,598	15,869
Social security costs (NSSF)	721	708	721	708
	228,170	183,719	228,170	183,719

The staff numbers as at 31 December 2018 were 49 (2017: 48).

	Group		Company	
	2018	2017	2018	2017
	Sh'000	Sh'000	Sh'000	Sh'000

9 INTEREST INCOME

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
Financial assets measured at amortised cost:				
Interest on term deposits	82,731	75,255	67,367	61,044
Investments at amortised cost				
- interest on treasury bonds and bills	32,999	21,704	32,999	21,704
- interest on corporate bonds	-	994	-	994
Interest on staff loans and advances	611	616	611	616
	116,341	98,569	100,977	84,358

10 OTHER INCOME

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
Fair value gain on investment property (note 13)	9,279	13,205	9,279	13,205
Rental income	13,718	20,019	13,718	20,019
Miscellaneous income	3,868	1,014	3,868	1,014
Training fees	5,558	4,724	5,558	4,724
M-Akiba fees	8	3,063	8	3,063
Sale of publications and merchandising items	3,290	2,781	3,290	2,781
Private transfer fee	797	862	797	862
Nomad fees	550	575	550	575
Exchange gain/(loss)	(265)	444	(265)	444
Gain on disposal of equipment	452	24	452	24
Annual members fees	2,350	-	2,350	-
	39,605	46,711	39,605	46,711

11 TAXATION

a) Taxation charge

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
Current income tax				
Current year expense	52,980	55,524	49,065	52,010
Prior year under-provision on tax losses	(103)	-	-	-
	52,877	55,524	49,065	52,010
Deferred income tax (note 24)				
Current year credit	(2,706)	(2,120)	(2,190)	(1,540)
Prior year under-provision on tax losses	-	(468)	-	-
	(2,706)	(2,588)	(2,190)	(1,540)
	50,171	52,936	46,875	50,470

11 TAXATION (Continued)

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

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
Profit before income tax	240,849	269,186	229,522	259,512
	=======	=======	=======	=======
Tax calculated at a tax rate of 20% (2017: 20%)	45,904	51,902	45,904	51,902
Tax calculated at a tax rate of 30% (2017: 30%)	3,398	2,934	-	-
Tax effects on expenses not deductible for tax	3,633	3,919	2,465	3,919
Tax effect on revenues not allowable for tax	(2,661)	(5,351)	(1,494)	(5,351)
Prior year under-provision on tax losses	(103)	(468)	-	-
Income tax expense	50,171	52,936	46,875	50,470
	=======	=======	=======	=======

c) Current income tax movement

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
At start of year	(22,435)	(48,170)	(19,695)	(47,220)
Charge to profit or loss	52,877	55,524	49,065	52,010
Tax paid	(57,491)	(29,789)	(53,525)	(24,485)
At end of year	(27,049)	(22,435)	(24,155)	(19,695)
	=======	=======	=======	=======
Made up of:				
Current income tax recoverable	(27,049)	(22,435)	(24,155)	(19,695)
	=======	=======	=======	=======

12 PROPERTY AND EQUIPMENT (GROUP AND COMPANY)

	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 OR VALUATION							
At 1 January 2017	86,526	10,995	71,098	23,066	93,438	29,804	314,927
Additions	-	4,620	18,579	4,939	4,048	8,049	40,235
Disposals	-	-	(3)	(3,525)	(11,331)	-	(14,859)
Transfer from investment property (note 13)	26,076	-	-	-	-	-	26,076
Revaluation surplus	3,093	-	-	-	-	-	3,093
At 1 January 2018	115,695	15,615	89,674	24,480	86,155	37,853	369,472
Additions	-	-	439	1,314	3,296	37,073	42,122
Disposals	-	(2,003)	(119)	(1,167)	(6,704)	-	(9,993)
Transfer from WIP	-	-	102	-	-	(102)	-
Adjustments	-	-	(1,276)	-	-	-	(1,276)
Revaluation deficit	(20,737)	-	-	-	-	-	(20,737)
At 31 December 2018	94,958	13,612	88,820	24,627	82,747	74,824	379,588
Comprising:							
At valuation	94,958	-	-	-	-	-	94,958
At cost	-	13,612	88,820	24,627	82,747	74,824	284,630
Cost or valuation	94,958	13,612	88,820	24,627	82,747	74,824	379,588
DEPRECIATION							
At 1 January 2017	-	7,810	29,347	18,715	74,891	-	130,763
Charge for the year	-	2,344	9,562	3,735	8,284	-	23,925
Eliminated on disposal	-	-	(1)	(3,525)	(11,325)	-	(14,851)
At 1 January 2018	-	10,154	38,908	18,925	71,850	-	139,837
Charge for the year	-	2,092	10,364	2,009	6,238	-	20,703
Eliminated on disposal	-	(2,003)	(70)	(1,167)	(6,654)	-	(9,894)
At 31 December 2018	-	10,243	49,202	19,767	71,434	-	150,646
NET BOOK VALUE							
At 31 December 2018	94,958	3,369	39,618	4,860	11,313	74,824	228,942
At 31 December 2017	115,695	5,461	50,766	5,555	14,305	37,853	229,635

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

No depreciation has been charged in arriving at the result for the year in respect of certain fully depreciated equipment with a cost of Sh 85 million (2017: Sh 79 million) which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to Sh 20 million (2017: Sh 19.4 million).

The building has been stated at its revalued amounts, being the fair value at 31 December 2018 less any subsequent depreciation. The revaluation was done on the basis of market comparable approach reflecting the highest and best use by Tysons Limited, an independent registered valuer.

13 INVESTMENT PROPERTY (GROUP AND COMPANY)

	2018 Sh'000	2017 Sh'000
VALUATION		
At 1 January	300,603	313,474
Fair value gain	9,279	13,205
Transfer to building (note 12)	-	(26,076)
At 31 December	309,882	300,603

The fair value of the Group's investment property at 31 December 2018 and 31 December 2017 have been arrived at on the basis of a valuation carried out at 31 December 2018 and 31 December 2017 by Tysons Limited and Kenstate Valuers Limited, respectively, independent registered valuers. The fair value was adjusted for in the books of the Group and Company. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

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

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31/12/18 Sh'000	31/12/17 Sh'000				
Buildings	130,118	129,397	Level 2	Market comparable approach- Highest and best use	N/A	N/A
Investment property	309,882	300,603	Level 2			
Total	**440,000**	**430,000**				

Building valuation includes Sh 35,160,000 (2017: Sh 14,288,064) relating mainly to costs of the fire exit and other building improvements that are held under WIP.

