nairobi securities exchange

Discover Opportunity

To be a Leading Securities Exchange in Africa, with a global reach

2014 | ANNUAL REPORT & FINANCIAL STATEMENTS

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Corporate Information

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DIRECTORS

Mr. Edward Njoroge	Chairman
Mr. Bob Karina	Vice Chairman
Ms. Winnie Nyamute	
Ms. Sharon Maviala	
Mr. Hosea K Kili	
Mr. Samuel N Kimani	
Dr. Jonathan Ciano	
Mr. Geoffrey O Odundo	Chief Executive

SECRETARY

John Maonga
Maonga Ndonye Associates
Certified Public Secretaries (Kenya)
P O Box 73248 - 00200
Nairobi

REGISTERED OFFICE

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

BANKERS

Kenya Commercial Bank Limited
Moi Avenue Branch
P O Box 30081 - 00100
Nairobi

AUDITORS

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

LEGAL ADVISERS

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

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Report of The Directors

The directors present their annual report together with the audited financial statements of Nairobi Securities Exchange Limited ("the company") for the year ended 31 December 2014, which show the state of affairs of the company.

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.

INCORPORATION OF A SUBSIDIARY

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

Its principal objects 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 subsidiary was dormant in 2014 as the Nairobi Securities Exchange Limited had not been granted the license to operate a Derivatives Exchange.

RESULTS FOR THE YEAR	Sh'000
Profit for the year before taxation	441,811
Taxation charge	(121,770)
Profit for the year	320,041

DIVIDENDS

The directors recommend the payment of a first and final dividend of Sh 0.38 per share amounting to Sh 74 million in respect of the year ended 31 December 2014 (2013: Sh 2 per share amounting to Sh 49 million).

DIRECTORS

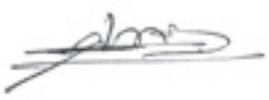
Mr. Peter Mwangi left the company on the 30 September 2014 after the expiry of his contract. Mr. Andrew Wachira, Head of Compliance and Legal, was appointed as the Acting Chief Executive effective 1 October 2014.

Mr. Geoffrey O Odundo was appointed as the Chief Executive effective 1 March 2015. The current members of the Board of Directors are as shown on page 2.

AUDITORS

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

By Order of the Board



John Maonga
Secretary
Nairobi
26 March, 2015

Board of Directors

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Mr. Eddy Njoroge - Chairman

Mr. Bob Karina - Vice Chairman

Dr. Jonathan Ciano

Ms. Winnie Nyamute

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Board of Directors

Mr. Hosea K. Kili

Ms. Sharon Maviala

Mr. Sam N. Kimani

Mr. Geoffrey O. Odundo - Chief Executive

Senior Management

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Mr. Geoffrey O. Odundo - Chief Executive

Mr. Andrew Wachira - Head of Compliance and Legal

Mr. Donald Ouma - Head of Market and Product Development

Mr. Caleb Musau - Head of Operations & Technology

Ms. Jane Kiarie - Head of Finance & Strategy

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Our Team

Chief Executive's Office

Left to Right

Rogito Nyangeri, Caroline Gakinya

Sitting

Geoffrey O. Odundo

Internal Audit & Risk Management

Standing Left to Right

Felix Saina, Maryanne Muchui

Our Team

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Market and Product Development

Standing Left to Right: Terry Adembesa, Sonia Mwendwa, Godfrey Omilly, Jackson Kiminje, Marita Obare
Sitting Left to Right: Donald Ouma, Waithera Mwai, Fanon Mwenda, Jacquline Mwiti

Operations and Technology

Standing Left to Right: David Wainaina, Anthony Muema, Sammy Mutua, Eston Kairu, Jonathan Ogutu, David Waggema
Sitting Left to Right: Jane Nyansiri, Wambui Mimano, Caleb Musau, Joseph Gichuru, Nelson Muia

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Our Team

Finance and Strategy

Standing Left to Right: Caroline Gatimi, Alex Githiaka, Winnie Jones, Rosemary Mwangi, Judy Nyachomba

Sitting Left to Right: Lucy Kamar, Charles Gitonga, Jane Kiarie, Titus Kiilu

Compliance and Legal

Standing Left to Right: Nelly Orwaya, Victor Sabila, Stephen Muendo, Belinda Odera, Andrew Wachira

Sitting Left to Right: Tom Kimaru, Louise Wangui, Mercy Mwaniki

Chairman's Statement

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Dear Shareholders

It is my pleasure to present to you the annual financial results of the Nairobi Securities Exchange (NSE) Limited. This being the first set of results following the self-listing of the Exchange, I am delighted to welcome the new 17,859 local and international shareholders to the company. Your investment in us attests to the confidence that you have in our business. This milestone listing, which is the second listing of an exchange in Africa, signifies the commitment of the founding shareholders of transferring ownership of this key national asset to Kenyans and other global investors. The year 2014 also marked the 60th Anniversary since the establishment of your company in 1954. We wish to appreciate the efforts of our founding members who had the vision of transforming the Kenyan economy through the capital markets.

OPERATING ENVIRONMENT

Real Gross Domestic Product (GDP) growth in 2014 is estimated at 5.2%, higher than the 4.7% growth rate achieved in 2013. However, some of the factors constraining growth in 2014 will persist into 2015, including insecurity and infrastructure bottlenecks.

COMPANY REPORT

The year 2014 was a transformative one. We completed the demutualization process, converting from a mutual organization to one limited by shares. This enabled us to undertake a Self-listing of your company's shares on the Exchange and a highly successful capital raise through an Initial Public

"In the record-setting 2014 financial year, the Exchange made a net profit of Kshs. 320.1 Million off a total income level of Kshs. 821.9 Million."

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Chairman's Statement (Cont)

Offering that raised Kshs. 627 Million off a subscription pool of Kshs. 4.789 Billon (an over subscription of 600%). The company is now listed on the Main Investment Market Segment (MIMS) under the Investment Services Category.

During the year, the equity and fixed income markets performed exceptionally well, resulting in increased revenue for the Exchange. This was underpinned by a strong technology platform that ensured a high level of availability to trading participants and investors. The Exchange also approved a record number of rights and corporate bond issues from firms seeking to raise funds through the Capital Markets.

The company also increased its Trading Participants by admitting KCB Capital Ltd and Barclays Financial Services Ltd; this brings the number of active trading participants to 21. With the entry of these new intermediaries, we expect an increased out-reach of our products both locally and internationally.

During the year, the Board of Directors formulated a new strategic plan to guide your company's business over the next 5 years. Along with this plan, the Exchange undertook a rebranding program to reposition itself in the market. The new look and feel of the company's logo, together with the tag line 'Discover Opportunity' aims at reaching out to Kenyans and other investors to tap into the wealth creation opportunities in the capital markets.

Pan African Activities

During the year, the Exchange hosted the 18th ASEA Annual Conference and Annual General Meeting. This event was also a culmination of a number of events held during the year to commemorate the Diamond Jubilee of the bourse. The African Securities Exchanges Association (ASEA) is the industry association for securities exchanges operating in Africa. The NSE is a founder member of the Association and hosts its Secretariat. The highly successful conference attracted over 300 delegates from over 40 different countries.

We also played an active role in the formulation of Council Directives that will enhance East African integration and deepen access to capital markets. We continued to work closely with our partner exchanges through the East African Securities Exchanges Association (EASEA) to exchange information to promote our respective markets.

Mr. Bob Collymore, Safaricom CEO (left), Mr. Joshua Oigara, KCB Group CEO, H.E Hon. William Ruto, Deputy President, Mr. Eddy Njoroge, NSE Chairman, Hon. Amb. Claver Gatete, Minister of Finance and Economic Planning, Republic of Rwanda and Mr. Nkoregamba Mwebesa, SBG Securities MD participate in a plenary session during the African Securities Exchanges Association Conference in Diani, Kwale County.

Chairman's Statement (Cont)

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Corporate Social Responsibility Initiatives

The NSE prioritizes financial literacy under its programmes on Corporate Social Responsibility (CSR). In the year, we continued with the Athletes Caravan, which is an initiative to imbue our world renowned athletes with financial literacy.

We also continued with the annual NSE Investment Challenge, a virtual trading programme that focuses on educating the youth on investments and related strategies. We continue to work with Smart Youth Investments Ltd and NIC Securities on this flagship programme. In 2014, nearly 12,000 students were trained under this initiative.

During the year, the company joined the United Nations-led Sustainable Stock Exchanges (SSE) Initiative which was launched by United Nations Secretary-General Ban Ki-moon in 2009. In doing so, the NSE became the 18th global member of the SSE. This initiative brings together investors, regulators and issuers to enhance corporate transparency and ultimately, performance, on environmental, social and corporate governance (ESG) issues. At the same time, it encourages responsible long-term approaches to investment.

The NSE convened its second Leadership and Diversity Dialogue Series Chairpersons' Roundtable attended by the Chairpersons of publicly listed companies which aims to promote desired aspects of board diversity, including professional mix, age and gender diversity. The event was held in partnership with Barclays Bank and New Faces New Voices. It was graced by its patron, Her Excellency Madam Graça Machel, DBE, former First Lady of the Republic of South Africa.

Appointment of the Chief Executive

Effective March 1, 2015, the Board of Directors, after a thorough and rigorous process, appointed Mr. Geoffrey Otieno Odundo as the Chief Executive of the NSE. Mr. Odundo is an accomplished Investment Banker with over 22 years' experience. He took over from Mr. Peter Mwangi who resigned in September 2014.
Mr. Odundo's leadership skills, experience and wealth of knowledge will be instrumental in driving the NSE's aggressive Strategic Plan aimed at developing the Kenyan Capital Markets and growing the NSE into the leading Securities Exchange in Africa.

Appointment of new Members to the Board of Directors

On March 26th, 2015, your Board of Directors appointed three new non-executive members; Mrs. Nasim Devji, Managing Director and Group Chief Executive of Diamond Trust Bank Group; Mr. Jimnah Mbaru, Chairman of Dyer & Blair Investment Bank and Mr. Michael Turner, Partner and Managing Director of Actis East Africa. The appointments increase the size of the NSE Board from eight to eleven members, including the Chief Executive.

FINANCIAL PERFORMANCE

The company posted a record profit before tax of Kshs. 441.8 Million in 2014 a 16.4% rise from the Kshs. 379.4 Million posted in 2013.

DIVIDEND

In light of the good performance, the company will be proposing a first and final dividend of Kshs. 0.38 per share.

FUTURE OUTLOOK

Our outlook for the economy in 2015 remains positive with an expected GDP growth rate of 6% driven by sustained expansion in consumer services (including banking and telecommunications), growth of the middle class, urbanization, EAC integration, structural reforms (deregulation and privatization) and investment in infrastructure. Inflation is predicted to average 4.9% in 2015, influenced by relatively lower oil prices and the maintenance of a prudent monetary policy.

The current account deficit is expected to narrow over the next 5 years from 8.2% of GDP in 2014 to 3.3% of GDP in 2019, helped by steady growth in earnings from exports, servicing regional trade, tourism and remittances.

