

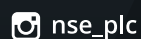


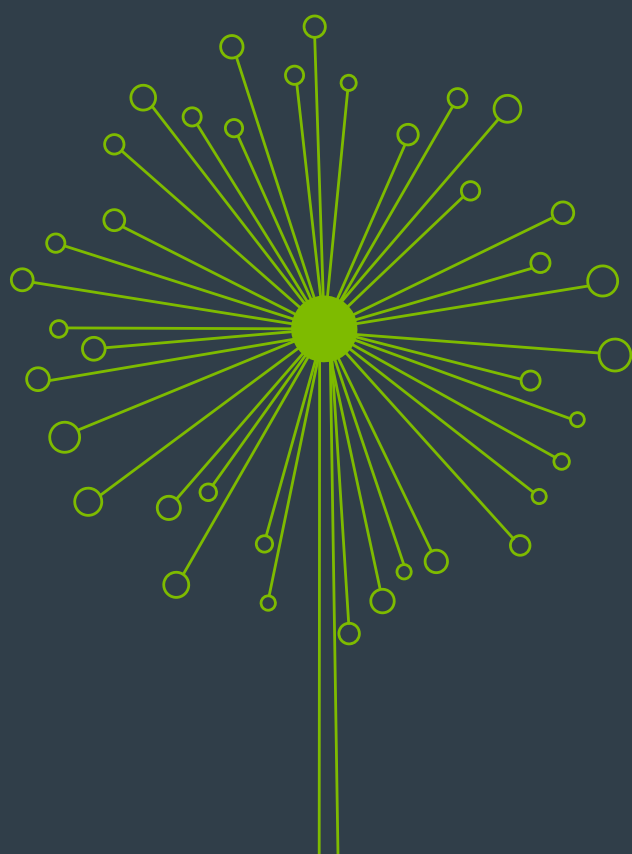
2019

INTEGRATED REPORT AND FINANCIAL STATEMENTS



The leading Securities Exchange in East and Central Africa connecting capital to opportunities in the region through provision of a world class trading facility for local and international issuers and investors.





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Creating Opportunities in Regional Economies

We offer **investors access to Kenya's and East Africa's economic growth** through **exposure to leading companies** across various sectors of the economy.



NSE_PLC



NSEPLC



nse_plc

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CORPORATE INFORMATION

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Mr. Bob Karina
Mr. Hosea K. Kili
Ms. Nasim Devji
Mr. Michael Turner
Mr. Paul Volland
Mr. Paul Mwai
Ms. Risper Alaro
Mr. Kiprono Kittony
Ms. Isis Nyongo
Mr. Geoffrey O. Odundo

Chairman
Vice Chairman

Chief Executive

SECRETARY

Mr. Kuria Waitthaka
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ABOUT THIS REPORT

Nairobi Securities Exchange Plc is pleased to present its integrated report for the period January 1 2019 to December 31 2019. The report is aimed at providing adequate information to our stakeholders, giving a comprehensive overview of how the NSE created value to all its stakeholders in the period under review. It reports on how the NSE leveraged on its various forms of capitals to create and enhance value.

The report will offer our stakeholders a deeper understanding of our operations, highlighting our achievements, opportunities as well as challenges we faced during the period under review as we seek to become Africa's leading trading and investment platform.



Purpose

This report is an acknowledgement of the critical importance the Group has placed in enhancing its communication with stakeholders through linking financial and non-financial standards in measuring our performance.

This report will therefore provide insights into the financial, operational, strategic, social and governance performance as well as outcomes and implications to the Group in the year under review.



Scope of the Report

The scope of this report relates to the NSE, an investment services company as well as material issues arising from its Derivatives Market, its related investments and other business lines. Any reference made to the Group will represent the NSE and its subsidiaries as well as its associate investments.

The report will however capture any material issues arising from any related transactions regarding the Group before the publication of this report.



Preparations and Presentation

This integrated report has been prepared in accordance with the International Integrated Reporting Framework. The NSE Board of Directors have applied the fundamental concepts and principles recommended in the framework in the preparation of this report.

As a listed company, we have prepared this report in line with the guidelines of the Kenya Companies Act 2015 and specifications issued by the Capital Markets Authority (CMA).

The Group Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS).



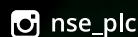
Assurance

The Group's Financial Statements were audited by PricewaterhouseCoopers (PWC) to enhance their integrity and reliability.

GEOFFREY O. ODUNDO
CHIEF EXECUTIVE

Growing the Region's Financial Services Hub

We provide an **all-inclusive trading platform** anchored on **best-in-class trading technology**, wide **array of investment products** and **data dissemination capabilities**.



ABOUT NSE

Who we are

We are the leading securities Exchange in East and Central Africa linking capital to opportunities through offering world class investment services. We offer a leading trading technology platform anchored on diverse investment products providing issuers various financing options whilst availing innovative solutions for deployment of capital to investors.

Our diverse blend of retail and institutional investors both local and foreign enable companies and the Government mobilize domestic resources and international capital to support growth.



Our Mission

A leading securities Exchange in Africa with a global reach.



Vision

To offer a world class trading facility.



Core Values

- Ethics
- Integrity
- Confidentiality
- Innovation
- Excellence



We are the gateway to the regions's economic growth. We offer investors and issuer's exposure to the regions economic growth, a credible and reliable entry point.

Investors

We serve a wide array of retail and institutional investors both domestic and foreign with mandates to invest in frontier equities and Derivatives Markets.

Issuers

We offer a capital raising platform for issuers looking to raise debt or equity capital.

Government

We provide an avenue for the Government to raise capital to finance recurrent expenditure and infrastructure projects.

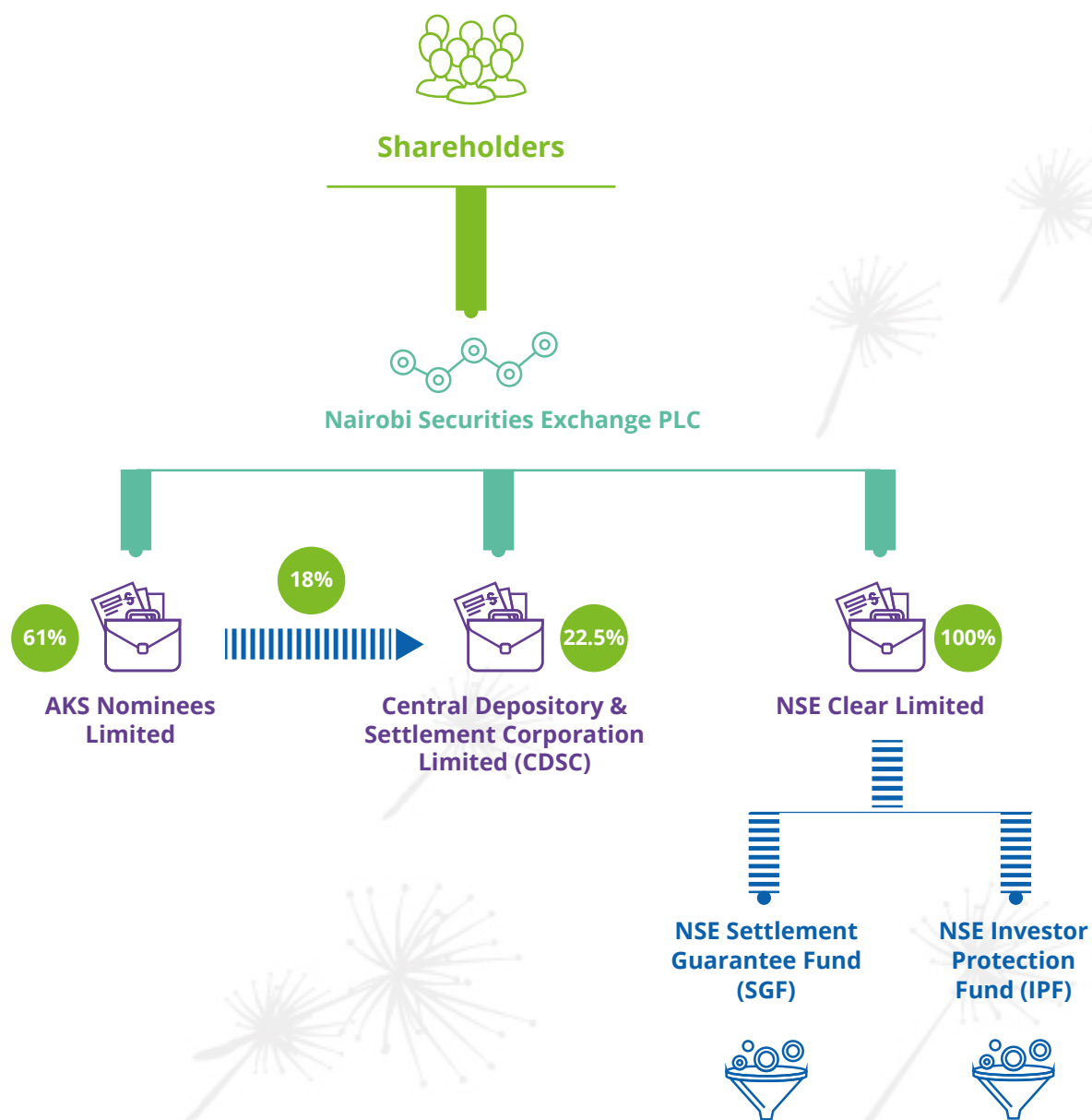
Data Clients

The NSE offers data products to a wide variety of domestic and international clients including; Data Vendors, Investment Advisors, Fund Managers, Trading System Developers as well as Index Computing Companies.

Training Clients

We offer both basic and specialized training services to a wide variety of market players and the general public. Our training services builds the capacity of market players in an ever changing environment, ensuring their ability to trade with even the most complex of instruments while keeping up with global trends.

NSE STRUCTURE



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

NSE HISTORY

1920 -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.



2008 April

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.



2011 July

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.



2013 January

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



2014 June

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 its shares.



2014 September

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, supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments.



NSE HISTORY (CONTINUED)

2015 October

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.



2016 July

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



2017 June

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.



2018 January

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).



2018 December

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.



2019 February

The NSE launched revised listing rules incorporating listing requirements for Green Bonds enabling the NSE offer a new asset class to issuers and investors.



2019 May

The East African Securities Exchanges Association (EASEA) in partnership with the Rwanda Stock Exchange hosted the inaugural within East Africa Capital Markets Day in Kigali, Rwanda.



2019 July

The NSE launched NEXT Derivatives Market, becoming the second Exchange in Africa to offer Exchange traded derivatives. The launch enabled the NSE commence the trading of Single Stock and Index Futures.



2019 October

The NSE launched a new trading system provided by millennium technologies, who are part of the London Stock Exchange Group.



A portrait of Samuel Kimani, the Chairman, wearing a dark blue suit, a light blue shirt, and a red and blue patterned tie. He is wearing glasses and has his hands clasped in front of him. The background is dark with some light-colored circles.

CHAIRMAN'S STATEMENT

Samuel Kimani

Dear Shareholders,

Over the last six and a half decades, we have continued to offer a world class trading facility enabling issuers' access financing whilst providing a credible avenue for investors to deploy their capital. In pursuit of our role, we have made strategic investments that have continuously driven our growth, supported our impact to the economy and enabled us deliver value to you, our shareholders.

Operating Environment

According to the World Bank, Global Gross Domestic Product (GDP) growth in 2019 stood at 2.4% growth the slowest growth since the financial crisis. Rising trade barriers coupled with geopolitical tensions resulted into higher tariffs and uncertainty around trade policies leading to a 65% decrease in global trade from 4% in 2018 to 1.4% in 2019.

Growth in Sub-Saharan Africa decreased marginally in 2019, to 2.4% due to declining external demand, reduced commodity prices and rising global uncertainty.

Kenyan GDP growth rate was also subdued in the year reducing to 5.7% down from 6.3% recorded in 2018. This was heavily attributed to low agricultural output as the country adjusted to erratic and unexpected weather patterns as well as weak private sector investment in 2019. We also witnessed slow private sector credit growth during the year owing to the interest rate caps that prevailed for a larger part of the year.

CHAIRMAN'S STATEMENT (CONTINUED)

Owing to the cumulatively, global, regional and national growth slow down, capital flow from our major markets in South Africa, Europe and America were affected hence having an impact on trading in our market.

Performance on Strategic Priorities (2015-2019)

The year 2019 marked the end of our 2015-2019 Strategic Period. I am happy to report that against a backdrop of challenging macro-economic factors in both local and international markets over the last five years, we delivered against some of our key priority areas. The strategy was anchored on three pillars; revenue growth and diversification, building our reputation as a well as strengthening our organizational capacity and governance.

2015 - 2019 Strategic Pillars

- Revenue Growth & Diversification
- Reputation Building
- Organizational Capacity & Governance Strength

Guided by this strategy, we embarked on a product development strategy to increase our offering to investors and issuers as well as diversify our income streams. In the last five years, we have successfully developed and launched Real Estate Investment Trusts (REITs), Exchange Traded Funds (ETFs), Derivatives market as well as the world's first mobile traded government infrastructure bond, M-Akiba. Equally, we established the regulatory framework for the listing of Green Instruments which facilitated the issuance and listing of the first green bond in January 2020.

M-Akiba Bond

500,000
New Bond Investors

The launch of these products has seen a fair amount of success. The M-Akiba Bond has enabled us register over 500,000 new bond investors underscoring its potential to revolutionize access to the market by majority of Kenyans. The NSE Derivatives Market has proved attractive to domestic retail investors recording over 390 contracts worth over Kshs. 20 Million from local investors.

In October 2019, we successfully completed the upgrade and transition to a new Equities Trading System. The new system provides a more robust, reliable and efficient system which supports enhanced trading, listed securities on the NSE. The upgraded system will boost liquidity by enabling day trading as well as supporting lending and borrowing of tradable securities.

To build a strong and credible brand, we undertook various initiatives to enhance our reputation as a trusted and independent premier Exchange. Core to this was establishing our brand position among our clients, gaining admission to the World Federation of Exchanges as well as attaining full Self-Regulatory Organization status. To evaluate the strength and positioning of the NSE brand, we undertook a brand survey among our clients and are currently implementing the recommendations of the survey. During the period, we also enhanced the relationship with our regulator, the Capital Markets Authority, which actively supported implementation of our key strategic objectives.

"We purchased a majority stake in AKS Nominees Limited, which owns 18% of CDSC Limited."

In 2019, we executed on our strategic acquisition program with the purchase of majority stake in AKS Nominees Limited where we acquired 61% of the company at the close of the year and in the process increasing our indirect shareholding in the CDSC from 22.5% to 40.5%. This acquisition is for synergistic purposes and is aimed at strengthening our trading ecosystem. This strategic acquisition complements our other investments in the Dar-es-alam Stock Exchange in line with our objective of investing in related businesses.

Business and Financial Performance

Our business performance in 2019 faced immense challenges with the performance of various asset classes showing a high correlation with emerging global macro-economic challenges that were characterized by heightened political and economic developments.

Our main revenue stream, trading fees, was under pressure on account of reduced activity by foreign investors in the first half of the year driven by heightened trade tensions between the United States and China and; prolonged uncertainty around Brexit, which negatively weighed on international investor sentiments. Locally, asset reallocation from equities to fixed income assets by domestic institutional investors further reduced activity on our equities market. This resulted in a 12% decrease in equity turnover in the year.

Despite the protracted macroeconomic headwinds, the NSE put a resilient performance to close the year as the best performing frontier equity market globally with an 18% gain in dollar returns against a global average of 5.39% (as measured by the Morgan Stanley Capital International Index). This was mainly driven by a rally in banking stocks in the second half of the year following the repeal of the law capping interest rates by banks and

CHAIRMAN'S STATEMENT (CONTINUED)

continued stability of the Kenyan Shilling in the course of the year. Additionally, the NSE was the best performing market in Sub – Saharan Africa over the past decade surging 74% during the period.

During the year, the Group reported a decline in profit before tax of Kshs.104 million in 2019 from Kshs.240 million reported in 2018. Net earnings also declined by 58% to Kshs. 80 Million as compared to Kshs. 191 Million recorded over the same period in 2018. This was occasioned by a 9% decrease in revenues mainly driven by a 12% drop in equity turnover. During the period, the Board reviewed the Group's cost base leading to a one off restructuring cost of Kshs. 52 Million, aimed at lowering our cost to income ratio as well as enhancing efficiencies across the Group which impacted on our bottom line.

In line with our dividend policy that is aimed at deepening shareholder value while ensuring that the business remains well capitalized, the Board recommends the payment of a first and final dividend of Kshs. 0.08 per share for the Financial Year ending 2019.

Impact of COVID-19

As we review our performance in 2019, kindly allow me to provide insights on a new and unprecedented challenge of the Covid 19 virus. The emergence of this highly contagious virus has had a significant impact on the global economic and social life, resulting to death of citizens, high rates of infections, institution of health protocols, containment of towns, interruption to global supply chains among key factors that have impacted on our normal lives. As part of our adherence and response to this crisis we have undertaken a number of measures to ensure business continuity, health and safety of staff as well as support to the Government in its efforts to control the impact of this pandemic.

"Some of the measures undertaken by the company include institution of our business continuity programs."

Some of the measures undertaken by the company include institution of our business continuity programs including compulsion for all staff where possible to work from home, activation of the trading infrastructure remotely; effecting of a remote surveillance of the market, facilitating the trading community to work from home ; revamping our NSE App - which now has capability for investors to access their trading participants from a single front end and implementing a virtual communication environment for the Board and

management to run the company. Further to this and working closely with the Capital Markets Authority and other stakeholders we provided corporate action support to our listed companies. We also supported the resource mobilization efforts of the National Government and a Capital Markets contributed over Kshs.30 million to the National Resources Mobilization Fund.

It is our belief that together we will overcome this challenge and as the Exchange, we remain focused on providing the desired support to ensure that our infrastructure remains stable and highly available to our investors.

Future Outlook

Our growth plan comes at a crucial time in Kenya and around the world where there is a great shift in how consumers are accessing financial services. This changing landscape has exposed the massive potential of growing our reach especially to retail investors through online and mobile technology. We are keen on capitalizing on this change through fostering innovation to support our reach globally. In view of this, we have commenced a process which when successfully completed, will enable retail investors directly access the market from their mobile phones. This will give us access to more than 85% of the Kenyan population who have access to mobile devices.

"This changing landscape has exposed the massive potential of growing our reach especially to retail investors through online and mobile technology."

To increase the number of listed companies, we geared our engagements to encourage privatisation of state owned enterprises (SOEs). Privatizations will enhance liquidity in our market, reduce the current concentrated trading in a few large cap companies, as well as increase the market capitalization on the NSE. The NSE is also engaging the Government with a view to having it reduce its shareholding in some of the listed SOEs through secondary offerings whilst retaining strategic influence in the companies. The two initiatives will enable the NSE increase the number of companies accessing the market to raise funds either through Rights or Debt issues.

Together with the Kenya Association of Stockbrokers and Investment Banks, we established Ibuka - an innovative incubation and acceleration program, with a hosting platform, to prepare a pipeline of private companies to access our market. At the close of 2019, the program had

CHAIRMAN'S STATEMENT (CONTINUED)

a total of 22 hostees across various sectors of the economy, underscoring the program's attractiveness among Kenyan enterprises.

To cushion our business from constant revenue pressures arising from market uncertainties, we have geared our efforts to increase revenues from data and training services.

We aim to achieve this through offering an expanded portfolio of data and training products to clients across major investments markets. We have commenced a working relationship with institutions of higher learning to offer data services for academic and research purposes as part of core partnership arrangements to deliver on this objective.

Appreciation

Our performance and resilience as a business has only been possible due to the hard work and commitment of all our staff. Their ability and willingness to adapt to the ever changing factors affecting our business and continuously remaining motivated has been critical in supporting this business. I thank the Management team and staff for their dedication to the NSE.

I would like to thank my Board for their guidance and perspective in running the business. The Board has been critical in challenging and inspiring management to view opportunities in entirely new ways and constantly focusing the Group achieve the overall strategy.

Our shareholders are the cornerstone of our business. I take this opportunity to express my gratitude to you for entrusting us with your capital. I would like to reassure of our commitment to business growth and delivery of enhanced returns to you our shareholder.

It would be remiss of me not to acknowledge our stakeholders in the capital markets industry, including the Kenya Association of Stockbrokers and Investment Banks and market participants, our listed companies, the Fund Managers Association, various professional membership bodies, multilateral organizations and other business partners in the private and public sectors.

Finally, I would like to express my gratitude to the Government. We have continued to see increased support from the Government through the National Treasury, the Capital Markets Authority, the Ministry of Trade, Industry and Co-operatives and the Privatization Commission, amongst other Government agencies.

We look forward to a better year with improved returns and more impact to our economy as we seek to continue to connect opportunity to capital through offering best-in-class investment services to issuers and investors regionally and around the world.



Samuel Kimani

Chairman of the Board



CEO'S STATEMENT

Geoffrey O. Odundo

Dear Shareholders,

I am honoured to present a report for the year 2019 which marked the end of our 2015-2019 strategic period; whose overarching objective was to build a world class trading facility offering a wide variety of products. The strategy also aspired to deepen shareholders value following the successful listing of the company in 2014.

Our business remains a significant player in the growth of Kenya's economy providing a venue for capital raising by the government and private sectors who are able to access a wide breath of investor pools both locally and internationally.

As we close this strategic period, I am happy to note that we have grown to become one of the most attractive frontier markets, offering investors innovative avenues for deployment of capital. As a business we have undergone a transformative journey, growing from an Exchange offering two asset classes to one offering six asset classes and over twelve products. This achievement has also positioned us as the second most diverse exchange in Africa.

New Market Dynamics

The emerging market dynamics characterized by global economic challenges, numerous policy changes and competition for capital has led to varying trading cycles in our market. Despite these challenges, we remain confident of the business ability to counter them by offering products that match our investors' needs.

CEO'S STATEMENT (CONTINUED)

With the growing demand for affordable capital and a growing investor middle class we see an opportunity for convergence for both parties and the need for the exchange to be responsive to their demands. It is with this focus that we accelerated the development of new products, improved our trading infrastructure and enhanced our profile during the last strategic period.

"We remain confident of the business ability to counter challenges by offering products that match our investors' needs."

We take cognizant of the fact that most enterprises still prefer bank debt capital to run their businesses with few exploring similar opportunities in the capital market; in addition our demand side is highly concentrated towards institutional investors with our retail pool comprising of less than 10% our traded volume. This is the inherent opportunity that we should exploit with the focus being on shifting interest into capital market financing through our Ibuka platform, using technological driven front ends to enable investors access markets and building the attraction of the market through favourable incentives to both issuers and investors.

Trading and Financial Performance

Our trading and financial performance in the year was affected by various macro-economic factors locally and internationally. Despite these challenges, the NSE was named the best performing frontier equity market globally with an 18% gain in dollar returns.

Our benchmark indices recorded improved performance compared to the year 2018. The all-inclusive NSE All Share Index recorded a 17.19% gain to settle at 166.41 while the NSE 25 Share Index was up 15.46% to close the year at 4100.57 points. The NSE 20 Share Index was down 6.33% closing the year at 2654.39. During the period, foreign investor participation averaged at 66.62%.

Equity turnover which accounted for 23.60% of total trading turnover declined by 12% from Kshs. 351 Billion in 2018 to Kshs. 307 Billion in 2019. Bonds turnover however edged up 15.80% to settle at Kshs. 1.3 trillion from Kshs. 1.1 trillion recorded last year an increased re-allocation of funds to fixed income assets.

During the year, net profit declined by 58% to Kshs. 80 Million from Kshs. 191 Million recorded in 2018 reflecting the impact of reduced activity on our equity market. Equity trading levies decreased by 12% from Kshs. 421.6 Million in 2018 to Kshs. 369.1 Million in 2019.