14 INTANGIBLE ASSETS (GROUP AND COMPANY)

	Automated trading system software Sh'000	Other software Sh'000	Broker back office software Sh'000	Bond software license Sh'000	WIP Sh'000	Total Sh'000
COST						
At 1 January 2017	61,169	31,125	67,931	38,191	104,014	302,430
Additions	-	643	-	-	1,640	2,283
At 1 January 2018	61,169	31,768	67,931	38,191	105,654	304,713
Additions	-	3,081	-	-	19,996	23,077
Transfer from WIP	-	3,435	-	-	(3,435)	-
Adjustments	-	(196)	-	-	-	(196)
At 31 December 2018	61,169	38,088	67,931	38,191	122,215	327,594
AMORTISATION						
At 1 January 2017	58,944	27,731	30,653	17,018	-	134,346
Amortisation for the year	1,122	2,084	6,794	7,638	-	17,638
At 1 January 2018	60,066	29,815	37,447	24,656	-	151,984
Amortisation for the year	245	1,677	6,793	7,638	-	16,353
At 31 December 2018	60,311	31,492	44,240	32,294	-	168,337
NET BOOK VALUE						
At 31 December 2018	858	6,596	23,691	5,897	122,215	159,257
At 31 December 2017	1,103	1,953	30,484	13,535	105,654	152,729

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

No amortisation has been charged in arriving at the results for the year in respect of certain fully depreciated intangible assets with a cost of Sh 86.4 million (2017: Sh 86 million) which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to Sh 12.8 million (2017: Sh 12.7 million).

15 INVESTMENT IN ASSOCIATE (GROUP AND COMPANY)

The investment in associate represents an investment in Central Depository and Settlement Corporation Limited (CDSC). The Company held an ownership percentage of 22.5% at 31 December 2018 (2017: 22.5%). The proportion of the voting rights in the associate held by the Company does not differ from the proportion of ordinary shares held.

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

Country of incorporation and operation	Number of shares held by NSE @ Sh 100 per share		Proportion of ownership interest and voting power held by NSE	
	2018	2017	2018	2017
CDSC Kenya	393,750	393,750	22.5%	22.5 %
	=======	=======	=======	=======

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

	2018 Sh'000	2017 Sh'000
b) The movement in the balance is as follows:		
At start of year	111,374	99,134
Share of profit for the year	19,012	12,324
Share of other comprehensive income for the year	(105)	(84)
Dividends received	(2,700)	-
At end of year	127,581	111,374
	=======	=======
c) Summarised financial information in respect of the associate		
Total assets	637,943	531,180
Total liabilities	(70,918)	(36,184)
Net assets	567,025	494,996
Group's share of net assets of associate	127,581	111,374
	=======	=======
Total revenue for the year	355,276	335,552
	=======	=======
Total profit for the year	81,715	54,447
	=======	=======
Group's share of profit of associate	19,012	12,324
Group's share of other comprehensive income of associate	(105)	(84)
	18,907	12,240
	=======	=======

16 INVESTMENT IN SUBSIDIARY AND STRUCTURED ENTITIES (COMPANY)

	Principal activity	Holding	2018 Sh'000	2017 Sh'000
Investment in subsidiary (note 16 a)):				
Investment in NSE Clear Limited	Clearing house	100%	20,000	20,000
Investment in structured entities (note 16 b)):				
NSE Derivatives Settlement Guarantee Fund	Settlement guarantee fund		100,000	100,000
NSE Derivatives Investor Protection Fund	Investor protection fund		10,000	10,000
			110,000	110,000
			130,000	130,000

a) Investment in subsidiary

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

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

The license to operate a Derivatives Exchange was granted to the Nairobi Securities Exchange Limited on 19 October 2015. No transactions in derivatives were carried out in the period ended 31 December 2018 as the market is expected to be launched in 2019.

b) Investment in structured entities

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

The NSE Derivatives Investor Protection Fund (IPF) was established on 17 July 2015 as an irrevocable trust under the Trustee Act (Cap167) pursuant to the Capital Markets (Derivatives Markets) Regulations, 2015, the NSE Investor Protection Fund Rules and the Nairobi Securities Exchange PLC (NSE) Compensation Rules and Procedures. The main purpose for the Investor Protection Fund is to satisfy specified claims by the investing public arising out of non-settlement of obligations owed to them by trading members or losses incurred by reason of the default of trading members.

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

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

17 IMPACT OF IFRS 9 TRANSITION ADJUSTMENTS

a) Classification and measurement of financial instruments

The date of initial application of IFRS 9 was 1 January 2018. This is the date at which the classification of financial assets and liabilities was reassessed. The following table sets out the changes in classification and measurement of financial instruments as a consequence of the application of IFRS 9:

Financial assets and liabilities	Original classification under IAS 39	New classification under IFRS 9
Government securities	Held to maturity	Amortised cost
Corporate bonds	Held to maturity	Amortised cost
Trade & Other receivables	Loans and receivables	Amortised cost
Fixed deposits	Loans & receivables	Amortised cost
Short term restricted cash & equivalents	Loans & receivables	Amortised cost
Cash and cash equivalents	Loans & receivables	Amortised cost
Financial liabilities: Tenant deposits Trade and other payables Dividends payable Due to structured entity Trading members' contributions	At Amortised cost	Amortised cost

b) Expected credit losses

As explained in Note 3.10, IFRS 9 requires impairment provisions to be made based on expected credit losses instead of incurred credit losses. The effect of this has been applied retrospectively, with comparative amounts being restated, as the directors are of the opinion that this was possible without the use of hindsight. 12-month expected credit losses have been recognised for government securities, bank deposits, trade and other receivables (not considered as impaired) and bank balances since all of these were assessed as being of low credit risk at 1 January 2018. Lifetime expected credit losses have been recognised for trade receivables that were considered to be impaired.