As a key part of the economic ecosystem, the Nairobi Securities Exchange will be introducing new products, upgrading its trading platform, increasing its visibility as well as access channels to increase investor participation in the capital markets.

Chairman's Statement (Cont)

APPRECIATION

I would like to sincerely thank everyone who has supported the NSE throughout its 60-year journey. First and foremost: the Government of Kenya, which has provided fiscal and other policy incentives for the development of our market; our regulator, the Capital Markets Authority, which has been at the vanguard of promoting efficiency and enforcing orderliness in our industry; and the Central Depository and Settlement Corporation (CDSC), which has provided us with vital post-trade clearing and settlement services.

I would also like to thank our listed companies who have demonstrated their faith in us by issuing their securities in our market; the investors who are the ultimate owners of the assets and the trading participants for their support during the year.

Finally, I would also like to thank the Board of Directors for the unwavering support they continued to accord me in steering this company to greater heights.

EDDY NJOROGE
CHAIRMAN
April 7, 2015

The Chief Executive's Statement

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Dear Shareholders

The year 2014 was not only a phenomenal one for the Nairobi Securities Exchange but was also the Diamond Jubilee of its formal constitution. The transformation of the company from a mutual organization to one limited by shares was a major milestone. In addition, we were able to raise new equity capital through an Initial Public Offer (IPO) that expanded our ownership base. We are now delighted to share with you the highlights of the operational and financial performance of your company for the record-breaking year ended December 31, 2014.

Trading Performance

During the year, equity turnover rose by 38.5% from 2013's Kshs. 311.5 Billion to 2014's Kshs. 431.46 Billion; foreign investor participation in this market averaged 48.42% over the same period. The NSE 20 Share Index and the FTSE NSE 15 appreciated by 3.77% and 24.51% respectively from 4,926.97 and 173.0 in 2013 to 5,112.65 and 215.41 respectively at the close of 2014. In the Fixed Income Securities Market Segment (FISMS), turnover increased by 10.7% from Kshs. 914 Billion in 2013 to Kshs. 1,012.1 Billion at the close of 2014. Issuers raised a total of Kshs. 117.7 Billion in the market through IPOs, rights issues and both corporate and Government of Kenya debt offerings. Market capitalization rose by an impressive 20.83% to Kshs. 2.32 Trillion in 2014 from Kshs. 1.92 Trillion in 2013.

I am pleased to report that activity improved in the Growth Enterprise Market Segment (GEMS) with the listing of three companies that incrementally contributed an aggregate value of Kshs. 6.7 Billion to overall market capitalization. The listed companies were Kurwitu Ventures, Flame Tree Group and Atlas Support and Development Services. The latter represented the maiden inward cross listing from the London Stock Exchange (LSE) AIM Market. We are very pleased that our new listed

> **"I am pleased to report that activity improved in the Growth Enterprise Market Segment (GEMS) with the listing of three companies that incrementally contributed an aggregate value of Kshs. 6.7 Billion"**

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The Chief Executive's Statement (Cont)

companies have chosen GEMS as a suitable platform to raise their profile and attract both new shareholders and capital.

Financial Performance

During the year, the company reported a Profit before Tax of Kshs. 441.8 Million. This was a 16.4% improvement from the Kshs. 379.4 Million recorded in 2013. Net profit also improved by 21.8% from Kshs. 262.8 Million in 2013 to Kshs. 320 Million. Transaction levies increased by 36.3% from Kshs. 405.8 Million in 2013 to Kshs. 553.2 Million. Annual listing fees increased by 6.1% from Kshs. 73.7 Million in 2013 to Kshs. 78.2 Million. Fees from initial and additional listings increased by 10.8% from Kshs. 9.3 Million in 2013 to Kshs. 10.3 Million.

Interest income increased by 84.6% to Kshs. 39.5 Million from Kshs. 21.4 Million previously; data vending fees grew by 17.7% to Kshs. 18.6 Million in 2014 from Kshs. 15.8 Million. Market access fees charged to the new Trading Participants increased by 25% to Kshs. 50 Million from Kshs. 40 Million in 2013. Revenues from the Broker Back Office (BBO) service increased by 12.3% to Kshs. 23.8 Million from Kshs. 21.2 Million in 2013. Buoyed by the improved market performance and the successful IPO, total assets increased by 46.6% to Kshs. 1.685 Billion from Kshs. 1.149 Billion in 2013.

Our strong financial performance in 2014 was as a result of positive market dynamics and the exceptional efforts of our Staff. Management continues to diversify revenue streams from the traditional sources of transaction levies and annual listing fees.

NSE ACHIEVEMENTS

In 2014 we kick-started key initiatives to enhance both market access and depth. The execution of these endeavors, as highlighted below, will boost interest and participation in our market.

Real Estate Investment Trusts (REITs) and Exchange Traded Funds (ETFs)

In December 2014, the amendments to the NSE's Listing and Trading Rules to provide for the introduction of REITs were approved. We expect to list REITS in 2015. REITs will provide a channel to mobilize capital into the real estate sector and support the Government's initiative to provide good quality and affordable shelter to all Kenyans.

Local and global issuers of ETFs are ready to come to market. In anticipation, the CMA has developed Guidance Notes for the listing and trading of this product. We have also submitted, to the Authority, amendments to the NSE Trading Rules and Listing Manual. The approval of the amendments will pave the way for the listing and trading of ETFs on the bourse.

The Derivatives Market

The Exchange received approval to set up and operate a Derivatives Market on December 18, 2014. We have made the necessary investments in the trading infrastructure, and are currently in the process of setting up the Clearing House. NSE's intention is to initially offer futures and options on currency, indices and single stocks and then, in the medium term, expand the same to interest rates and both agricultural and mineral commodities. Derivatives on agricultural produce will provide our farmers with a mechanism for ensuring price certainty for their crops. Reducing the risks in agriculture will be vital to unlocking the investments required to feed our nation's growing population.

NEW BOND SYSTEM

The Exchange recognizes the vital role that a vibrant and transparent secondary market for bonds continues to play in raising long term capital geared towards national development projects. The NSE has advanced the trading and settlement of Government of Kenya Treasury Bonds by increasing the number of settlements done in a day from one to three. Investors can now buy a Treasury Bond and sell it on the same day. The Exchange is working with the Central Depository and Settlement Corporation (CDSC) and the Central Bank of Kenya (CBK) to extend this facility to corporate bonds.

STRATEGIC INITIATIVES

Technological Investments

With the IPO proceeds, we are now in a position to finance the upgrade of the Automated Trading System (ATS) on which our new products will be listed and traded. The upgrade will commence in the third quarter (Q3) of 2015 and is anticipated to be completed by the end of Q1 2016. The new system will fully support mobile and internet trading thus making it easier for investors to access our market.

The Chief Executive Report (Cont)

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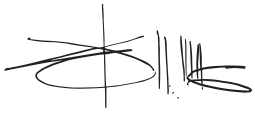
Initiatives to Boost Liquidity

An increased number of issuers will come to a liquid market as they are assured of raising capital at a lower cost. The Exchange fully supports the adoption of Direct Market Access and is working towards the introduction of rules and regulations around securities lending and borrowing. These undertakings will enhance the trading of all listed securities.

APPRECIATION

I am very honored and privileged to be appointed as the Chief Executive of the leading Securities Exchange in East and Central Africa. As we work to create greater participation by individual Kenyans, homegrown companies and international investors in the market, I am confident that this is the dawn of a new era for the NSE and the broader national economy. With the support of the Board of Directors and our Staff, I look forward to delivering incremental value to our listed companies, our trading participants, the Government and you, the Shareholders.



MR. GEOFFREY O. ODUNDO
CHIEF EXECUTIVE
April 7, 2015

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Corporate Governance Statement

Overview

Corporate governance refers to the structures and processes guiding the leadership of the company. The company 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 Market Authority (CMA) rules, regulations and guidelines on Corporate Governance and the Nairobi Securities Exchange Trading Participants Rules policies and procedures.

The Role of the Board

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

The Key Responsibilities of the Board include:

a) To define and chart out the company's vision and mission. The Board has ultimate responsibility for the attainment of the company'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 company is managed with a view to ensuring that the company is ethical in all its dealings and exercises corporate social responsibility;
f) To ensure that procedures and processes are in place to protect the company's assets and reputation;
g) To ensure compliance by the company with all relevant laws and regulations, audit and accounting principles, and such other principles as may be established by the Board from time to time;
h) To approve Terms of Reference of Board committees and make appointments and changes in the composition of such Committees as are established from time to time;
i) To identify key risks, opportunities and strengths relating to the company;
j) To set policies on internal controls and obtain regular assurance that the system is functioning effectively and is effective in managing risks;
k) To appoint the Chief Executive, senior staff, external auditors and other consultants; and
l) To exercise such other powers as are necessary to enforce the requirements of the CMA Act, Articles of Association and the Rules governing the company.

Division of Responsibilities

The Chairman and the Chief Executive are responsible for the profitable operations of the company. Their roles are separate, with each having distinct and clearly defined roles and responsibilities. The Chairman directs the Board's business and acts as it's facilitator and guide ensuring that the Board is effective in its tasks of setting and implementing the company'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. He 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 company's corporate and financial strategy and for the overall supervision of the policies, rules and regulations governing the company.

Corporate Governance Statement (Cont)

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The Chief Executive has overall responsibility for the business of the Company. He enforces the provisions of the Capital Markets Act, Articles of Association and the rules of the Company and immediately reports any violations to the Board and the Authority and ensures compliance with the requirements of the Capital Markets Act, and rules in operations, transactions and all affairs of the Company including listings and continuous reporting obligations of listed companies. He is also responsible for the supervision of the trading activities of the Company and takes all necessary steps to maintain orderly and efficient trading and functioning of facilities, in accordance with the Company rules and as prescribed by the Capital Markets Act. He reports periodically to the Board on all matters concerning the operation and affairs of the Company and attends all meetings of the committees and provides technical input where necessary.

He promotes the objectives and functions of the Company and liaises with the Authority and its representatives in respect of administrative and technical matters of the Company. He is also responsible for the stewardship of the Company's assets and, jointly with the Chairman, for representation of the Company externally.

Board Composition

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

a) Six (6) Independent and Non-Executive Directors; and
b) One (1) Director appointed from among or to represent Trading Participants.