Interest income in the year decreased by 23% to Kshs. 89.1 Million from Kshs. 116.3 Million recorded in 2018 due to utilization of cash deposits on acquisition of strategic investments.

1% 
Increase in Group's Total Assets

During the period, we undertook decisive strategic measures to reduce the company's costs following a review of the Group's cost base. This led to a one-off restructuring cost of Kshs. 52 Million which increased the Group's administrative expense further impacting on our performance during the period.

The Group's total assets increased marginally by 1% from Kshs. 2.218 Billion as at 31st December 2018 to Kshs. 2.242 Billion as at 31st December 2019.

Increasing Engagements with Issuers

As we focused on growing the number of listed companies, we placed special focus on increasing our interaction with potential issuers. Central to this was engaging with private sector enterprises through the Ibuka Program which we launched in December 2018. Over the course of 2019, the program admitted 22 companies across various sectors of the economy underscoring its attractiveness among private companies in Kenya.

22 
Private Companies admitted through the NSE Ibuka Program

Our aim is to increase listings from the program with a target of four listings annually from the program. Ibuka will enhance the corporate listing journey by making them investor ready.

The Government's privatization program remains a key source of quality companies which can list in our market. In this regard, we have increased our interaction with the Government to encourage the listing of state owned enterprises as well as seeking additional sell down opportunities for already listed firms to support its capital raising efforts.

CEO'S STATEMENT (CONTINUED)

Future Outlook

Our expectation for economic growth in 2020 are moderate driven by the outbreak and spread of COVID-19. The new global pandemic has affected all facets of our economy and social life and we have laid a focus on ensuring that we remain resilient during this time while optimizing on technology to ensure that we continue to operate optimally.

We remain committed to ensuring that we complement the Governments' efforts in containing this virus by ensuring availability of the trading infrastructure through our remote automated processes. Our robust systems and highly committed market participants will ensure uninterrupted trading, and efficient clearing and settlement of all securities traded. The NSE is also committed to working closely with regulators, service providers, trading members and various stakeholders in the capital markets ecosystem to ensure that we deliver an integrated contingency approach to safeguard integrity, business continuity and uninterrupted access to the markets during this unprecedented period.

"Our expectation for economic growth in 2020 are moderate driven by the outbreak and spread of COVID-19."

During this period, we are encouraging access to the market through various online and mobile platforms provided for by our brokerage community. We have also enhanced easier access by offering access to our Trading Participants platforms through our website.

As we work in these conditions, we will continue undertaking initiatives to enhance value for the business. We have geared our efforts to increase listings through the Ibuka Program, support growth of the Data and Training business lines as well as explore new revenue lines. We are in the process of setting up a virtual academy to ensure that training of various clients is undertaken remotely without any interruption during this period.

We will continue to promote our new products including the Exchange Traded Funds and REITs that have proven to be viable among investors.

People and Culture

Our staff are a central part of our growth. They bring significant value, knowledge and expertise which is key in enabling the Group achieve its goals. Their commitment has been fundamental to our transformation.

In 2019, we continued to invest in our employees presenting various opportunities to expand their knowledge base and inculcate an innovative, robust and diverse culture. We invested Kshs. 5.6 Million in training and professional development of our staff during the year.

To ensure the Group has a pool of skilled employees for future growth and business continuity, we recruited the second cohort of our graduate trainees. The new trainees will specialize in Legal, Technology and Operations as well as Regulatory Affairs assignments.

"In 2019, we continued to invest in our employees presenting various opportunities to expand their knowledge base and inculcate an innovative, robust and diverse culture"

The NSE's Executive Committee team graduated from the Strathmore Advanced Management Program following their successful completion of the leadership training course. The training has enhanced their leadership and management skills further empowering them to deliver against the Group's objective.

Appreciation

I would like to express my sincere gratitude to the Chairman and the Board of Directors for the guidance and support accorded to us during the year and also in our efforts to accomplish the Group's key strategic initiatives. Their leadership has been instrumental in transforming the NSE into a globally recognized market and a leading Exchange in Africa.


I would also like to appreciate the NSE team for their continued commitment and invaluable contribution to the company during the year. Your dedication to the organization's mission and devotion to its core values have been a critical factor of our success. I look forward to a more dedicated year ahead as we strive to link our client opportunities to capital.

CEO'S STATEMENT (CONTINUED)

Our achievements specifically against our strategy could not have been possible without the support of the Capital Markets Authority and the National Government. It is in this regard that I express my gratitude for their support. I would like to express our appreciation to all our stakeholders in our ecosystem who have been part of our journey.

Conclusion

To our shareholders, we remain hopeful in the company's positive growth trajectory in the long term. Having made strategic investments across our company to expand our product offering and grow other business lines, we have set up a stable foundation that will enable us continue generating strong returns and value for you..



Geoffrey O. Odundo

Chief Executive Officer

BOARD OF DIRECTORS



**Samuel
Kimani**

Chairman

Age 58

Nationality Kenyan

Background Banking, Finance, Capital Markets

Appointment Chairman of the NSE Board on March 21, 2012

Mr. Kimani 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.

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 (PWC).

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



**Bob
Karina**

Vice Chairman

Age 67

Nationality Kenyan

Background Corporate Finance and Information Technology

Appointment Mr. Karina was appointed Vice-Chairman of the NSE Board on March 21, 2012

Mr. Karina, holds an MSc in Corporate Finance from the University of Liverpool, UK, in addition to key technical and professional qualifications. He is the Founder and Chairman of Faida Investment Bank, Corporate Finance Specialist, an accomplished Stockbroker and Research Analyst. He serves as the Chairman of the Association of Kenya Stockbrokers (AKS) Nominees Ltd and a Founder Member of the Institute of Certified Investment and Financial Analysts (ICIFA). He is a Director of the Central Depository and Settlement Corporation (CDSC), the NSE Clear Ltd., Trustee of both NSE Investor Protection Fund and NSE Derivatives Settlement Guarantee Fund.

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 CDSC, the NSE Automated Trading System (ATS), the Wide Area Network (WAN) and the Broker Back Office (BBO).

He is the Vice Chairman of the Rwanda Stock Exchange (RSE), Director Kenya Industrial Estates (KIE), Chairman of Norwich Union Properties Ltd., has served as Director of Kenya Private Sector Alliance (KEPSA) and Kenya National Chamber of Commerce and Industry (KNCCI).



**Geoffrey
Odundo**

Chief Executive

Age 51

Nationality Kenyan

Background Economics and Investment Banking

Appointment CEO since March 3, 2015

Mr. Odundo, 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 Coop 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.

BOARD OF DIRECTORS (CONTINUED)



**Paul
Mwai**

Director

Age 52

Nationality Kenyan

Background Investment Banking

Appointment Director since
May 30, 2018.

Mr. Mwai, 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. 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 Barclays 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 Barclays 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 the Chief Executive.



**Hosea
Kili**

Director

Age 57

Nationality Kenyan

Background Law, Investments

Appointment Director since
March 21, 2012.

Mr. Kili, 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.

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**

Director

Age 36

Nationality French

Background Business

Administration
Appointment Director since
June 02, 2016.

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

He is the Director of Sales & Trading at Largo Resources, a Canadian listed mining company.

Prior to joining Largo, Mr. Vollant was the General Manager of Business Development at TNG Ltd. in Shanghai, China and before that 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)



**Nasim
Devji**

Director

Age 66

Nationality Kenyan

Background Banking, Accounting

Appointment Director since
March 21, 2012

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

She serves as 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.



**Michael
Turner**

Director

Age 61

Nationality British

Background Finance, Accounting

Appointment Director since
March 26, 2015

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

He is the Managing Director of Actis Kenya Limited and is responsible for Actis's fund management business in East Africa.

Mr. Turner has a 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.



**Kiprono
Kittony**

Director

Age 55

Nationality Kenyan

Background Law, Commerce

Appointment Director since
May 30, 2018

Mr. Kittony, 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).

He is the immediate former 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 of the World Chambers Federation.

BOARD OF DIRECTORS (CONTINUED)



**Risper
Alaro**

Director

Age 45

Nationality Kenyan

Background Finance, Accounting

Appointment Director since
May 30, 2018

Ms. Alaro, 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.

She also serves as a Non-Executive Director on the Board of Bank of Kigali, 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.



**Isis
Nyongo**

Director

Age 42

Nationality Kenyan

Background E-Commerce & IT

Appointment Director since
May 30, 2019

Ms. Madison holds an MBA from Harvard University and Bachelor of Arts degree in Human Biology from Stanford University.

She is a seasoned business leader with over fifteen (15) years' experience in scaling digital and media businesses across Africa. She is the founder of MumsVillage and is a Principal at Asphalt & Ink. She previously held notable leadership positions on the Africa teams of InMobi, Google and MTV Networks.

She holds an MBA from Harvard University and a Bachelor of Arts Degree in Human Biology from Stanford University.

She has received several recognitions for her contribution to Africa's entrepreneurial ecosystem among them Top 20 Women by Forbes Africa and recognized as a Young Global Leader by the World Economic Forum.

EXECUTIVE COMMITTEE MEMBERS



Geoffrey Odundo
Chief Executive



David Wainaina
Chief Operating Officer



Kuria Waithaka
Company Secretary
and Chief Legal Officer



Jane Kiarie
Chief Finance Officer



Terrence Adembesa
Chief Officer,
Derivatives Market



Paul Ngaragari
Chief Internal Auditor



Lucy Kamar
Head Human
Resources



Loise Wangui
Head Regulatory Affairs



Irungu Wagemma
Head Business
Development

NSE 2019 Highlights



2019 NSE HIGHLIGHTS

1. NSE Rings the Bell for Gender Equality



UN Global Compact Board Member Ms. Flora Mutahi (second left) is joined by the NSE Chief Executive Mr. Geoffrey Odundo (left), NSE Board member Ms. Risper Alaro (second from right) and IFC Corporate Governance Programme lead Mr. Stefan Handoyo to Ring the Bell to commemorate the 2019 International Women's Day.

In commemoration of the 2019 International Women's Day, the NSE joined over 70 stock Exchanges globally to Ring the Bell for Gender Equality on March 8, 2019. The annual event held in partnership with International Finance Corporation, UN Sustainable Stock Exchanges (SSE) Initiative, UN Global Compact and the UN Women is aimed at raising awareness of the fundamental importance of gender equality to both business growth and sustainable economic development.

The ceremony culminated with a full day executive training that brought together over 80 women in senior management positions in various companies in Kenya.

The training dubbed, Future Women CEOs and Board Members, was aimed at growing the number of women in corporate leadership in Kenya through capacity building. It sought to leverage on women's unique abilities for driving business growth and efficiency. Additionally, the training highlighted key opportunities and challenges women are likely to encounter on their journey to corporate leadership.

As a member of the SSE, the NSE is committed to undertaking strategic initiatives to realize UN Sustainable Development Goal Five (SDG 5) of achieving gender equality and empowering all women and girls.

2. NSE Incorporates Listing Requirements for Green Instruments in its Listing Rules

(From left) NSE Chief Executive Mr. Geoffrey Odundo, Former CMA Chief Executive Officer Mr. Paul Muthaura and the Central Bank of Kenya Governor Dr. Patrick Njoroge review the revised listing rules incorporating listing requirements for Green Bonds.



On February 5, 2019, the NSE launched revised listing rules incorporating listing requirements for Green Bonds on the NSE. The new listing rules now enable the NSE to offer a new asset class to issuers and investors in line with our commitment to diversify investment products as well as tap into the growing global Green Bond market.

Green Bonds are fixed income instruments, whose proceeds are used to finance or refinance new or existing projects, which generate climate or other environmental benefits that conform to green guidelines and standards.

Green Bonds will play a critical role in mobilizing domestic resources and international capital earmarked exclusively for environmentally beneficial investments to support the country's transition to a sustainable economy. Green Bonds will also enable investors balance financial returns with environmental benefits whilst hedging against climate change risk.

Green bonds issuance has gained traction globally as a means of enhancing issuer reputation and broadening the investor base, as investors are increasingly recognizing the impact of climate change and other sustainability factors on financial returns.

2019 NSE HIGHLIGHTS (CONTINUED)

3. East Africa Capital Markets Day

The East African Securities Exchanges Association (EASEA) in partnership with the Rwanda Stock Exchange hosted the inaugural East Africa Capital Markets Day in Kigali, Rwanda on 23rd and 24th May 2019.

The two day conference held under the theme, "Showcasing East Africa's Economic vibrancy and the capital market's place within the region" brought together

delegates and stakeholders from the region to explore various opportunities where capital markets can support economic growth and development in the region.

EASEA is the regional umbrella body for Exchanges and clearing houses in East Africa. It plays a fundamental role in enhancing the regional Exchanges contribution to economic growth as well as facilitates skill development among member Exchanges.

"Showcasing East Africa's Economic vibrancy and the capital market's place within the region"

4. NSE Becomes the Second Exchange in Africa to offer Derivatives Products

Mr. Nelson Gaichuhie, CAS National Treasury and Planning is joined by industry stakeholders as he rings the bell to mark the commencement of trading of Derivatives products at the NSE



On July 11, 2019, the NSE launched NEXT Derivatives Market, becoming the second Exchange in Africa to offer Exchange traded derivatives. The launch enabled the NSE to commence the trading of Single Stock and Index Futures.

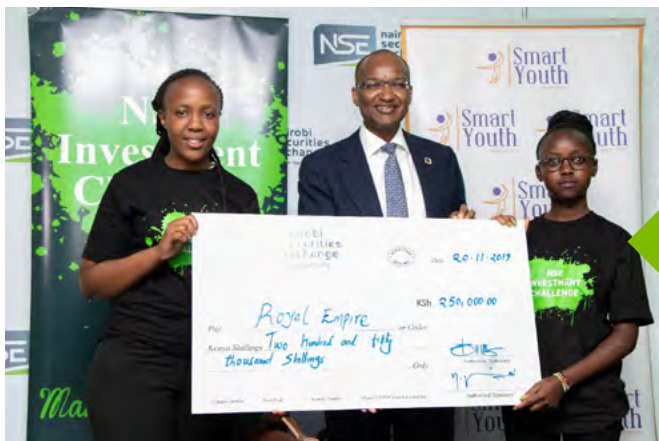
The launch of the NEXT Derivatives Market was a significant milestone in the growth and deepening of our capital markets in line with the provisions of the Capital Markets Master Plan and our strategy of diversifying our offering to investors. The market now provides new opportunities to investors, enabling them to better diversify their portfolios and allow for efficient deployment

of capital. Furthermore, through the Derivatives Market, investors are now able to form expectations about underlying assets in order to manage price risks.

Since its launch, the market has attracted domestic investors demonstrating the appetite and potential for growth of the product locally. It has also underscored the ability and resilience of the Automated Trading System to facilitate efficient end to end transactions on the Derivatives Market.

2019 NSE HIGHLIGHTS (CONTINUED)

5. Molding the next generation of Investors



Ms. Monica Njambi (left) and Ms. Beatrice Njeri (right) receive a cheque from the Central Bank of Kenya Governor Dr. Patrick Njoroge after they emerged the winners of the NSE 2019 Investment Challenge

The NSE held its 2019 Investment Challenge between April and August 2019. The NSE Investment Challenge is a flagship youth focused public education initiative aimed at enhancing financial literacy among the youth whilst creating a savings and investment culture.

The annual online competition is a simulation of the trading of various 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 competition takes place for three months, following which participating teams are evaluated and awarded based on their portfolio returns.

The competition leverages on increased mobile phone and internet penetration to expose the youth to the investment process as well as generate interest for stock market investment among the youth demographic who make up to 75% of our total population.

During the competition, the NSE offers training on products and services offered by the market to young people through campus visits across the country. Since its inception, the NSE Investment Challenge has attracted over 120,000 participants equipping them with fundamental skills for growth and personal development.

6. NSE and SZSE kick-start Collaboration to enhance Investments and Support growth of Medium Sized Enterprises

NSE Chief Executive, Mr. Geoffrey Odundo (Seated Left) and SZSE Deputy Director, Mr. XIE Wenhai, (Seated-Right) sign a MoU between the NSE and SZSE as NSE Vice-Chairman, Mr. Bob Karina and Mr. YU Bin from Shenzhen Securities Information Co. Ltd look on.



In October 2019, the NSE and the Shenzhen Stock Exchange (SZSE) signed a Memorandum of Understanding to establish the China-Kenya Capital Market Service Initiative (the "China-Kenya Initiative"). The aim is connecting the investor community and companies in both countries to allow for capital formation. The initiative will enable the Kenyan capital market showcase its products and services to Chinese investors and vice versa. It will also enhance relationships between China

and Kenya stakeholders improving understanding of both markets.

The two Exchanges also launched the Ibuka and V-Next Connect partnership- a joint initiative aimed at promoting cross-border growth for companies in both programs during the Kenya China Capital Markets Day held on October 15, 2019.

2019 NSE HIGHLIGHTS (CONTINUED)

7. NSE and Partners Publish a Report on Gender Equality in the Work Place



(Left to Right) Ms. Diana Van Maasdijk, CEO Equileap, Hon. Rachel Shebesh, CAS Ministry of Public Service Youth and Gender, Ms. Andia Chakava, Director NFNV, Ms. Isis Nyo'ngo, NSE Director, Mr. Geoffrey Odundo, CEO NSE during the launch of the report in Nairobi

The NSE, Equileap and New Faces New Voices partnered to publish a report on gender equality in the workplace. The report dubbed Gender Equality in Kenya : Assessing 60 leading companies on workplace equality was launched on November 13, 2019 and offers a ranking and a comparative analysis of gender equality across all listed companies in Kenya, which are some of the largest employers in the country.

The survey placed special focus on listed companies' performance on gender equality using four metrics including gender balance across the workforce, senior management and board of directors, gender pay gap, parental leave, anti-sexual harassment policies and supplier diversity policies.

Kenyan companies scored an average of 26% which is comparable to the Canadian companies' average score (27%). According to the report, women make up to 43% of the workforce. Only 10% of companies have gender balance in senior management and their boards. Only 5% of companies have a female chair.

Standard Chartered Kenya was the top-ranked company in Kenya, with a gender equality score of 63%. It ranked among the top 50 companies globally which scored 61% or above, in Equileap's 2019 Global Gender Equality Report published in October 2019. Other companies that performed well include; WPP Scangroup, Absa Bank Kenya PLC and East African Breweries.

The survey which is part of NSE's Leadership Dialogue Series created an opportunity for companies to gain insights on initiatives to enhance gender equality in their respective institutions.

8. The NSE 2019 Charity Trading Day



Hon. Sicily Kariuki, Former Cabinet Secretary Ministry of Health (Seated Left) makes a trade during the 2019 Charity Trading Day as Mr. Bob Karina, NSE Vice Chairman (Standing Right), Mr. Kuria Waithaka, NSE Company Secretary and Chief Legal Officer (Second from Right) and Mr. David Kanyi, CMA Head, Market Deepening (Left) look on.

The NSE raised Kshs. 8.7 Million in cash and in kind during its 5th annual Charity Trading Day bringing the total amount raised over the course of 5 years to Kshs. 38 Million. The flagship event took place on December 6, 2019 and was graced by Hon. Sicily Kariuki, Cabinet Secretary, Ministry of Health.

The theme in 2019 was Health, with a specific focus on cancer prevention and management. Funds raised were channeled towards enhancing the cancer registry system in the country. The NSE supported the National Cancer Institute of Kenya establish a robust registry system, that will support necessary research aimed at cancer control and reduction in Kenya. Other beneficiaries of the 2019 Charity Trading Day include; Borana Conservancy, SOS Children's Home, Nature Kenya and Joy Children's Home.

The Charity Trading Day is NSE's flagship Corporate Social Investment event that brings together various capital markets stakeholders, known personalities, market participants and the entire financial community in Kenya to a charity event that seeks to raise funds in support of various causes in the country.

During the event, known personalities and other guests make calls to investors on behalf of stock brokers and encourage them to make trades on that day.



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ENTERPRISE RISK (ERM) FRAMEWORK

Background

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. The NSE has succeeded in applying the risk framework to such an extent as to make risk management not only a reporting and oversight obligation, but a management discipline. In support of this, an internal risk working group was established in 2018 and in 2019, NSE joined World Federation of Exchanges Enterprise Risk Management Working Group, to further support the formal risk reporting structures and to drive risk management into the organisational practice

Roles and Responsibilities

NSE Board and Risk Committee

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

NSE Management

The NSE executive and its management structures are responsible for applying the defined risk management process across the enterprise. This is done to enable management to identify potential events that, if they occur, will affect the NSE in terms of achieving its enterprise objectives. Risks must be managed within the NSE's set risk appetite (Risk appetite is a measure and allocation of the amount of risk that the NSE is willing to accept in pursuit of its strategy. The NSE will only tolerate risks that permit us to: achieve our strategic business objectives; comply with all applicable laws and regulations; conduct our business in a safe and sound manner; and protect and/or enhance our value)

Chief Executive Office

The Chief Executive Office, specifically the Risk, Compliance and Strategy Department, is the owner of

the NSE risk framework and spearheads implementation and reporting for ERM. This includes:

- Defining and implementing the risk process
- Facilitating risk workshops with all organisational areas at least annually;
- Ensuring updates to risk reporting at least quarterly
- Ensuring risk actions are updated and tracked;
- Compiling and presenting report-backs to line management;
- Providing formal risk reporting to the nse executive committee;
- Providing risk reporting to the risk committee of the board; and
- Entrenching risk management as an effective management tool in the enterprise.

Risk Management Approach

Risk management is conducted using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework guidelines and is in line with principles defined in ISO 31000. Risks are analysed in the context of the NSE risk framework and cover the following categories:

Operational risk – The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, in the following areas:

- a. Human capital related;
- b. Technology and systems;
- c. Information security;
- d. Fraud and theft;
- e. Procurement and third party;
- f. Contracts management;
- g. Legal and compliance;
- h. Business disruption and continuity;
- i. Regulation of markets;
- j. Market operations;
- k. NSE client concentration;
- l. Strategic arrangements; and
- m. Reputation.

Finance risk – This is an umbrella term for any risk associated with any form of financial management of the enterprise such as market risk, credit risk, price risk, liquidity risk, capital risk, etc.

Strategic risk – This risk is the impact on the organisation arising from adverse business decisions and/or the lack of responsiveness to changes.