The following table sets out the changes in measurement of financial instruments as a consequence of the application of IFRS 9:

	Carrying amount under IAS 39 Sh'000	Carrying amount under IFRS 9 Sh'000	Transition adjustment Sh'000
Group			
At 31 December 2017			
Government securities	330,619	328,664	1,955
Long-term restricted investments	148,391	147,886	505
Trade receivables	42,015	40,526	1,489
Other receivables	14,196	12,414	1,782
Short-term restricted cash and investments	302,015	302,015	-
Cash, cash equivalents and fixed deposits	418,073	416,674	1,399
Total	1,255,309	1,248,179	7,130
Company			
At 31 December 2017			
Government securities	330,619	328,664	1,955
Trade receivables	42,015	40,526	1,489
Other receivables	14,196	12,414	1,782
Short-term restricted cash and investments	302,015	302,015	-
Cash, cash equivalents and fixed deposits	417,739	416,342	1,397
Total	1,106,584	1,099,961	6,623

18 GOVERNMENT SECURITIES - AT AMORTISED COST

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
Treasury bills maturing:				
Within three months	-	176,896	-	176,896
After three months to six months	-	60,619	-	60,619
	-	237,515	-	237,515
Treasury bonds maturing:				
After 1 to 10 years	92,901	93,104	92,901	93,104
	92,901	330,619	92,901	330,619
Less: provision for expected credit losses	(1,258)	-	(1,258)	-
	91,643	330,619	91,643	330,619

The weighted average effective interest rate on the treasury bills and bonds for the year ended 31 December 2018 was 10.2 % and 8.4 % respectively (2017: 10.4% and 7.9% respectively).

19 LONG-TERM RESTRICTED INVESTMENTS

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
Fixed deposit and interest capitalized held with the Co-operative Bank of Kenya Limited and maturing within 180 days in the name of:				
NSE Clear Limited	20,052	20,080	-	-
NSE Derivatives Settlement Guarantee Fund	124,396	115,791	-	-
NSE Derivatives Investor Protection Fund	12,608	12,520	-	-
	157,056	148,391	-	-
Less: provision for expected credit losses	(535)	-	-	-
	156,521	148,391	-	-

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

20 TRADE AND OTHER RECEIVABLES

a) Trade and other receivables

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
Trade receivables	31,729	42,015	31,729	42,015
Prepayments and deposits	32,177	34,947	32,177	34,947
Other receivables	15,799	14,196	15,799	14,196
Due from trading members	2,400	-	-	-
Receivable from non-trading brokers	-	154,056	-	154,056
Due from associate (note 29 e))	-	1,188	-	1,188
	82,105	246,402	79,705	246,402
Less: provision for expected credit losses (note 20 b))	(1,579)	(154,056)	(1,579)	(154,056)
	80,526	92,346	78,126	92,346

b) Provision for expected credit losses

Movements in the provisions for expected credit losses were as follows:

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
At start of year	154,056	154,056	154,056	154,056
IFRS 9 transition adjustment: additional credit losses (note 17 (b))	3,271	-	3,271	-
Write back of expected credit losses in the year	(1,570)	-	(1,570)	-
Written off in the year	(154,178)	-	(154,178)	-
At end of year (note 20 a))	1,579	154,056	1,579	154,056

The brought forward balances on receivable from non-trading brokers of Sh 154.1 million represented amounts owed by Nyaga Stockbrokers Limited of Sh 121.1 million (on loan issued in 2008 and transactions levy receivable and expenses incurred for the year 2008) and Discount Securities Limited of Sh 33.0 million (on loan issued in 2008 and transactions levy receivable for the year up to March 2009). The firms were later placed under statutory management by the Capital Markets Authority (CMA) in March 2008 and March 2009 respectively. The amounts were fully provided for in 2009. Attempts to recover these amounts have not been successful as the companies are not in operation and have no assets and the balances were written off in 2018.

21 CASH AND CASH EQUIVALENTS AND SHORT-TERM RESTRICTED CASH & INVESTMENTS

	Group		Company	
	2018 Sh'000	2017 Sh'000	2018 Sh'000	2017 Sh'000
Call deposits	102,119	102,472	102,119	102,472
Fixed deposits	900,680	562,580	900,680	562,580
Total short-term deposits (note 22)	1,002,799	665,052	1,002,799	665,052
Bank and cash balances	30,399	55,036	30,379	54,702
Total bank and cash balances and deposits	1,033,198	720,088	1,033,178	719,754
Less provision for expected credit losses on:				
Call and fixed deposits (note 22)	(1,693)	-	(1,693)	-
Bank and cash balances	(206)	-	(206)	-
	1,031,299	720,088	1,031,279	719,754
Split into:				
Short-term restricted investments (note 34)	338,202	302,015	338,202	302,015
Cash and cash equivalents	228,564	156,030	228,544	155,696
Fixed deposits – maturity of three months to six months (note 22)	464,533	262,043	464,533	262,043
	1,031,299	720,088	1,031,279	719,754
Cash and cash equivalents in the statement of cash flows is comprised of:				
Cash and cash equivalents as per the statement of financial position	228,564	156,030	228,544	155,696
Add back: Provision for expected credit losses on cash and cash equivalents	744	-	742	-
	229,308	156,030	229,286	155,696

22 SHORT TERM DEPOSITS

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
Maturing within three months:				
Fixed deposits	434,862	300,537	434,862	300,537
Call deposits	102,119	102,472	102,119	102,472
	536,981	403,009	536,981	403,009
Less: provision for expected credit losses	(408)	-	(408)	-
	536,573	403,009	536,573	403,009
Maturing after three months to six months:				
Fixed deposits	465,818	262,043	465,818	262,043
Less: provision for expected credit losses	(1,285)	-	(1,285)	-
	464,533	262,043	464,533	262,043
Gross total - call and fixed deposits (note 21)	1,002,799	665,052	1,002,799	665,052
Total provision for expected credit losses	(1,693)	-	(1,693)	-
Net total - call and fixed deposits	1,001,106	665,052	1,001,106	665,052

The deposits are classified and measured at amortised cost.

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
The gross carrying deposits were held at the following institutions:				
Co-operative Bank of Kenya Limited	211,582	232,475	211,582	232,475
Equity Bank Kenya Limited	199,878	154,379	199,878	154,379
Diamond Trust Bank Kenya Limited	184,547	146,072	184,547	146,072
Kenya Commercial Bank Limited	42,007	21,369	42,007	21,369
Stanbic Bank Kenya Limited	184,931	5,595	184,931	5,595
NIC Bank Kenya PLC	179,854	105,162	179,854	105,162
	1,002,799	665,052	1,002,799	665,052

The weighted average effective interest rate on the deposits as at 31 December 2018 was 9.1% (2017: 8.4%).