Below is the current composition of the Board

1.	Mr. Edward Njoroge	Chairman/Independent Non-Executive Director
2.	Mr. Bob Karina	Vice Chairman/Trading Participant /Non-Executive Director
3.	Ms. Sharon Maviala	Independent Non-Executive Director
4.	Mr. Hosea K Kili	Independent Non-Executive Director
5.	Dr. Jonathan Ciano	Independent Non-Executive Director
6.	Mr. Samuel N Kimani	Independent Non-Executive Director
7.	Ms. Winnie Nyamute	Independent Non-Executive Director
8.	Mr. Geoffrey O Odundo***	Chief Executive

Attendance at meetings in 2014

Name	Jan 16th	Jan 28th	Feb 10th	Feb 27th	March 6th	March 13th	April 2nd	April 25th	June 5th	July 7th
Mr. Edward Njoroge	√	√	√	√	√	√	√	√	√	√
Mr. Bob Karina	√	√	√	√	√	√	√	√	√	√
Mr. Geoffrey O Odundo***	√	√	√	√	√	√	√	√	√	√
Ms. Sharon Maviala	√	√	√	√	√	√	√	√	√	√
Mr. Hosea K Kili	√	√	√	√	√	√	√	√	√	√
Dr. Jonathan Ciano	√	√	√	√	√	√	√	√	√	√
Mr. Samuel N Kimani	√	√	√	√	√	√	√	√	√	√
Ms. Winnie Nyamute	√	√	√	√	√	√		√	√	√
Mr. Peter Mwangi*	√	√	√	√	√	√	√	√	√	√
Mr. Andrew Wachira**										

Corporate Governance Statement (Cont)

Name	Aug 20th	Aug 23rd	Aug 25th	Sept 2nd	Nov 6th	Dec 8th	Dec 22nd	Dec 23rd
Mr. Edward Njoroge	√	√	√	√	√	√	√	√
Mr. Bob Karina	√	√	√	√	√	√	√	√
Mr. Geoffrey O Odundo***	√	√	√	√	√	√		
Ms. Sharon Maviala	√	√	√	√	√	√	√	√
Mr. Hosea K Kili	√	√	√	√	√	√	√	√
Dr. Jonathan Ciano	√	√	√	√	√	√	√	√
Mr. Samuel N Kimani	√	√	√	√	√	√	√	√
Ms. Winnie Nyamute	√	√	√	√	√	√	√	√
Mr. Peter Mwangi*	√	√	√	√				
Mr. Andrew Wachira**					√	√	√	√

*Left on 30 September 2014 after expiry of contract
**Appointed Acting Chief Executive effective 1 October 2014
***Appointed Chief Executive effective 1 March 2015

Board Committees

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

a) Finance and Manpower Committee;
b) Listing and Admissions Committee;
c) Disciplinary and Compliance Committee;
d) Trading and Surveillance Committee;
e) Technology Committee;
f) Business Development and Public Education Committee; and
g) Audit, Risk & Corporate Governance 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. Below is a summary of the roles, membership and activities of the various committees.

a) Finance and Manpower Committee

The mandate of the Finance and Manpower Committee is to review the economy, efficiency and effectiveness of operations including non-financial controls of the company and make recommendations to Management as well as to evaluate the efficacy of the company's Human Resources Manual and to monitor the profile of the company's workforce in terms of its consistency with business objectives.

Corporate Governance Statement (Cont)

Current Members:

1. Dr. Jonathan Ciano - Chairman
2. Mr. Andre DeSimone - Member
3. Mr. Samuel N Kimani - Member
4. Mr. Geoffrey O Odundo*** - Chief Executive

Attendance at meetings in 2014

Name	February 17th	March 25th	May 22nd	August 18th	November 17th
Dr. Jonathan Ciano	√	√	√	√	√
Mr. Geoffrey O Odundo***		√	√		
Mr. Andre DeSimone	√	√			√
Mr. Samuel N Kimani					
Mr. Peter Mwangi*	√	√	√	√	
Mr. Andrew Wachira**					√

* Left on 30 September 2014 after expiry of contract
** Appointed Acting Chief Executive effective 1 October 2014
***Appointed Chief Executive effective 1 March 2015

b) Listing and Admissions Committee

The Listings and Admissions Committee is mandated to review and recommend approval of applications for admission to listing of new equity securities in any of the market segment, to recommend approval of applications for admission of new Trading Participants and to review compliance with continuing listing obligations by listed companies and to make recommendations to the Board on the necessary action for non-compliance which include imposing penalties and other sanctions and/or recommending suspension of listing of securities for a predetermined period as may be necessary and restoration of such securities to listing in line with the laid out procedures.

Current Members:

1. Mr. Edward Njoroge - Chairman
2. Mr. Bob Karina - Member
3. Dr. Jonathan Ciano - Member
4. Ms. Winnie Nyamute - Member
5. Mr. Geoffrey O Odundo*** - Chief Executive

Corporate Governance Statement (Cont)

Attendance at meetings in 2014

Name	April 25th	July 7th	September 2nd	October 14th	December 8th
Mr. Edward Njoroge	√	√	√	√	√
Mr. Bob Karina	√		√	√	√
Mr. Geoffrey O Odundo***	√	√	√	√	√
Dr. Jonathan Ciano	√		√		√
Ms. Winnie Nyamute	√	√	√	√	√
Mr. Peter Mwangi*	√	√	√		
Mr. Andrew Wachira**				√	√

*Left on 30 September 2014 after expiry of contract
**Appointed Acting Chief Executive effective 1 October 2014
***Appointed Chief Executive effective 1 March 2015

c) Disciplinary and Compliance Committee

The general mandate of the Disciplinary and Compliance Committee is to protect investors by monitoring and enforcing compliance of Capital Market Laws, Regulations, Rules, Guidelines and Directives by all Trading Participants and Issuers of Securities.

Current Members:

1. Mr. Hosea K Kili - Chairman
2. Ms. Rose Mambo - Member
3. Ms. Winnie Nyamute - Member
4. Mr. Karim Anjarwalla - Member
5. Ms. Sharon Maviala - Member
6. Mr. Geoffrey O Odundo*** - Chief Executive

Attendance at meetings in 2014

Name	February 20th	May 29th	August 13th	November 12th
Mr. Hosea K Kili	√	√		√
Ms. Rose Mambo		√		
Ms. Winnie Nyamute	√	√	√	√
Mr. Karim Anjarwalla			√	
Ms. Sharon Maviala		√		√
Mr. Peter Mwangi*	√	√	√	
Mr. Andrew Wachira**				√

*Left on 30 September 2014 after expiry of contract
**Appointed Acting Chief Executive effective 1 October 2014
***Appointed Chief Executive effective 1 March 2015

Corporate Governance Statement (Cont)

To be a Leading Securities Exchange in Africa, with a global reach

d) Trading and Surveillance Committee

The Trading and Surveillance Committee is mandated to advise the Board and Management of the company on the compliance with the regulatory frame work focused on protecting securities market participants, trade reporting and trade surveillance and to provide a transparent and efficient oversight for the trading environment.

Current Members:

1. Mr. Bob Karina - Chairman
2. Mr. John Odhiambo - Member
3. Ms. Rose Mambo - Member
4. Mr. Davis Gachuba - Member
5. Mr. John Kirimi - Member
6. Mr. Job Kihumba - Member
7. Mr. Joseph Kahenya - Member
8. Mr. Moses Lopokoiyit - Member
9. Mr. Geoffrey O Odundo*** - Chief Executive

Attendance at meetings in 2014

Name	February 13th	May 23rd	August 14th	November 14th
Mr. Bob Karina	√	√	√	√
Mr. John Odhiambo			√	√
Ms. Rose Mambo		√		√
Mr. Job Kihumba		√		√
Mr. Davis Gachuba	√			
Mr. Moses Lopokoiyit		√	√	√
Mr. John Kirimi	√	√	√	√
Mr. Joseph Kahenya	√	√	√	
Mr. Peter Mwangi*	√	√	√	
Mr. Andrew Wachira**				√

*Left on 30 September 2014 after expiry of contract
**Appointed Acting Chief Executive effective 1 October 2014
***Appointed Chief Executive effective 1 March 2015

Corporate Governance Statement (Cont)

e) Technology Committee

The Technology Committee is mandated to recommend to the Board the business strategy for the technology platform necessary to support the company's trading infrastructure, make recommendations for approval, prioritization, and funding of technology projects based on the information management needs of the company and advice Management on appropriate risk management strategies for the trading infrastructure.

Current Members:

1. Mr. Geoffrey O Odundo - Chairman
2. Mr. Bob Karina - Member
3. Mr. Stanley Ngaine - Member
4. Mr. Joseph Kitamirike - Member
5. Mr. Kris Senanu - Member
6. Ms. Rose Mambo - Member
7. Mr. Geoffrey O Odundo*** - Chief Executive

Attendance at meetings in 2014

Name	February 11th	May 27th	August 20th	November 11th	December 9th
Mr. Geoffrey O Odundo***	√	√	√		√
Mr. Bob Karina	√	√	√	√	√
Mr. Stanley Ngaine	√	√	√	√	√
Mr. Joseph Kitamirike					
Mr. Kris Senanu	√		√	√	√
Ms. Rose Mambo	√	√			√
Mr. Peter Mwangi*	√	√	√		
Mr. Andrew Wachira**				√	√

*Left on 30 September 2014 after expiry of contract
**Appointed Acting Chief Executive effective 1 October 2014
***Appointed Chief Executive effective 1 March 2015

f) Business Development and Public Education Committee

The general mandate of the Business Development and Public Education Committee is to analyze potential growth opportunities, support and monitor the implementation of growth opportunities as well as recommend to Management the areas needing public education with regard to the company and the Market.

Current Members:

1. Mr. Samuel N Kimani - Chairman
2. Ms. Sharon Maviala - Member
3. Dr. Jonathan Ciano - Member
4. Mr. Job Kihumba - Member
5. Mr. Ewart Salins - Member
6. Ms. Christine Mweti - Member
7. Mr. Edward Burbidge - Member
8. Mr. Bob Karina - Member
9. Mr. Geoffrey O Odundo*** - Chief Executive

Corporate Governance Statement (Cont)

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f) Business Development and Public Education Committe

Attendance at meetings in 2014

Name	Feb 6th	Feb 18th	May 8th	Aug 7th	Aug 18th	Sept 22nd	Sept 29th	Oct 6th	Oct 13th	Oct 21st	Oct 27th	Nov 3rd	Nov 17th	Dec 10th
Mr. Samuel N Kimani	√		√	√	√	√	√		√		√	√	√	√
Dr. Jonathan Ciano		√			√									
Mr. Job Kihumba	√		√			√	√	√		√		√	√	
Mr. Ewart Salins	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Ms. Christine Mweti	√			√								√	√	
Mr. Edward Burbidge		√	√			√	√					√	√	
Ms. Sharon Maviala	√		√		√	√		√				√	√	
Mr. Bob Karina	√	√	√	√	√	√	√	√	√	√		√	√	√
Mr. Peter Mwangi*	√	√	√	√	√	√	√							
Mr. Andrew Wachira**								√	√	√	√	√	√	√

*Left on 30 September 2014 after expiration of contract
**Appointed Acting Chief Executive effective 1 October 2014
***Appointed Chief Executive effective 1 March 2015

g) Audit, Risk & Corporate Governance Committee

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

Current members:

1. Ms. Winnie Nyamute - Chairperson
2. Mr. Hosea K Kili - Member
3. Mr. Lucas Otieno - Member
4. Mr. Isaac Onyango - Member

Attendance at meetings in 2014

Name	February 13th	March 18th	May 27th	August 22nd	November 13th
Ms. Winnie Nyamute	√	√	√	√	√
Mr. Hosea K Kili	√		√		√
Mr. Lucas Otieno		√	√		√
Mr. Isaac Onyango	√	√	√	√	√

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Corporate Governance Statement (Cont)

Nairobi Securities Exchange Corporate Governance Factsheet

Size of Board	8
Number of Independent Non-Executive Directors	6
Number of Trading Participant Non-Executive Directors	1
Number of Executive Directors	1
Number of women on the Board	2
Separate Chairman and CEO	Yes
Terms of Reference for Board Committees	Yes
Independent Audit Committee	Yes
Number of Financial experts on Audit Committee	3
Number of Board Meetings held in full year 2014	18
Number of Annual General Meetings held in 2014	1
Re-election of Directors in accordance with Articles of Association	Yes
Board Induction programs conducted	Yes

The Board normally holds one Board meeting per quarter. However in 2014, the number of meetings increased given the key strategic initiatives being undertaken by the company including self-listing, brand migration and recruitment of a new Chief Executive.