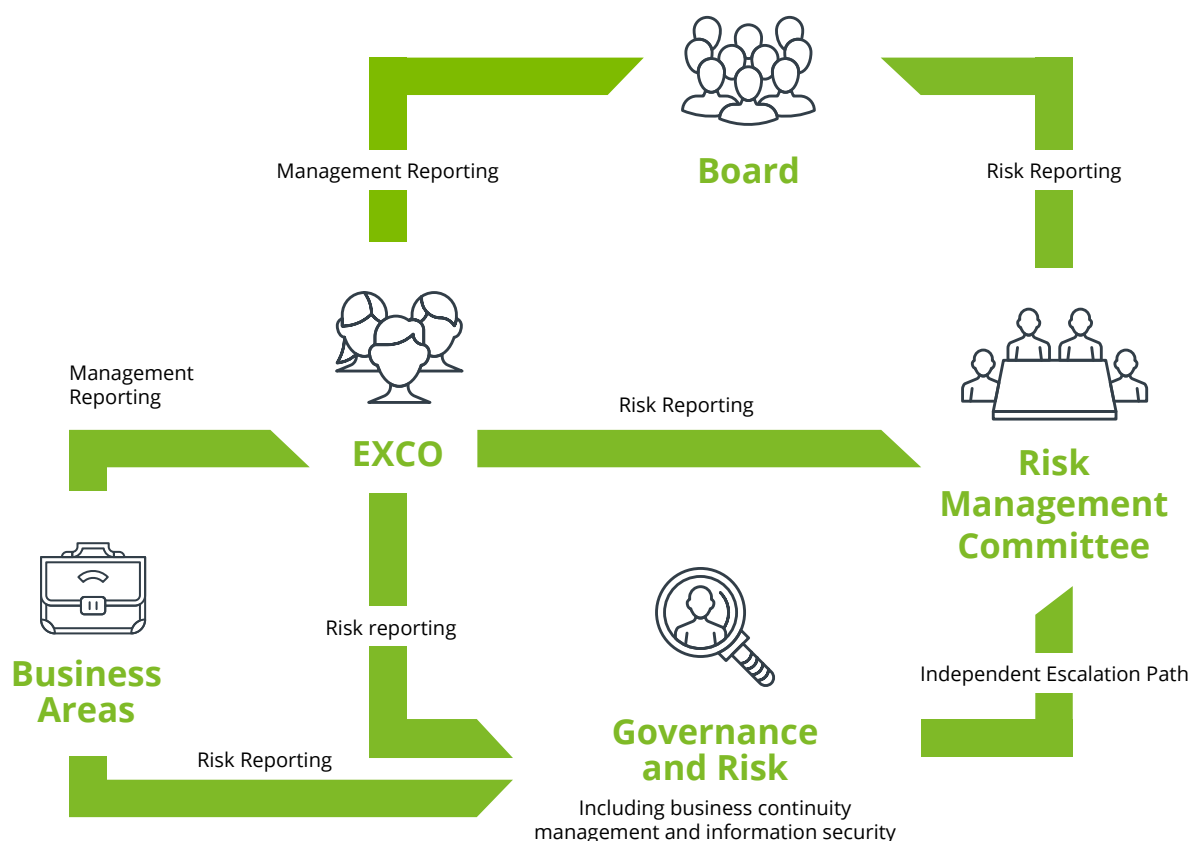
ENTERPRISE RISK MANAGEMENT (ERM) FRAMEWORK (CONTINUED)

Black swan risk – Anticipating and considering low probability (not identified as a possible emerging risk on its risk radar) and catastrophic impact events as part of the enterprise's risk approach.

A good example of a black swan risk is the Covid-19 pandemic whose impacts are catastrophic and their occurrence are extremely rare. Management of a black swan risk requires adequate business continuity planning measures which NSE is happy to report have been operationalized successfully.

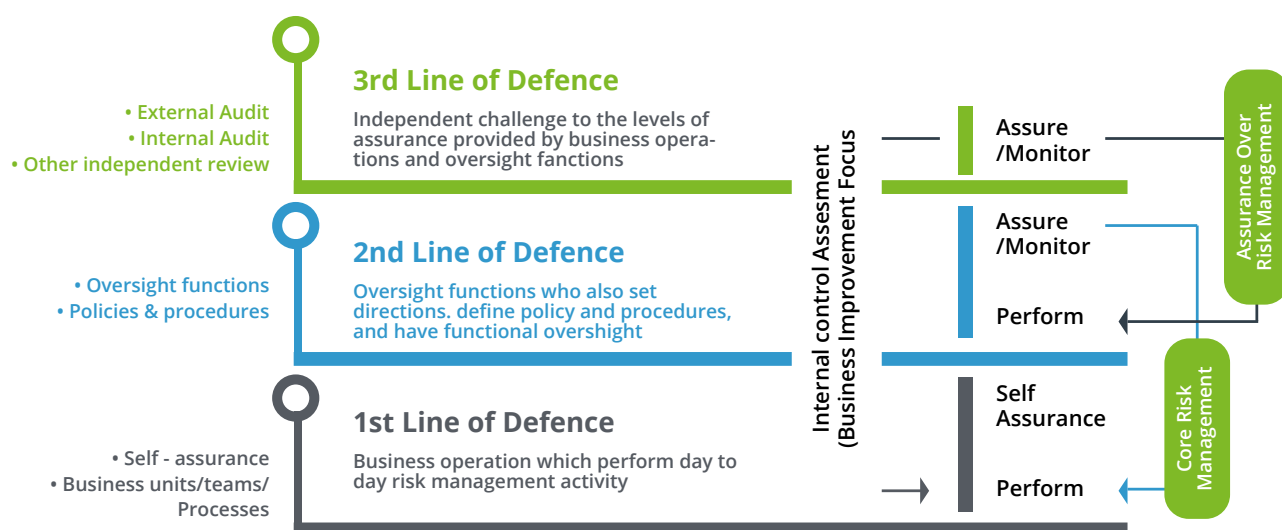
Risk Management Governance Model

NSE has successfully deployed the three lines of defense model with Board oversight under the Board Audit, Risk and Compliance Committee. See illustration below of how the risk governance model is structured.



ENTERPRISE RISK MANAGEMENT (ERM) FRAMEWORK (CONTINUED)

Our Lines of Defense



The above risk governance model at NSE can be broken down as follows:

- Business areas are required to provide risk reporting to the risk team in the Risk, Compliance & Strategy Department.
- An enterprise-wide risk report is then compiled by the risk team and presented to NSE Management for comment and ratification before the report is submitted to the Risk Management Committee of the Board.
- The Risk Management Committee of the Board, in turn, provides assurance to the NSE Board on both the acceptability of the NSE's risk profile as well as the effective functioning of the risk process.

The NSE has also formed a Risk Working Group that consists of selected staff members, based on their divisional responsibilities and the consequential impact of these on the NSE risk profile. This working group directs and guides the risk team in setting robust, appropriate and business focused risk practices. Also, the NSE is part of the World Federation of Exchange (WFE) Enterprise Risk Management Working Group which provides platform for risk benchmarking, sharing ideas and best risk practices globally and institutionalize in NSE business processes for continued value creation process listed below.

VALUE CREATION PROCESS

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 mission - Linking capital to opportunity to enhance stakeholder value.

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, 2019, these stood at Issued Share Capital of Sh. 1,038 million, Share Premium of Sh. 277 million and Retained Earnings of Sh. 732 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 three world class trading systems for equities (Automated Trading System (ATS)) bonds (Broker Back Office (BBO)) and Derivatives, coupled with comprehensive software, hardware and disaster recovery resources.

The equities trading infrastructure was upgraded and went live in October 2019. This upgrade came with enhanced and new capabilities:

- Ability to operate independently from CSD during trading hours
- Scalability – can be scaled via addition of compute resources to support higher throughput if required.
- Multi market and asset support
- Highly customizable design for order types, market sessions, index setup etc.
- Support for short selling/Lending and borrowing, market making and day trading

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 model. 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 launched in October 2, 2019. The bond, issued by Acorn group was subscribed by 85% and cross-listed in the Nairobi Securities Exchange and the London Stock Exchange.

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 (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-centered, 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.

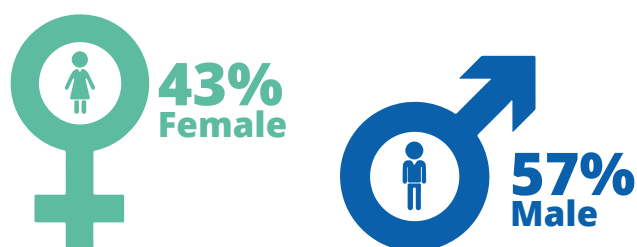
VALUE CREATION PROCESS (CONTINUED)

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.

**Total Number
of Employees 47**



Value Creation Schedule

	2019 Sh '000	2018 Sh '000	Variance %
Total Income	715,638	782,402	(8.5)
Stakeholder contribution			
Taxes paid to Government	46,900	57,491	(18.4)
Shareholders dividend paid	127,155	77,850	63.3
Payment to suppliers	238,382	217,750	9.4
Human capital	198,635	228,170	(12.9)

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

STRATEGY

The NSE strategy 2015-2019 which had three outstanding pillars below came to a close in December 2019.



Pillar 1

Drive revenue growth and diversification

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



Pillar 2

Build reputation as a trusted company and investment destination of choice

- 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



Pillar 3

Strengthen Organizational Capabilities and Talent management

- Invest in key sources gaps - recruit business development and senior external affairs by Q4 2015
- Strengthen governance and develop full SRO capability by Q3 2016
- Strengthen our people value proposition including remuneration and management review
- Build a culture based on excellence, transparency and inclusivity

STRATEGY (CONTINUED)

The following were major milestones achieved.

- Product development - During this tenure, NSE was able to deliver on four new products- Exchange Traded Funds, Real Estate Investment Trusts, M-Akiba and the Derivatives market.
- ATS upgrade in October 2019.
- Attainment of full WFE membership status in 2018.

For the period 2020-2024 the Company embarked on the process of formulating a new strategy together with PricewaterhouseCoopers (PwC) as a consultant.

What are some of the challenges NSE faced in the last Strategic Plan and how has NSE addressed them in the new Strategy?

To be a reflection of the market, NSE strategy 2020-24 will be driven by a sustainable business growth anchored in the following initiatives:

NSE Challenges	Response (Initiatives)
Lack of new listings	• Enhance Market Liquidity
Inadequate performance of listed companies	• Increase number of listed companies
Low uptake by local retail market	• Develop derivatives and support growth of commodities market
Overreliance on trading income (75% of the total income)	• Diversification of revenue streams
	• Improve local market participation
	• Diversify distribution channels

Below are snapshots of the key features of the new strategy:

STRATEGY (CONTINUED)

NSE 2020 - 2024 Strategic Direction



Integrity	Excellence	Team-Work	Sustainability	Accountability
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NSE 2020 - 2024 Strategic Pillars and Objectives

To execute on the 2024 vision, NSE has identified four strategic pillars and eight objectives it will focus on in the next strategic planning cycle. These strategic pillars and organize related initiatives that work together to deliver specific, valuable business objectives.



STRATEGY (CONTINUED)

A brief description of each risk and mitigating strategies are provided below;

Execution Risk Lack of focus on strategy execution	➔	Assign responsibility of the strategy to respective role holders who will be accountable for implementation
		Link the performance management with strategy KPI's
		Communicate the strategy throughout entire organisation
		Evaluate the implementation of the strategy on a quarterly basis and make readjustments as needed
		Continuously review the organization structure to ensure the NSE has the right capabilities to execute the strategy
Concentration Risk Over dependency on specific product offerings and counters	➔	Customize NSE's product offering to meet the needs of the customers in order to increase uptake
		Engage with CMA and other market participants in marketing initiatives
Reputation Risk One-off incidences or miscommunication by the media that negatively affect the NSE's reputation	➔	Work closely with CMA to enforce regulations and address wrongdoings
		Adopt a proper communication strategy with CMA and CDSC to ensure aligned press briefings
		Strengthen media relations to ensure consultation of information before it is publicized
Dependency Risk Not going live on system upgrade, limited cooperation by key stakeholders	➔	Ensure system upgrade before January 2020 as key to strategy execution
		Dedicate NSE board members/ExCo to manage relationships with key stakeholders
		Engage market players early and often to gather input and obtain buy-in for regulatory changes and product development
Market Risk Macro economic or political and security events cause further drop in market activity	➔	While NSE has made progress in product diversification, the uptake of thee products have been low. Therefore NSE should develop a marketing strategy and engage with key stakeholders e.g.. CMA and market participants in creating public awareness to increase uptake of the product offering by local investors to reduce the impact of negative dips in market

NSE SUSTAINABILITY REPORT



STATEMENT ON NSE'S APPROACH TO SUSTAINABILITY



Geoffrey O. Odundo
Chief Executive

Since our inception, the NSE has been part of Kenya's growth story. We have continuously invested strategically in making Kenya the ultimate financial services hub in East Africa connecting opportunities to capital through provision of globally recognized capital markets infrastructure and services.

As we focused on pursuing our purpose, our business and operating environment has drastically changed. Investors, issuers, employees and other key stakeholders are keen on sustainable business models that are driven by a conscious effort to create significant change within our own company and the community in which we operate in.

Guided by this thought process, we made a commitment to support a sustainable economy through undertaking various strategic interventions. As we commenced the (2014-2019) strategic period, we had a resounding vision of playing a bigger role in supporting our country and communities thrive and prosper. We made a conscious effort to run our business in a sustainable but socially progressive way and we aligned our initiatives to the United Nations Sustainable Development Goals (SDGs).

This commitment to sustainability was hence enshrined in our (2014-2019) strategic period's core values of supporting an ethical business, maintaining the highest levels of integrity and confidentiality and embracing a culture of excellence and innovation adopted through an enterprise wide approach.

STATEMENT ON NSE'S APPROACH TO SUSTAINABILITY (CONTINUED)

The NSE identified key areas of need in which the Group held expertise and had the opportunity to create a greater impact. These areas which included Gender Equality and women empowerment, Financial Inclusion, Financial Education, Conservation and Community Engagement were then embraced as key areas of focus on sustainability for the business.

To enhance implementation, we joined like-minded institutions together through which we leveraged on synergies to enhance our impact among communities. This included joining the United Nations Global Compact, a voluntary initiative that seeks to implement universal sustainability principles and to take steps to support the UN Global Goals. Equally, in March 2016, we signed the Women Empowerment Principles (WEPS) committing to a set of ideologies offering guidance on how to empower women in the workplace, marketplace and community.

We have made great progress. On gender equality and women empowerment, we have taken a leadership role in spearheading equality while promoting women empowerment in Kenya. Our strategy has involved advocating for more women leaders at both Board and Management level in Kenya's corporate sector. Over the last five years the number of women in leadership has increase. We have empowered women in informal sectors through various leadership and financial training programs. Our efforts in this endeavor have attracted Government attention and earned the NSE recognition by the Ministry of Gender and Youth Affairs as well as other key players in the market.

"On gender equality and women empowerment, we have taken a leadership role in spearheading equality while promoting women empowerment in Kenya."

We have adopted a community engagement strategy that enables us identify and provide solutions to the communities most pressing needs. In 2014, we set up the Charity Trading Day, a charity event aimed at raising funds to support various initiatives in the country. We have made significant contribution to the growth of our communities contributing over Kshs. 38 Million to fund education, health, wildlife and conservation as well as social welfare.

The youth are the leaders of tomorrow and a reflection

of the bold workforce that will propel our country's next economic frontier. We have invested heavily in enhancing financial literacy among the youth while cultivating a savings and investment culture.

As we commence the implementation of our new 2020 - 2024 strategy, we are keen on continuing to offer the best capital raising services in Africa while creating the most impact on our communities. The concluded strategy period has enabled us identify areas where we have made impact as well as highlight where we need to work harder. Our focus areas will be driven by society's most urgent needs and guided by the Group's overall strategy on sustainability.

During this period, we are keen on setting up a CSR function and the NSE foundation that will continue to enhance our impact and facilitate fund raising and partnership for various initiatives. Additionally, we will continue to leverage on strategic partnerships with both private and social enterprises to support growth. I am confident that an investment in our community is a return to our shareholders and stakeholders.



Geoffrey Odundo
Chief Executive

SUSTAINABILITY REPORT

1. Promoting Financial Education for Economic Empowerment



The NSE 2019 Investment Challenge Awards winners are joined on stage by NSE, Central Bank of Kenya, Kenya Association of Brokers and Investments Banks and Smart Youth leadership teams as they receive their award

As a leading Securities Exchange, we have taken a conscious effort to enhance financial literacy for economic growth and development. Core to this endeavor, is a commitment to nurture the next generation of NSE Investors.

Financial Literacy has the potential to increase demand for formal financial services in developing economies. We are confident that our interventions to promote Financial Literacy have the capacity to enhance Kenyans ability to access formal financial services thus ultimately boosting savings and investments in our market.

Over the past 11 years, the NSE has been educating the youth on investments through the annual NSE Investment Challenge. The flagship program is an online simulation of trading of various securities listed on the NSE. Through the competition, the youth get a practical investing experience in the stock market using virtual capital and real time stock information provided by the NSE through the Automated Trading System. The youth are mentored and thereafter evaluated and

awarded based on their portfolio returns. The program has been critical in enhancing financial literacy amongst the youth while enhancing confidence to participate in the stock market. Since its launch the program has impacted over 150,000 youth.

Young people across various secondary, universities and colleges also get an opportunity to interact with NSE staff and representatives through sensitization visits to the NSE. The training sessions on the stock market provide the NSE with an opportunity to mould our next generation of Investors.

The NSE also promotes expert training aimed at enhancing the skills, expertise and proficiency among players in the market.

2. Financial Inclusion

The NSE has continued to consolidate its leadership position as a frontier market of choice for both local and foreign investors.

Despite Kenya's financial inclusion index being high compared to other markets in Africa, on account of growth in mobile money platforms, investment has remained relatively low. In view of this, the NSE in partnership with key stakeholders in Government, financial services and communication providers embarked on a journey that sought to grow access to formal systems of investments among Kenyan retail investors.

The launch of the world's first mobile traded Government infrastructure bond, M-Akiba, was a key achievement for the Kenyan capital markets. Through the bond traded exclusively on the mobile phone, the NSE has registered over 500,000 new bond investors who can now save and earn interest in Government bonds from the comfort of their mobile phones.

The bonds low entry point of Kshs. 3000 and its convenient access that leverages on mobile technology has been key in enhancing its growth and enabling us enhance financial inclusion and democratize access to the capital market in Kenya. Since its launch, the bond has raised Kshs. 1.05 Billion and paid out Kshs. 98.56 Million as interest to investors.



SUSTAINABILITY REPORT (CONTINUED)

3. Sustainable Finance

13 CLIMATE ACTION



SDG13: Climate Action

Target: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

Target: Create and Promote investment products that promote awareness or mobilize capital earmarked to support projects with benefits to the environment.



Central Bank of Kenya Governor and Patron of the Kenya Green Bond Program Dr. Patrick Njoroge shares his remarks during the launch of the listing rules incorporating the listing requirements for Green Instruments.

Climate change continues to pose a threat to economic growth and development. As a country, a majority of our value chain and GDP is directly or indirectly affected by climatic conditions. Climate change has evolved to become a credit problem to countries prone to extreme weather patterns and natural disasters propelled by global warming as leading credit rating agencies weigh on climate change risks in evaluating credit worthiness.

As a market, we have committed to creating a platform to facilitate public and private sector investments in sustainable environment. We are aligning our market with sustainable development through the provision of asset classes that provide investors an opportunity to balance financial returns with environmental benefits. Additionally, the new instrument will offer investors a unique ability to hedge against climate policy risk.

We completed the development of the necessary framework that will facilitate the development of a vibrant green bond market including launching new listing rules that incorporate listing requirements for green instruments paving the way for finance and investments that are earmarked exclusively for environmentally friendly projects.

Globally, investors have grown considerable interest in Green bonds with issuance in 2019 hitting a record USD 263 Billion.

4. Promoting Gender Equality and Women Empowerment

5 GENDER EQUALITY



SDG 5: Gender Equality

Target: 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.

NSE's Commitment: Promote Gender Equality among listed companies.

SUSTAINABILITY REPORT (CONTINUED)

4. Promoting Gender Equality and Women Empowerment (Continued)

Over the years, we have continued to pursue a leadership role in spearheading gender equality among listed companies. Inspired by the promise of sustainable development Goal 5, we are on the forefront in ensuring both women and men in the Kenyan capital markets enjoy the same opportunities and are accorded equal rights and obligations.

We have also placed special focus on enhancing women's access to both leadership and management positions in Kenya's largest enterprises listed on the NSE. This has been achieved through highlighting financial, risk management and profitability benefits that companies stand to benefit by leveraging on women's unique abilities to enhance business growth.

Over the course of 2019, we undertook various programs that sought to empower women among our listed companies as well as help shape policies that will promote women empowerment.

In commemoration of the 2019 International Women's Day, the NSE joined over 70 stock Exchanges globally to ring the bell for Gender Equality to raise awareness on the importance of Gender Equality to both business and sustainable development.

Additionally, the NSE partnered with Equileap, a leading data and insights provider and New Faces New Voices to publish a report on the state of Gender Equality among Kenyan listed companies. Through the report, companies gained insights on initiatives to enhance gender equality in their respective institutions.

5. Employee Development

8 DECENT WORK AND ECONOMIC GROWTH



SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Target: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment. Substantially reduce the proportion of youth not in employment, education or training

NSE's Commitment: Promote a progressive, inclusive and respectful working environment for all whilst offering the youth employment opportunities.

As a group, we are cognizant of the fundamental role our employees play in supporting the Group achieve its strategic priorities. Skilled, valued and engaged workers are the key to exponential growth in our market. They are a core part of our business and its future. As a business, we are committed to enabling our employees succeed both in their personal lives and professional lives.

To effectively support business growth and ensure we offer best services to our clients, we have developed a system that enables us attract a pool of highly skilled financial services sector experts. Additionally, through training and capacity building, we have been able to hone our staff skills in capital markets and investments.

In the year, we progressively implemented a monthly learning program where our workers train each other on their areas of expertise. This has enhanced business

SUSTAINABILITY REPORT (CONTINUED)

5. Employee Development (Continued)

knowledge, co-operation and overall appreciation of different areas of the organization and prompted a valued-workers sentiment among various divisions.

We also continued to grow our next crop of future leaders through the NSE Graduate Program. The program taps into highly talented young graduates and trains the select graduates through a cross-functional strategy to better understand the NSE and the capital markets industry.

The Group is keen on enhancing employee engagement through various programs and initiatives. Additionally, the Group is keen on having candid deliberations with our staff on issues relating to work environment, compensation, overtime among others. Our goal is to ensure every member of staff feels valued, is willingly ready to contribute and the feels the work environment enables them balance personal and career goals.

6. Community Investment

In 2014, the NSE started the Charity Trading Day. The annual community investment initiative has been a critical part of NSE's sustainability agenda raising funds to support various environmental, humanitarian and social initiatives across the country.



(Left) Comedian Jason Runo and Television Anchor Terryanne Chebet at the 2019 Charity Trading Day.



Ibrahim Kinyanjui, Equities Dealer, Faida Investment Bank guides award winning recording artist Francis Amisi (Frasha) on how to make trades during the NSE 2019 Charity Trading Day.



NSE Donates wheel chairs to the Association for the Physically Disabled of Kenya in 2019

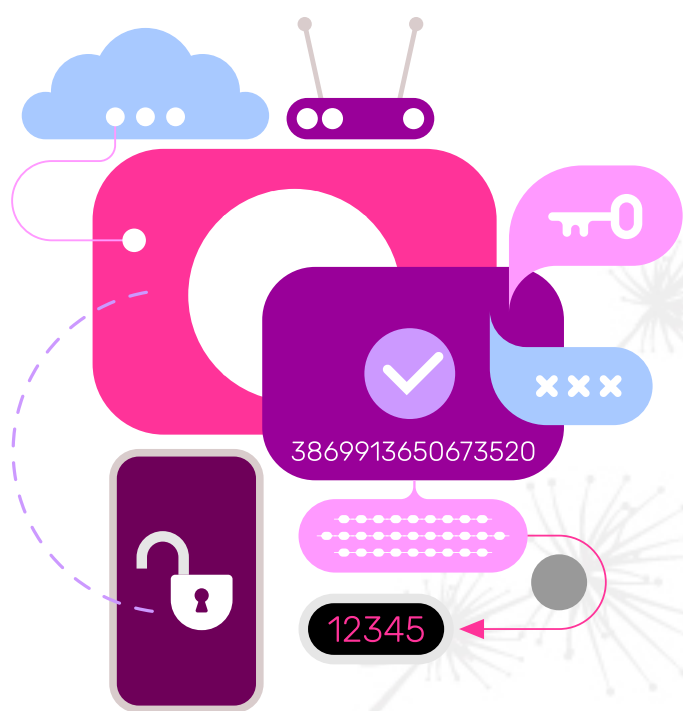
SUSTAINABILITY REPORT (CONTINUED)

6. Community Investment (Continued)

Through mobilization of corporate and personal sponsorship the Charity Trading Day has raised and committed funds to wildlife, conservation, education, health and other social and humanitarian initiatives transforming lives and livelihoods in Kenya.

In 2019, the Charity Trading Day placed special focus on United Nations SDG 3 of promoting good health and well-being for all at ages. It placed special focus on supporting the fight against cancer in Kenya through enhancing the cancer registry system. The NSE supported the National Cancer Institute of Kenya establish a robust registry system, that will support necessary research aimed at cancer control and reduction in Kenya.

