

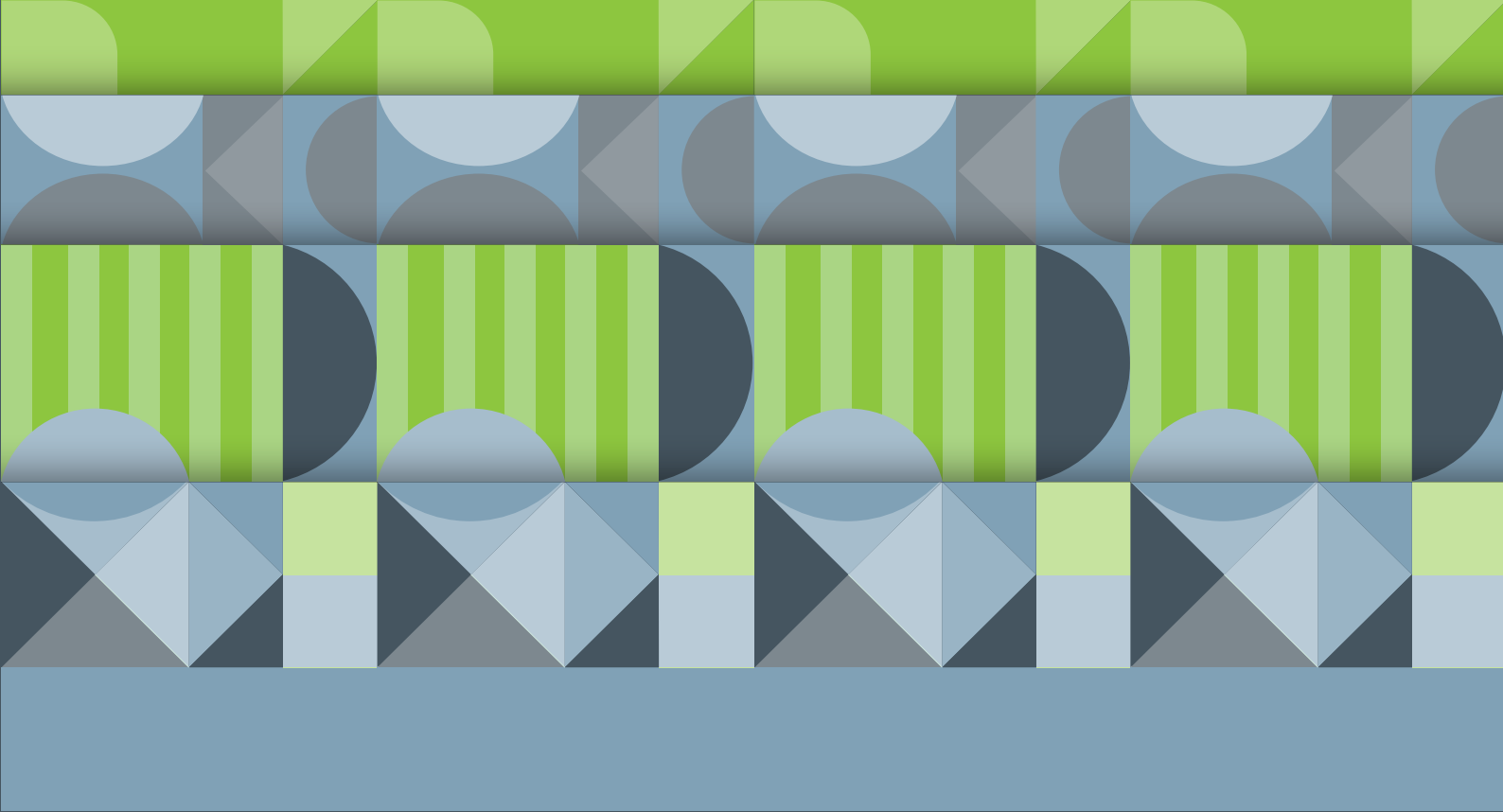
ANNUAL REPORT & FINANCIAL STATEMENTS 2016