Corporate Governance Statement (Cont)

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CAPITAL STRUCTURE

a) Share Capital

The authorized and issued share capital of Nairobi Securities Exchange consists of only ordinary shares as disclosed on note 20 and 21 to the financial statements.

b) Top Twenty Shareholders as at 31 December 2014

No	Shareholder	No. of Shares	%
1	CfC Stanbic Nominees Kenya Limited	14,199,100	7.30%
2	The Investor Compensation Fund	6,562,500	3.37%
3	The Cabinet Secretary, National Treasury	6,562,500	3.37%
4	Renaissance Capital Limited	5,250,000	2.70%
5	SBG Securities Limited	5,250,000	2.70%
6	ABC Capital Limited	5,250,000	2.70%
7	Old Mutual Securities Limited	5,250,000	2.70%
8	NIC Securities Limited	5,250,000	2.70%
9	Ngenye Kariuki and Company Limited	5,250,000	2.70%
10	Nyaga Stockbrokers Limited	5,250,000	2.70%
11	Dyer & Blair Investment Bank	5,250,000	2.70%
12	Sterling Investment Bank Limited	5,250,000	2.70%
13	Suntra Investment Bank	5,250,000	2.70%
14	African Alliance Investment Bank Kenya Limited	5,250,000	2.70%
15	Faida Investment Bank Limited	5,250,000	2.70%
16	Kingdom Securities Limited	5,250,000	2.70%
17	Francis Thuo & Partners Limited	5,250,000	2.70%
18	Discount Securities Limited	5,250,000	2.70%
19	Shah Munge & Partners Limited	5,250,000	2.70%
20.	Kestrel Capital (East Africa) Limited	4,839,600	2.49%
Top 20 Shareholders		116,163,700	59.69%
Others		78,461,300	40.31%
Total Issued Shares		194,625,000	100%

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Corporate Governance Statement (Cont)

CAPITAL STRUCTURE (Continued)

c) Distribution of Shareholders as at 31 December 2014

	No. of Shareholders	No. of Shares	%
Less than 500	5,650	2,646,898	1.36%
501 – 5,000	8,447	11,500,354	5.91%
5,001 – 10,000	581	4,092,240	2.10%
10,001 – 100,000	602	15,295,250	7.86%
100,001 – 1,000,000	90	20,566,658	10.57%
Above 1,000,000	29	140,523,600	72.20%
Total	15,399	194,625,000	100%

d) Shareholder Analysis by Domicile

	No. of shareholders	No. of shares	%
Individual investors			
Local	14,406	44,370,560	22.80%
East African	101	379,900	0.19%
Foreign	107	876,600	0.45%
	14,614	45,627,060	23.44%
Institutional investors			
Local	773	139,525,240	71.69%
East African	2	62,400	0.03%
Foreign	10	9,410,300	4.84%
	785	148,997,940	76.56%
Total	15,399	194,625,000	100%

e) Directors Holding Shares as at 31 December 2014

Name	No. of shares	%
Mr. Edward Njoroge	24,100	0.0124%
Dr. Jonathan Ciano	11,600	0.0060%
Mr. Samuel N Kimani	6,000	0.0031%
Mr. Hosea K Kili	3,300	0.0017%
Ms. Winnie Nyamute	1,500	0.0008%
Mr. Geoffrey O. Odundo	500	0.0003%
Total	47,000	0.0241%

Corporate Social Responsibility (CSR)

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CSR Summary

Nairobi Securities Exchange is committed to supporting the sustainable development of our environment social and corporate governance (ESG) issues. Indeed, as a company, our contribution towards development of sustainable capital markets is geared towards creating long term value for all our stakeholders. During the year in review we continued to support financial literacy amongst the youth in Kenya through the NSE investment challenge our flagship corporate social responsibility initiative for Kenyan youth in university, targeting to promote an investment culture through an online simulation of live trading at the Nairobi Securities Exchange.

First Runners up

Mr. Eddy Njoroge, Chairman Nairobi Securities Exchange hands over a dummy cheque to Albert Kyalo a winner of the 2014 NSE Investment Challenge.

Overall Winners

Eng. Peter Mangiti, the Principal Secretary for Ministry of Planning hands over a dummy cheque to the winners of the 2014 NSE Investment Challenge.

Mr. Paul Muthaura Ag. CE, CMA, Catherine Karita, GM, NIC Securities, Catherine Namuye Ag. Chief Executive, Youth Enterprise Development Fund and Bob Karina, Vice Chairman NSE toast to the launch of the 2014 NSE Investment Challenge.

Nairobi Securities Exchange, Kenya Bankers Association and Junior Achievement staff pause with the Kenya High school students during their visit to the Exchange marking the Global Money week celebrations.

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Our Initiatives

Initiatives Summary

2014 marked a great milestone at the Bourse as the Exchange marked its diamond jubilee by launching its new brand and building, The Exchange and also self-listing on the bourse through an Initial Public Offering (IPO) on the Main Investment Market Segment, with 17,859 investors applying for 504,189,700 new shares garnering an oversubscription of 663.92%.

Mr. Eddy Njoroge, NSE Chairman and His Excellency, Honourable William S. Ruto, Deputy President of the Republic of Kenya unveil the new NSE Brand.

Mr. Eddy Njoroge (Left) and Mr. Najib Balala look on as Mr. Adan Mohammed rings the bell to commence trading of the NSE shares.

Mr. Paul Mutahura (Left), Mr. Henry Rotich, Mr. Eddy Njoroge and Mr. Peter Mwangi share a light moment after launching the NSE IPO.

Our Initiatives (Cont)

Mr. Andrew Wachira, Head of Compliance and Legal, NSE looks on as Mr. Carl Esprey, Chief Executive, Atlas Development and Support Services rings the bell to commemorate the listing and commencement of trading of Atlas Development and Support Services shares.

His Excellency, Honourable William S. Ruto, Deputy President of the Republic of Kenya and Mr. Eddy Njoroge, Chairman, Nairobi Securities Exchange cut the ribbon to mark the opening of the NSE's - The Exchange Building.

VIP's view live trading of the NSE Shares during the self-listing of the Exchange.

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Financial Highlights

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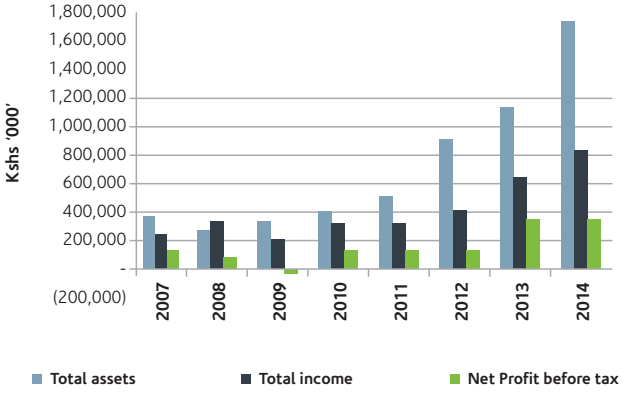
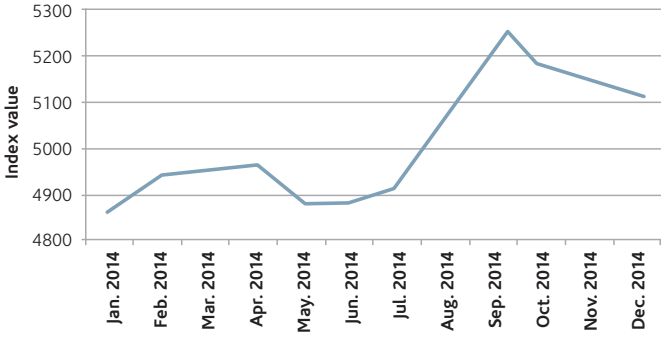
	2007	2008	2009	2010	2011	2012	2013	2014
Total income (Kshs'000)	301,948	328,451	184,529	319,129	338,974	384,329	622,713	821,901
Net Profit before tax (Kshs'000)	114,452	84,365	(31,754)	114,286	105,024	127,387	379,496	441,811
Total assets (Kshs'000)	372,870	298,253	302,971	403,053	475,319	882,690	1,149,124	1,685,104

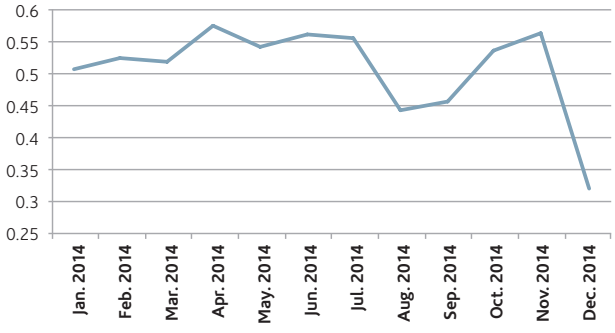
Graph 1: Total assets, Total income and Net profit before tax



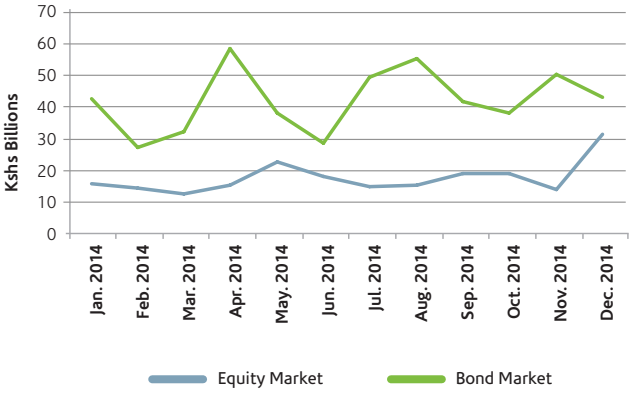
Graph 2: NSE 20 Share Index performance



Graph 3: Percentage of foreign turnover to total equity turnover



Graph 4: Equity and bond turnovers



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Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position and performance of the company. They are also responsible for safeguarding the assets of the company.