23 SHARE CAPITAL

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
Authorised share capital:				
At start and end of year:				
375,000,000 ordinary shares of Sh 4 each				
(2017: 375,000,000 ordinary shares of Sh 4 each)	1,500,000	1,500,000	1,500,000	1,500,000
Issued and fully paid up:				
At start and end of year:				
259,500,791 ordinary shares of Sh 4 each				
(2017: 259,500,791 ordinary shares of Sh 4 each)	1,038,003	1,038,003	1,038,003	1,038,003

24 DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 20% (2017: 20%) except for deferred tax on revaluation of buildings which is calculated using the capital gains tax rate of 5% (2017: 5%). The net deferred tax asset/(liability) is attributable to the following items:

	Group 2018 Sh'000	Group 2017 Sh'000	Company 2018 Sh'000	Company 2017 Sh'000
Accelerated capital allowances	241	(1,845)	241	(1,845)
Straight-lined rental income	(1,101)	(1,208)	(1,101)	(1,208)
Unrealized foreign exchange loss	22	(61)	22	(61)
Revaluation surplus on buildings	-	(619)	-	(619)
Leave provision	728	592	728	592
Tax losses	1,816	1,308	-	-
Provision for expected credit losses	1,109	-	948	-
Deferred market access fees	5,000	-	5,000	-
	7,815	(1,833)	5,838	(3,141)
Revaluation of investment property	(2,127)	(1,663)	(2,127)	(1,663)
	5,688	(3,496)	3,711	(4,804)
The movement in the deferred income tax asset/(liability) is as follows:				
At start of year	(3,496)	(5,631)	(4,804)	(5,891)
Credit to profit or loss (note 11 a))	2,706	2,588	2,190	1,540
Charge to other comprehensive income	-	(453)	-	(453)
IFRS 9 and IFRS 15 transition adjustment: expected credit losses	6,478	-	6,325	-
At end of year	5,688	(3,496)	3,711	(4,804)

25 TRADE AND OTHER PAYABLES

	Group		Company	
	2018 Sh'000	2017 Sh'000	2018 Sh'000	2017 Sh'000
a) Non-current portion				
Tenant deposits	2,711	3,830	2,711	3,830
	=======	=======	=======	=======
b) Current portion				
Accrued expenses	35,067	37,013	33,314	35,221
Trade payables	16,627	12,730	16,627	12,730
Other payables	10,681	8,599	10,681	8,599
Staff leave accrual	3,639	2,962	3,639	2,962
Amount payable to Capital Markets Authority	1,953	2,030	1,953	2,030
Annual listing fees received in advance	135	1,957	135	1,957
Tenant deposits	-	1,648	-	1,648
Amount payable to associate (note 29 e))	767	-	767	-
Deferred market access fees	25,001	-	25,001	-
	93,870	66,939	92,117	65,147
	=======	=======	=======	=======

26 DIVIDENDS PAYABLE

The dividends payable represent the first and final dividend for the years ended 31 December 2017, 2016, 2015, 2014 and 2013 respectively not paid at year end. The movement in dividends payable during the year was as follows:-

	Group		Company	
	2018 Sh'000	2017 Sh'000	2018 Sh'000	2017 Sh'000
At start of year	19,869	16,278	19,869	16,278
Declared amount for prior years	77,850	70,065	77,850	70,065
Paid during the year	(73,860)	(66,474)	(73,860)	(66,474)
At end of year	23,859	19,869	23,859	19,869
	=======	=======	=======	=======

	Group		Company	
	2018	2017	2018	2017
	Sh'000	Sh'000	Sh'000	Sh'000
27 CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before income tax	240,849	269,186	229,522	259,512
Adjustments for:				
Depreciation (note 12)	20,703	23,925	20,703	23,925
Amortisation (note 14)	16,353	17,638	16,353	17,638
Share of results of associate (note 15 c))	(19,012)	(12,324)	(19,012)	(12,324)
Interest income (note 9)	(116,341)	(98,569)	(100,977)	(84,358)
Gain on disposal of equipment	(452)	(24)	(452)	(24)
Gain on revaluation of investment property	(9,279)	(13,205)	(9,279)	(13,205)
Deficit on revaluation of building	17,529	-	17,529	-
Working capital changes:				
Decrease/(increase) in trade and other receivables	10,949	(21,425)	10,949	(21,425)
Increase in short-term restricted cash and investments	(36,187)	(9,510)	(36,187)	(9,510)
Increase/(decrease) in trade and other payables	1,930	(55,723)	1,969	(56,325)
Due from trading members	(2,400)	-	-	-
Movement in related party balances	-	-	(3,401)	637
Cash generated from operations	124,642	99,969	127,717	104,541

28 EARNINGS PER SHARE

	2018	2017
Profit attributable to owners of the Group (Sh'000)	190,678	216,250
Number of shares at 31 December (in thousands)	259,501	259,501
Basic and diluted earnings per share – Sh	0.73	0.83

The basic earnings per share is the same as the diluted earnings per share as there were no potentially dilutive shares at 31 December 2018 and 31 December 2017.

29 RELATED PARTY TRANSACTIONS

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

At 31 December 2018, the Group had 9 stock brokers (2017:10) and 7 licensed investment banks (2017:7) who are shareholders. The following transactions were carried out with related parties:

	Group		Company	
	2018 Sh'000	2017 Sh'000	2018 Sh'000	2017 Sh'000
a) Directors' emoluments				
Non – executive				
Directors sitting allowances (including committees)	14,290	12,053	13,004	10,939
	=======	=======	=======	=======
Executive	23,719	18,170	23,719	18,170
	=======	=======	=======	=======

	Group and Company	
	2018 Sh'000	2017 Sh'000
b) Key management compensation		
Salaries and other short-term employment benefits	73,603	50,197
Other long term benefits	6,459	4,748
	80,062	54,945
	=======	=======

c) Transactions with shareholders

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

The Group charges investors, through the brokers, a transaction levy of 0.12% (31 December 2017: 0.12%) of the value of equity securities traded at the Exchange. During the 12 months period ended 31 December 2018, the total turnover was Sh 208,254 million (31 December 2017: Sh 209,800 million) resulting in a transaction levy of Sh 250 million (31 December 2017: Sh 252 million). NSE also charges investors, through brokers, a transaction levy of 0.0035% (31 December 2017 – 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 2018 was Sh 778,007 million (31 December 2017: Sh 659,139 million), resulting in transaction levy of Sh 27 million (31 December 2017: Sh 23 million).