7. Cyber Security



Technology is a core pillar of our operations. Our adoption of technology in our end to end trading and data operations necessitates enhanced security measures to protect the interest of both investors and issuers.

We are keen on providing utmost confidence to both domestic and international clients, that, activities on

our market are protected and we have adopted a common goal and framework around enhancing cyber-security across all our operations. We have ensured our frameworks are at par with global best practices to ensure maximum protection of investor information.

The NSE is a dedicated member of the Global Exchange (GLEX) Cyber Security Working Group. GLEX ensures member Exchanges operate a secure, stable and resilient infrastructure. Additionally, it promotes the sharing of intelligence information among member Exchanges as well as sets best practice guidelines for market infrastructures designed to promote a culture of cyber security compliance.

8. Championing for Transparent and Efficient Capital Markets



Transparent and efficient capital markets are key to attracting and maintaining local and international investors whilst protecting the interest of shareholders.

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 highest level of compliance by listed companies and trading participants are upheld for the development of a more sustainable capital market.

The NSE has fostered the disclosure of material information by listed companies and trading participants enhancing market confidence and integrity. We are committed to streamlining our standards to global best practices as we strive to integrate the NSE with global financial markets.

MATERIAL ISSUES

Operations and IT



David Wainaina
Chief Operating Officer

The Operations and IT Department is tasked with the objective of ensuring that the NSE continues to meet its main objective of providing a platform for trading listed securities. The department supports this noble objective by ensuring that we have in place world class trading and broker back office systems as well as packaging the market data for consumption by various stakeholders to make rational investment decisions.

The year 2019 was busy for us and we hit the ground running. In February, we rolled out an initiative that reduced the settlement cycle in Government bonds from 3 days to real-time. It is thus possible to buy a bond and own it on the same day. Equally, if an investor sells Government bonds, they should receive their money on the same day. This was achieved following an enhancement of the bond trading system to enable immediate upload of executed positions for settlement at the Central Bank of Kenya and took effect from March 1, 2019. This development enabled multiple trading and settlement of Government bonds within the same trading session. This was a major milestone in our country and the Capital Markets. The move exceeded the recommended global settlement standards of T+3.

An efficient secondary market is an important facet in raising money by the Government through domestic borrowing. It is worth noting that the Government of Kenya was able to raise in excess of KES 500 billion

domestically in 2019. On the other hand the secondary market was vibrant, registering in excess of 600 billion in trading activity. We are convinced that among other factors this move resulted to the 16% increase in bond trading activities during the year. The NSE offers one of the most vibrant bond secondary markets in Africa and indeed the world.

Before the ink dried up on bond initiatives, the department turned its focus on upgrading the equity trading platform (ATS). This was a huge project initiated in the year 2015 but due to its complexity, there was unforeseen delay. The team was prepared to make it work in 2019 and indeed the system was commissioned in October of 2019. The need for an upgraded system was enhanced by the need for NSE to align with national policies including the Capital Markets Master plan, the Big four Agenda and the NSE strategic objective to graduate from a Frontier to an emerging market status.

The System is provided by the Millennium Technologies, who are part of the London Stock Exchange Group. We are extremely privileged as a market to be operating the same trading systems deployed within developed markets like the London Stock Exchange and the Johannesburg Stock Exchange. This resonates with the NSE strategic objective, to be the most attractive investment destinations in Africa. In terms of the system capabilities the upgraded system is highly scalable and was built on an architecture that guarantees availability. In technical terms we say that the system has been hardened at the primary site. This is notwithstanding the fact that we have a secondary disaster recovery site that is 40KM from the primary site. Again, this confirms we have achieved the recommended business continuity standards.

The system comes along with enhanced features geared towards enhancing market Liquidity. These include the ability to trade without validating the existence of securities in the depository system, CDS. This process is commonly known as elimination of pre-validation of securities. This was a big step as it enabled the market to achieve other liquidity enhancement features including short selling and day trading. Short selling is the ability to sell securities that the investor may not have at the point of trading. However, the investors through their Trading Participants, retain the obligation to ensure there is settlement finality and must source for the securities within three days. They may buy at a cheaper price and make the margin or borrow the securities through a process known as lending and borrowing. Again this is supported by the new system and it is a first within the region. Further, the new system has the ability to support market making which means providing liquidity in the market by having a two way quote in the securities. This way, the security is guaranteed of a buyer or a seller at all

MATERIAL ISSUES (CONTINUED)

times and therefore market liquidity is enhanced.

Finally, the Department was tasked with managing information services, which is a key asset of the Exchange. As such the department was able to package market information and distribute them through the licensed data vendors as well as direct subscription. We were able to reach out to universities and other stakeholders who are in need of the NSE market data. The packaging was extremely effective that as a revenue stream, the information services product was able to return in excess of Kes 30M shillings. The investors were also able to make rational investments decisions and therefore this product is a win-win by both the investors and the Exchange.

The year was extremely engaging for the department and as a team, we were not surprised when the NSE was ranked the best performing Exchange in Sub-Saharan Africa by the MSCI Frontier Markets index.

MATERIAL ISSUES (CONTINUED)

Business Development



Irungu Waggema
Head Business Development

The NSE reported a steady and strong performance throughout 2019 despite a challenging macro-economic environment strongly influenced by trade and geo-political developments. As per the NSE Strategic plan's first pillar, a primary focus was placed on driving revenue growth and diversification in a sustainable and profitable way that would see the Exchange as a leading securities Exchange in Africa.

The Business Development team was tasked with introducing market aligned products that would create an impact for both the buy and sell side and in the process create a conducive environment where successful capital raising could be encouraged and achieved.

The NSE targeted more listings on the Main Market Segment, Alternative Market Segment and the Growth Enterprise Market which was launched in 2013 through growing a pipeline of potential issuers and personally engaging them with capital market solutions for their funding needs. The market segments saw increased activity during the floating of additional shares by Kenya Commercial Bank during the acquisition of National Bank of Kenya and during the merger of NIC Bank and Commercial Bank of Africa to form the NCBA Group Plc. Bank stocks had seen increased activity after the removal of the interest rate caps in October 2019 as banks were now able to better position themselves to capitalize on lending opportunities to institutions and individuals. In a bid to increase the number of listings, the Capital Markets Authority introduced amendments to the GEMS framework which traditionally required companies to float at least 15% of their shareholding to 5%. This move is expected to increase the number of listings in the

market as company managements will be able to retain control and influence over their organisations and at the same time meet funding needs through capital market solutions. Additionally, the finance Act 2019 introduced further tax incentive in the form of tax amnesty for companies listing on the GEMS segment of the NSE.

The Fixed income segment which consists of government and corporate bonds has not witnessed similar activity. However industry players have been collaborating on efforts to make the fixed income segment more attractive. The Green Bonds Framework was formally launched in February 2019 through industry consultative processes between NSE, CMA, KASIB and the Kenya Green Bond Programme partners and this would pave way for green bond issuances at corporate and National levels. The NSE held a number of trainings for potential issuers, verifiers and industry players in a bid to create increased awareness about the issuance process. Due to the attractiveness of these new bonds and the potential environmental impact, the NSE together with other Kenya Green Bond Programme partners successfully lobbied for the exemption of Interest tax for all income accruing from all listed bonds, notes or other similar securities used to raise funds for infrastructure, projects and assets defined under Green Bonds Standards and Guidelines, and other social services, provided that such bonds, notes or securities shall have a maturity of at least three years.

The Stanlib- Fahari I-REIT that had been listed at the NSE in November 2015 had reported a consistent performance in the forthcoming years. The Real Estate Investment Trusts (REITs) have been developing traction in the market with property developers and investors and present the potential of transforming real estate sector funding opportunities. This product is also very instrumental in achieving the Government's Big 4 Agenda for Housing. The NSE is also a member of the REITs Association of Kenya (RAK) and collectively they had successfully lobbied for the exemption of REITs from Income Tax to additionally cover the investee companies or subsidiaries of REITs. The Exchange is committed to improving the performance of this product and increasing awareness through the REITs conference to be held in September 2020.

The New Gold ETF listed in March 2017 has been reporting a steady performance to date. However, through increased awareness forums and further deliberations with potential issuers, the NSE seeks to see more activity on this equity segment. The ETF share price had risen 26% to KES 1470 in 2019 from KES 1165 in 2018 and a turnover that had more than doubled. These statistics signal that ETFs remain an attractive investment tool for investors with a low risk appetite.

MATERIAL ISSUES (CONTINUED)

The Ibuka Program that was launched on December 17th, 2018 had gained noteworthy traction during the year 2019. Ibuka is a non-trading platform that hosts aspirational companies that are committed to their next stage of growth. It is structured in a two phased approach- the Incubator and Accelerator board respectively which are focused on supporting companies through a restructuring process that will enable them to subsequently capital raise. The Program aims to target SMEs and large entities that would require some form of capital raising to grow their potential thereby pursuing the traditional NSE capital market listings amongst other products. As at the end of 2019, the Program hosts 22 companies and has a number of consultants and advisors who are involved in the different stages. Hostees have been able to identify primary objectives with 100 implementation meetings held so far to actualize those objectives. Eight term sheets for capital raising have been signed with the hostees and capacity building trainings held to build the technical capacity of the hostees. This Program continues to grow and unlock value for the Exchange through.

MATERIAL ISSUES (CONTINUED)

Derivatives



Mr. Terrence Adembesa
Chief Officer, Derivatives Market

The Derivatives Market was launched on 4th July 2019. This was upon the receipt of the letters of 'no objection' by the Clearing Members from the Central Bank of Kenya following successful completion of the regulatory pilot testing phase as well as three key exceptional tests carried out in March 2019.

The launch of the Derivatives Market was a key milestone for the Exchange in its quest to become the investment partner of choice in Africa as well as anchoring its first pillar of revenue growth and diversification as captured in the 2015-2019 corporate strategy.

The pioneer products for the Derivatives Market were equity futures contracts structured off the NSE 25 share index and six counters that met the single stock futures eligibility criteria, namely, Safaricom, KCB Bank, Equity Bank, East African Breweries Ltd (EABL), British American Tobacco (BAT) and Barclays Bank of Kenya (now Absa Kenya).

The market kicked off with 9 players on board i.e. 7 Trading Members and 2 Clearing Members. The Trading Members in the Derivatives Market are:

- AIB Capital Ltd;
- Standard Investment Bank;
- Sterling Capital;
- Faida Investment Bank;
- Kingdom Securities Ltd;
- NCBA Investment Bank; and
- Genghis Capital

On the other hand, the Clearing Members in the market are Stanbic Bank Kenya and the Co-operative Bank of Kenya.

In terms of trading, the Derivatives Market saw five hundred and seventy two (572) contracts change hands in 2019. The values of the contracts traded was KShs. 20, 734,794 reflecting average daily value trade of KShs. 215,987. The Safaricom September and December expiries were the most traded contracts to the tune of 401 contracts while the NSE 25 share index and BAT saw trades of 7 contracts being traded in each.

While the Exchange was satisfied with the launch and commencement of trading and settlement operations in the Derivatives Market, the focus areas in the year 2020 will be on business development, sales and ultimately product uptake in the market.

Annual Report and Financial Statements

for the Year Ended 31 December 2019



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DIRECTORS' REPORT

The directors present their annual report together with the audited financial statements of Nairobi Securities Exchange PLC (NSE/the "Company"/the "Exchange") and its subsidiaries and structured entities (together, the "Group") for the year ended 31 December 2019, 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. The derivatives market was launched in July 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.

In 2019, the Company acquired 61% of AKS Nominees Ltd (AKS). AKS holds an 18% shareholding in the ordinary shares of the Central Depository Settlement Corporation (CDSC) in 2019. The principal activity of the subsidiary is holding equity shares in CDSC in trust for its members who are authorised to operate as stockbrokers and investment banks in the Nairobi Securities Exchange (NSE).

BUSINESS REVIEW

In 2019, which was the final year in the 2015 – 2019 period, the Group achieved key milestones in line with its mission and corporate strategy. NSE's incubation and acceleration program dubbed **Ibuka** closed the year with a total of 22 *hostees*, eager to transform their organizations. Another breakthrough was the official launch of NSE's Derivatives Market (NEXT) that facilitates trading of future contracts in the Kenyan market, which will modernize our market. The NSE also upgraded the trading infrastructure to a system that has come along with significant changes to the structure of the current

trading process providing more availability and allowing for trading of new and innovative instruments which will revolutionize the capital markets. Finally, and as part of the strategy of diversifying products in the Kenyan capital markets, the framework to issue listed and unlisted green bonds were launched, paving the way for the listing and trading of green bonds in Kenya.

The Group's profit after tax reduced by 58% from Kshs 191 Million in 2018 to Kshs 80 Million in 2019 due to a decline in equity turnover and increased administrative costs. Operating income decreased by 9% from Kshs. 626 Million in 2018 to Kshs. 567 Million in 2019 mainly driven by a 12% drop in equity turnover which declined from Kshs. 351 Billion for the year ended 31 December 2018 to Kshs. 307 Billion for the year ended 31 December 2019. This in turn led to a reduction in equity trading levies by 12% from Kshs. 421.6 Million for the year ended 31 December 2018 to Kshs. 369.1 Million for same period in 2019. The decline in the equity turnover was as a result of low domestic demand which saw an increase in asset allocation towards the fixed income assets. Interest income decreased by 23% from Kshs. 116 Million in 2018 to Kshs. 89 Million in 2019 on utilisation of deposits to fund strategic investments.

Administrative expenses increased by 12% from Kshs. 560 Million in 2018 to Kshs. 625 Million in 2019 mainly arising from a one-off staff restructuring cost of Kshs. 52 Million in 2019. This is not expected to recur in 2020.

The ATS system upgrade was also completed in the year and the derivatives market launched in the year. Both ATS and derivatives systems were capitalized in 2019 resulting in an increase in amortization and depreciation expenses by Kshs. 11.7 Million.

Total assets increased nominally by 1% from Kshs. 2,218 Million in 2018 to Kshs. 2,242 Million in 2019. Shareholder funds declined by 3% from Kshs 2,096 Million in 2018 to Kshs 2,030 Million in 2019 impacted by the decline in performance for the year and by a Kshs 18.4 Million fair value loss on a quoted equity instrument purchased in 2019.

Return on equity decreased to 3.9% (2018 – 9.1%) and return on assets decreased to 3.5% (2018 – 8.6%). Cost income increased from 71.6% in 2018 to 87.4% in 2019 due mainly to the decline in equity performance and the staff restricting costs and asset amortization.

DIRECTORS' REPORT (CONTINUED)

DIVIDEND

The Group profit for the year of Sh 80,153,000 (2018: Sh 190,678,000) has been added to retained earnings. The directors recommend the approval of a first and final dividend of Sh 0.08 per share amounting to Sh 20,760,000 (2018: Sh 0.49 per share comprising of an ordinary dividend of Sh 0.29 per share and a special dividend of Sh 0.20 per share amounting to Sh 127,155,000).

DIRECTORS

Ms. Sharon Maviala retired as a director on 27 May 2019. Ms. Isis Nyongo was appointed as a director on 30 May 2019. Mr. John Maonga retired as the company secretary on 30 May 2019. Mr. Kuria Waithaka was appointed as the company secretary on 1 July 2019.

The current members of the Board of Directors are as shown on page 5 and pages 20 - 23.

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 LLP continues 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



Mr. Kuria Waithaka
Secretary

27 March 2020

CORPORATE GOVERNANCE STATEMENT

OVERVIEW

Corporate governance is at the heart of 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 Act and regulations, rules and guidelines thereunder on Corporate Governance and the Nairobi Securities Exchange (NSE) regulations, rules, policies and procedures.

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 has put in place sustainable business practices;
- 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 for the Group and establish mechanisms for managing or mitigating them;
- 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 and senior management staff;
- l) To procure suitable external auditors for shareholder;
- and
- m) To exercise such other powers as are necessary to enforce the requirements of the Capital Markets Act and regulations and guidelines thereunder, the NSE's Articles of Association and the internal regulations and rules governing the Group.

DIVISION OF RESPONSIBILITIES

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

The Chief Executive has overall responsibility for the business of the Group. The Chief Executive enforces the provisions of the Capital Markets Act (the "Act") and the rules of the Group and immediately reports any violations to the Board and the Capital Markets Authority ("CMA/ 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 and promotes the objectives and functions of the Group. The Chief Executive also liaises with the Authority and its representatives in respect of administrative, regulatory and technical matters of the Group. The Chief Executive is also responsible for the stewardship of the Group's assets and, jointly with the Chairman, for representation of the Group externally.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMPOSITION

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

- a) 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
Mr. Hosea K. Kili	Independent Non-Executive Director
Ms. Risper Alaro	Independent Non-Executive Director
Mr. Kiprono Kittony	Independent Non-Executive Director
Ms. Isis Nyongo	Independent Non-Executive Director
Mr. Paul Vollant	Non-Executive Director
Mr. Geoffrey O. Odundo	Chief Executive

BOARD COMMITTEES

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

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

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

There is also the Derivatives Risk Management Committee, which though a sub-committee of the Derivatives Market Oversight Committee, has within its membership, one member of the Board, a member of

the Audit, Risk and Compliance Committee, for purposes of linkage and interface of risk matters between the Audit, Risk and Compliance Committee and the Derivatives Risk Management Committee.

At each ordinary Board meeting, the chairpersons of the Board Committees are required to report to the Board on the highlights of the deliberations of the Committees and to escalate to the Board all matters requiring the Board's consideration and approval.

The Board reviews the Committee composition every year to ensure that the Committees have suitable, appropriate and relevant skills required to effectively discharge the mandate of the Committees and the Board as a whole. The review also aids in incorporating into committees any members who may have retired from the Board and also those who may join the Board in the course of the year. The Committee membership review took place in June 2019.

The Committee Terms of Reference are also reviewed on an annual basis to ensure that they are up to date to factor in any developments in the organizations strategic direction, operations, industry practice and global best practices. The annual review in 2019, took place in November 2019.

Below is a summary of the mandates, functions, membership and activities of the various committees:

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

a) *Finance and Strategy Committee*

The mandate of the Finance and Strategy Committee is to oversee the implementation of the NSE Strategy and strategic business development initiatives of the NSE, including training and to deal with all matters relating to the prudent financial management of the Group, which includes NSE PLC subsidiaries, including reviewing and advising on the financial statements and management accounts. The Committee also evaluates and advises on potential investment opportunities and also oversees procurement at the NSE to ensure compliance with the Procurement manuals and procedures.

b) *Trading, Technology and Innovation Committee*

The Trading, Technology and Innovation Committee's mandate is to assist the Board in relation to trading and markets operations, information technology infrastructure, data service provision and dissemination of market information to capital markets stakeholders and the general public. The Committee also monitors the state of technology capabilities within NSE and identifies and manages the associated risks and opportunities that could have significant impact in the organization's operations.

c) *Listing and Admissions Committee*

The Listing and Admissions Committee is mandated to assist the Board in the effective discharge of its responsibilities in relation to listing of new equity securities in any of the market segments and admission of Market Participants (including Trading Participants, market makers, liquidity providers, custodians for the Derivatives Market and other capital market support service providers) on the Nairobi Securities Exchange and the NSE Derivatives Market. The Committee also provides oversight in respect of admission of companies into the Ibuka Program and the consultants and advisors that guide entities hosted on the Ibuka Program.

d) *Derivatives Market Oversight Committee*

The Derivatives Market Oversight Committee advises the Board on the oversight of, and strategic issues relating to the NSE's Derivatives Market and the Derivatives Clearing House including addressing conflict of interest matters regarding futures brokers, issues arising in the design of derivatives contracts and undertaking trading and surveillance functions.

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

The mandate of the Self-Regulatory Organization Committee is to enforce the NSE Market Participants Business Conduct and Enforcement Rules, 2014, the Listing Rules, Continuous Listing Obligations Regulations, the Derivatives Rules, the NSE Trading Rules and any other Regulations or Rules of the NSE as are in force, as may be necessary for the maintenance of a fair and orderly market and to ensure compliance with any other capital market legislation and the enforcement powers of which have been delegated to the SRO function of the NSE.

f) *Audit, Risk and Compliance Committee*

The mandate of the Audit, Risk and Compliance Committee is to monitor, review and make recommendations to the Board on the adequacy of NSE's internal control, internal and external audit programs, risk management and compliance monitoring systems and to monitor the organization's Corporate Governance practices including compliance with relevant laws, regulations and rules in respect of the Group's business.

g) *Remuneration, Nominating and Human Capital Committee*

The Remuneration, Nominating and Human Capital Committee advises and assists the Board in effective discharge of its responsibilities in relation to the composition of the Board and its remuneration, and to establish a plan of continuity for the Chief Executive as appropriate. The Committee also advises, implements and assists the Board in effective discharge of its responsibilities in relation to Human Capital Management.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD & BOARD COMMITTEES' MEMBERSHIP AND NUMBER OF MEETINGS HELD AND ATTENDED IN 2019

Director	Classification	Designation		Board	Finance & Strategy Committee	Trading, Technology & Innovation Committee	Audit, Risk & Compliance Committee	Listings & Admissions Committee	Self-Regulatory Organization (SRO) Committee	Remuneration, Nominating & Human Capital Committee	Derivatives Market Oversight Committee
S Kimani	Non-executive	Chairman - Board	Membership	✓				✓**			
			Attendance	10/10				1/1			
B Karina	Non-executive	Vice Chairman - Board, Chairman - Trading, Technology & Innovation Committee	Membership	✓	✓	✓		✓		✓	
			Attendance	10/10	7/7	5/5		3/3		6/6	
S Maviala*	Non-executive		Membership	✓			✓	✓			✓
			Attendance	4/5			4/4	1/1	2/2		2/2
H Kili	Non-executive	Chairman - Self-Regulatory Organization (SRO) Committee	Membership	✓	✓**	✓***	✓	✓**		✓**	
			Attendance	10/10	3/3	1/2	4/6	1/1	4/4	3/4	
M Turner	Non-executive	Chairman - Finance & Strategy Committee	Membership	✓	✓			✓	✓***		✓
			Attendance	9/10	7/7			1/3	1/2		1/4

* Ms. Sharon Maviala retired as a Director on 27th May 2019

** Stepped down from the Committee on 4th June 2019

*** Appointed to the Committee on 4th June 2019

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD & BOARD COMMITTEES' MEMBERSHIP AND NUMBER OF MEETINGS HELD AND ATTENDED IN 2019

Director	Classification	Designation		Board	Finance & Strategy Committee	Trading, Technology & Innovation Committee	Audit, Risk & Compliance Committee	Listings & Admissions Committee	Self-Regulatory Organization (SRO) Committee	Remuneration, Nominating & Human Capital Committee	Derivatives Market Oversight Committee
N Devji	Non-executive		Membership	✓			✓	✓***		✓	✓****
			Attendance	7/10			4/6	0/1		5/6	1/2
P Volland	Non-executive		Membership	✓	✓			✓***		✓	
			Attendance	9/10	5/7			1/1		4/6	
R Alaro	Non-executive	Chairperson - Audit, Risk & Compliance Committee	Membership	✓			✓	✓	✓	✓	
			Attendance	9/10			6/6	2/3	4/4	6/6	
P Mwai	Non-executive		Membership	✓	✓	✓		✓			✓***
			Attendance	10/10	7/7	5/5		3/3			2/2
K Kittony	Non-executive	Chairperson- Remuneration, Nominating & Human Capital Committee	Membership	✓	✓	✓		✓		✓**	✓***
			Attendance	10/10	3/7	4/5		3/3		2/2	2/2
I Madison*	Non-executive	Chairperson - Listing & Admissions Committee	Membership	✓	✓****			✓**			
			Attendance	5/5	4/4		2/2	2/2			
G Odundo		Chief Executive	Membership								
			Attendance	10/10	7/7	5/5	6/6	3/3	4/4	6/6	4/4

* Ms. Isis Nyon'go was appointed as a Director on 30th May 2019.