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Mr. Edward Njoroge	Dr. Jonathan Ciano	Mr. Geoffrey O Odundo
Chairman	Director	Chief Executive

26 March, 2015

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte PlaceWaiyaki Way, Muthangari
P.O. Box 40092 – GPO 00100
Nairobi,Kenya
Tel: +254 (20) 423 0000
+254 (20) 444 1344/05-12
Fax: +254 (20) 444 8966
Dropping Zone No. 92
Email: admin@deloitte.co.ke
www.deloitte.com

Deloitte.

Independent Auditors'report
to the Members of Nairobi Securities Exchange Limited

Report on the Financial Statements
We have audited the accompanying financial statements of Nairobi Securities Exchange Limited, set out on pages 35 to 73 which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2014 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements
As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
iii) the company's statement of financial position (balance sheet) and statement of profit or loss and other comprehensive income (profit and loss account) are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Anne Muraya – P/No 1697.

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya
26 March, 2015

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Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2014

	Notes	2014 Sh'000	2013 Sh'000
OPERATING INCOME	3	641,736	488,766
INTEREST INCOME	6	39,514	21,420
OTHER INCOME	7	140,651	112,527
TOTAL INCOME		**821,901**	**622,713**
ADMINISTRATIVE EXPENSES		(389,466)	(333,838)
FINANCE COSTS	8	(14,290)	(39,360)
SHARE OF PROFIT OF ASSOCIATE COMPANY	13(b)	23,741	14,407
(WRITE OFF)/RECOVERY OF DOUBTFUL DEBTS	17(c)	(75)	115,574
PROFIT BEFORE TAXATION		**441,811**	**379,496**
TAXATION CHARGE	9(a)	(121,770)	(117,077)
PROFIT FOR THE YEAR		**320,041**	**262,419**
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Revaluation surplus arising from revaluation of buildings	10	-	755
Deferred taxation on revaluation surplus	16	-	(227)
		-	528
Items that may be reclassified to profit or loss			
Share of exchange differences from associate company arising from translation of foreign operation	13(b)	26	(155)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**26**	**373**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**320,067**	**262,792**
EARNINGS PER SHARE		**Sh**	**Sh**
- Basic and diluted	26	2.13	2.04

Statement of Financial Position

As at 31 December 2014

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	Notes	2014 Sh'000	2013 Sh'000
ASSETS			
Non current assets			
Property and equipment	10	179,571	194,162
Investment property	11	307,705	294,628
Intangible assets	12	135,216	106,904
Investment in associate company	13(a)	82,457	60,940
Corporate bonds	14	35,509	35,509
Government securities	15	156,579	156,889
Deferred taxation asset	16	-	15,148
		897,037	**864,180**
Current assets			
Trade and other receivables	17(a)	147,412	114,896
Short term deposits	18	578,271	135,744
Bank and cash balances		62,384	34,304
		788,067	**284,944**
TOTAL ASSETS		**1,685,104**	**1,149,124**
EQUITY AND LIABILITIES			
Equity			
Share capital	20	778,500	24,500
Share premium	21	277,185	-
Retained earnings		486,861	705,782
Revaluation reserve		516	528
Shareholders' funds		**1,543,062**	**730,810**
Non current liabilities			
Borrowings	22	-	128,060
Deferred tax liability	16	5,419	-
Tenant deposits	23(a)	8,117	8,220
		13,536	**136,280**
Current liabilities			
Borrowings	22	-	36,568
Trade and other payables	23(b)	105,072	170,956
Dividends payable	24	13,188	5,050
Tax payable	9(c)	10,246	69,460
		128,506	**282,034**
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		**1,685,104**	**1,149,124**

The financial statements on pages 35 to 73 were approved and authorised for issue by the Board of Directors on 26 March 2015 and were signed on its behalf by:

Mr. Edward Njoroge	Dr. Jonathan Ciano	Mr. Geoffrey O Odundo
Chairman	Director	Chief Executive

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Statement of Changes in Equity

For the year Ended 31 December 2014

	Share capital Sh'000	Share premium Sh'000	Retained earnings Sh'000	Revaluation reserve Sh'000	Total Sh'000
At 1 January 2013	24,500	-	468,018	-	492,518
2012 dividend declared in the year	-	-	(24,500)	-	(24,500)
Total comprehensive income for the year	-	-	262,264	528	262,792
At 31 December 2013	**24,500**	**-**	**705,782**	**528**	**730,810**
At 1 January 2014	24,500	-	705,782	528	730,810
Bonus issue (note 20)	490,000	-	(490,000)	-	-
Shares issued (note 20, 21)	264,000	363,000	-	-	627,000
Share issue costs (note 21)	-	(85,815)	-	-	(85,815)
Total comprehensive income for the year	-	-	320,067	-	320,067
Transfer of excess depreciation	-	-	17	(17)	-
Deferred tax on transfer of excess depreciation	-	-	(5)	5	-
2013 dividend declared in the year	-	-	(49,000)	-	(49,000)
At 31 December 2014	**778,500**	**277,185**	**486,861**	**516**	**1,543,062**

Statement of Cash Flows

For the year ended 31 December 2014

To be a Leading Securities Exchange in Africa, with a global reach

	Notes	2014 Sh'000	2013 Sh'000
Cash flows from operating activities			
Cash generated from operations	25(a)	317,277	457,253
Tax paid	9(c)	(160,417)	(32,286)
Net cash generated from operating activities		**156,860**	**424,967**
Cash flows from investing activities			
Purchase of property and equipment	10	(10,923)	(99,346)
Purchase of intangible assets	12	(41,416)	(39,501)
Interest received		39,824	20,526
Proceeds of disposal of equipment		2,607	1,533
Dividend received from associate company	13(a)	2,250	-
Net cash used in investing activities		**(7,658)**	**(116,788)**
Cash flows from financing activities			
Net proceeds from issue of shares	25(b)	541,185	-
Borrowings paid	22	(163,954)	(136,046)
Interest paid on borrowings	22	(14,964)	(40,207)
Dividends paid	24	(40,862)	(41,450)
Net cash generated from/(used in) financing activities		**321,405**	**(217,703)**
Increase in cash and cash equivalents		**470,607**	**90,476**
Cash and cash equivalents at the beginning of the year		**170,048**	**79,572**
Cash and cash equivalents at the end of the year	**19**	**640,655**	**170,048**

1. ACCOUNTING POLICIES

a) Statement of compliance

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

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

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

i) New standards and amendments to published standards effective for the year ended 31 December 2014

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. To qualify as an investment entity, a reporting entity is required to: · obtain funds from one or more investors for the purpose of providing them with investment management services; · commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and · measure and evaluate performance of substantially all of its investments on a fair value basis. Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities. Application of these standards has not had any impact on the disclosures or the amounts recognised in these financial statements as the bank is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014).
Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments have been applied retrospective. The application of the amendments had no effect on the company's financial statements.

1 ACCOUNTING POLICIES (Continued)

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

i) New standards and amendments to published standards effective for the year ended 31 December 2014 (Continued)

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. As the company does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the company's financial statements.
Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements. The amendments require retrospective application. The application of the amendments had no effect on the company's financial statements.
IFRIC 21 Levies	This addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. IFRIC 21 requires retrospective application. The application of the amendments had no effect on the company's financial statements.

1 ACCOUNTING POLICIES (Continued)

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

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2014

New and Amendments to the standards	*Effective for annual periods beginning on or after*
IFRS 9 Financial Instruments (as revised in 2014)	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2017
Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the company anticipate that the application of IFRS 9 in the future will not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities.

1 ACCOUNTING POLICIES (Continued)

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

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods (Continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:
Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors of the company anticipate that the application of IFRS 15 in the future will not have a significant impact on amounts reported in the company's financial statements.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or
b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the company uses the straight-line method for depreciation and amortisation for its property, and equipment, and intangible assets respectively. The directors of the company anticipate that the application of these amendments will not have a significant impact on amounts reported in the company's financial statements.

iv) Early adoption of standards

The company did not early-adopt any new or amended standards in 2014.

1 ACCOUNTING POLICIES (Continued)

Basis of preparation

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

Revenue recognition

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 – 30 November.

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

Translation of foreign currencies

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

Property and equipment

The building is carried at valuation less any subsequent accumulated depreciation. The frequency of valuation is every five years.

Equipment is stated at cost or as professionally revalued less accumulated depreciation and any impairment losses.

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

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

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

1 ACCOUNTING POLICIES (Continued)

Property and equipment (continued)

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.

Intangible assets

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

Impairment of tangible and intangible assets

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

Investment property

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

Financial instruments

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

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Receivables

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

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

Financial assets at fair value through profit or loss are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments classified as fair value through profit or loss are initially recognised at cost and subsequently re-measured to fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realised and unrealised gains and losses are included in the profit or loss. Interest earned whilst holding held for trading investments is reported as investment income.

Held to maturity investments

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

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

Available for sale financial assets

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

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

Derecognition of financial assets

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

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Other financial liabilities

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

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

Cash and cash equivalents

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

Investments in associate

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

Employee entitlements

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

Segmental reporting

The company does not have discrete operating segments and thus no segmental reporting information has been disclosed in these financial statements.

Taxation

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

1. ACCOUNTING POLICIES (continued)

Taxation (Continued)

Current tax

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

Deferred tax

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

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

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

Current and deferred tax for the year

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

Retirement benefit obligations

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

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

1. ACCOUNTING POLICIES (continued)

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.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or esti mated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability

This note provides information about how the company determines fair values of various financial assets and liabilities.

Comparatives

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

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

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

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

(a) Critical judgements in applying accounting policies

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

Held-to-maturity financial assets

The directors have reviewed the company's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the company's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is Sh 770.359 million (31 December 2013: Sh 328.14 million). Details of these assets are set out in note 14, 15 and 18.