Bridging the gap
in the African
financial market



**nairobi
securities
exchange**
Discover Opportunity





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

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

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

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

Our Vision

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

Our Mission

To provide a world class securities trading facility

CONTENTS



CORPORATE AND BUSINESS REVIEW

Corporate Information	02
Chairman's Statement	04 - 07
Chief Executive's Statement	08 - 11
Board of Directors	12 - 15
Executive Committee	16

GOVERNANCE

Report of the Directors	03
Corporate Governance Statement	17 - 24
Corporate Social Investment	25 - 27
Statement of Directors' Responsibilities	28
Independent Auditor's Report	29 - 32

FINANCIAL STATEMENTS

Statement of Profit or Loss and Other Comprehensive Income	33
Statement of Financial Position	34
Consolidated Statement of Changes in Equity	35
Company Statement of Changes In Equity	36
Statement of Cash Flows	37
Notes to the Financial Statements	38 - 76

OTHER INFORMATION

Notice of Annual General Meeting	77 - 78
Proxy Form	79

CORPORATE INFORMATION

DIRECTORS

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

SECRETARY

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

REGISTERED OFFICE

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

BANKERS

Kenya Commercial Bank Limited Moi Avenue Branch P. O. Box 30081 - 00100 Nairobi, Kenya	Co-operative Bank of Kenya Limited Westlands Branch P. O. Box 48231 - 00100 Nairobi, Kenya
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AUDITOR

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

LEGAL ADVISOR

Hamilton Harrison & Mathews Delta Office Suites, 1 st Floor Block A, Off Waiyaki Way P. O. Box 30333 - 00100 Nairobi, Kenya	Mboya Wangong'u & Waiyaki Advocates Lex Chambers Maji Mazuri Road, Off James Gichuru Road, Lavington P. O. Box 74041 - 00200 Nairobi, Kenya
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DIRECTORS' REPORT

The directors present their annual report together with the audited financial statements of Nairobi Securities Exchange Limited (NSE/the "Company"/the "Exchange") and its subsidiary and structured entities (together, the "Group") for the year ended 31 December 2016, which show the state of affairs of the Company and the Group.

PRINCIPAL ACTIVITIES

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

NSE Clear Limited is a wholly owned subsidiary of the NSE. The principal objectives of NSE Clear Limited are to carry on the business of a clearing house and as such, to provide clearing and settlement services for transactions in derivative securities whether carried out on or off a securities exchange, to act as a central counterparty in derivative securities transactions and to carry out all activities that pertain to a clearing house. The license to operate a derivatives exchange was issued by the Capital Markets Authority to the NSE on 19 October 2015. No transactions in derivatives were carried out in the year ended 31 December 2016 as the market is expected to be launched in 2017.

The NSE Derivatives Settlement Guarantee Fund and NSE Derivatives Investor Protection Fund are trusts, whose main purpose is to strengthen the financial integrity of the derivatives market, ensure settlement of transactions in derivatives securities in case of default by a clearing member and satisfy specified claims by the investing public arising out of non-settlement of obligations owed to them by trading members or losses incurred by reason of the default of the trading members.

RESULTS FOR THE YEAR

The Group profit for the year of Sh 183,956,000 (2015: Sh 305,592,000) has been added to retained earnings.

DIVIDENDS

The directors recommend the payment of a first and final dividend of Sh 0.27 per share amounting to Sh 70,066,000 in respect of the year ended 31 December 2016 (2015: Sh 0.49 per share amounting to Sh 95,400,000).

BONUS ISSUE

There was a bonus issue of 1 share for every 3 held in the year. This is fully disclosed in note 23.

DIRECTORS

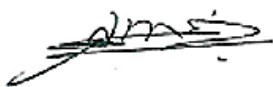
Mr. Edward Njoroge resigned as a director and Chair of the Board on 2 June 2016 and Mr. Paul Vollant was appointed as a director on the same date. Mr. Samuel Kimani was appointed as Chair of the Board on 6 June 2016.

The current members of the Board of Directors are as shown on page 2.

AUDITOR

At the Company's Annual General Meeting held on 2 June 2016, PricewaterhouseCoopers (PwC) were appointed auditor of the Company and replaced Deloitte & Touche whose term expired on the same date.