** Appointed as Chairperson of the Committee on 4th June 2019

*** Stepped down from the Committee on 4th June 2019

**** Appointed to the Committee on 4th June 2019

The Chief Executive does not form the quorum for Board Committee meetings and attends by invitation

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES' MEMBERSHIP AND NUMBER OF MEETINGS HELD AND ATTENDED IN THE YEAR 2019

BOARD COMMITTEES WITH EXTERNAL RESOURCE PERSONS

1. Derivatives Market Oversight Committee

Name	Nature of Participation	Attendance
S. Mwangi	Chairperson	1/4
E. Kigen	Member	4/4
H. Muga*	Member	1/4
A. Mulisa	Member	4/4
J. Swai	Member	4/4

* Stepped down from the Committee on 26th February 2019.

2. Trading, Technology and Innovation Committee

Name	Nature of participation	Attendance
I. Onyango	Member	3/5
J. Waiguru	Member	4/5
F. Moturi	Member	3/5
F. Mwangi	Member	2/5
E. Kihanda	Member	3/5

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	2
Number of Board Meetings held in 2019	10
Number of Annual General Meetings in 2019	1
Re-election of Directors in accordance with Articles of Association	Yes
Board Induction Programs conducted	Yes

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

CAPITAL STRUCTURE

a) Share capital

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

b) Top 20 Shareholders at 31 December 2019

No	Shareholder	Number of shares	%
1	Standard Chartered Kenya Nominees Ltd A/C KE002374	41,764,400	16.0940%
2	Standard Chartered Kenya Nominees Ltd A/C KE22446	24,158,413	9.3100%
3	Standard Chartered Kenya Nominees Ltd A/C KE003414	13,432,793	5.1760%
4	Stanbic Nominees Ltd A/C NR1030823	12,523,399	4.8260%
5	Stanbic Nominees Ltd 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 Ltd A/C KE002382	7,410,067	2.8560%
9	Sterling Capital Limited	7,000,000	2.6975%
10	Nyaga Stock Brokers Ltd	7,000,000	2.6975%
11	Discount Securities Limited	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 Ltd A/C KE002373	4,000,000	1.5410%
19	Stanbic Nominees Ltd A/C NR1031142	3,897,474	1.5020%
20	NIC Securities Ltd	3,500,000	1.3490%
Top 20 shareholders		193,675,213	74.6340%
Others		65,825,578	25.3660%
Total issued shares		259,500,791	100.000%

c) Distribution of Shareholders at 31 December 2019

	Number of Shareholders	Number of shares	%
Less than 500	2,529	443,689	0.171%
501 – 5,000	9,455	12,578,550	4.847%
5,001 – 10,000	620	4,466,587	1.721%
10,001 – 100,000	582	15,052,080	5.800%
100,001 – 1,000,000	56	14,298,002	5.510%
Above 1,000,000	30	212,661,883	81.950%
Total	13,272	259,500,791	100.000%

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

CAPITAL STRUCTURE (CONTINUED)

d) Shareholder Analysis by Domicile at 31 December 2019

	Number of Shareholders	Number of shares	%
Individual investors			
Local	12,436	32,017,174	12.338%
East African	85	242,737	0.094%
Foreign	103	3,818,131	1.471%
	<hr/>	<hr/>	<hr/>
	12,624	36,078,042	13.903%
	<hr/>	<hr/>	<hr/>
Institutional investors			
Local	623	91,343,147	35.200%
East African	6	60,193	0.023%
Foreign	19	132,019,409	50.874%
	<hr/>	<hr/>	<hr/>
	648	223,422,749	86.097%
	<hr/>	<hr/>	<hr/>
Total	13,272	259,500,791	100.000%
	<hr/>	<hr/>	<hr/>

e) Directors Holding Shares at 31 December 2019

	Number of shares	%
Mr. Samuel Kimani	8,000	0.00003%
Mr. Hosea Kili	4,400	0.00002%
Ms. Nasim Devji	45,600	0.00020%
Mr. Bob Karina	85,300	0.00033%
Mr. Geoffrey Odundo	49,000	0.00019%
	<hr/>	<hr/>
Total	192,300	0.00077%
	<hr/>	<hr/>

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Corporate Governance Policy Statements

Code of Corporate Governance Principles

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

In compliance with the Code, NSE sought to conduct a Governance Audit and the Legal & Compliance Audit in 2018. This was in an attempt to lay 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 NSE was in its first time of going 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 adhered to in the formulation of the 2020-2024 Strategic Plan with PricewaterhouseCoopers (PWC) as a consultant.

Moreover, the NSE has a good record of corporate governance, having ranked top alongside Kenya Commercial Bank and Safaricom in a 2018 report released by Cytonn. The ranking was based on 24 metrics that consider different aspects of governance, including board composition, ethnic and gender diversity, board meeting attendance, board independence, remuneration, and overall transparency.

Therefore, NSE was exempted from conducting a governance audit in 2019 in line with the recently announced amendments to The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 through circular no.1 of 2020 released by the Capital Markets Authority on January 2, 2020:

After further consultations & engagements with the stakeholders, taking into account the issues raised and wider stakeholders' interests, the Authority will be amending the Code in order to reschedule the governance audits to at least once in every 2 years with the option of the Authority increasing or decreasing the cycle based on a risk based approach. In all cases, in any period in which a governance audit has not been undertaken, the issuer will be required to detail the progress made in implementing prior audit recommendations.

The Authority will also continue to conduct further consultations on the operation of a risk-based approach which may have the potential of allowing an issuer that: For example, if a company is consistently assessed and rated weighted overall score as a leader" in 3 consecutive years to have a governance audit cycle of 3-5 years.

Board Charter

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

The NSE Board Charter outlines the;

1. Roles, functions, responsibilities and powers of the Board, individual directors and the officials and executives of the NSE;
2. Powers delegated to various Board Committees of the NSE; and
3. 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 required skills mix and expertise for the executive directors as well as Independent and Non-Executive Directors. The Board considers factors such as: size, qualifications, technical expertise, relevant industry knowledge, experience, nationality, age, gender and other demographics with a view to enhancing effectiveness.

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

The Board Profiles on pages 20-23 has more details on size, age, gender, 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Corporate Governance Policy Statements (Continued)

Board Induction and Training (Continued)

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

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

Board Remuneration

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

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

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

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, ethical standards and excellence in line with NSE's core values of Integrity, Excellence, Teamwork, Sustainability, and Accountability. 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 business 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.

Whistle-blowing

The NSE Board has put in place a Whistle-blowing Policy that recognizes the difficulty its stakeholders may face in raising their concerns with regards to the Company operations.

The Policy protects every employee and business partner who raises a concern in good faith. The Company will treat every concern raised by an employee in good faith seriously and in a confidential manner and does not retaliate or allow any retaliation or discrimination by its employees of any kind against any employee who raises a concern in good faith.

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

Insider Dealing

The NSE has an insider trading policy guided by Sections 32A – 33 of Part VI of the Capital Markets Act (Cap 485A) which prohibits insider trading. The policy provides procedures and guidelines with respect to transactions in the NSE securities, the protection of Insider Information and the standard of conduct expected of the NSE directors, officers and employees. 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 acknowledgment that if it comes to the attention of a Board member that a matter concerning

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Corporate Governance Policy Statements (Continued)

Conflict of Interes (Continued)

the Company may result in a conflict of interest, the Board member is obligated to declare and exclude himself/herself from any deliberations, voting or decision over the matter in conflict.

Enterprise Risk Management

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

(More notes on page 31-33)

Information and Communication Technology

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

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

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

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

Procurement

We have in place a robust Procurement Policy that ensures appropriate risk assurance, integrity in all procurement activities, consistency across the organization's purchasing practices and openness and transparency of decision making when dealing 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.

REPORT OF THE INDEPENDENT GOVERNANCE AUDITOR TO THE MEMBERS OF NAIROBI SECURITIES EXCHANGE PLC

Governance Audit

Introduction

We performed the Governance Audit for Nairobi Securities Exchange PLC covering the year ended 31 December 2018, which comprised assessment of Governance Practices, Structures and Systems put in place by the Board of Directors.

Board responsibility

The Board is responsible for putting in place the Structures and Systems that support the practice of good governance in the organization. This responsibility includes planning, designing and maintaining governance structures through policy formulation necessary for efficient and effective management of the organization. The Board is also responsible for ensuring that there is proper constitution and composition of its members; ethical leadership and corporate citizenship; accountability; risk management and internal control; transparency and disclosure; members rights and obligations; members' relationship; compliance with laws and regulations; and sustainability and performance management.

Governance Auditor's responsibility

Our responsibility is to express an opinion on the existence and effectiveness of Governance instruments, policies, structures, systems and practices in the organization within legal and regulatory framework and in accordance with best governance practices as envisaged under proper board constitution and composition; ethical leadership and corporate citizenship; accountability; risk management and internal control; transparency and disclosure; members rights and obligations; members' relationship; compliance with laws and regulations; and sustainability and performance management based on our audits.

We conducted our audit in accordance with ICPSK Governance Audit Standards and Guidelines which conform to global Governance Standards. These Standards require that we plan and perform the governance audit to obtain reasonable assurance on the adequacy and effectiveness of the organization's policies, systems and processes. We believe that our governance audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the Board has put in place effective, appropriate and adequate governance structures in the organization which are in compliance with the legal and regulatory framework and in line with good governance practices for the interest of stakeholders.



FCS. Jackson K. Maingi, ICPSK GA. No. 00008

REPORT OF THE INDEPENDENT GOVERNANCE AUDITOR TO THE MEMBERS OF NAIROBI SECURITIES EXCHANGE PLC (CONTINUED)

Legal and Compliance Audit

In addition to the above Governance Audit and in compliance with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, NSE sought to conduct the Legal & Compliance Audit. This was in an attempt to lay 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. The purpose of the Legal and Compliance Audit was to assess the extent to which NSE complies with laws, regulations, standards and internal controls.

SBSIL was appointed to carry out the Governance and Legal & Compliance Audits. In carrying out the Governance Audit, the Consultants developed a Legal Audit Tool and had it agreed to by the client while on the other hand, a Compliance Audit Tool prepared by the client was used.

The Legal Audit Tool had thirteen parameters as shown below:

- a. General Organization Matters;
- b. Legal Proceedings and Advice;
- c. Managing the Advocate-Client relationship;
- d. Contracts;
- e. Intellectual Property;
- f. Employment Legal Issues;
- g. Volunteer Legal Issues;
- h. Communication, Website, Cloud and Internet use;
- i. Insurance;
- j. Record retention;
- k. Reporting Requirements;
- l. Accessibility and Disability Assistance; and
- m. Disaster preparation.

From the Likert-Type Scale of rating used ranging from 1 for very poor to 5 for very good, then ratings of 4.21 and 4.77 fall under rating 4 which represents "good." This indicates that the legal and compliance practices at NSE are good. As a matter of fact on Compliance issues alone, NSE, with a mean score of 4.77, is tending to "very good."

In conclusion, NSE has performed well in the first time a Legal and Governance Audit has been performed, attaining a combined mean score of 4.49 in its compliance practices. Whereas this is a good score, the weak areas especially on the Legal Audit side where scores of 3.00 and below were recorded should be worked on to ensure scores of 4.00 and above are attained next time an audit is carried out.



FCS. Jackson K. Maingi, ICPSK GA. No. 00008

REPORT OF THE INDEPENDENT GOVERNANCE AUDITOR TO THE MEMBERS OF NAIROBI SECURITIES EXCHANGE PLC (CONTINUED)

Management Comments on the Governance Auditor Report

The NSE Management notes with appreciation the full compliance with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 with the Governance Auditor's recommendations having been implemented. We continue to ensure full compliance as well as continued effective, appropriate and adequate governance structures in NSE which are aligned with the legal and regulatory framework and in line with good governance practices for the interest of stakeholders.

In pursuance to Circular No.1 of 2020 from the Capital Markets Authority (CMA) to Chairpersons and Chief Executives of Issuers of Securities to the Public dated 2nd January 2020, the NSE shall conduct the second Governance, Legal and Compliance Audits next financial year, 2021.

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.

At the Board of Directors meeting held in May 2019, changes were approved to the Directors remuneration as follows:

- To increase the annual retainer fees for the Chair, Vice Chairman and other Directors from a per annum gross of Sh 714,286, Sh 571,429 and Sh 428,571 respectively to a per annum gross of Sh 1.2 million, Sh 960,000 and Sh 720,000 respectively.
- To fix the Board Committee sitting allowances from a gross of Sh 28,571 per sitting for each member to a gross of Sh 57,142 for the Committee Chair and Sh 42,857 for Committee members.

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 2019.

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 2019.

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

DIRECTORS' REMUNERATION REPORT (CONTINUED)

INFORMATION NOT SUBJECT TO AUDIT (CONTINUED)

Contract of service (Continued)

a) Nairobi Securities Exchange PLC (Continued)

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 is for the second term for a Four (4) years period running from 1 March 2019. Under the terms of the contract, either party may, not less than six months to the expiry of this contract, notify the other of their intention not to extend the contract, otherwise the contract shall be automatically renewed for a further final period of four years. Either Party may also terminate the Agreement without assigning any reasons, at any time, by giving to the other not less than six months' notice in writing, or six months' salary in lieu of notice, at the end of which the Agreement shall determine.

b) NSE Clear

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, leave 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 2019, the shareholders approved the fees paid to the Directors fees for the year ended 31st December 2018 by show of hands.

At the Annual General Meeting to be held on 9th July 2020, approval will be sought from shareholders for the fees paid to the Directors for the financial year ended 31st December 2019.

b) NSE Clear Limited

During the Annual General Meeting held on 14th May 2019, the shareholders approved the fees paid to the Directors for the year ended 31st December 2018 by show of hands.

At the Annual General Meeting to be held on 9th July 2020, approval will be sought from shareholders for the fees paid to the Directors for the financial year ended 31st December 2019.

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 2019 together with the comparative figures for 2018.

Year ended 31 December 2019

Name	Category	Fees Kshs	Sitting allowances Kshs	Gross pay + other allowances Kshs	Provident scheme contribution Kshs	Total Kshs
Samuel Kimani*	Non-Executive	1,200,000	1,300,000	-	-	2,500,000
Bob Karina*	Non-Executive	960,000	2,100,000	-	-	3,060,000
Hosea Kili*	Non-Executive	720,000	1,700,000	-	-	2,420,000
Sharon Maviala	Non-Executive	360,000	700,000	-	-	1,060,000
Isis Nyong'o	Non-Executive	360,000	807,143	-	-	1,167,143
Nasim Devji	Non-Executive	720,000	1,064,286	-	-	1,784,286
Michael Turner	Non-Executive	720,000	1,235,714	-	-	1,955,714
Paul Vollant*	Non-Executive	720,000	1,478,571	-	-	2,198,571
Paul Mwai	Non-Executive	720,000	1,514,286	-	-	2,234,286
Risper Alaro	Non-Executive	720,000	1,692,857	-	-	2,412,857
Kiprono Kittony	Non-Executive	720,000	1,414,286	-	-	2,134,286
Geoffrey Odundo	Executive	-	-	23,875,465	2,232,960	26,108,425
		7,920,000	15,007,143	23,875,465	2,232,960	49,035,568

*Included in the Director's fees for the year ended 31 December 2019 is amounts relating to fees earned for services rendered in other NSE Group Companies as tabulated below:

Sitting Allowances				
	NSE Clear Kshs	IPF Kshs	SGF Kshs	Total Kshs
Samuel Kimani	85,714	85,714	85,714	257,143
Bob Karina	114,286	114,286	114,286	342,857
Paul Vollant	114,286	114,286	114,286	342,857
Hosea Kili	57,143	57,143	57,143	171,429
	371,429	371,429	371,429	1,114,286

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

DIRECTORS' REMUNERATION REPORT (CONTINUED)

INFORMATION SUBJECT TO AUDIT (CONTINUED)

Year ended 31 December 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 Mworio	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
		4,714,286	9,575,714	21,730,273	1,988,648	38,008,921

*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).



Mr. Kuria Waithaka
Secretary
27 March 2020

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 27 March 2020 and signed on its behalf by:



Mr. Samuel Kimani
Chairman



Ms. Risper Alaro
Director



Mr. Geoffrey O. Odundo
Chief Executive

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE 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 subsidiaries and structured entities (together, the "Group") set out on pages 24 to 85, which comprise the consolidated statement of financial position at 31 December 2019 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 2019, 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 2019 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.

With effect from 11 December 2019, PricewaterhouseCoopers, a partnership carrying on business under registration number BN.287839 was converted to PricewaterhouseCoopers LLP (LLP-2Y1AB7), a limited liability partnership under the Limited Liability Partnerships Act, 2011.

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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

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 financial statements of the current period. We have determined that there are no key audit matters to report.

Other information

The other information comprises the Corporate information, Directors' report, Corporate governance statement, Statement of directors' responsibilities, Director's remuneration report and Appendix I and II which we obtained prior to the date of this auditor's report and the rest of the other information in the Annual 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.

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



Report on the financial statements (Continued)

When we read the rest of the other information in the Annual 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.

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 or 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.

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



Report on the financial statements (Continued)

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 2 to 3 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 14 to 18 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

A handwritten signature in black ink, appearing to read 'Richard Njoroge', written over a horizontal line.

Certified Public Accountants
Nairobi

27 March 2020

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 2019

	Notes	Group		Company	
		2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
Revenue	6	567,382	626,191	567,382	626,191
Interest income	9	89,109	116,341	73,641	100,977
Other income	10	59,147	39,870	50,219	39,870
Total income		715,638	782,402	691,242	767,038
Administrative expenses		(625,403)	(560,565)	(619,592)	(556,528)
Share of profit of associate	15 (b)	14,264	19,012	10,424	19,012
Profit before income tax	7	104,499	240,849	82,074	229,522
Income tax expense	11 (a)	(24,346)	(50,171)	(21,237)	(46,875)
Profit for the year		80,153	190,678	60,837	182,647
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Revaluation movements on buildings		-	(3,208)	-	(3,208)
Fair value loss on equity instruments at fair value through other comprehensive income net of deferred tax		(18,416)	-	(18,416)	-
Total items that will not be reclassified to profit or loss		(18,416)	(3,208)	(18,416)	(3,208)
Items that may be reclassified to profit or loss					
Share of exchange differences from associate arising from translation of foreign operation	15 (b)	1,193	(105)	663	(105)
Total Items that will not be reclassified to profit or loss		1,193	(105)	663	(105)
Total other comprehensive income		(17,223)	(3,313)	(17,753)	(3,313)
Total comprehensive income for the year		62,930	187,365	43,084	179,334
		=====	=====	=====	=====
		Shs	Shs	Shs	Shs
Earnings per share - Basic and diluted	29	0.30	0.73	0.23	0.70
		=====	=====	=====	=====

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

	Notes	2019 Sh'000	Group 2018 Sh'000	2019 Sh'000	Company 2018 Sh'000
Profit for the year attributable to:					
Ordinary equity holders of the parent	29	78,923	190,678	60,837	182,647
Non-controlling interests		1,230	-	-	-
		<u>80,153</u>	<u>190,678</u>	<u>60,837</u>	<u>182,647</u>
Total comprehensive income for the year attributable to:					
Ordinary equity holders of the parent		61,494	187,365	38,580	179,334
Non-controlling interests	16 (d)	1,436	-	-	-
		<u>62,930</u>	<u>187,365</u>	<u>38,580</u>	<u>179,334</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	Notes	2019 Sh'000	2018 Sh'000
ASSETS			
Non-current assets			
Property and equipment	12	219,783	228,942
Investment property	13	313,100	309,882
Intangible assets	14	162,021	159,257
Investment in associate	15 (b)	276,441	127,581
Financial assets at fair value through other comprehensive income – Quoted equity instrument	17	49,880	-
Financial assets at amortised cost - Government securities	18 (a)	79,548	91,643
Long-term restricted investments	19	199,298	156,521
Deferred income tax	20	6,865	5,688
		<u>1,306,936</u>	<u>1,079,514</u>
Current assets			
Trade and other receivables	21 (a)	67,464	80,526
Financial assets at fair value through profit or loss - Government securities	18 (b)	32,300	-
Tax recoverable	11 (c)	52,982	27,049
Fixed deposits	22	149,736	464,533
Short-term restricted cash and investment	22	289,910	338,202
Cash and cash equivalents	22	343,073	228,564
		<u>935,465</u>	<u>1,138,874</u>
TOTAL ASSETS		<u><u>2,242,401</u></u>	<u><u>2,218,388</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	24	1,038,003	1,038,003
Share premium		277,185	277,185
Retained earnings		732,992	781,224
Other reserves		323	(664)
Revaluation reserve		(18,416)	-
Equity attributable to the owners of the parent		<u>2,030,087</u>	<u>2,095,748</u>
Non-controlling interest	16 (e)	56,113	-
Total equity		<u>2,086,200</u>	<u>2,095,748</u>
Non-current liabilities			
Settlement Guarantee Fund members contributions	25	35,250	-
Tenant deposits	26 (a)	1,829	2,711
		<u>37,079</u>	<u>2,711</u>
Current liabilities			
Trade and other payables	26 (b)	85,846	93,870
Dividends payable	27	30,876	23,859
Trading members' contributions		2,400	2,200
		<u>119,122</u>	<u>119,929</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<u><u>2,242,401</u></u>	<u><u>2,218,388</u></u>

The financial statements on pages 79 to 131 were approved and authorised for issue by the Board of Directors on 27 March 2020 and were signed on its behalf by:

Mr. Samuel Kimani
Chairman

Ms. Risper Alaro
Director

Mr. Geoffrey O. Odundo
Chief Executive

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	Notes	2019 Sh'000	2018 Sh'000
Non-current assets			
Property and equipment	12	219,779	228,942
Investment property	13	313,100	309,882
Intangible assets	14	162,021	159,257
Investment in associate	15(b)	134,731	127,581
Investment in subsidiaries and structured entities	16	207,000	130,000
Financial assets at fair value through other comprehensive income – Quoted equity instrument	17	49,880	-
Financial assets at amortised cost - Government securities	18 (a)	79,548	91,643
Deferred income tax	20	3,879	3,711
		<hr/> 1,169,938	<hr/> 1,051,016
Current assets			
Trade and other receivables	21 (a)	67,204	78,126
Due from related party		3,306	4,023
Financial assets at fair value through profit or loss - Government securities	18 (b)	32,300	-
Tax recoverable	11 (c)	50,017	24,155
Fixed deposits	22	149,736	464,533
Short-term restricted cash and investments	22	289,910	338,202
Cash and cash equivalents	22	339,698	228,544
		<hr/> 932,171	<hr/> 1,137,583
TOTAL ASSETS		<hr/> 2,102,109	<hr/> 2,188,599
EQUITY AND LIABILITIES			
Equity			
Share capital	24	1,038,003	1,038,003
Share premium		277,185	277,185
Retained earnings		689,070	755,388
Other reserves		(1)	(664)
Revaluation reserve		(18,416)	-
		<hr/> 1,985,841	<hr/> 2,069,912
Shareholders' funds		<hr/> 1,985,841	<hr/> 2,069,912
Non-current liabilities			
Tenant deposits	26(a)	1,829	2,711
Current liabilities			
Trade and other payables	26 (b)	83,863	92,117
Dividends payable	27	30,376	23,859
Due to NSE Investor Protection Fund		200	-
		<hr/> 114,439	<hr/> 115,976
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<hr/> 2,102,109	<hr/> 2,188,599

The financial statements on pages 79 to 132 were approved and authorised for issue by the Board of Directors on 27 March 2020 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 2019