(b) Key sources of estimation uncertainty

Impairment losses

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

Property, equipment and software

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

		2014 Sh'000	2013 Sh'000
3	**OPERATING INCOME**		
	Transactions levy	553,178	405,777
	Annual listing fees	78,256	73,715
	Initial listing fees	8,217	8,651
	Application and additional listing fees	2,085	623
		641,736	**488,766**
4	**PROFIT BEFORE TAXATION**		
	The profit before taxation is arrived at after charging:		
	Staff costs (note 5)	117,320	115,047
	Operating lease rentals	-	8,216
	Depreciation on equipment (note 10)	25,578	11,143
	Amortisation of intangible assets (note 12)	13,104	12,545
	Directors' emoluments:		
	- Executive	11,124	13,514
	- Non – executive	13,954	7,297
	Auditors' remuneration	1,900	1,950
	Write off /(recovery) of doubtful debts (note 17(c))	75	(115,574)
	(Gain)/loss on disposal of equipment	(2,449)	3,502
5	**STAFF COSTS**		
	Salaries and wages	95,144	88,094
	Staff bonus	10,520	17,133
	Leave pay expense	1,893	1,754
	Provident fund contribution	9,443	7,975
	Social security costs (NSSF)	320	91
		117,320	**115,047**
	The staff numbers as at 31 December 2014 were 37 (2013 - 39).		
6	**INTEREST INCOME**		
	Held to maturity investments - interest on treasury bonds	11,473	11,227
	- interest on corporate bonds	2,825	3,258
	- interest on term deposits	24,951	6,784
	Interest on staff loans and advances	265	151
		39,514	**21,420**

Notes to the Financial Statements (Cont)

For the Year Ended 31 December 2014

		2014 Sh'000	2013 Sh'000
7	**OTHER INCOME**		
	Data vending	18,639	15,843
	Broker back office subscription	23,762	21,240
	Subscriptions fee	-	1,800
	Advertisement fee on NSE journal	-	453
	Sale of publications and merchandising items	2,563	2,318
	Rental income	25,046	25,755
	Miscellaneous income	3,300	2,904
	Private transfer fee	1,194	1,006
	Surplus on revaluation of investment property	13,077	1,208
	Market access fee	50,000	40,000
	Gain on disposal of equipment	2,449	-
	Exchange gain	621	-
		140,651	**112,527**
8	**FINANCE COSTS**		
	Interest expense on borrowings (note 22)	**14,290**	**39,360**
9	**TAXATION**		
	(a) Taxation charge		
	Current taxation based on adjusted profit for the year at 30%	120,584	115,280
	Prior year current tax over provision	(19,381)	951
		101,203	116,231
	Deferred taxation charge current year (note 16)	5,483	846
	Deferred taxation charge prior year under provision (note 16)	15,084	-
		20,567	846
		121,770	**117,077**

	2014 Sh'000	2013 Sh'000
9 TAXATION (Continued)		
(b) Reconciliation of taxation charge to the expected tax based on accounting profit		
Profit before tax	441,811	379,496
Tax calculated at a tax rate of 30%	132,543	113,848
Tax effects on expenses not deductible for tax	4,543	6,856
Tax effect on revenues not allowable for tax	(11,019)	(4,578)
Prior year current tax under provision	(19,381)	951
Deferred taxation charge prior year under provision	15,084	-
Taxation charge	**121,770**	**117,077**
(c) Tax movement		
Balance at 1 January	69,460	(14,485)
Charge to profit or loss	101,203	116,231
Tax paid	(160,417)	(32,286)
Balance at 31 December	**10,246**	**69,460**

Notes to the Financial Statements (Cont)

For the Year Ended 31 December 2014

10 PROPERTY AND EQUIPMENT

	Building Sh'000	Motor vehicles Sh'000	Furniture& fittings Sh'000	Office equipment Sh'000	Computer equipment Sh'000	WIP Sh'000	Total Sh'000
COST							
At 1 January 2013	140,552	8,871	18,560	11,883	65,891	-	245,757
Additions	-	-	71,613	12,348	13,345	2,040	99,346
Disposals	-	-	(23,480)	(4,649)	(6,406)	-	(34,535)
Adjustments	-	-	5,403	75	4,708	-	10,186
Transfer to investment property (note 11)	(50,935)	-	-	-	-	-	(50,935)
Revaluation surplus	755	-	-	-	-	-	755
At 1 January 2014	90,372	8,871	72,096	19,657	77,538	2,040	270,574
Additions	-	8,992	342	168	3,058	-	12,560
Disposals	-	(6,868)	-	(826)	(4,941)	-	(12,635)
Adjustments	-	-	(1,637)	-	-	-	(1,637)
Transfers	-	-	-	2,040	-	(2,040)	-
At 31 December 2014	90,372	10,995	70,801	21,039	75,655	-	268,862
COMPRISING							
Cost	-	10,995	70,801	21,039	75,655	-	178,490
Valuation	90,372	-	-	-	-	-	90,372
	90,372	10,995	70,801	21,039	75,655	-	268,862
DEPRECIATION							
At 1 January 2013	-	8,871	13,650	11,016	51,166	-	84,703
Charge for the year	-	-	3,275	1,271	6,597	-	11,143
Eliminated on disposal	-	-	(19,392)	(4,601)	(5,507)	-	(29,500)
Adjustments	-	-	5,403	-	4,663	-	10,066
At 1 January 2014	-	8,871	2,936	7,686	56,919	-	76,412
Charge for the year	1,978	1,311	8,980	3,759	9,550	-	25,578
Eliminated on disposal	-	(6,868)	-	(744)	(4,865)	-	(12,477)
Adjustments	-	-	(222)	-	-	-	(222)
At 31 December 2014	1,978	3,314	11,694	10,701	61,604	-	89,291
NET BOOK VALUE (Revaluation basis)							
At 31 December 2014	**88,394**	**7,681**	**59,107**	**10,338**	**14,051**	**-**	**179,571**
At 31 December 2013	**90,372**	**-**	**69,160**	**11,971**	**20,619**	**2,040**	**194,162**
NET BOOK VALUE (Cost basis)							
At 31 December 2014	85,695	7,681	59,107	10,338	14,051	-	176,872
At 31 December 2013	87,656	-	69,160	11,971	20,619	2,040	191,446

10 PROPERTY AND EQUIPMENT (Cont)

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated equipment with a cost of Sh 45.1 million (2013 - Sh 55.9 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 10.5 million (2013 – Sh 13.9 million).

The building is stated at its revalued amounts, being the fair value as at 31 December 2013 less any subsequent depreciation. The revaluation was done on the basis of the highest and best use by Tysons Ltd, an independent registered valuer. The frequency of valuation of the building is every 5 years.

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).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s)	Significant unobservable and key inputs	Relationship of unobservable inputs to fair value
	31/12/14 Sh'000	31/12/13 Sh'000		Market comparable approach-	N/A	N/A
Buildings	88,394	90,372	Level 2	Highest and best use		

There were no transfers between levels 1, 2 and 3 in the period (2013: none).

11 INVESTMENT PROPERTY

	Total Sh'000
COST	
At 1 January 2013	242,485
Transfer from building (note 10)	50,935
Revaluation surplus	1,208
At 1 January 2014	294,628
Revaluation surplus	13,077
At 31 December 2014	**307,705**

The fair value of the Company's investment property as at 31 December 2014 and 31 December 2013 has been arrived at on the basis of a valuation carried out on the 26 February 2015 and 20 December 2013 respectively by Tysons Limited, an independent registered valuer. 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).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s)	Significant unobservable and key inputs	Relationship of unobservable inputs to fair value
	31/12/14 Sh'000	31/12/13 Sh'000				
Investment property	307,705	294,628	Level 2	Market comparable approach- Highest and best use	N/A	N/A

There were no transfers between levels 1, 2 and 3 in the period (2013: none).

12 INTANGIBLE ASSETS

	Automated trading system software Sh'000	Other software Sh'000	Broker back office software Sh'000	Bond software license Sh'000	WIP Sh'000	Total Sh'000
COST						
At 1 January 2013	62,150	22,908	67,930	-	-	152,988
Additions	-	4,538	-	-	34,963	39,501
Adjustment	(174)	-	1	-	-	(173)
Disposal	(807)	-	-	-	-	(807)
At 1 January 2014	61,169	27,446	67,931	-	34,963	191,509
Additions	-	209	-	35,079	6,128	41,416
Transfer	-	-	-	3,112	(3,112)	-
At 31 December 2014	61,169	27,655	67,931	38,191	37,979	232,925
AMORTISATION						
At 1 January 2013	52,770	16,791	3,480	-	-	73,041
Amortisation for the year	2,333	3,419	6,793	-	-	12,545
Adjustment	(174)	-	-	-	-	(174)
Eliminated on disposal	(807)	-	-	-	-	(807)
At 1 January 2014	54,122	20,210	10,273	-	-	84,605
Amortisation for the year	2,160	2,409	6,793	1,742	-	13,104
At 31 December 2014	56,282	22,619	17,066	1,742	-	97,709
NET BOOK VALUE						
At 31 December 2014	**4,887**	**5,036**	**50,865**	**36,449**	**37,979**	**135,216**
At 31 December 2013	**7,047**	**7,236**	**57,658**	**-**	**34,963**	**106,904**

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

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated intangible assets with a cost of Sh 65.8 million (2013 - Sh 55.8 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 9.3 million (2013 – Sh 6.2 million).

13 INVESTMENT IN ASSOCIATE COMPANY

The investment in associate company represents an investment in Central Depository and Settlement Corporation (CDSC) Limited. The company held an ownership percentage of 22.5% as at 31 December 2014 (2013 - 22.5%).The proportion of the voting rights in the associate held by the parent company does not differ from the proportion of ordinary shares held.

		2014 Sh'000	2013 Sh'000
(a)	The movement in the balance is as follows:		
	At 1 January	60,940	46,688
	Share of profit for the year (note 13(b))	23,767	14,252
	Dividends received	(2,250)	-
	At 31 December	**82,457**	**60,940**
(b)	Summarised financial information in respect of the associate company is set out below:		
	Total assets	412,915	304,550
	Total liabilities	(46,438)	(33,705)
	Net assets	366,477	270,845
	Company's share of net assets of associate	82,457	60,940
	Total revenue for the year	332,350	243,307
	Total profit for the year	105,516	63,340
	Company's share of profit of associate	23,741	14,407
	Company's share of other comprehensive income of associate	26	(155)
		23,767	**14,252**

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

Name of associate	Country of incorporation and operation	Number of shares held by Nairobi Securities Exchange @ Sh 100 per share		Proportion of ownership interest and voting power held by Nairobi Securities Exchange	
		2014	2013	2014	2013
Central Depository and Settlement Corporation (CDSC) Limited	Kenya	393,750	225,000	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 Limited. During the year, the associate company issued bonus shares of Sh 16,875,000 being 168,750 ordinary shares of Sh. 100 each.

	2014 Sh'000	2013 Sh'000
14 CORPORATE BONDS – held to maturity		
Safaricom Limited	20,232	20,232
Housing Finance Company of Kenya Limited	15,277	15,277
	35,509	**35,509**
Maturity analysis:		
Maturing within one year	20,232	-
Maturing after 1 year to 5 years	15,277	35,509
	35,509	**35,509**

The effective interest rate on the corporate bonds as at 31 December, 2014 was 8.1% p.a. (2013: 8.1% p.a).

15 GOVERNMENT SECURITIES HELD TO MATURITY		
Treasury bonds maturing:		
Within one year	46,384	-
After 1 to 10 years	110,195	156,889
	156,579	**156,889**

The weighted average interest rate on the treasury bonds was 7.7% p.a (2013: 7.5% p.a).