By order of the Board



John Maonga
Secretary

23 March 2017

CHAIRMAN'S STATEMENT



“ We are in the midst of remarkable changes in our industry, with traditional business models beginning to be disrupted by new technologies and ideas.

...the Board of Directors is fully in support of the strategic direction taken by the Management and we are confident of desired outcomes in the coming years.

”

CHAIRMAN'S STATEMENT *(Continued)*

Dear Shareholders,

In my first annual statement to you as the Chairman of NSE, I am pleased to report another year of fair performance which translates directly to shareholder value, despite the challenging business environment. Following my appointment as Chairman in June 2016, I took the time to intrinsically familiarize myself with the Group's operations and the strengths of the business, and concluded that a strong foundation exists upon which we can further build on to achieve a successful future.

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

The Global Economy

Momentum in the global economy firmed up in the final quarter of last year amid broad-based gains in developed economies and emerging markets. Global GDP grew by 2.7% year-on-year in Q4, above Q3's 2.5% increase and marked the fastest growth in a year. A weak yen and an improving global backdrop supported a notable pick-up in Japan's economy, while private consumption in the United States benefited from a healthy labor market. Meanwhile, China's economy accelerated on the back of strong manufacturing activity and rising commodities prices.

Overall, the global economy grew by 2.6% in 2016, down from 2015's 3.0%.

Across major advanced economies, the deceleration in growth in 2016 to 1.6% reflected renewed policy uncertainties, weak external demand, and subdued productivity growth. Activity is expected to regain modest momentum in 2017-19, but uncertainty associated with policies of the new administration in the United States and United Kingdom's decision to leave the European Union (Brexit) could significantly influence the growth trajectory of advanced economies.

Growth in Sub-Saharan Africa is estimated to have decelerated to 1.5% in 2016, the lowest level in over two decades, as commodity exporters adjust to low commodity prices. South Africa and oil exporters account for most of the slowdown, while activity in non-resource intensive countries - agricultural exporters and commodity importers - generally remained

robust. Commodity prices are expected to stabilize, but stay well below their levels of 2011 and fiscal adjustment needs remain large.

While low commodity prices kept inflation suppressed in advanced economies, economic imbalances fueled price pressures in emerging and developing markets.

The Kenyan Economy

Real GDP growth in 2016 is estimated at 5.6%. The economic slowdown mainly stems from weaker activity in agriculture and industry, although services were comparatively more resilient.

Agricultural growth eased by about 4% as production of key crops dipped marginally. On the industry front, mining growth remained robust while construction also nudged upwards recording an expansion rate of approximately 10%.

There was weakening in the growth of utilities and manufacturing, reflecting the relatively high-cost environment and competition from imports.

Performance in services was more bullish, driven majorly by a rebound in tourism, which stimulated growth by 13% following three years of lacklustre performance (2013-15).

Growth in financial services dropped to a three year low of 6% partly driven by a slowdown in bank lending which was triggered by the enactment of the interest rate-capping law.

Global GDP grew by 2.7% year-on-year in Q4, above Q3's 2.5% increase and marked the fastest growth in a year

Overall, the global economy grew by 2.6% in 2016, down from 2015's 3.0%

CHAIRMAN'S STATEMENT *(Continued)*

The Group posted a profit before tax of KShs. 233.1 Million in 2016, a 39% decrease from KShs. 381.5 Million in 2015

Through our National recruitment drive we educated 14,894 students on the Investment Challenge and Capital Markets at large

In 2016, we were awarded The Most Innovative African Stock Exchange by Africa Investor (Ai) Capital Markets and Index Series Awards

Financial Performance

The NSE is the largest securities exchange in East and Central Africa. We are among the top exchanges in Africa with an average market capitalization of USD 20 Billion. NSE's strategy is to build a resilient, diversified and integrated exchange that will propel us in achieving our vision, "to be a leading securities exchange in Africa, with a global reach."

The equity and fixed income markets performance declined, resulting in decreased revenue for the Company. We also recorded a reduced number of rights and corporate bond issues from firms seeking to raise funds through the Capital Markets as compared to 2015.