	Share capital Sh'000	Share premium Sh'000	Other reserves Sh'000	Revaluation reserve Sh'000	Retained earnings Sh'000	Due to owners of the parent Sh'000	Non-controlling interest Sh'000	Total equity Sh'000
Year ended 31 December 2018								
At start of year	1,038,003	277,185	(559)	3,208	694,049	2,011,886	-	2,011,886
Impact of IFRS 9 and 15 transition adjustments:								
Additional loss allowance on adoption of IFRS 9	-	-	-	-	(7,130)	(7,130)	-	(7,130)
Deferred market access fees on adoption of IFRS 15	-	-	-	-	(25,001)	(25,001)	-	(25,001)
Deferred tax thereon	-	-	-	-	6,478	6,478	-	6,478
Profit for the year	-	-	-	-	190,678	190,678	-	190,678
Other comprehensive income, net of tax	-	-	(105)	(3,208)	-	(3,313)	-	(3,313)
Total comprehensive income for the year	-	-	(105)	(3,208)	190,678	187,365	-	187,365
Transactions with owners:								
2017 dividend declared in the year	-	-	-	-	(77,850)	(77,850)	-	(77,850)
At end of year	1,038,003	277,185	(664)	-	781,224	2,095,748	-	2,095,748
Year ended 31 December 2019								
At start of year	1,038,003	277,185	(664)	-	781,224	2,095,748	-	2,095,748
Profit for the year	-	-	-	-	78,923	78,923	1,230	80,153
Other comprehensive income, net of tax	-	-	987	(18,416)	-	(17,429)	206	(17,223)
Total comprehensive income for the year	-	-	987	(18,416)	78,923	61,494	1,436	62,930
Transactions with owners:								
2018 dividend declared in the year	-	-	-	-	(127,155)	(127,155)	-	(127,155)
Non-controlling interest on acquisition of a subsidiary of a subsidiary (note 16 (e))	-	-	-	-	-	-	54,677	54,677
At end of year	1,038,003	277,185	323	(18,416)	732,992	2,030,087	56,113	2,086,200

The revaluation reserve relates to the valuation surplus on property and valuation of equity instruments through other comprehensive income. Other reserves relate to the Company's share of the translation reserve of the associate.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

Year ended 31 December 2018

At start of year	1,038,003						
Impact of IFRS 9 and 15 transition adjustments:							
Additional loss allowance on adoption of IFRS 9	-	-	-	-	-	(6,623)	(6,623)
Deferred market access fees on adoption of IFRS 15	-	-	-	-	-	(25,001)	(25,001)
Deferred tax thereon	-	-	-	-	-	6,325	6,325
Profit for the year	-	-	-	-	-	182,647	182,647
Other comprehensive income, net of tax	-	-	(105)	(105)	(3,208)	-	(3,313)
Total comprehensive income for the year	-	-	(105)	(105)	(3,208)	182,647	179,334
Transactions with owners:							
2017 dividend declared in the year	-	-	-	-	-	(77,850)	(77,850)
At end of year	1,038,003	277,185	(664)	(664)	-	755,388	2,069,912

Year ended 31 December 2019

At start of year	1,038,003	277,185	(664)	(664)	-	755,388	2,069,912
Profit for the year	-	-	-	-	-	60,837	60,837
Other comprehensive income, net of tax	-	-	663	663	(18,416)	-	(17,753)
Total comprehensive income for the year	-	-	663	663	(18,416)	60,837	43,084
Transactions with owners:							
2018 dividend declared in the year	-	-	-	-	-	(127,155)	(127,155)
At end of year	1,038,003	277,185	(1)	(1)	(18,416)	689,070	1,985,841

The revaluation reserve relates to the valuation surplus on property and valuation of equity instruments through other comprehensive income.
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 2019

		Group		Company	
	Notes	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
Cash flows from operating activities					
Cash generated from operations	28	100,717	124,642	104,928	127,717
Tax paid	11 (c)	(46,900)	(57,491)	(42,663)	(53,525)
Net cash from operating activities		53,817	67,151	62,265	74,192
Cash flows from investing activities					
Purchase of property and equipment	12	(29,804)	(40,846)	(29,804)	(40,846)
Purchase of intangible assets	14	(24,645)	(22,881)	(24,645)	(22,881)
Interest received		89,109	116,341	73,641	100,977
Dividend received from associate	15 (b)	3,937	2,700	3,937	2,700
Dividends received by subsidiary		3,150	-	-	-
Net investment in fixed deposits		314,797	(203,145)	314,797	(203,145)
Investment in restricted investments		(42,777)	(8,635)	-	-
Decrease in tenant deposits		(882)	(1,119)	(882)	(1,119)
Proceeds on disposal of equipment		2,588	551	2,588	551
Net investment in treasury bonds		(20,205)	237,021	(20,205)	237,021
Investment in quoted investment	17	(72,900)	-	(72,900)	-
Investment in subsidiary	16 (b)	(77,000)	-	(77,000)	-
Net cash generated from investing activities		145,368	79,987	169,527	73,258
Cash flows from financing activities					
Dividends paid	27	(120,543)	(73,860)	(120,638)	(73,860)
Contributions from clearing members		35,250	-	-	-
Net cash used in financing activities		(85,293)	(73,860)	(120,638)	(73,860)
Increase in cash and cash equivalents		113,892	73,278	111,154	73,590
Cash and cash equivalents at the start of year	22	229,308	156,030	229,286	155,696
Cash and cash equivalents at the end of year	22	343,200	229,308	340,440	229,286

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 2019 comprise the Company and subsidiaries 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 (IFRS IC) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULTS OR FINANCIAL POSITION (CONTINUED)

b) Basis of preparation (Continued)

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

New and amended standards adopted by the Group

The following standards and interpretations became effective for the first time in the financial year beginning 1 January 2019 and have been adopted by the Group.

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. 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 above amendment did not have an effect on the Group's profit or loss or financial statement of position and had no impact on the accounting policies.

The above amendment did not have a significant impact on the Group's profit or loss or financial position as the Group does not have material leases within the scope of the standard.

New and revised standards and interpretations not yet adopted by the Group

The Group has not applied any new or revised standards and interpretations that have been published but are not yet effective for the year beginning 1 January 2019, and the directors do not plan to apply any of them until they become effective.

There are no new or revised 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.

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 subsidiaries, controlled structured entities and interest in associate company made up to 31 December 2019. The subsidiaries and structured entities undertakings have been fully consolidated.

(i) Subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

(i) Subsidiaries (Continued)

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 IFRS 9 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 and AKS Nominees Ltd. Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's separate financial statements. Details of NSE's subsidiary are set out in Note 16.

The accounting policies of the subsidiaries 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 less accumulated impairment losses 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Transactions eliminated on consolidation

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

3.3 Foreign currencies

i) Functional and Presentation currency

The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The financial statements are presented in Kenya 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 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.

An investor protection levy of 0.01% is charged on the transaction value/notional value (or such other amount as may be determined by the NSE in consultation with the CMA), for all transactions in derivative securities which levy is remitted to the Investor Protection Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Property and equipment

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

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

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

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

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

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

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

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

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

3.6 Intangible assets

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

3.7 Impairment of tangible and intangible assets

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

3.8 Investment property

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

3.9 Restricted cash and investments

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Restricted cash and investments (Continued)

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 2019, this amount was Sh 290 million (2018: Sh 338 million). The amounts are reflected as short-term restricted investments (note 22).

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) Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets e.g. basic ordinary shares.

The Group management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income (FVOCI) and therefore, measures all equity investments at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are subsequently not reclassified to profit or loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair values.

Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payment is established.

(ii) Debt instruments

a) Recognition and subsequent measurement

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.

At initial recognition, financial assets are measured at fair value, and are classified and subsequently measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVTOCI) or amortized cost based on:

- the Group's business model for managing the financial assets; and
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial instruments (Continued)

(ii) Debt instruments (Continued)

a) Recognition and subsequent measurement (Continued)

• **FVTOCI (Continued):** 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.

b) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial instruments (Continued)

(ii) Debt instruments (Continued)

b) Impairment (Continued)

The General Approach (Continued)

- **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.

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;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial instruments (Continued)

(ii) Debt instruments (Continued)

b) Impairment (Continued)

Significant increase in credit risk (SIICR) (Continued)

- 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.

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.

When ECLs 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).

$$\text{ECL} = \text{PD} \times \text{LGD} \times \text{EAD}$$

c) 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial instruments (Continued)

(ii) Debt instruments (Continued)

c) Modification of contracts (Continued)

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.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Taxation (Continued)

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.

3.13 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.

3.14 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.

3.15 Retirement benefit obligations

The Group operates a defined contribution provident scheme for all its employees. The scheme is administered by Britam Life Assurance Company (Kenya) Limited and is funded by contributions from both the Group and employees. The Group also contributes to a statutory contribution pension scheme, the National Social Security Fund (NSSF). The Group's obligations under the scheme are limited to specific contributions legislated from time to time. The Group's contributions to these schemes are charged to the profit or loss in the year in which they relate.

3.16 Dividends payable

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

3.17 Earnings per share

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

3.18 Shares reserves and share premium

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

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 35.

3.20 Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Taxes

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

Valuation of financial instruments

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

Valuation of land and building

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

valued to determine the fair value of the property as at 31 December 2019 and 2018 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. The market was launched in July 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 OPERATING SEGMENTS (CONTINUED)

Statement of financial position

	Cash equities and interest rate market Sh'000	Derivatives market Sh'000	Total Sh'000
2019			
ASSETS			
Government securities	111,848	-	111,848
Long-term restricted investments	-	199,298	199,298
Short-term restricted cash and investments	289,910	-	289,910
Cash, cash equivalents and fixed deposits	492,795	14	492,809
Other assets	1,148,536	-	1,148,536
	<u>2,043,089</u>	<u>199,312</u>	<u>2,242,401</u>
LIABILITIES			
Settlement Guarantee Fund members contribution	-	35,250	35,250
Trade and other payables	84,084	1,762	85,846
Dividends payable	30,876	-	30,876
Tenant deposits	1,829	-	1,829
Trading members' contributions	-	2,400	2,400
	<u>116,789</u>	<u>39,412</u>	<u>156,201</u>
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
	<u>2,054,576</u>	<u>163,812</u>	<u>2,218,388</u>
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
	<u>118,687</u>	<u>3,953</u>	<u>122,640</u>
2019			
Additions to non-current assets	184,645	42,777	227,422
Non-current assets	<u>1,107,638</u>	<u>199,298</u>	<u>1,306,936</u>
2018			
Additions to non-current assets	35,548	8,130	43,678
Non-current assets	<u>922,993</u>	<u>156,521</u>	<u>1,079,514</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 OPERATING SEGMENTS (CONTINUED)

Statement of profit or loss and other comprehensive income

	Cash equities and interest rate market Sh'000	Derivatives market Sh'000	Total Sh'000
2019			
Revenue	567,382	-	567,382
Interest income	73,681	15,428	89,109
Other income	59,141	6	59,147
Total income	700,204	15,434	715,638
Administrative expenses	(620,295)	(5,108)	(625,403)
Share of profit of associate	14,264	-	14,264
Profit before income tax	94,173	10,326	104,499
	=====	=====	=====
2018			
Revenue	626,191	-	626,191
Interest income	100,977	15,364	116,341
Other income	39,870	-	39,870
Total income	767,038	15,364	782,402
Administrative expenses	(556,528)	(4,037)	(560,565)
Share of profit of associate	19,012	-	19,012
Profit before income tax	229,522	11,327	240,849
	=====	=====	=====

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		Group		Company	
		2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
6 REVENUE					
Revenue recognized at a point in time					
Transaction levy		414,827	460,968	414,827	460,968
Initial listing fees		7,000	6,500	7,000	6,500
Application and additional listing fees		3,368	1,148	3,368	1,148
		<hr/>	<hr/>	<hr/>	<hr/>
		425,195	468,616	425,195	468,616
		<hr/>	<hr/>	<hr/>	<hr/>
Revenue recognized over time					
Annual listing fees		76,057	81,621	76,057	81,621
Broker back office subscription		26,045	26,575	26,045	26,575
Market access fee		16,817	26,000	16,817	26,000
Data vending		23,268	23,379	23,268	23,379
		<hr/>	<hr/>	<hr/>	<hr/>
		142,187	157,575	142,187	157,575
		<hr/>	<hr/>	<hr/>	<hr/>
		567,382	626,191	567,382	626,191
		=====	=====	=====	=====
7 PROFIT BEFORE INCOME TAX					
The profit before income tax is arrived at after charging/(crediting):					
Employee benefits (note 8)		198,635	228,170	198,635	228,170
Staff restructuring costs		52,360	-	52,360	-
Depreciation of property and equipment (note 12)		27,758	20,703	27,758	20,703
Amortisation of intangible assets (note 14)		21,061	16,353	21,061	16,353
Directors' emoluments:					
- Executive (note 30 (a))		26,108	23,719	26,108	23,719
- Non-executive (note 30 (a))		22,927	14,290	21,813	13,004
Auditor's remuneration		4,213	4,280	3,106	3,147
Gain on disposal of equipment		(1,511)	(452)	(1,511)	(452)
Revaluation deficit on valuation of building (note 12 and 14)		7,734	17,529	7,734	17,529
Increase/(decrease) in impairment of financial assets measured at amortised cost (note 33 (b) (iii))		4,274	(1,737)	4,237	(1,765)
		=====	=====	=====	=====
8 EMPLOYEE BENEFITS					
Salaries and wages		168,007	191,194	168,007	191,194
Bonus		11,205	13,810	11,205	13,810
Leave pay expense		2,488	4,847	2,488	4,847
Provident fund contribution		16,252	17,598	16,252	17,598
Social security costs (NSSF)		683	721	683	721
		<hr/>	<hr/>	<hr/>	<hr/>
		198,635	228,170	198,635	228,170
		=====	=====	=====	=====

The staff numbers as at 31 December 2019 were 47 (2018: 49).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
9 INTEREST INCOME				
Financial assets measured at amortised cost:				
Interest on term deposits	79,579	82,731	65,190	67,367
Investments at amortised cost				
- interest on treasury bonds and bills				
- interest on corporate bonds	7,217	32,999	7,217	32,999
Interest on clearing member contribution	1,079	-	-	-
Interest on staff loans and advances	1,234	611	1,234	611
	<u>89,109</u>	<u>116,341</u>	<u>73,641</u>	<u>100,977</u>
	=====	=====	=====	=====
10 OTHER INCOME				
Fair value gain on investment property (note 13)	3,218	9,279	3,218	9,279
Rental income	10,179	13,718	10,179	13,718
Miscellaneous income	5,552	3,868	5,552	3,868
Training fees	4,855	5,558	4,855	5,558
M-Akiba fees	4,959	8	4,959	8
Sale of publications and merchandising items	11,082	3,290	11,082	3,290
Private transfer fee	724	797	724	797
Nomad fees	500	550	500	550
Gain on disposal of equipment	1,511	452	1,511	452
Annual members fees	2,400	2,350	2,400	2,350
Ibuka fees	5,230	-	5,230	-
IPF levy	4	-	-	-
Margin interest	2	-	-	-
Clearing fees	9	-	9	-
Bargain purchase on acquisition of AKS Nominees Ltd (Note 16 (b))	8,922	-	-	-
	<u>59,147</u>	<u>39,870</u>	<u>50,219</u>	<u>39,870</u>
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		Group		Company	
		2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
11	TAXATION				
(a)	Taxation charge				
	Current income tax				
	Current year expense	20,919	52,980	16,801	49,065
	Prior year under-provision on tax losses	-	(103)	-	-
		20,919	52,877	16,801	49,065
	Deferred income tax (note 20)				
	Current year charge/(credit)	3,427	(2,706)	4,436	(2,190)
		24,346	50,171	21,237	46,875
(b)	Reconciliation of taxation charge to the expected tax based on accounting profit				
	Profit before income tax	104,499	240,849	82,074	229,522
	Tax calculated at a tax rate of 20% (2018: 20%)	16,415	45,904	16,415	45,904
	Tax calculated at a tax rate of 30% (2018: 30%)	6,727	3,398	-	-
	Tax effects on expenses not deductible for tax	1,204	3,633	4,822	2,465
	Tax effect on revenues not allowable for tax	-	(2,661)	-	(1,494)
	Prior year under-provision on tax losses	-	(103)	-	-
	Income tax expense	24,346	50,171	21,237	46,875
(c)	Current income tax movement				
	At start of year	(27,049)	(22,435)	(24,155)	(19,695)
	Charge to profit or loss	20,919	52,877	16,801	49,065
	Balance acquired from subsidiary	48	-	-	-
	Tax paid	(46,900)	(57,491)	(42,663)	(53,525)
	At end of year	(52,982)	(27,049)	(50,017)	(24,155)
	Made up of:				
	Current income tax recoverable	(53,042)	(27,049)	(50,017)	(24,155)
	Current income tax payable	60	-	-	-
		(52,982)	(27,049)	(50,017)	(24,155)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 PROPERTY AND EQUIPMENT - GROUP

	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 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 1 January 2019	94,958	13,612	88,820	24,627	82,747	74,824	379,588
Additions	4,357	12,772	583	8,376	4,355	-	30,443
Disposals	-	(8,992)	(4)	(5,410)	(26,160)	-	(40,566)
Transfer from WIP	38,537	-	-	12,456	23,192	(74,185)	-
Adjustments	-	-	-	-	-	(639)	(639)
Revaluation deficit	(10,952)	-	-	-	-	-	(10,952)
Acquisition from subsidiary	-	-	-	4	-	-	4
At 31 December 2019	126,900	17,392	89,399	40,053	84,134	-	357,878
Comprising:							
At valuation	126,900	-	-	-	-	-	126,900
At cost	-	17,392	89,399	40,053	84,134	-	230,978
Cost or valuation	126,900	17,392	89,399	40,053	84,134	-	357,878
DEPRECIATION							
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 1 January 2019	-	10,243	49,202	19,767	71,434	-	150,646
Charge for the year	-	3,816	11,057	5,659	7,226	-	27,758
Eliminated on disposal	-	(8,992)	(4)	(5,410)	(25,903)	-	(40,309)
At 31 December 2019	-	5,067	60,255	20,016	52,757	-	138,095
NET BOOK VALUE							
At 31 December 2019	126,900	12,325	29,144	20,037	31,377	-	219,783
At 31 December 2018	94,958	3,369	39,618	4,860	11,313	74,824	228,942

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 PROPERTY AND EQUIPMENT CONTINUED - 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 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 1 January 2019	94,958	13,612	88,820	24,627	82,747	74,824	379,588
Additions	4,357	12,772	583	8,376	4,355	-	30,443
Disposals	-	(8,992)	(4)	(5,410)	(26,160)	-	(40,566)
Transfer from WIP	38,537	-	-	12,456	23,192	(74,185)	-
Adjustments	-	-	-	-	-	(639)	(639)
Revaluation deficit	(10,952)	-	-	-	-	-	(10,952)
At 31 December 2019	126,900	17,392	89,399	40,049	84,134	-	357,874
Comprising:							
At valuation	126,900	-	-	-	-	-	126,900
At cost	-	17,392	89,399	40,049	84,134	-	230,974
Cost or valuation	126,900	17,392	89,399	40,049	84,134	-	357,874
DEPRECIATION							
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 1 January 2019	-	10,243	49,202	19,767	71,434	-	150,646
Charge for the year	-	3,816	11,057	5,659	7,226	-	27,758
Eliminated on disposal	-	(8,992)	(4)	(5,410)	(25,903)	-	(40,309)
At 31 December 2019	-	5,067	60,255	20,016	52,757	-	138,095
NET BOOK VALUE							
At 31 December 2019	126,900	12,325	29,144	20,033	31,377	-	219,779
At 31 December 2018	94,958	3,369	39,618	4,860	11,313	74,824	228,942

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 52.8 million (2018: Sh 85 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 12.1 million (2018: Sh 20 million).

The building has been stated at its revalued amounts, being the fair value at 31 December 2019 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 INVESTMENT PROPERTY - GROUP AND COMPANY

VALUATION

At 1 January
Fair value gain

At 31 December

2019 Sh'000	2018 Sh'000
309,882	300,603
3,218	9,279
<hr/>	<hr/>
313,100	309,882
=====	=====

The fair value of the Group's investment property at 31 December 2019 and 31 December 2018 have been arrived at on the basis of a valuation carried out at 31 December 2019 and 31 December 2018 by Tysons Limited, an independent registered valuer. 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
	31/12/19 Sh'000	31/12/18 Sh'000				
Buildings	126,900	130,118	Level 2	Market comparable approach- Highest and best use	N/A	N/A
Investment property	313,100	309,882	Level 2			
Total	440,000	440,000				

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 INTANGIBLE ASSETS - GROUP AND COMPANY

	Automated trading system software Sh'000	Other software Sh'000	Broker back office software Sh'000	Bond software license Sh'000	Derivatives software Sh'000	WIP Sh'000	Total Sh'000
COST							
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 1 January 2019	61,169	38,088	67,931	38,191	-	122,215	327,594
Additions	5,751	7,979	4,773	-	5,555	587	24,645
Transfer from WIP	66,692	3,903	2,491	-	48,783	(121,869)	-
Disposals	(61,169)	(9,093)	-	-	-	-	(70,262)
At 31 December 2019	72,443	40,877	75,195	38,191	54,338	933	281,977
AMORTISATION							
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 1 January 2019	60,311	31,492	44,240	32,294	-	-	168,337
Amortisation for the year	2,037	3,768	6,793	5,897	2,566	-	21,061
Eliminated on disposal	(60,557)	(8,885)	-	-	-	-	(69,442)
At 31 December 2019	1,791	26,375	51,033	38,191	2,566	-	119,956
NET BOOK VALUE							
At 31 December 2019	70,652	14,502	24,162	-	51,722	933	162,021
At 31 December 2018	858	6,596	23,691	5,897	-	122,215	159,257

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 60.9 million (2018: Sh 86.4 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 8.8 million (2018: Sh 12.8 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 INVESTMENT IN ASSOCIATE

The investment in associate represents an investment in Central Depository and Settlement Corporation Limited (CDSC). The Group held an ownership percentage of 40.5% at 31 December 2019 (2018: 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 Group	Number of shares held by NSE @ Sh 100 per share		Proportion of ownership interest and voting power held by NSE	
		2019	2018	2019	2018
CDSC	Kenya	708,750	393,750	40.5%	22.5%
		=====	=====	=====	=====
	Company				
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.

In 2019, the Group acquired 61% of AKS Nominees Ltd (AKS) (Subsidiary as disclosed in note 16). AKS holds an 18% shareholding in the ordinary shares of the CDSC in 2019 (2018 – 18%).