	Group		Company	
	2018 Sh'000	2017 Sh'000	2018 Sh'000	2017 Sh'000
Transaction levy on - equity securities	249,905	251,760	249,905	251,760
Transaction levy on - fixed income securities	27,230	23,070	27,230	23,070
Broker back office subscriptions	17,280	18,720	17,280	18,720
Data fee	-	516	-	516
Training	920	399	920	399
NOMAD fee	150	275	150	275
Membership fee	1,300	-	1,300	-
Sponsorship fees	425	100	425	100
	297,210	294,840	297,210	294,840
	=======	=======	=======	=======

29 RELATED PARTY TRANSACTIONS (Continued)

d) Transactions with companies related to directors

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

	Group and Company	
	2018 Sh'000	**2017 Sh'000**
(i) Stockbrokers and investment bank representatives		
Transaction levy on - equity securities	19,786	32,311
Transaction levy on - fixed income securities	3,424	3,939
Broker back office subscriptions	2,880	2,880
Training	360	100
NOMAD fees	50	50
Purchase of data	-	12
Annual fee	200	-
Sponsorship fees	75	100
	26,775	39,392
Allowances to broker company directors sitting on Committees but are not Group Directors	86	-
(ii) Listed companies related to directors		
Annual listing fees	4,000	4,000
Advertisement	-	52
Interest income on bank deposits	11,253	11,936
Purchase of data	309	-
	15,562	15,988

e) Transactions with associate

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

	2018 Sh'000	2017 Sh'000
Income: Advertising	-	52
Expenses relating to:		
Share registrar services and depository levies	3,024	2,973
Dividend processing	785	984
Joint Board meetings	70	-
BAFM fees	105	-
Provident scheme expense	113	-
	4,097	3,957
Net amounts (payable to)/receivable from associate (note 25 b) and note 20 a))	(767)	1,188

29 RELATED PARTY TRANSACTIONS (Continued)

f) Transactions with subsidiary and structured entities

	Company 2018 Sh'000	Company 2017 Sh'000
i) During the period, transactions with NSE Clear Limited were as follows:		
Expenses paid by the Company relating to:		
Audit and tax fees	755	532
Secretarial services	540	486
Market development expense	-	215
Board allowances	429	371
Income tax	665	-
Pilot testing – funding members	2,400	-
	4,789	1,604
Amounts due from NSE Clear Limited	3,623	622
ii) During the period, transactions with NSE Derivatives Investor Protection Fund (IPF) were as follows:-		
Expenses paid by the Company relating to:		
Trustee allowances	429	371
Audit and tax fees	482	363
Secretarial fees	131	70
Income tax	-	21
Tax exemption application fees	116	355
	1,158	1,180
Amounts due from the NSE Derivatives IPF	114	-

29 RELATED PARTY TRANSACTIONS (Continued)

f) Transactions with subsidiary and structured entities (continued)

	Company 2018 Sh'000	Company 2017 Sh'000
(iii) During the period, transactions with NSE Derivatives Settlement Guarantee Fund (SGF) were as follows:-		
Expenses paid by the Company relating to:		
Income tax	972	3,134
Trustee allowances	429	371
Audit and tax fees	482	363
Secretarial fees	131	70
Tax exemption application fees	116	355
	2,130	4,293
Amounts due from the NSE Derivatives SGF	286	-

g) Loans and advances to Executive Director

	2018 Sh'000	2017 Sh'000
At start of year	167	167
Advances made in the year	529	800
Loan made in the year	3,764	2,000
Repayments in the year	(2,803)	(2,800)
At end of year	1,657	167
Interest income earned on loan	184	122

The balances are included in note 20 a) under Other receivables. The repayment period for the loans and advances are one year and three months respectively. Interest on the loans was at 10% p.a (2017 – 10% p.a). All terms are as per company policy.

30 OPERATING LEASE COMMITMENTS (GROUP AND COMPANY)

The Group and Company as a lessor:

Lease rental income earned during the year was Sh 20 million (2017: Sh 20 million). At the end of the reporting period the Group and Company had existing contracts with tenants for the following minimum lease payments:

	2018 Sh'000	2017 Sh'000
Receivable within 1 year	11,175	14,771
Receivable after 1 year but within 5 years	12,340	24,375
	23,515	39,146

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

31 CAPITAL COMMITMENTS (GROUP AND COMPANY)

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

	2018 Sh'000	2017 Sh'000
Authorised but not yet contracted for	38,999	55,368
	=======	=======
Authorised and contracted for	34,567	71,663
	=======	=======

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

32 RISK MANAGEMENT OBJECTIVES AND POLICIES

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

a) Market risk

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

(i) Interest rate risk (Group and Company)

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

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

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

32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

a) Market risk (continued)

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

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

	2018	2017
	Sh'000	Sh'000
Assets		
Cash and bank balances	2,843	1,879
Trade receivables	705	375
Fixed deposit	20,429	25,364
	23,977	27,618
Liabilities		
Trade payables	(6,280)	(1,784)
Other payables	(12,739)	(16,009)
Net position	4,958	9,825

At 31 December 2018, 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 496,000 (2017: Sh 983,000) higher/lower mainly as a result of translation of US dollar denominated balances.

(iii) Price risk (Group and Company)

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

b) Credit risk (Group and Company)

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a Group-wide basis.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held in one institution.

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting a credit limit and credit period for each customer. The utilization of the credit limits and the credit period is monitored by management on a monthly basis.