16 DEFERRED TAX (LIABILITY)/ASSET

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30% except for deferred tax on revaluation of buildings which is calculated using the capital gains tax rate of 5%. The net deferred tax (liability)/asset is attributable to the following items:

	2014 Sh'000	2013 Sh'000
Accelerated capital allowances	(6,283)	(3,557)
Leave provision	1,182	872
Bonus provision	2,303	3,932
General bad debts provision	-	15,463
Straight-lined rental income	(1,623)	(974)
Deferred tax on revaluation surplus on buildings	(222)	(588)
Unrealized foreign exchange loss	(62)	-
	(4,705)	15,148
Deferred tax on revaluation of investment property	(714)	-
	(5,419)	**15,148**

	2014 Sh'000	2013 Sh'000
16 DEFERRED TAX (LIABILITY)/ASSET (continued)		
The movement in the deferred tax (liability)/asset is as follows:		
At 1 January	15,148	16,221
Charge to profit - current year (note 9(a))	(5,483)	(846)
Charge to profit – prior year under provision (note 9(a))	(15,084)	-
Charge dealt with through other comprehensive income	-	(227)
At 31 December	**(5,419)**	**15,148**
17 (a) TRADE AND OTHER RECEIVABLES		
Trade receivables	121,589	52,842
Prepayments and deposits	23,727	20,531
Other receivables	14,314	11,416
Receivable from non-trading brokers	141,938	141,938
IPO prepayments	-	42,567
	301,568	269,294
Provision for doubtful debts (note 17(b))	(154,156)	(154,398)
	147,412	**114,896**
(b) PROVISION FOR DOUBTFUL DEBTS		
Movements in the provision for doubtful debts were as follows:		
At 1 January	154,398	318,781
Recoveries in the year (note17(c))	-	(120,000)
Charge to profit or loss (note17(c))	-	342
	-	(119,658)
Write back during the year	(242)	(44,725)
At 31 December (note 17(a))	**154,156**	**154,398**

	2014 Sh'000	2013 Sh'000
17 (c) CHARGE/(CREDIT) TO PROFIT OR LOSS		
Recoveries in the year (note 17 (b))	-	(120,000)
Charge to profit or loss (note 17 (b))	-	342
	-	(119,658)
Write offs during the year	75	4,084
	75	**(115,574)**
18 SHORT TERM DEPOSITS		
Maturing within three months:		
Fixed deposits	255,403	-
Call deposits	85,549	135,744
	340,952	135,744
Maturing after three months to six months:		
Fixed deposits	237,319	-
	578,271	**135,744**
The deposits are held to maturity and measured at amortised cost. The deposits were held at the following institution:		
Kenya Commercial Bank Limited	31,156	135,744
Co-operative Bank of Kenya	547,115	-
	578,271	**135,744**

The effective interest rate on the deposits as at 31 December 2014 was 10% p.a. (2013: 7.3%).

		2014 Sh'000	2013 Sh'000
19	**CASH AND CASH EQUIVALENTS**		
	Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:-		
	Bank and cash balances	62,384	34,304
	Call deposit	85,549	135,744
	Fixed deposits – maturity within three months	255,403	-
	Fixed deposits – maturing after three months to six months	237,319	-
		640,655	**170,048**
20	**SHARE CAPITAL**		
	Authorised share capital:		
	212,500,000 ordinary shares of Sh 4 each (note (a), (b)) (2013 – 25,000,000 ordinary shares of Sh 1 each)	850,000	25,000
	Issued and fully paid up:		
	At 1 January 24,500,000 ordinary shares of Sh 1 each	24,500	24,500
	Consolidation into 6,125,000 ordinary shares of Sh 4 each (note (b))	24,500	-
	Issue of 122,500,000 bonus shares of Sh 4 each (note (c))	490,000	-
	Sale of 66,000,000 ordinary shares of Sh 4 each (note (f))	264,000	-
	As at 31 December 194,625,000 ordinary shares of Sh 4 each (2013 – 24,500,000 ordinary shares of Sh 1 each)	**778,500**	**24,500**

At the 60th Annual General Meeting held on April 25, 2014 the following Special Resolutions were passed:

a) Authorized share capital be increased from Ksh. 25,000,000 divided into 25,000,000 ordinary shares of Ksh. 1.00 each to Ksh. 850,000,000 divided into 850,000,000 ordinary shares of Ksh. 1.00 each, such shares to rank pari passu in all respects with the existing ordinary shares;

b) Following the increase in authorized share capital, each of the 850,000,000 ordinary shares of Ksh. 1.00 each, both issued and unissued, be consolidated into 212,500,000 ordinary shares of Ksh. 4.00 each;

c) The sum of Kenya Shillings Four Hundred Ninety Million (Ksh. 490,000,000) being part of the sum standing to the credit of the company's revenue reserve be capitalized and the same be applied in making payment in full at par for 122,500,000 ordinary shares of Ksh. 4.00 each in the capital of the company in the ratio of twenty (20) ordinary shares of Ksh. 4.00 each for every one (1) ordinary share of Ksh. 4.00 each, such shares to be distributed to rank pari passu with the existing ordinary shares;

20 SHARE CAPITAL (Continued)

At the 60th Annual General Meeting held on April 25, 2014 the following Special Resolutions were passed:

d) Up to 212,500,000 ordinary shares of Ksh. 4.00 each be listed on the Main Investment Market Segment; and

e) Up to 81,375,000 ordinary shares of Ksh. 4.00 each be offered for subscription to the public at a premium.

f) The offer opened up on July 24, 2014 with 66,000,000 ordinary shares of Ksh. 4.00 offered up for subscription on the Main Market Investment Segment at the offer price of Ksh. 9.50 per share. The offer was fully subscribed by the offer closure date of August 12, 2014.

	2014 Sh'000	2013 Sh'000
21 SHARE PREMIUM		
Issue of 66,000,000 ordinary shares at a premium of Sh. 5.50 each (note 20(f))	363,000	-
Costs of floatation	(85,815)	-
	277,185	**-**
22 BORROWINGS		
Current portion	-	36,568
Non current portion	-	128,060
	-	**164,628**
Interest accrued	-	674
Borrowings received	-	163,954
	-	**164,628**
The movement in borrowings during the year is as shown below:-		
At 1 January	164,628	301,521
Borrowings repaid	(163,954)	(136,046)
Interest charged	14,290	39,360
Interest paid	(14,964)	(40,207)
At 31 December	**-**	**164,628**

22 BORROWINGS (Continued)

In 2013, the company borrowed an amount of Sh 300 million from the Kenya Commercial Bank Limited to partly finance the purchase of a building (notes 10 and 11), repayable in equal monthly installments of Sh 4.84 million each over a period of 5 years and secured by a legal charge of Sh 300 million over the property purchased with a debenture of the same amount over the assets of the company. The loan was repaid in full during the year.

23 TRADE AND OTHER PAYABLES

	2014 Sh'000	2013 Sh'000
a) Non current portion		
Tenant deposits	8,117	8,220
b) Current portion		
Trade payables	15,874	9,409
Annual listing fees received in advance	1,957	25,500
Accrued expenses	52,761	97,264
Staff leave provision	3,941	2,911
Capital Markets Authority	2,113	2,103
Tax penalties payable	17,359	24,406
Other payables	6,245	8,869
Amounts payable to associate company (note 27(e))	4,822	494
	105,072	**170,956**

24 DIVIDENDS PAYABLE

The dividends payable represents the first and final dividend for the years ended 31 December 2013 and 31 December 2012 respectively not paid as at year end. The movement in dividends payable during the year was as follows:-

	2014 Sh'000	2013 Sh'000
At 1 January	5,050	22,000
Declared amount for prior years	49,000	24,500
Paid during the year	(40,862)	(41,450)
At 31 December	**13,188**	**5,050**

	2014 Sh'000	2013 Sh'000
25 NOTE TO THE STATEMENT OF CASHFLOWS		
a) Cash flows from operating activities		
Profit before tax	441,811	379,496
Adjustments for:		
Depreciation (note 10)	25,578	11,143
Amortisation (note 12)	13,104	12,545
Share of results of associate (note 13(b))	(23,741)	(14,407)
Interest income (note 6)	(39,514)	(21,420)
Interest expense	14,290	39,360
(Gain)/loss on disposal of equipment	(2,449)	3,502
Gain on revaluation of investment property	(13,077)	-
Write (off)/back of equipment	(222)	120
Write off of intangibles	-	1
Working capital changes:		
Increase in trade and other receivables	(32,516)	(65,612)
(Decrease)/increase in trade and other payables	(65,987)	112,525
Cash generated from operations	**317,277**	**457,253**
b) Net proceeds from issue of shares		
Proceeds on sale of shares at cost of Ksh. 4.00 each (note 20(f))	264,000	-
Net proceeds on sale of shares at premium (note 21)	277,185	-
Net proceeds from issue of shares	**541,185**	**-**
26 EARNINGS PER SHARE		
Profit attributable to owners of the company (Sh'000)	320,067	262,264
Weighted average number of shares during the year	150,020,604	128,625,000
Basic earnings per share – Sh	**2.13**	**2.04**

The basic earnings per share is the same as the diluted earnings per share as there were no potentially dilutive shares as at 31 December 2014 and 31 December 2013.

27 RELATED PARTY TRANSACTIONS

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

As at 31 December 2014, the company had 13 (31 December 2013:16) stock brokers and 6 (31 December 2013:6) licensed investment banks who are shareholders. The following transactions were carried out with related parties:

	2014 Sh'000	2013 Sh'000
(a) Directors' emoluments		
Non – executive	13,954	7,297
As executives	11,124	13,514
(b) Key management compensation		
Salaries and other short-term employment benefits	22,814	20,669
Other long term benefits	2,114	1,640
	24,928	22,309

(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 company charges investors, through the brokers, a transaction levy of 0.12% (31 December 2013: 0.12%) of the value of equity securities traded at the Exchange. During the 12 month period, the total turnover was Sh 411,901 million (31 December 2013: Sh 311,498 million) resulting in a transaction levy of Sh 494 million (31 December 2013: Sh 374 million). NSE also charges investors through brokers a transaction levy of 0.0035% of the value of fixed income securities traded at the Exchange. The turnover for fixed income securities for the 12 months period ended 31 December 2014 was Sh 1,002,657 million (31 December 2013: Sh 913,969 million), resulting in transaction levy of Sh 35.1 million (31 December 2013: Sh 31.99 million).