The Group posted a profit before tax of KShs. 233.1 Million in 2016, a 39% decrease from KShs. 381.5 Million in 2015. This decline was as a result of the compounding macro economic effects in the economy and a decline in equity turnover. The company also saw a rise in its expenses owing to the ongoing product development program. Details of the Company's performance in 2016, the Company's strategic direction and new initiatives are set out in the Chief Executive's Report.

Admission of a New Trading Participant

We admitted one additional trading participant in 2016; Securities Africa Kenya Limited on 29 March 2016. This admission is in line with our strategy of broadening and deepening Kenya's capital markets. It is our view that the admission of such members will support the development of our market in line with global standards.

The 2016 NSE Investment Challenge

The Exchange believes that an informed investor is an empowered investor. It is therefore our duty as the Exchange to foster an understanding of capital markets as this in turn contributes to sustainable economic growth. The annual NSE Investment Challenge is the Exchange's flagship Corporate Social Investment Initiative.

In 2016 we registered 9,804 students in comparison to 8,904 in 2015. Through our National recruitment drive we educated 14,894 students on the Investment Challenge and Capital Markets at large. This initiative seeks to impart knowledge on investment in the securities market and create a culture

of saving amongst our youth. Our youth are crucial to Kenya achieving the milestones in Vision 2030. Through the Challenge, we aim to create a better understanding of how the securities market works.

This year as we celebrate the tenth anniversary, we shall open up participation of the Challenge to the general public through our platform and with the launch of the NSE Investment Challenge Application. As and when they become available on the NSE, we will expand the products that participants can trade including Derivatives and Exchange Traded Funds.

Sustainable Development

Environmental, social and governance (ESG) matters are integral to our strategy and business model. Having the dual role of a frontline regulator and a listed company, our attraction and growth depend on the sustainable development of our marketplace and community. Notwithstanding the market volatility that we experienced last year, we remained mindful of our stakeholders' interests to secure their confidence. We continue with our partnerships with key stakeholders including the UN Sustainable Stock Exchanges Initiative, UN Global Compact and the UN Women Empowerment Principles in an effort to achieve the Sustainable Development Goals for 2030 and improve the society around us.

Recognition

In 2016, we were awarded The Most Innovative African Stock Exchange by Africa Investor (Ai) Capital Markets and Index Series Awards. This is the second time the NSE has received this prestigious accolade, having won the same category in 2013. This is a testament that our efforts in developing innovative products and initiatives is not futile but continues to improve the attractiveness of the bourse locally, regionally and internationally.

Governance and the Board of Directors

The Board is responsible for setting the right tone from the top and ensuring that a robust governance structure is in place to enable the business to succeed and deliver long-term sustainable growth. As a principal financial infrastructure provider, we must ensure that we continue to meet the highest standards of corporate governance.

CHAIRMAN'S STATEMENT *(Continued)*

As reported last year, shareholders elected a Director; Mr. Paul Vollant as a Non-Executive Director, through a poll conducted at the 62nd Annual General Meeting. Mr. Vollant holds a Master of Science (MSc) in Finance and International Business from the ESDS Business School at the Catholic University of Lyon (France). He is currently the General Manager - Business Development, TNG Limited, Shanghai.

The Board remains focused on improving its effectiveness and efficiency in its governance, paying particular attention to enhancing the Group's risk management, structure and process. As such, the Board reconstituted the Board Committees and membership establishing seven (7) Board Committees to assist the Board effectively carry out its mandate. The current Board Committees of the NSE are as follows:

1. Audit, Risk & Compliance Committee;
2. Business, Strategy, Finance & Human Capital Committee;
3. Self-Regulatory Organization (SRO) Committee;
4. Trading & Technology Committee;
5. Derivatives Market Oversight Committee;
6. Listing & Admissions Committee; and
7. Remuneration & Nominating Committee.

The streamlining and reconstitution of the Board Committees has also been necessitated by the need to review the Terms of Reference of some of the Committees which were noted to be wide and unrelated.

Dividend

The decline in profits notwithstanding, the Directors recommend to increase the payout ratio in 2016 to 40% compared to the payout ratio of 31.5% in 2015 and as such, the payment of a first and final dividend for the year 2016 of Kshs. 0.27 per ordinary share.