In assessing whether the credit risk on a financial asset has increased significantly, the Group compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the Group considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

For this purpose, default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor is unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

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

The amount that best represents the Group and Company's maximum exposure to credit risk as at 31 December 2018 and 2017 is made up as follows:

(i) The gross carrying amount of financial assets with exposure to credit risk at balance sheet date was as follows:

	12 – month expected credit losses	Lifetime expected credit losses		Total
		(a)	(b)	
	Sh'000	Sh'000	Sh'000	Sh'000
Group				
At 31 December 2018				
Government securities	92,901	-	-	92,901
Long-term restricted investments	157,056	-	-	157,056
Trade receivables	30,936	793	-	31,729
Other receivables	15,113	686	-	15,799
Short-term restricted cash and investments	338,302	-	-	338,302
Cash, cash equivalents and fixed deposits	694,896	-	-	694,896
Gross carrying amount	1,329,204	1,479	-	1,330,683
Loss allowance	(3,792)	(1,479)	-	(5,271)
Exposure to credit risk	1,325,412	-	-	1,325,412
	=======	=======	=======	=======
At 31 December 2017				
Government securities	330,619	-	-	330,619
Long-term restricted investments	148,391	-	-	148,391
Trade receivables	42,015	-	-	42,015
Other receivables	14,196	-	-	14,196
Due from non trading – brokers	-	-	154,056	154,056
Short-term restricted cash and investments	302,015	-	-	302,015
Cash, cash equivalents and fixed deposits	418,073	-	-	418,073
Gross carrying amount	1,255,309	-	1 54,056	1,409,365
Loss allowance	-	-	(154,056)	(154,056)
Exposure to credit risk	1,255,309	-	-	1,255,309
	=======	=======	=======	=======

32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

	12 – month expected credit losses	Lifetime expected credit losses (a)	(b)	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Company				
At 31 December 2018				
Government securities	92,901	-	-	92,901
Trade receivables	30,936	793	-	31,729
Other receivables	15,113	686	-	15,799
Short-term restricted cash and investments	338,302	-	-	338,302
Cash, cash equivalents and fixed deposits	694,876	-	-	694,876
Gross carrying amount	1,172,128	1,479	-	1,173,607
Loss allowance	(3,257)	(1,479)	-	(4,736)
Exposure to credit risk	1,168,871	-	-	1,168,871
	=======	=======	=======	=======
At 31 December 2017				
Government securities	330,619	-	-	330,619
Trade receivables	42,015	-	-	42,015
Other receivables	14,196	-	-	14,196
Due from non trading – brokers	-	-	154,056	154,056
Short-term restricted cash and investments	302,015	-	-	302,015
Cash, cash equivalents and fixed deposits	417,739	-	-	417,739
Gross carrying amount	1,106,584	-	154,056	1,260,640
Loss allowance	-	-	(154,056)	(154,056)
Exposure to credit risk	1,106,584	-	-	1,106,584
	=======	=======	=======	=======

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analysed above based on their credit risk ratings as follows:

a) financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;
b) financial assets that are credit impaired at the balance sheet date

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

32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

(ii) The loss allowances at end of each year relate to the following

	12-month expected credit losses	Lifetime expected credit losses (a)	(b)	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Group				
At 31 December 2018				
Government securities	1,258	-	-	1,258
Long-term restricted investments	535	-	-	535
Trade receivables	35	793	-	828
Other receivables	65	686	-	751
Cash, cash equivalents and fixed deposits	1,899	-	-	1,899
Total	3,792	1,479	-	5,271
At 31 December 2017				
Due from non trading - brokers	-	-	154,056	154,056
Total	-	-	154,056	154,056
Company				
At 31 December 2018				
Government securities	1,258	-	-	1,258
Trade receivables	35	793	-	828
Other receivables	65	686	-	751
Cash, cash equivalents and fixed deposits	1,899	-	-	1,899
Total	3,257	1,479	-	4,736
At 31 December 2017				
Due from non trading - brokers	-	-	154,056	154,056
Total	-	-	154,056	154,056

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analysed above based on their credit risk ratings as follows:

a) financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;
b) financial assets that are credit impaired at the balance sheet date

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

32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

iii) The changes in the loss allowance during the year were as follows

	12-month expected credit losses	Lifetime expected credit losses		Total
		(a)	(b)	
	Sh'000	Sh'000	Sh'000	Sh'000
Group				
Year ended 31 December 2018				
At start of year	-	-	154,056	154,056
IFRS 9 transition adjustment on expected credit losses	3,962	3,168	-	7,130
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses	(170)	(1,567)	-	(1,737)
Changes due to financial assets written off during the year	-	(122)	(154,056)	(154,178)
At end of year	3,792	1,479	-	5,271
Year ended 31 December 2017				
At start and end of year	-	-	154,056	154,056
Company				
Year ended 31 December 2018				
At start of year	-	-	154,056	154,056
IFRS 9 transition adjustment on expected credit losses	3,455	3,168	-	6,623
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses	(198)	(1,567)	-	(1,765)
Changes due to financial assets written off during the year	-	(122)	(154,056)	(154,178)
At end of year	3,257	1,479	-	4,736
Year ended 31 December 2017				
At start and end of year	-	-	154,056	154,056

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analysed above based on their credit risk ratings as follows:

a) financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;
b) financial assets that are credit impaired at the balance sheet date

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

32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

c) Liquidity risk (Group and Company)

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

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

	Up to 1 year Sh'000	1 – 5 years Sh'000	Total Sh'000
Group			
At 31 December 2018			
Financial liabilities			
Tenant deposits	-	2,711	2,711
Trade and other payables	93,870	-	93,870
Dividends payable	23,859	-	23,859
Trading members' contributions	2,200	-	2,200
Total financial liabilities	119,929	2,711	122,640
At 31 December 2017			
Financial liabilities			
Tenant deposits	1,648	3,830	5,478
Trade and other payables	65,291	-	65,291
Dividends payable	19,869	-	19,869
Trading members' contributions	2,200	-	2,200
Total financial liabilities	89,008	3,830	92,838

32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

	Up to 1 year Sh'000	1 – 5 years Sh'000	Total Sh'000
Company			
At 31 December 2018			
Financial liabilities			
Tenant deposits	-	2,711	2,711
Trade and other payables	92,117	-	92,117
Dividends payable	23,859	-	23,859
Total financial liabilities	115,976	2,711	118,687
At 31 December 2017			
Financial liabilities			
Tenant deposits	1,648	3,830	5,478
Trade and other payables	63,499	-	63,499
Dividends payable	19,869	-	19,869
Total financial liabilities	85,016	3,830	88,846

d) Fair value of financial assets and liabilities

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

i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active trading markets for identical assets or liabilities.

ii) Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices). Input data for this category is sourced mainly from the Nairobi Securities Exchange. The external valuation of buildings and investment property has been performed using a sales comparison approach.

iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

There are no financial assets carried at fair value (2017: nil).