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
(b) The movement in the balance is as follows:				
At start of year	127,581	111,374	127,581	111,374
Additional investment	137,340	-	-	-
Share of profit for the year (note 15 (e))	14,264	19,012	10,424	19,012
Share of other comprehensive income for the year (note 15 (e))	1,193	(105)	663	(105)
Dividends received	(3,937)	(2,700)	(3,937)	(2,700)
	=====	=====	=====	=====
At end of year	276,441	127,581	134,731	127,581
	=====	=====	=====	=====
(c) Summarised financial information in respect of the associate is set out below:				
Total assets	684,208	637,943	684,208	637,943
Total liabilities	(85,401)	(70,918)	(85,401)	(70,918)
	=====	=====	=====	=====
Net assets	598,807	567,025	598,807	567,025
	=====	=====	=====	=====
Group's share of net assets of associate	242,516	127,581	134,731	127,581
	=====	=====	=====	=====
Total revenue for the year	335,332	355,276	335,332	355,276
	=====	=====	=====	=====
Total profit for the year	43,520	82,183	43,520	82,183
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 INVESTMENT IN ASSOCIATE (CONTINUED)

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
(d) Reconciliation of Share of net assets of associate to Investment in associate:				
Share of net assets (note 15 (c))	242,516	127,581	134,731	127,581
Goodwill on acquisition of additional shares of AKS Nominees Limited	33,925	-	-	-
	<u>276,441</u>	<u>127,581</u>	<u>134,731</u>	<u>127,581</u>
Balance as per statement of financial position	=====	=====	=====	=====
(e) Share of profit of the associate:				
Company				
Being the direct shareholding at 22.5% (2018 – 22.5%)				
Share of profit of associate	10,424	19,012	10,424	19,012
Share of other comprehensive income	663	(105)	663	(105)
	<u>11,087</u>	<u>18,907</u>	<u>11,087</u>	<u>18,907</u>
	=====	=====	=====	=====
Group				
Being the direct shareholding at 22.5% (2018: 22.5%) (as computed for Company above) and the indirect shareholding at 18% from the acquisition date (2018 – Nil)				
Indirect shareholding at 18% (2018 – Nil)				
Share of profit of associate	3,840	-	-	-
Share of other comprehensive income	530	-	-	-
	<u>4,370</u>	<u>-</u>	<u>-</u>	<u>-</u>
	=====	=====	=====	=====
Total group share of profit and OCI at 40.5% (2018 – 22.5%)				
Total share of profit of associate	14,264	19,012	10,424	19,012
Total share of other comprehensive income	1,193	(105)	663	(105)
	<u>15,457</u>	<u>18,907</u>	<u>11,087</u>	<u>18,907</u>
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 INVESTMENT IN SUBSIDIARIES AND STRUCTURED ENTITIES - COMPANY

	Principal activity	Holding	2019 Sh'000	2018 Sh'000
Investment in subsidiaries				
Investment in NSE Clear Limited (note (a))	Clearing house	100%	20,000	20,000
Investment in AKS Nominees Ltd (note (b))	Investment	61%	77,000	-
			<u>97,000</u>	<u>20,000</u>
Investment in structured entities (note (c)):				
NSE Derivatives Settlement Guarantee Fund	Settlement guarantee fund		100,000	100,000
NSE Derivatives Investor Protection Fund	Investor protection fund		10,000	10,000
			<u>110,000</u>	<u>110,000</u>
			<u>207,000</u>	<u>130,000</u>

(a) Investment in subsidiary – NSE Clear Limited

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. The derivatives market was launched in July 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 INVESTMENT IN SUBSIDIARIES AND STRUCTURED ENTITIES - COMPANY (CONTINUED)

(b) Investment in subsidiary – AKS Nominees Ltd

In 2019, the Group acquired 61% of AKS Nominees Ltd (AKS) for a consideration of Sh 77 million. The transaction resulted in a bargain purchase price of Sh 8,922,000 (2018: Nil) which was recognized in profit or loss. AKS holds an 18% shareholding in the ordinary shares of the CDSC in 2019 (2018 – 18%).

The principal activity of the subsidiary is holding equity shares in CDSC in trust for its members who are authorised to operate as stockbrokers and investment banks in the Nairobi Securities Exchange (NSE).

The net assets acquired and bargain purchase computation is as below:

Acquisition of AKS Nominees Ltd

	Sh'000
Assets acquired	
Equity investment in CDSC	137,340
Sundry debtors	3,150
Cash and cash equivalents	617
Property and equipment	4
Liabilities assumed	
Other liabilities	(512)
Net assets acquired	140,599
	=====
Purchase consideration	77,000
Share of net assets acquired – 61% of net assets acquired	(85,922)
	=====
Gain on bargain purchase	(8,922)
	=====

(c) 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 non-settlement of obligations owed to them by trading members or losses incurred by reason of the default of trading members.

(d) Non-controlling interest (NCI)

The total NCI at 31 December 2019 is Shs 56,113 (2018: Nil) all of which relates to AKS Nominees Limited at 39% shareholding.

The following table summarises the financial information as at 31 December 2019, relating to the Group's company that has significant non-controlling interest.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 INVESTMENT IN SUBSIDIARIES AND STRUCTURED ENTITIES - GROUP (CONTINUED)

(d) Non-controlling interest (NCI) (Continued)

	Sh'000
Total assets	140,645
Total liabilities	(721)
	<hr/>
Net assets	139,924
	<hr/>
Revenue	40
	<hr/>
Profit after tax	(663)
Other comprehensive income	(12)
	<hr/>
Total comprehensive income	(675)
	<hr/>

(e) Reconciliation of NCI

Movement in the non-controlling interest is as follows:

At start of the year	-
On acquisition of subsidiary	54,677
NCI's Share of profit	1,230
Share of other comprehensive income of the associate	206
	<hr/>
	56,113
	<hr/>

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
17 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME- QUOTED EQUITY INSTRUMENTS				
At start of year	-	-	-	-
Additions in the year	72,900	-	72,900	-
Fair value loss through other comprehensive income	(23,020)	-	(23,020)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	49,880	-	49,880	-
	<hr/>	<hr/>	<hr/>	<hr/>

Quoted ordinary shares at face value through other comprehensive income are classified as non-current assets. At the year end, these are valued at the closing market share price at the Dar-Es-Salaam stock exchange on the last day of trading of the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		Group		Company	
		2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
18 GOVERNMENT SECURITIES					
(a) At amortized cost					
Treasury bonds maturing:					
After three months to six months		79,863	-	79,863	-
After 1 to 10 years		-	92,901	-	92,901
		<u>79,863</u>	<u>92,901</u>	<u>79,863</u>	<u>92,901</u>
		(315)	(1,258)	(315)	(1,258)
Less: provision for expected credit losses		<u>79,548</u>	<u>91,643</u>	<u>79,548</u>	<u>91,643</u>
		=====	=====	=====	=====

The weighted average effective interest rate on the treasury bonds held at amortised cost for the year ended 31 December 2019 was 8.6% (2018 10.2%).

(b) At fair value through profit or loss

Treasury bonds held for trading	32,815	-	32,815	-
Less: Fair value losses	(515)	-	(515)	-
	<u>32,300</u>	<u>-</u>	<u>32,300</u>	<u>-</u>
	=====	=====	=====	=====

The weighted average effective interest rate on the treasury bonds at fair value through profit or loss for year ended 31 December 2019 was 12.1% (2018: Nil).

19 LONG-TERM RESTRICTED INVESTMENTS

Fixed deposit and interest capitalized held with the Co-operative Bank of Kenya Limited and maturing within 180 days in the name of:

		Group		Company	
		2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
NSE Clear Limited		20,025	20,052	-	-
NSE Derivatives Settlement Guarantee Fund		167,269	124,396	-	-
NSE Derivatives Investor Protection Fund		12,576	12,608	-	-
		<u>199,870</u>	<u>157,056</u>	<u>-</u>	<u>-</u>
Less: provision for expected credit losses		(572)	(535)	-	-
		<u>199,298</u>	<u>156,521</u>	<u>-</u>	<u>-</u>
		=====	=====	=====	=====

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 20% (2018: 20%) except for deferred tax on revaluation of buildings which is calculated using the capital gains tax rate of 5% (2018: 5%). The net deferred tax asset is attributable to the following items:

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
Accelerated capital allowances	(1,623)	241	(1,623)	241
Straight-lined rental income	(887)	(1,101)	(887)	(1,101)
Unrealized foreign exchange loss	20	22	20	22
Leave provision	592	728	592	728
Tax losses	2,814	1,816	-	-
Provision for expected credit losses	1,966	1,109	1,794	948
Deferred market access fees	1,667	5,000	1,667	5,000
Revaluation of investment property	(2,288)	(2,127)	(2,288)	(2,127)
Fair value loss on equity instruments at FVTOCI	4,604	-	4,604	-
	<u>6,865</u>	<u>5,688</u>	<u>3,879</u>	<u>3,711</u>
The movement in the deferred income tax asset is as follows:				
At start of year	5,688	(3,496)	3,711	(4,804)
(Charge)/credit to profit or loss (note 11 (a))	(3,427)	2,706	(4,436)	2,190
IFRS 9 and IFRS 15 transition adjustment:				
expected credit losses	-	6,478	-	6,325
Credit to other comprehensive income	4,604	-	4,604	-
	<u>6,865</u>	<u>5,688</u>	<u>3,879</u>	<u>3,711</u>
At end of year	<u>6,865</u>	<u>5,688</u>	<u>3,879</u>	<u>3,711</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		Group		Company	
		2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
21	TRADE AND OTHER RECEIVABLES				
(a)	TRADE AND OTHER RECEIVABLES				
	Trade receivables	43,332	31,729	43,332	31,729
	Prepayments and deposits	4,751	32,177	4,751	32,177
	Other receivables	24,366	15,799	24,366	15,799
	Due from trading members	189	2,400	-	-
	Due from associate (note 30 (f))	1,399	-	1,399	-
	Clearing balances	71	-	-	-
		74,108	82,105	73,848	79,705
	Less: Provision for expected credit losses (note (b))	(6,644)	(1,579)	(6,644)	(1,579)
		67,464	80,526	67,204	78,126
(b)	PROVISION FOR EXPECTED CREDIT LOSSES				
	Movements in the provisions for expected credit losses were as follows:				
	At start of year	1,579	154,056	1,579	154,056
	IFRS 9 transition adjustment: additional credit losses	-	3271	-	3271
	Written off in the year	-	(154,178)	-	(154,178)
	Charge/ (write back) in the year	5,065	(1,570)	5,065	(1,570)
	At end of year (note (a))	6,644	1,579	6,644	1,579

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
22 CASH AND CASH EQUIVALENTS AND SHORT-TERM RESTRICTED CASH & INVESTMENTS				
Call deposits	29,927	102,119	29,927	102,119
Fixed deposits	689,185	900,680	689,185	900,680
Total short-term deposits (note 23)	719,112	1,002,799	719,112	1,002,799
Bank and cash balances	65,106	30,399	61,731	30,379
Total bank and cash balances and deposits	784,218	1,033,198	780,843	1,033,178
Less provision for expected credit losses on:				
Call and fixed deposits (note 23)	(1,098)	(1,693)	(1,098)	(1,693)
Bank and cash balances	(401)	(206)	(401)	(206)
	782,719	1,031,299	779,344	1,031,279
Split into:				
Short-term restricted investments (note 35)	289,910	338,202	289,910	338,202
Cash and cash equivalents	343,073	228,564	339,698	228,544
Fixed deposits – maturity of three months to six months (note 23)	149,736	464,533	149,736	464,533
	782,719	1,031,299	779,344	1,031,279
Cash and cash equivalents in the statement of cash flows is comprised of:				
Cash and cash equivalents in the financial position	343,073	228,564	339,698	228,544
Add back: Provision for expected credit losses on cash and cash equivalents	744	744	742	742
Cash equivalents acquired from subsidiary AKS Nominees Limited	(617)	-	-	-
	343,200	229,308	340,440	229,286

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 SHORT TERM DEPOSITS

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
Maturing within three months:				
Fixed deposits	539,087	434,862	539,087	434,862
Call deposits	29,927	102,119	29,927	102,119
	569,014	536,981	569,014	536,981
Less: Provision for expected credit losses	(736)	(408)	(736)	(408)
	568,278	536,573	568,278	536,573
Maturing after three months to six months:				
Fixed deposits	150,098	465,818	150,098	465,818
Less: provision for expected credit losses	(362)	(1,285)	(362)	(1,285)
	149,736	464,533	149,736	464,533
Gross total - call and fixed deposits (note 22)	719,112	1,002,799	719,112	1,002,799
Total provision for expected credit losses	(1,098)	(1,693)	(1,098)	(1,693)
Net total - call and fixed deposits	718,014	1,001,106	718,014	1,001,106
The deposits are classified and measured at amortised cost.				
The gross carrying deposits were held at the following institutions:				
Co-operative Bank of Kenya Limited	165,967	211,582	165,967	211,582
Equity Bank Kenya Limited	136,494	199,878	136,494	199,878
Diamond Trust Bank Kenya Limited	8,674	184,547	8,674	184,547
Kenya Commercial Bank Limited	177,341	42,007	177,341	42,007
Stanbic Bank Kenya Limited	54,645	184,931	54,645	184,931
NIC Bank Kenya PLC	175,991	179,854	175,991	179,854
	719,112	1,002,799	719,112	1,002,799

The weighted average effective interest rate on the deposits as at 31 December 2019 was 8.2%. (2018: 9.1%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
24 SHARE CAPITAL				
Authorised share capital:				
At start and end of year:				
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	1,038,003	1,038,003	1,038,003	1,038,003
	=====	=====	=====	=====

25 SETTLEMENT GUARANTEE FUND - MEMBER'S CONTRIBUTIONS

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
Co-operative Bank of Kenya Limited	11,750	-	-	-
Stanbic Bank Kenya Limited	23,500	-	-	-
	=====	=====	=====	=====
	35,250	-	-	-
	=====	=====	=====	=====

The contributions were received in cash in 2019. These are refundable contributions made by clearing members to the Settlement Guarantee Fund to cover any claims arising from non-settlement of margins. Each clearing member's contribution is currently at Shs 23.5 million. The balance of Co-operative Bank of Kenya Limited contributions of Shs 11.75 million was provided through a bank guarantee of the same amount issued by KCB Bank Kenya Limited on 5th July 2019.

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
26 TRADE AND OTHER PAYABLES				
(a) Non-current portion				
Tenant deposits	1,829	2,711	1,829	2,711
	=====	=====	=====	=====
(b) Current portion				
Accrued expenses	36,829	35,067	34,911	33,314
Trade payables	21,706	16,627	21,706	16,627
Other payables	9,230	10,681	9,230	10,681
Staff leave accrual	2,960	3,639	2,960	3,639
Amount payable to Capital Markets Authority	1,839	1,953	1,839	1,953
Annual listing fees received in advance	3,190	135	3,190	135
Tenant deposits	1,693	-	1,693	-
Amount payable to associate (note (30 (f)))	-	767	-	767
Deferred market access fees	8,334	25,001	8,334	25,001
Clearing balances	65	-	-	-
	=====	=====	=====	=====
	85,846	93,870	83,863	92,117
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 DIVIDENDS PAYABLE

The dividends payable represent the first and final dividend for the years ended 31 December 2018, 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	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
At start of year	23,859	19,869	23,859	19,869
Declared amount for prior years	127,155	77,850	127,155	77,850
Paid during the year	(120,638)	(73,860)	(120,638)	(73,860)
Acquired from subsidiary	405	-	-	-
Dividends not paid reversed by AKS	95	-	-	-
At end of year	30,876	23,859	30,376	23,859

28 CASH FLOWS FROM OPERATING ACTIVITIES

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
Profit before income tax	104,499	240,849	82,074	229,522
Adjustments for:				
Depreciation (note 12)	27,758	20,703	27,758	20,703
Amortisation (note 14)	21,061	16,353	21,061	16,353
Share of results of associate (note 15 (b))	(14,264)	(19,012)	(10,424)	(19,012)
Interest income (note 9)	(89,109)	(116,341)	(73,641)	(100,977)
Gain on disposal of equipment	(1,511)	(452)	(1,511)	(452)
Gain on revaluation of investment property (note 13)	(3,218)	(9,279)	(3,218)	(9,279)
Deficit on revaluation of building (note 12)	10,952	17,529	10,952	17,529
Gain on bargain purchase (note 16 (b))	(8,922)	-	-	-
Working capital changes:				
Decrease in trade and other receivables	13,062	10,949	10,922	10,949
Decrease/(increase) in short-term restricted cash and investments	48,292	(36,187)	48,292	(36,187)
(Decrease)/increase in trade and other payables	(8,083)	1,930	(8,254)	1,969
Due from trading members	200	(2,400)	-	-
Movement in related party balances	-	-	717	(3,401)
Due to NSE Investor Protection Fund	-	-	200	-
Cash generated from operations	100,717	124,642	104,928	127,717

29 EARNINGS PER SHARE - BASIC AND DILUTED

Basic earnings per share has been calculated by dividing the net profit per year by the weighted average number of ordinary shares in issue during the year.

Net profit attributable to owners of the Group (Sh'000)	78,923	190,678	60,837	182,647
Number of shares at 31 December (in thousands)	259,501	259,501	259,501	259,501
Basic and diluted earnings per share – Sh	0.30	0.73	0.23	0.70

The basic earnings per share is the same as the diluted earnings per share as there were no potentially dilutive shares at 31 December 2019 and 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 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 2019, the Group had 10 stockbrokers (2018:10) and 6 licensed investment banks (2018:6) who are shareholders. The following transactions were carried out with related parties:

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
(a) Directors' emoluments				
Non – executive				
Directors fees and sitting allowances (including committees)	22,927	14,290	21,813	13,004
Executive	26,108	23,719	26,108	23,719

	Group and Company	
	2019 Sh'000	2018 Sh'000
(b) Key management compensation		
Salaries and other short-term employment benefits	77,539	73,603
Other long term benefits	4,728	6,459
	82,267	80,062

(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 2018: 0.12%) of the value of equity securities traded at the Exchange. During the 12 months period ended 31 December 2019, the total turnover was Sh 140,943 million (31 December 2018: Sh 208,254 million) resulting in a transaction levy of Sh 169 million (31 December 2018: Sh 250 million). NSE also charges investors, through brokers, a transaction levy of 0.0035% (31 December 2018 – 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 2019 was Sh 988,537 million (31 December 2018: Sh 778,000 million), resulting in transaction levy of Sh 35 million (31 December 2018: Sh 27 million).

(d) Transactions with shareholders

	Group		Company	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
Transaction levy on - equity securities	169,132	249,905	169,132	249,905
Transaction levy on - fixed income securities	34,599	27,230	34,599	27,230
Broker back office subscriptions	15,840	17,280	15,840	17,280
Data fee	1,424	-	1,424	-
Training	945	920	945	920
NOMAD fee	225	150	225	150
Membership fee	1,200	1,300	1,200	1,300
Sponsorship fees	300	425	300	425
Ibuka	70	-	70	-
	223,735	297,210	223,735	297,210

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 RELATED PARTY TRANSACTIONS (CONTINUED)

e) 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	
	2019	2018
	Sh'000	Sh'000
(i) Stockbrokers and investment bank representatives		
Transaction levy on - equity securities	16,165	19,786
Transaction levy on - fixed income securities	4,804	3,424
Broker back office subscriptions	2,880	2,880
Training	144	360
NOMAD fees	50	50
Annual fee	200	200
Sponsorship fees	-	75
Ibuka fees	70	-
	<u>24,313</u>	<u>26,775</u>
Allowances to broker company directors sitting on Committees but are not Group Directors	<u>129</u>	<u>86</u>
(ii) Listed companies related to directors		
Annual listing fees	4,500	4,000
Advertisement	52	-
Interest income on bank deposits	9,353	11,253
Purchase of data	112	309
Training	365	-
	<u>14,382</u>	<u>15,562</u>
(f) Transactions with associate		
During the period, transactions with CDSC Ltd were as follows:-		
Expenses relating to:		
Share registrar services and depository levies	3,027	3,024
Dividend processing	969	785
Joint Board meetings	366	70
BAFM fees	-	105
	<u>4,362</u>	<u>3,984</u>
Net amounts due from/(payable to) associate (note 21 (a)) and note 26 (b))	<u>1,399</u>	<u>(767)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 RELATED PARTY TRANSACTIONS (CONTINUED)

(g) Transactions with subsidiary and structured entities

(i) During the period, transactions with NSE Clear Limited were as follows:-

Expenses paid by the Company relating to:

Audit and tax fees	184	755
Secretarial services	277	540
Board allowances	457	429
Income tax	664	665
Pilot testing – funding members	-	2,400

1,582 4,789

Amounts due from NSE Clear Limited

3,306 3,623

(ii) During the period, transactions with NSE Derivatives Investor Protection Fund (IPF) were as follows:-

Expenses paid by the Company relating to:

Trustee allowances	486	429
Audit and tax fees	476	482
Secretarial fees	46	131
Tax exemption application fees	-	116

1,008 1,158

IPF contributions received by NSE

200 -

Amounts (due to)/from IPF

(200) 114

(iii) During the period, transactions with NSE Derivatives Settlement Guarantee Fund (SGF) were as follows:-

Expenses paid by the Company relating to:

Income tax	1,983	972
Trustee allowances	486	429
Audit and tax fees	476	482
Secretarial fees	46	131
Tax exemption application fees	-	116

2,991 2,130

Amounts due from the NSE Derivatives SGF

- 286

(h) Loans and advances to Executive Director

At start of year

1,657 167

Advances made in the year

1,333 529

Loan made in the year

4,552 3,764

Repayments in the year

(4,579) (2,803)

At end of year

2,963 1,657

Interest income earned on loan

269 184

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 RELATED PARTY TRANSACTIONS (CONTINUED)

The balances are included in note 21 (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 (2018 – 10% p.a). All terms are as per company policy.

31 OPERATING LEASE COMMITMENTS (GROUP AND COMPANY)

The Group and Company as a lessor:

Lease rental income earned during the year was Sh10 million (2018: Sh 13 million). At the end of the reporting period the Group and Company had existing contracts with tenants for the following minimum lease payments:

	2019 Sh'000	2018 Sh'000
Receivable within 1 year	9,941	11,175
Receivable after 1 year but within 5 years	19,217	12,340
	<u>29,158</u>	<u>23,515</u>

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

32 CAPITAL COMMITMENTS (GROUP AND COMPANY)

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

	2019 Sh'000	2018 Sh'000
Authorised but not yet contracted for	-	38,999
Authorised and contracted for	75,863	34,567

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

33 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 both at amortised cost and fair value through profit or loss. These comprise of treasury bonds and bank deposits which are at fixed interest rates hence not exposed to interest rate risk.

The fixed deposits are short-term in nature and the fair value risk is considered minimal. Treasury bonds held at fair value through profit and loss carry a fair value risk as these are long term.

At December 2019, if the interest rate had weakened/strengthened by 10% with all the variables held constant, the impact on pretax profit would have been Shs. 3,230,000 (2018: Nil) higher/lower.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (continued)

(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.

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

	2019 Sh'000	2018 Sh'000
Assets		
Cash and bank balances	550	2,843
Trade receivables	1,203	705
Fixed deposit	8,652	20,429
	<hr/>	<hr/>
	10,405	23,977
Liabilities		
Trade payables	(16,417)	(6,280)
Other payables	(515)	(12,739)
	<hr/>	<hr/>
Net position	(6,527)	4,958
	<hr/>	<hr/>

At 31 December 2019, 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 653,000 (2018: Sh 496,000) higher/lower mainly as a result of translation of US dollar denominated balances.

(iii) Price risk (Group and Company)

The Group and Company hold investments that would be subject to price risk.

At 31 December, the fair value of the investments that are subject to price risk are as follows:

	2019 Sh'000	2018 Sh'000
Quoted equity instrument	49,880	-
	<hr/>	<hr/>

At 31 December 2019, if the price had weakened/strengthened by 10% against the market share price, the impact on other comprehensive income through revaluation reserve would have been Sh. 3,990,000 (2018 – Nil).

(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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

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.