Future Outlook

Global growth is projected to rise by 2.7% in 2017. Growth in emerging and developing economies is similarly expected to pick up in the period reflecting receding obstacles to activity in commodity exporters and continued solid domestic demand in commodity importers.

Downside risks to global growth include increasing policy uncertainty in major advanced economies and financial market disruptions.

In 2017, we forecast a slight decline in Kenya's GDP growth to 5.5%.

We are in the midst of remarkable changes in our industry, with traditional business models beginning to be disrupted by new technologies and ideas. In response thereto, I wish to convey that the Board of Directors is fully in support of the strategic direction taken by the Management and we are confident of desired outcomes in the coming years.

Appreciation

I want to take this opportunity to express my gratitude and deepest appreciation to you, my colleagues on the Board, for your support during this transition period. I am humbled and honored that you have entrusted me with this responsibility.

On behalf of the Board, I also sincerely thank all our staff for their continuing commitment and passion for the business. Their dedication, intellect, hard work and deep sense of values is what differentiates and drives our company forward.

Finally, on behalf of the Board, I would like to thank our regulator, customers, consultants, contractors and other stakeholders for your continuing support, and our esteemed shareholders for your unwavering confidence and belief in us.



SAMUEL KIMANI
CHAIRMAN

21 April 2017

Global growth is projected to rise by 2.7% in 2017

In 2017, we forecast a slight dip in Kenya's GDP growth to 5.5%, a further weakening of the Kenya Shilling and a more than likely hike of the Central Bank Rate

CHIEF EXECUTIVE'S STATEMENT



“ We are focused on establishing our company as an innovative, customer-focused organization that delivers leading capital market services.

We will also look to achieve our key strategic ambition of product diversification.

”

CHIEF EXECUTIVE'S STATEMENT *(Continued)*

Dear Shareholders,

On behalf of the staff and management of the Nairobi Securities Exchange (NSE), I am delighted to share with you highlights on the operational and financial performance of the Exchange for the financial year 2016.

Despite a year characterized by pressures on the business environment both locally and globally, including a weakened global economy, falling prices of key commodities, changes to Kenya's Banking Act (capping banks' interest rates) and currency exchange rate pressures, our management successfully delivered on a number of our strategic initiatives, with a focus on lifting and maintaining positive investor confidence.

Trading Performance

Equity trading volumes decreased by 15% from 6.8 billion units in 2015 to 5.8 billion units in 2016. Equity turnover decreased by 30% from Kshs. 209 Billion in 2015 to Kshs. 147 Billion in 2016. Foreign investor participation in this market averaged 64% over the same period, a 6% increase from 2015. In the same period, secondary trading activity in the Fixed Income Securities Market rose by 42% from Kshs. 305 Billion in 2015 to Kshs. 433 Billion in 2016. The NSE 20 Share Index recorded a decline of 21.15% from 4,040.75 points at the close of December 2015 to close at 3,186.21 points at the close of trading day in December 2016. The NSE All Share Index (NASI) shed off 8.48% from 145.70 in 2015 to close at 133.34 in 2016.

Issuers raised a total of Kshs. 343.31 Billion in the market through Government of Kenya debt offerings. Market capitalization declined by 5% from Kshs. 2.0 Trillion in 2015 to Kshs. 1.9 Trillion in 2016.

Financial Performance

Bearish sentiments permeated the market during the year and caused a drop in our revenue lines compared to the previous year.

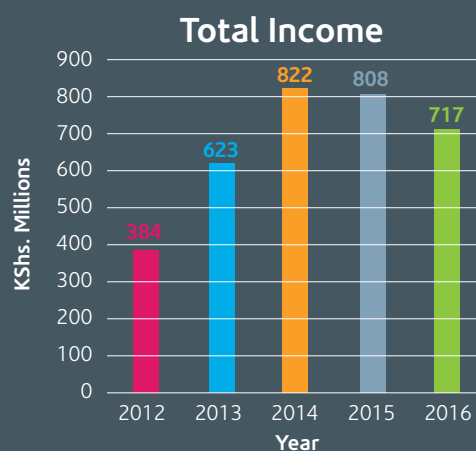
Total income decreased by 11.3% from Kshs. 808.3 million in 2015 to Kshs. 717.2 million in 2016. This was driven mainly by the 30% decrease in equity turnover from Kshs. 209 billion in 2015 to Kshs. 147 billion in 2016. This decline

was a combination of a decline in equity prices in the market as well as trading volumes.