32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Fair value of financial assets and liabilities (continued)

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

	2018 Sh'000	2017 Sh'000
Group		
Level 1		
Financial assets		
Government securities	88,107	323,122
	=======	=======
Level 2		
Financial assets		
Long-term restricted investments	156,521	148,391
Short-term restricted cash and investments	338,302	302,015
Cash, cash equivalents and fixed deposits	693,097	418,073
	1,187,920	868,479
	=======	=======
Company		
Level 1		
Financial assets		
Government securities	88,107	323,122
	=======	=======
Level 2		
Financial assets		
Short-term restricted cash and investments	338,302	302,015
Cash, cash equivalents and fixed deposits	693,077	417,729
	1,031,379	719,744
	=======	=======

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

i) **Level 1 -** We have determined the fair value using quoted prices (unadjusted) from the Nairobi Securities Exchange.

ii) **Level 2 -** The fair value of these balances is equal to their amortised cost.

33 CAPITAL RISK MANAGEMENT

The Group and Company manage its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. At 31 December 2018 and 31 December 2017, the Group and Company did not have any borrowings.

34 MINIMUM LIQUID NET-WORTH REQUIREMENTS (COMPANY)

	2018 Sh'000	2017 Sh'000
Estimated twelve months operating costs	676,404	604,029
	=======	=======
Required minimum liquid net-worth at one half of estimated operating costs	338,202	302,015
	=======	=======
Cash and cash equivalents and fixed deposits	694,976	417,739
	=======	=======

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

NAIROBI SECURITIES EXCHANGE PLC

NOTICE OF THE 65TH ANNUAL GENERAL MEETING

NOTICE is hereby given that the 65th Annual General Meeting of the Nairobi Securities Exchange PLC (NSE) will be held at Kenyatta International Convention Centre (KICC), Tsavo Ballroom, Nairobi, on Thursday, 30 May 2019 at 11.00 a.m. to transact the following business:-

ORDINARY BUSINESS

1. To read the notice convening the meeting, table the proxies received and confirm the presence of a quorum.
2. To confirm and adopt the Minutes of the 64th Annual General Meeting held on 30 May 2018.
3. To receive the Chairman's Statement and the Chief Executive's Report.
4. To receive, consider and, if thought fit, adopt the Audited Financial Statements for the year ended 31 December 2018, together with the reports of the Directors and Auditors thereon.
5. To approve a first and final dividend of Kshs. 0.49 per ordinary share comprising of an ordinary dividend of Kshs. 0.29 per ordinary share and a special dividend of Kshs. 0.20 per ordinary share in respect of the Financial Year ended 31 December 2018 and to approve the closure of the Register of Members at the close of business on 30 May 2019, for one day, for the purpose of determining the qualifying members entitled to dividends.
6. To approve the Remuneration Report of the Board as detailed in the Integrated Report for the Financial Year ended 31 December 2018.
7. Election of Directors:
   a) In accordance with Articles 94 and 95 of the Company's Articles of Association, Ms. Sharon Maviala (an Independent Non-Executive Director) retires by rotation and, being eligible, offers herself for re-election;
   b) In accordance with Articles 94 and 95 of the Company's Articles of Association, Mr. Hosea Kimutai Kili (an Independent Non-Executive Director) retires by rotation and, being eligible, offers himself for re-election;
   c) In accordance with Articles 94 and 95 of the Company's Articles of Association, Mr. Paul Vollant (a Non-Executive Director) retires by rotation and, being eligible, offers himself for re-election.
8. In accordance with the provisions of Section 769 of the Companies Act, 2015:
   a) The following directors, being members of the Board Audit, Risk and Compliance Committee, be appointed individually to continue to serve as members of the said Committee:
      i) Ms. Risper Alaro-Mukoto
      ii) Mrs. Nasim Devji
   b) Subject to the following directors being re-elected under agenda item No. 7 above and, being members of the Board Audit, Risk and Compliance Committee, be appointed individually to continue to serve as members of the said Committee:-
      i) Ms. Sharon Maviala
      ii) Mr. Hosea Kimutai Kili
9. To re-appoint Messrs PricewaterhouseCoopers (PwC) as the auditors of the Company in accordance with the provisions of Section 721 of the Companies Act, 2015 and to authorize the Directors to fix the Auditors' remuneration for the ensuing Financial Year in accordance with the provisions of Section 724 of the Companies Act, 2015.

ANY OTHER BUSINESS

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

BY ORDER OF THE BOARD

J L G MAONGA
COMPANY SECRETARY

DATE: 06 May 2019

NOTICE OF THE 65TH ANNUAL GENERAL MEETING (Continued)

Note:

1. In accordance with the provisions of Section 298 of the Companies Act, 2015, a member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company.

   A Proxy Form may be obtained from the Company's website **www.nse.co.ke**, the Registered Office of the Company, The Exchange Building, 5th Floor, 55 Westlands Road, P. O. Box 43633 - 00100, Nairobi, or from the offices of the Company's Shares Registrars, CDSC Registrars Limited, Occidental Plaza, 1st Floor, Muthithi Road, Westlands, P. O. Box 6341 - 00100, Nairobi; Email: **registrar@cdscregistrars.com**.

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

2. In accordance with the provisions of Article 159 of the Articles of Association of the Company, a copy of the entire Integrated Report and Accounts may be viewed at the Company's website **www.nse.co.ke**.

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

NAIROBI SECURITIES EXCHANGE PLC

PROXY FORM

I/We,………..................…......................…...., of……………………….......…......……..., being a shareholder/ shareholders of the above-named Company, hereby appoint……………………………….., of………………………………., or failing him…………....……..……....……...
of…………………................… as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 30th May 2019 and at any adjournment thereof.

As witness my/our hand this……………. day of …............…………..2019

Signed…………………………………………..

Signed…………………………………………..

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

*Strike out whichever is not desired.