	2014 Sh'000	2013 Sh'000
Transaction levy on - equity securities	494,281	373,798
Transaction levy on - fixed income securities	35,093	31,979
Subscription fees	-	1,800
Broker back office subscriptions	21,601	21,240
NOMAD fee	200	-
	551,175	428,817

27 RELATED PARTY TRANSACTIONS (Continued)

(d) Transactions with companies related to directors

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

	2014 Sh'000	2013 Sh'000
i) Stockbrokers and investment bank representatives		
Transaction levy on - equity securities	35,390	28,754
Transaction levy on - fixed income securities	3,495	3,239
Members subscription fees	-	200
Broker back office subscriptions	2,880	2,880
NOMAD registration & training	50	55
Purchase of data	120	120
	41,935	35,248
Allowances to broker directors sitting on Committees but are not company Directors	1,257	391
ii) Listed companies related to directors		
Annual listing fee	1,500	4,000
Advertising on Exchange magazine	-	151
Purchase of data	-	3
	1,500	4,154
Allowances to listed company directors sitting on Committees but are not company Directors	114	39

(e) Transactions with associate company

During the period transactions with CDSC Ltd were as follows:-		
Committee sitting allowance paid to CDSC director	86	71
Expenses relating to:		
Joint Board meetings	322	506
Share registrar services and depository levies	5,160	-
	5,482	506
Amounts payable to associate company (note 23(b))	4,822	494

	2014 Sh'000	2013 Sh'000
28 OPERATING LEASE COMMITMENTS		
The Company as a lessee:		
Charges under operating lease	-	8,216

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

The Company as a lessor:

Lease rental income earned during the year was Sh 25 million (2013 - Sh 25.7 million). At the end of the reporting period, the Company had existing contracts with tenants for the following minimum lease payments:

	2014 Sh'000	2013 Sh'000
Receivable within 1 year	25,433	22,739
Receivable after 1 year but within 5 years	60,370	69,199
	85,803	91,938

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

29 CAPITAL COMMITMENTS

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

	2014 Sh'000	2013 Sh'000
Authorised but not yet contracted for	511,542	269,426

The capital commitments relate mainly to planned property and ATS acquisition and other system infrastructure and support.

30 CONTINGENT LIABILITIES

During the year ended 31 December 2012, the Kenya Revenue Authority (KRA) carried out Corporation tax, Withholding tax, Value Added Tax (VAT) and Pay As You Earn (PAYE) tax audits covering the years 2008 to 2011 and issued a tax assessment for additional tax payable, penalties and interest. The principal tax balances were agreed with KRA at Sh 19,565,930 and which was settled in full on various dates in 2012. The only non-agreed issue related to VAT assessed by KRA on data vending income which was in dispute.

50% of the total penalties and arrears of Sh 19,309,624 assessed then and amounting to Sh 9,654,812 was provided for in 2012. In 2013, a final assessment by KRA was made on data vending income and other incomes resulting in additional VAT payable of Sh 9,947,804 and penalties of Sh 4,803,392 all of which was provided for in 2013.

The VAT principal tax of Sh 9,947,804 was settled in June 2014 and the additional penalty and interest of Sh 2,901,240 was fully provided for in 2014.

Following this, an application for waiver of all the interest of Sh 16,446,811 and penalties of Sh 2,870,203 totalling to Sh 19,317,014 that arose from the audit was lodged with KRA in September 2014. An amount of Sh 17,359,444 has already been provided for in these financial statements.

In the opinion of the directors, the company has good grounds for the waiver of the penalties and interest and expect it be resolved and a waiver given.

31 RISK MANAGEMENT OBJECTIVES AND POLICIES

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

31 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Market risk

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

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

The following table sets out the carrying amount, by maturity, of the company's financial instruments that are exposed to interest rate risk:

	1 month Sh '000	1-3 months Sh '000	3-6 months Sh '000	1-5 years Sh '000	5+ years Sh '000	Total Sh '000
31 December 2013						
Liabilities						
Bank borrowings	(2,751)	(5,804)	(8,754)	(146,645)	-	(163,954)

The company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 5 percentage points in all yield curves of financial assets.

A 5% increase/decrease in interest yields would result in additional profit/loss for the period of Sh Nil (2013: Sh 1,968,000).

(ii) Foreign currency exchange risk

The company undertakes 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.

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

31 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Market risk (Continued)

(ii) Foreign currency exchange risk (Continued)

	2014 Sh'000	2013 Sh'000
Assets		
Cash and bank balances	22,063	2,359
Trade receivables	2,348	401
	24,411	2,760
Liabilities		
Trade payables	2,791	3,446
Net position	21,620	(686)

At 31 December 2014, if the Shilling had weakened/strengthened by 10% against the US Dollar with all other variables held constant, the impact on pretax profit for the period would have been Sh 2,162,000 (2013 – Sh 68,600) lower/higher, mainly as a result of translation of US dollar denominated balances.

(iii) Price risk

The company does not hold investments that would be subject to price risk; hence this risk not relevant.

(b) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the company. Credit risk arises from deposits with banks, as well as trade receivables. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by the banking regulatory authority.

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

31 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Credit risk (Continued)

The amount that best represents the company's maximum exposure to credit risk as at 31 December 2014 and 2013 is made up as follows:

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
31 December 2014				
Trade receivables	109,371	-	12,218	121,589
Due from non-trading brokers	-	-	141,938	141,938
Bank balances	62,363	-	-	62,363
Term deposits	578,271	-	-	578,271
	750,005	-	154,156	904,161
31 December 2013				
Trade receivables	40,610	-	12,232	52,842
Due from non-trading brokers	-	-	141,938	141,938
Bank balances	34,283	-	-	34,283
Term deposits	135,744	-	-	135,744
	210,637	-	154,170	364,807

(c) Liquidity risk

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

31 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Liquidity risk (continued)

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

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Total Sh'000
31 December 2014					
Trade payables	15,874	-	-	-	15,874
At 31 December 2013					
Trade payables	9,409	-	-	-	9,409
Borrowings	4,840	9,680	43,560	156,455	214,535
	14,249	9,680	43,560	156,455	223,944

32 CAPITAL RISK MANAGEMENT

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the company consists of debt, which includes bank borrowings and equity attributable to equity holders, comprising issued capital, share premium, retained earnings and revaluation reserve. The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. Information on the company`s capital and borrowings as at 31 December 2014 and 2013 is provided below:

	2014 Sh'000	2013 Sh'000
32 CAPITAL RISK MANAGEMENT (Continued)		
Share capital	778,500	24,500
Share premium	277,185	-
Retained earnings	486,861	705,782
Revaluation reserve	516	528
Equity	1,543,062	730,810
Borrowings	-	164,628
Less: Cash and cash equivalents	(640,655)	(170,048)
	(640,655)	(5,420)
Gearing ratio	-	-

33 COUNTRY OF INCORPORATION

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

34 CURRENCY

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

Notice of the 61st Annual General Meeting

To be a Leading Securities Exchange in Africa, with a global reach

NOTICE is hereby given that the 61st Annual General Meeting of the Nairobi Securities Exchange Limited (NSE) shall be held at the **Bomas of Kenya**, Nairobi on **Thursday, 25 June 2015** at **10.00 a.m.** to transact the following business:-

ORDINARY BUSINESS

1. To read the notice convening the meeting.
2. To table the proxies and to confirm the presence of a quorum.
3. To confirm and adopt the minutes of the Annual General Meeting held on 25 April, 2014.
4. To receive the Chairman's Statement and the Chief Executive's Report.
5. To receive, consider and adopt the audited Financial Statements for the year ended 31 December, 2014 and the reports of the Directors and Auditors thereon.
6. To approve a first and final dividend of Kshs 0.38 per share in respect of the Financial Year ended 31 December, 2014.
7. To elect Directors:-
   a) In accordance with Articles 95 and 96 of the Company's Articles of Association, Dr. Jonathan Ciano (an Independent Director) retires by rotation and, being eligible, offers himself for re-election;
   b) In accordance with Articles 95 and 96 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;
   c) In accordance with Article 117 of the Company's Articles of Association, Mr. Jimnah Mbaru, Mrs. Nasim Devji and Mr. Michael Alan Turner retire at this meeting and, being eligible, offer themselves for re-election.
8. To re-appoint Messrs Deloitte & Touche as the auditors of the Company for the Financial Year ending 31 December, 2015 and to authorize the directors to fix their remuneration.

SPECIAL BUSINESS

9. To consider and, if thought fit, to pass the following Ordinary Resolution:-

   "That a Directors' fees of Kshs 3.3 Million (Net) per annum be and is hereby approved which shall be divided amongst the Directors of the Company as determined by the Board."

ANY OTHER BUSINESS

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

BY ORDER OF THE BOARD

COMPANY SECRETARY

DATE: 14 April, 2015

Notice of the 61st Annual General Meeting (Cont)

Note:

1. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company.

   A Proxy Form may be obtained from the Company's website **www.nse.co.ke**, the Registered Office of the Company, Exchange Building, 5th Floor, 55 Westlands Road, P O Box 43633 – 00100, Nairobi, or from the offices of the Company's Share Registrars, CDSC Limited, Nation Centre, 10th Floor, Kimathi Street, Nairobi.

   To be valid, a Form of Proxy must be duly completed by the member and must be returned to the offices of the Company, Exchange Building, 5th Floor, 55 Westlands Road, P O Box 43633 – 00100, Nairobi so as to arrive not later than 48 hours before the time fixed for the meeting, failing which, it will be invalid. In the case of a corporate body, the proxy form must be executed under its common seal.

2. In accordance with Article 157 of the Articles of Association of the Company, a copy of the entire Annual Report and Accounts may be viewed on the Company's website at **www.nse.co.ke** or a printed copy may be obtained from the Registered Office of the Company, Exchange Building, 5th Floor, 55 Westlands Road, P O Box 43633 – 00100, Nairobi.

Notes

To be a Leading Securities Exchange
in Africa, with a Global reach

Proxy Form

I/We,…….....….....……., of…….....…....……., being a shareholder / shareholders of the above-named Company, hereby appoint…….., of……., or failing him…….…....……..……..…… of…….....…as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the 25th day of June 2015 and at any adjournment thereof.

As witness my/our hand this……. day of ….....……2015

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

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

*Strike out whichever is not desired.

Agenda Item	Resolution	For	Against
5.	To adopt the audited Financial Statements for the Financial Year ended 31 December, 2014.		
6.	To approve a first and final dividend of Kshs 0.38 per share in respect of the Financial Year ended 31 December, 2014.		
7. (a)	To re-elect Dr Jonathan Ciano (an Independent Director) in accordance with Articles 95 and 96.		
7. (b)	To re-elect Mr Samuel Njuguna Kimani (an Independent Director) in accordance with Articles 95 and 96.		
7. (c)	To re-elect the following Directors in accordance with Article 117:		
	(i) Mr Jimnah Mbaru		
	(ii) Mrs Nasim Devji		
	(iii) Mr Michael Alan Turner		
8.	To re-appoint Messrs Deloitte & Touche as the auditors for the FY ending 31 December, 2015 and to authorize the Directors to fix their remuneration.		
9.	To approve Directors' Fees of Kshs 3.3 Million (Net) per annum to be divided amongst the Directors as shall be determined by the Board.		

Note:

1. In case of a member being a Corporation, this form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
2. Proxies must be returned to the Offices of the Company, at the Exchange Building, 5th Floor, 55 Westlands Road, P. O. Box 43633 – 00100, Nairobi so as to arrive not later than 48 hours before the time fixed for the meeting.

Notes

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Nairobi Securities Exchange Limited
The Exchange, 55 Westlands Road
P.O. Box 43633 - 00100 Nairobi, Kenya
T. +254 (020) 2831000 **C.** +254 724 253 783
F. +254 (020) 2224200
E. info@nse.co.ke **W.** www.nse.co.ke