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 2019 and 2018 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 Sh'000	Lifetime expected credit losses		Total Sh'000
		(a) Sh'000	(b) Sh'000	
Group				
At 31 December 2019				
Government securities	112,678	-	-	112,678
Long-term restricted investments	199,870	-	-	199,870
Trade receivables	41,017	2,315	-	43,332
Other receivables	22,683	1,683	-	24,366
Short-term restricted cash and investments	289,910	-	-	289,910
Cash, cash equivalents and fixed deposits	494,308	-	-	494,308
Gross carrying amount	1,160,466	3,998	-	1,164,464
Loss allowance	(5,547)	(3,998)	-	(9,545)
Exposure to credit risk	1,154,919	-	-	1,154,919
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

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

Company	12 - month expected credit losses Sh'000	Lifetime expected credit losses		Total Sh'000
		(a) Sh'000	(b) Sh'000	
At 31 December 2019				
Government securities	112,678	-	-	112,678
Trade receivables	41,017	2,315	-	43,332
Other receivables	22,683	1,683	-	24,366
Short-term restricted cash and investments	289,910	-	-	289,910
Cash, cash equivalents and fixed deposits	490,933	-	-	490,933
Gross carrying amount	957,221	3,998	-	961,219
Loss allowance	(4,975)	(3,998)	-	(8,973)
Exposure to credit risk	952,246	-	-	952,246
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

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:

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 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 losses Sh'000	Lifetime expected credit losses		Total Sh'000
		(a) Sh'000	(b) Sh'000	
Group				
At 31 December 2019				
Government securities	830	-	-	830
Long-term restricted investments	572	-	-	572
Trade receivables	2,127	2,315	-	4,442
Other receivables	519	1,683	-	2,202
Cash, cash equivalents and fixed deposits	1499	-	-	1,499
Total	5,547	3,998	-	9,545
	=====	=====	=====	=====
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
	=====	=====	=====	=====
Company				
At 31 December 2019				
Government securities	830	-	-	830
Trade receivables	2,127	2,315	-	4,442
Other receivables	519	1,683	-	2,202
Cash, cash equivalents and fixed deposits	1,499	-	-	1,499
Total	4,975	3,998	-	8,973
	=====	=====	=====	=====
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
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 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 Sh'000	Lifetime expected credit losses		Total Sh'000
		(a) Sh'000	(b) Sh'000	
Group				
Year ended 31 December 2019				
At start of year	3,792	1,479	-	5,271
Additions in the year	2,258	2,016	-	4,274
At end of year	6,050	3,495	-	9,545
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
Company				
Year ended 31 December 2019				
At start of year	3,257	1,479	-	4,736
Additions in the year	2,221	2,016	-	4,237
At end of year	5,478	3,495	-	8,973
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 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 groupings 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 2019			
Financial liabilities			
Tenant deposits	-	1,829	1,829
Trade and other payables	85,846	-	85,846
Dividends payable	30,876	-	30,876
Trading members' contributions	2,400	-	2,400
Settlement Guarantee Fund members contributions	-	35,250	35,250
	<hr/>	<hr/>	<hr/>
Total financial liabilities	119,122	37,079	156,201
	=====	=====	=====
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
	<hr/>	<hr/>	<hr/>
Total financial liabilities	119,929	2,711	122,640
	=====	=====	=====
Company			
At 31 December 2019			
Financial liabilities			
Tenant deposits	-	1,829	1,829
Trade and other payables	83,863	-	83,863
Dividends payable	30,376	-	30,376
Due to NSE Investment Protection Fund	200	-	200
	<hr/>	<hr/>	<hr/>
Total financial liabilities	114,439	1,829	116,268
	=====	=====	=====
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
	<hr/>	<hr/>	<hr/>
Total financial liabilities	115,976	2,711	118,687
	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(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).

The table below shows an analysis of the fair value of financial instruments that are carried at fair value by level of the fair value hierarchy.

	2019 Sh'000	2018 Sh'000
Group and Company		
Level 1		
<i>Financial assets</i>		
Quoted equity instrument	49,880	-
	=====	=====
Level 2		
<i>Financial assets</i>		
Government securities	32,300	-
	=====	=====

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 Dar Es Salaam Stock Exchange.
- ii) Level 2 – We have determined the fair value using the implied yield curve for the bond published by the Nairobi Securities Exchange.

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.

	2019 Sh'000	2018 Sh'000
Group		
Level 1		
<i>Financial assets</i>		
Government securities	79,548	91,641
	=====	=====
Level 2		
<i>Financial assets</i>		
Long-term restricted investments	199,298	156,521
Short-term restricted cash and investments	289,910	338,302
Cash, cash equivalents and fixed deposits	492,809	693,097
	=====	=====
	982,017	1,187,920
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

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

Company	2019 Sh'000	2018 Sh'000
Level 1		
<i>Financial assets</i>		
Government securities	79,548	91,641
	=====	=====
Level 2		
<i>Financial assets</i>		
Short-term restricted cash and investments	289,910	338,302
Cash, cash equivalents and fixed deposits	489,434	693,077
	=====	=====
	779,344	1,031,379
	=====	=====

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.

34 CAPITAL 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 2019 and 31 December 2018, the Group and Company did not have any borrowings.

35 MINIMUM LIQUID NET-WORTH REQUIREMENTS (COMPANY)

	2019 Sh'000	2018 Sh'000
Estimated twelve months operating costs	579,820	676,404
	=====	=====
Required minimum liquid net-worth at one half of estimated operating costs	289,910	338,202
	=====	=====
Cash and cash equivalents and fixed deposits	694,976	694,976
	=====	=====

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 CONTINGENT LIABILITY

In July 2019 an employment claim against the NSE was filed by seven of its former employees whose employment contracts were terminated by way of redundancy in March 2019. The former employees have brought a claim against the NSE for damages of Kshs 40.83 million plus general damages to be assessed by the Court. The matter is still pending in Court and has not been provided for in this financial statements.

37 SUBSEQUENT EVENTS

As at March 2020, the NSE had increased its shareholding in the subsidiary, AKS Nominees Limited (AKS) from 61% to 88.8% by the purchase of an additional 1,381 shares at a total cost of Kshs 34,898,918. The NSE therefore holds 4,428 shares out of the 4,986 shares in AKS.

NOTICE OF THE 66TH ANNUAL GENERAL MEETING

NOTICE is hereby given that the **66th Annual General Meeting** of the Nairobi Securities Exchange PLC (NSE) will be held by **electronic communication**, on **Thursday 9th July 2020** 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 Annual General Meeting held on 30th May 2019.
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 31st December 2019 together with the reports of the Directors and Auditors thereon.
5. To approve a first and final dividend of Kshs 0.08 per ordinary share in respect of the Financial Year ended 31st December 2019 and to approve the closure of the Register of Members at the close of business on 9th July 2020 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 Annual Report for the Financial Year ended 31st December 2019.
7. Election of Directors:
 - a. In accordance with Articles 94 and 95 of the Company's Articles of Association, Mr. Samuel Njuguna Kimani (an Independent Non-Executive Director) retires by rotation and, being eligible, offers himself for re-election;
 - b. In accordance with Articles 94 and 95 of the Company's Articles of Association, Mr. Bob Karina (a Director representing the Trading Participants) retires by rotation and, being eligible, offers himself for re-election; and
 - c. In accordance with Articles 94 and 95 of the Company's Articles of Association, Mr. Michael Turner (a Director representing the Listed Companies) 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, 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:
 - a. Ms. Risper Alaro-Mukoto;
 - b. Mrs. Nasim Devji;
 - c. Mr. Hosea Kimutai Kili; and
 - d. Ms. Isis Nyong'o Madison.
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



KURIA K. WAIHAKA
COMPANY SECRETARY & CHIEF LEGAL OFFICER

DATE: 17th June 2020

NOTICE OF THE 66TH ANNUAL GENERAL MEETING (Continued)

Notes:

1. In view of the ongoing COVID-19 pandemic and the related Public Health Regulations and directives passed by the Government of Kenya restricting public health gatherings, it is impractical, as provided in the Companies Act, 2015, for NSE to hold a physical Annual General Meeting (AGM) in the manner prescribed in its Articles of Association. Though shareholders will not be able to attend the AGM in person they will be able to register for, access information pertaining to the Integrated Report and Audited Consolidated Financial Statements of NSE for the year ending 31st December 2019, follow the meeting in the manner detailed below and vote electronically. Shareholders may ask questions in advance of the meeting as detailed in the instructions below.
2. Article 79 of the Company's Articles of Association provides for the holding of, a general meeting by means of audio or audio and visual communication by which all Members constituting the quorum, can hear each other throughout the meeting, subject to the provisions of the Companies Act, 2015.
3. On 29th April 2020, the High Court of Kenya in Miscellaneous Application No. E680 of 2020, issued an order as per Section 280(3) of the Companies Act, 2015, granting special dispensation to any company listed on the Nairobi Securities Exchange to convene and conduct a virtual general meeting subject to receipt of a No Objection from the Capital Markets Authority (CMA).
4. NSE has convened and is conducting this AGM following receipt of a No Objection from the CMA.
5. Shareholders wishing to participate in the meeting should register for the AGM by dialing ***483*822#** on their mobile telephone and follow the various prompts on the registration process.
6. To complete the registration process, shareholders will need to provide their National ID/Passport Numbers which were used to purchase their shares and/or their CDSC Account Number. For assistance, shareholders should dial the following helpline number: **(+254) 709 170 000** from 9.00 a.m. to 3.00 p.m. from Monday to Friday.

A Shareholder domiciled outside of Kenya can send an email to Image Registrars via **NSEagm@image.co.ke** or **info@image.co.ke** providing their details i.e. Name, Passport/ID no., CDS no. and Mobile telephone number requesting to be registered. Image Registrars shall register the shareholder and send them an email notification once registered.
7. Registration for the AGM opens on **Thursday 18th June 2020 at 9.00 a.m.** and will close on **Monday 6th July 2020 at 5.00 p.m.** Shareholders will not be able to register after this time **Monday 6th July 2020 at 5.00 p.m.**
8. In accordance with the provisions of Section 670 of the Companies Act, 2015 and Article 159 of the Articles of Association of the Company, a copy of the Integrated Report and Audited Accounts may be viewed at the Company's website **www.nse.co.ke**.
9. The following documents may also be viewed on the Company's website, pursuant to Section 283(2)(c) of the Companies Act, 2015: (a) a copy of this Notice and the proxy form; (b) a copy of the High Court Order in Miscellaneous Application No. E680 of 2020; and (c) a copy of the No Objection issued by the CMA.
10. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:
 - a. Sending their written questions by email to the Company's email address **info@nse.co.ke** or Image Registrars' address **NSEagm@image.co.ke**;
 - b. To the extent possible, physically delivering the written questions with a return physical address or email address to the Registered Office of the Company at The Exchange Building, 5th Floor, 55 Westlands Road, Nairobi or to Image Registrars Limited, Absa Towers (formerly Barclays Plaza), 5th Floor, Loita Street, Nairobi; or
 - c. Sending their written questions with a return physical address or email address by registered post to the Company's address at P.O. Box 43633 - 00100, Nairobi, or to Image Registrars' address - P.O. Box 9287 - 00100, Nairobi.

Shareholders must provide their full details (full name, ID/Passport Number/CDSC Account Number) when submitting their questions and clarifications.

All questions and clarifications must reach the Company on or before **Monday 6th July 2020** at

NOTICE OF THE 66TH ANNUAL GENERAL MEETING (Continued)

5.00 p.m.

Following receipt of the questions and clarifications, the directors of the Company shall provide written responses to the questions received to the return physical address or e-mail address provided by the Shareholder no later than twelve (12) hours before the start of the general meeting. A full list of all questions received and the answers thereto will be published on the Company's website no later than twelve (12) hours before the start of the AGM.

11. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone. A Proxy Form is available on the Company's website via this link: www.nse.co.ke. Physical copies of the Proxy Form are also available at the following address: Image Registrars Limited, Absa Towers (formerly Barclays Plaza), 5th Floor, Loita Street, Nairobi. To be valid, a Proxy Form must be duly completed by the member and must be returned to Image Registrars on the above address or through their email address NSEagm@image.co.ke so as to arrive not later than forty eight (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. Any person appointed as a proxy should submit his/her mobile telephone number to the Company no later than forty eight (48) hours before the time fixed for the meeting. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than twenty four (24) hours after receipt to allow time to address any issues.
12. 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 Company Secretary, through the Company's physical, postal or email address info@nse.co.ke (copy to kwaithaka@nse.co.ke), 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. The person so nominated will be required to send a Consent in the format also available on the Company's website.
13. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the general meeting. Duly registered shareholders and proxies will receive a short message service (SMS/ USSD) prompt on their registered mobile numbers, twenty four (24) hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one hour ahead of the AGM, reminding duly registered shareholders and proxies that the AGM will begin in an hours' time and providing a link to the live stream.
14. Duly registered shareholders and proxies may follow the proceedings of the AGM using the live stream platform and may access the agenda. Duly registered shareholders and proxies may vote (when prompted by the chairman) via the USSD prompts.
15. Results of the AGM shall be published within twenty four (24) hours following conclusion of the AGM.
16. For shareholders residing outside Kenya and wishing to participate in the AGM, the following procedure shall apply:
 - a. The Shareholder domiciled outside of Kenya will send an e-mail to Image Registrars via NSEagm@image.co.ke providing their details i.e. Name, Passport/ID no., and Mobile telephone number requesting to be registered.
 - b. Image Registrars shall register the shareholder and send them an email notification once registered.
 - c. A notification (email and SMS) shall be sent to them as well as all shareholders an hour before the AGM notifying them about the AGM. This notification will also include the link to stream the proceedings.
 - d. For voting, the shareholder will receive a verification Code via the Mobile telephone number provided.
 - e. The link shared to stream the meeting contains a voting tab. Once the shareholder selects to vote, he/she shall key in the code received via SMS and proceed to follow the prompts.
 - f. A shareholder may also ask questions via the Questions Tab.
17. Shareholders are encouraged to continuously monitor the Company's website www.nse.co.ke for updates relating to the AGM due to the continuous evolving situation with COVID-19 and the Government directives being subject to change. We appreciate our shareholders' indulgence as we steer through the developments in business brought about by the COVID-19 pandemic.

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 (AGM) to be held on 9th July 2020 and at any adjournment thereof.

As witness my/our hand this _____ day of _____ 2020

Signed _____

Signed _____

This Form is to be used in for or against any resolutions here below. Please mark as appropriate. Unless otherwise instructed, the proxy shall vote as he thinks fit.

Agenda Item	RESOLUTION	FOR	AGAINST
4.	To adopt the audited Financial Statements for the Financial Year ended 31 December 2019.		
5.	To approve a first and final dividend of Kshs. 0.08 per share in respect of the Financial Year ended 31 December 2019.		
6.	To approve the Remuneration Report of the Board in respect of the Financial Year ended 31 December 2019.		
7 (a)	To re-elect Mr. Samuel Kimani (an Independent Non-Executive Director) in accordance with Articles 94 and 95.		
7 (b)	To re-elect Mr. Bob Karina (a Director representing the Trading Participants) in accordance with Articles 94 and 95.		
7 (c)	To re-elect Mr. Michael Turner (a Director representing the Listed Companies) in accordance with Articles 94 and 95.		
8 (a)	To appoint Ms. Risper Alaro-Mukoto to continue serving as a member of Board Audit, Risk and Compliance Committee		
8 (b)	To appoint Mrs. Nasim Devji to continue serving as a member of the Board Audit, Risk and Compliance Committee		
8 (c)	To appoint Mr. Hosea Kimutai Kili to continue serving as a member of the Board Audit, Risk and Compliance Committee		
8 (d)	To appoint Ms. Isis Nyong'o Madison to continue serving as a member of the Board Audit, Risk and Compliance Committee		
9.	To re-appoint Messrs PricewaterhouseCoopers as the auditors for the Financial Year ending 31 December 2020 and to authorize the Directors to fix their remuneration.		

ELECTRONIC COMMUNICATIONS CONSENT FORM

Please complete in **BLOCK CAPITALS**

Full name of Proxy(ies):

[illegible][illegible]

Address:

[illegible]

Date:

--	--	--	--	--	--	--	--

Signature:

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Please **TICK ONE** of the boxes below and return to Image Registrars Limited at P.O. Box 9287- 00100 Nairobi, 5th Floor, Absa Towers (formerly Barclays Plaza), Loita Street, Nairobi:

Approval of Registration

I/We approve to register to participate in the virtual AGM to be held on 9th July, 2020.

7

Consent for use of the Mobile Number provided

I/We would give my/our consent for the use of the mobile number provided for purposes of voting at the virtual AGM.

7

Notes:

1. If a member is unable to attend personally, this Proxy Form should be completed and returned (together with a power of attorney or other authority (if any) under which it is assigned or a notarized certified copy of such power or authority) to Image Registrars Limited, Barclays Plaza, 5th Floor, Loita Street and address P.O. Box 9287-00100 Nairobi, or through their email address NSEagm@image.co.ke to arrive not later than 11.00 a.m. on 7th July, 2020 i.e. 48 hours before the meeting or any adjournment thereof.
2. In case of a member being a corporate body, the Proxy Form must be under its common seal or under the hand of an officer or duly authorized attorney of such corporate body.
3. As a shareholder you are entitled to appoint one or more proxies to exercise all or any of your shareholder rights to attend and to speak and vote on your behalf at the meeting. A proxy need not to be a shareholder of the Company.

CONSENT FORM FOR TRADING PARTICIPANT

CONSENT TO ACT AS A NON-EXECUTIVE DIRECTOR REPRESENTING TRADING PARTICIPANTS

I _____ of P. O. Box _____ of _____ being the person in respect of whom _____ of P.O. Box _____ has given notice of intention to propose me as a candidate to be elected as a Non-Executive Director representing Trading Participants of the Nairobi Securities Exchange PLC at the Annual General Meeting to be held on 9th July 2020, do hereby notify you of my willingness to be so elected.

SIGNED this _____ day of _____ 2020.

SIGNATURE

PLEASE NOTE:

- 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.**"*

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

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

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

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

- To be valid, this Consent Form must be received by the Company Secretary; **E-mail: kwaithaka@nse.co.ke by 5.00 p.m. on Wednesday, 1st July 2020.**

CONSENT FORM FOR LISTED COMPANIES

CONSENT TO ACT AS NON-EXECUTIVE DIRECTOR REPRESENTING LISTED COMPANIES

I _____ of P. O. Box _____ of _____ being the person in respect of whom _____ of P.O. Box _____ has given notice of intention to propose me as a candidate to be elected as a Non-Executive Director representing listed companies of the Nairobi Securities Exchange PLC at the Annual General Meeting to be held on 9th July 2020, do hereby notify you of my willingness to be so elected.

SIGNED this _____ day of _____ 2020.

SIGNATURE

PLEASE NOTE:

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

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

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

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

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

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

3. To be valid, this Consent Form must be received by the Company Secretary; **E-mail: kwaithaka@nse.co.ke by 5.00 p.m. on Wednesday, 1st July 2020.**

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
me 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 9th July 2020, do hereby notify you of my willingness to be so elected.

SIGNED this _____ day of _____ 2020.

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; E-mail: kwaithaka@nse.co.ke by **5.00 p.m. on Wednesday, 1st July 2020.**

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

I/We _____ of P. O. Box _____ being a shareholder/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 9th day of July 2020, do hereby give notice of my/our intention to propose _____ of P.O. Box _____ for election as a Non-Executive Director representing listed companies in the Company at the meeting.

SIGNED this _____ day of _____ 2020.

SIGNED BY

DIRECTOR _____)

DIRECTOR/SECRETARY _____)

PLEASE NOTE:

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

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

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

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

- To be valid, this Nomination Form must be received by the Company Secretary; **Email: kwaithaka@nse.co.ke** by **5.00 p.m. on Wednesday 1st July 2020.**

NOMINATION FORM FOR TRADING PARTICIPANT

NOTICE OF INTENTION TO PROPOSE A CANDIDATE FOR ELECTION AS A NON-EXECUTIVE DIRECTOR REPRESENTING TRADING PARTICIPANTS

I/We _____ of P. O. Box _____ 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 9th day of July 2020, do hereby give notice of my/our intention to propose _____ of P.O. Box _____ for election as a Non-Executive Director representing Trading Participants.

SIGNED this _____ day of _____ 2020.

SIGNED BY

DIRECTOR _____)

DIRECTOR/SECRETARY _____)

PLEASE NOTE:

1. The Articles of Association of Nairobi Securities Exchange PLC defines a "Trading Participant" as a licensee of the CMA with Rights to Trade at the Nairobi Securities Exchange.
2. Article 93 of the Articles of Association of Nairobi Securities Exchange Plc provides that: -
"A maximum of two (2) Directors shall be elected by the members from among or to represent the Trading Participants"
3. To be valid, this Nomination Form must be received by the Company Secretary; **Email: kwaithaka@nse.co.ke by 5.00 p.m. Wednesday 1st July 2020.**

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 9th July 2020, 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 _____ 2020.

SIGNED BY

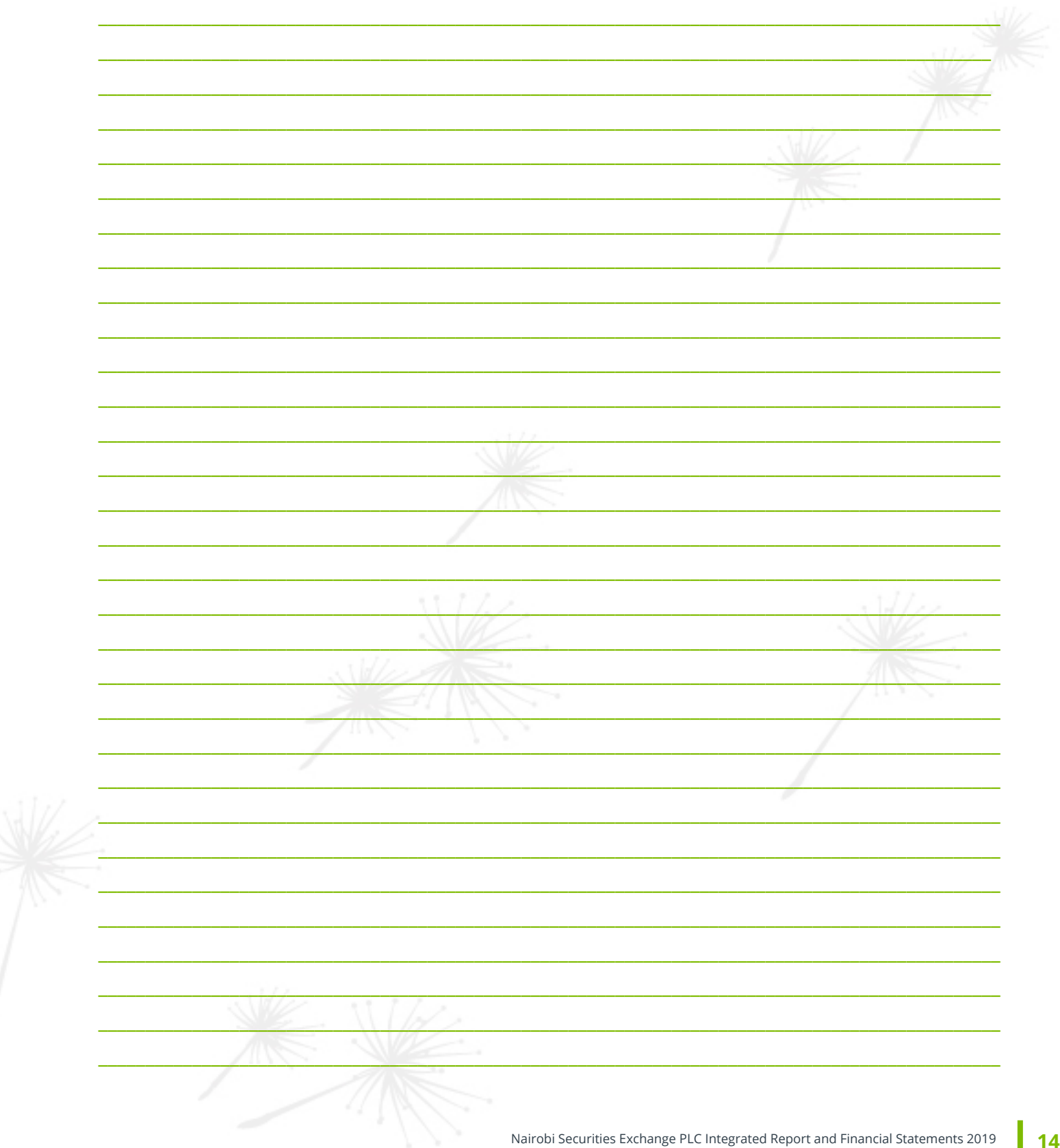
DIRECTOR _____)

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: kwaithaka@nse.co.ke** by **5.00 p.m. Wednesday 1st July 2020.**

NOTES




A sheet of white paper with horizontal green lines. In the bottom left corner, there is a faint, stylized illustration of dandelions with long, thin stems and seed heads. The illustration is light gray and blends into the background.



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