Agenda Item	Resolution	For	Against
4.	To adopt the audited Financial Statements for the FY ended 31 December 2018.		
5.	To approve a first and final dividend of Kshs 0.49 per share in respect of the FY ended 31 December 2018.		
6.	To approve the Remuneration Report of the Board in respect of the FY ended 31 December 2018.		
7. (a)	To re-elect Ms. Sharon Maviala (an Independent Non-Executive Director) in accordance with Articles 94 and 95.		
7. (b)	To re-elect Mr. Hosea Kimutai Kili (an Independent Non-Executive Director) in accordance with Articles 94 and 95.		
7. (c)	To re-elect Mr. Paul Vollant (a Non-Executive Director) in accordance with Articles 94 and 95.		
8 (i) (a)	To appoint Ms. Risper Alaro-Mukoto to continue serving as a member of Board Audit, Risk and Compliance Committee		
8 (i) (b)	To appoint Mrs. Nasim Devji to continue serving as a member of Board Audit, Risk and Compliance Committee		
8 (ii) (a)	To appoint Ms. Sharon Maviala to continue serving as a member of Board Audit, Risk and Compliance Committee		
8 (ii) (b)	To appoint Mr. Hosea Kimutai Kili to continue serving as a member of Board Audit, Risk and Compliance Committee		
9.	To re-appoint Messrs PricewaterhouseCoopers as the auditors for the FY ending 31 December 2019 and to authorize the Directors to fix their remuneration.		

Note:

i) To be valid, a Form of Proxy must be duly completed by the member and must either be returned to the Company Secretary, P O Box 73248 – 00200 Nairobi, **Email: jmaonga@maongandonye.com** or to the Shares Registrars CDSC Registrars Limited, Occidental Plaza, Nairobi so as to arrive not later than 48 hours before the time fixed for the meeting, failing which, it will be invalid.

ii) In the case of a corporate body, the proxy form must be executed under its commom seal

NAIROBI SECURITIES EXCHANGE PLC

NOMINATION FORM FOR INDEPENDENT NON-EXECUTIVE DIRECTOR

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

I/We ……..……………………………………………………of P. O. Box ……………….………………. being a shareholder/shareholders of the Nairobi Securities Exchange PLC and duly qualified to attend and vote at the Company's Annual General Meeting to be held on the 30th day of May 2019, do hereby give notice of my/our intention to propose ……………………………….…………………….............................. of P.O. Box …………......................…………..................….. for election as an Independent Non-Executive Director of the Company at the meeting.

SIGNED this ………….. day of ....….... 2019.

SEALED WITH THE COMMON SEAL OF)
)
______________________________)
)
In the presence of:)
) SEAL
)
DIRECTOR ______________________)
)
)
DIRECTOR/SECRETARY ______________________)

PLEASE NOTE:

1) The Articles of Association of Nairobi Securities Exchange PLC define an "Independent Non-Executive Director" as a Non-Executive Director who, for the last 5 years, has not been employed by the Company in an executive capacity; has not been a director of a Trading Participant; has not been employed by a Trading Participant in an executive capacity; has no personal service contract(s) with a Trading Participant; is not a director or a member of the senior management of a company listed on the Company's securities exchange; and does not own or hold shares in a Trading Participant.

2) To be valid, this Nomination Form must be received by the Company Secretary; **Email: jmaonga@maongandonye.com** by **5.00 p.m. on Wednesday, 22 May 2019.**

NAIROBI SECURITIES EXCHANGE PLC

CONSENT FORM FOR INDEPENDENT NON-EXECUTIVE DIRECTOR

CONSENT TO ACT AS AN INDEPENDENT NON-EXECUTIVE DIRECTOR OF A COMPANY

I ……………………...……………………….......……... of P. O. Box ……………………..…………….. being the person in respect of whom ……………………………………….…………………. of P.O. Box …………………………………....………………has given notice of intention to propose as a candidate to be elected as an Independent Non-Executive Director of the Nairobi Securities Exchange PLC at the Annual General Meeting to be held on the 30th day of May 2019, do hereby notify you of my willingness to be so elected.

SIGNED this ………….. day of ...., 2019.

....
SIGNATURE

PLEASE NOTE:

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

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

2) To be valid, this Consent Form must be received by the Company Secretary; **Email: jmaonga@maongandonye.com** by 5.00 p.m. on **Wednesday, 22 May 2019.**

NAIROBI SECURITIES EXCHANGE PLC

NOMINATION FORM FOR INDEPENDENT NON-EXECUTIVE DIRECTOR

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

I/We ……………………………………………………….of P. O. Box ………………..………………. being a shareholder/shareholders of Nairobi Securities Exchange PLC and duly qualified to attend and vote at the Company's Annual General Meeting to be held on the 30th day of May 2019, do hereby give notice of my/our intention to propose …………………………………………………..…………..…...….… of P.O. Box …………........ ....………..….................….. for election as a Non-Executive Director of the Company at the meeting.

SIGNED this ………….. day of……………………………, 2019.

SEALED WITH THE COMMON SEAL OF)
)

_______________________________________)
)
In the presence of:)
) SEAL
)
DIRECTOR _____________________)
)
)
DIRECTOR/SECRETARY _____________________)

PLEASE NOTE:

1) A Non-Executive Director is any director other than an Executive Director, Independent Director, Trading Participant Director or a director representing listed companies in the Board of Nairobi Securities Exchange PLC.

2) To be valid, this Nomination Form must be received by the Company Secretary; **Email: jmaonga@maongandonye.com** by **5.00 p.m.** on **Wednesday, 22 May 2019.**

NAIROBI SECURITIES EXCHANGE PLC

NOMINATION FORM FOR INDEPENDENT NON-EXECUTIVE DIRECTOR

CONSENT TO ACT AS A NON-EXECUTIVE DIRECTOR

I ……………………...……………………......………. of P. O. Box ………………………………. being the person in respect of whom …………………………………………..…………………. of P.O. Box …………………………………....……………….. has given notice of intention to propose as a candidate to be elected as a Non-Executive Director at the Annual General Meeting of Nairobi Securities Exchange PLC to be held on the 30th day of May 2019, do hereby notify you of my willingness to be so elected.

SIGNED this ………….. day of ...., 2019.

....

SIGNATURE

PLEASE NOTE:

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

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

2) To be valid, this Consent Form must be received by the Company Secretary; **email: jmaonga@maongandonye.com** on or before 5.00 p.m. on Wednesday, 22 May 2019.

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nairobi securities exchange
Discover Opportunity

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