Interest income declined by 6% from Kshs. 101 million to Kshs. 95 million due to lower interest rates on bank deposits held in the year compared to 2015. Other income increased by 121% from Kshs. 43 million to Kshs. 95 million mainly driven by gain of Kshs. 27 million from the sale of investment in shares and market access fees on the admission of a new member.

The foregoing report reviews corporate performance during 2016, assessing this against what we set out to achieve during the year.

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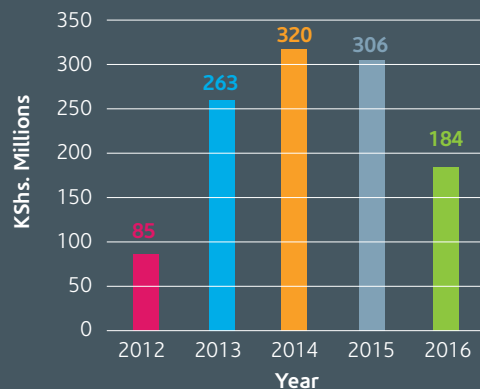
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CHIEF EXECUTIVE'S STATEMENT (Continued)

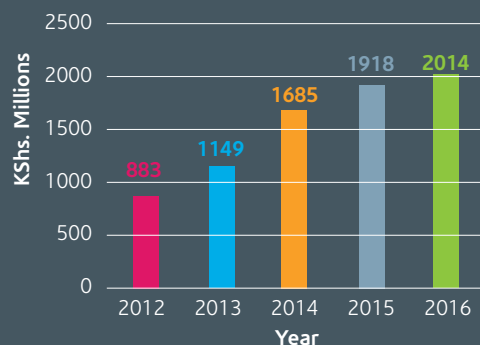
In July 2016, NSE received formal recognition as a Self-Regulatory Organization (SRO) from the Capital Markets Authority (CMA).

In 2016 the Exchange launched the NSE Media Studio to disseminate the rich content we have to the public

Profit after tax



Total Assets



Strategic Corporate Initiatives

In 2016 the Company sustained the implementation of its corporate strategy focusing on revenue generation, product diversification, brand visibility and enhancement of its organizational capabilities, all aimed at positioning the NSE as a premier Exchange in Africa.

Recognition as a Self - Regulatory Organization

In July 2016, NSE received formal recognition as a Self-Regulatory Organization (SRO) from the Capital Markets Authority (CMA). As a self-regulatory organization, the NSE will continue to work proactively to protect and maintain the confidence of investors and the integrity of the market. The NSE is committed to promoting just and equitable principles of trade and sound business practices in the Kenyan capital market by enforcing its listing and trading rules in accordance with global best practices.

Enhancing Brand Visibility

In 2016 the Exchange launched the NSE Media Studio to disseminate content on the securities market to the public in a convenient and simple setting. The studio is fully functional with audio-visual capabilities able to deliver radio and TV interview programmes. Our pioneer program is the Trading Bell which is a premier business TV show that gives relevant market data and show cases companies listed on the bourse with a view of promoting public awareness and boosting brand visibility.

Stakeholder relationships

The Exchange continues to build and enrich its stakeholder relations in an effort to deliver holistic services that positively impact the society around us.

Focus on Gender Equality

In March 2016, NSE in partnership with the Sustainable Stock Exchanges (SSE) Initiative, UN Global Compact, International Finance Corporation (IFC) and UN Women rang the Bell for Gender Equality. The Bell Ringing is purposed to create awareness on the importance of Gender Equality to Capital Markets.

Promoting Corporate Sustainability

NSE was admitted to the UN Global Compact while signing the Code of Ethics for Business in Kenya in an effort to promote corporate sustainability practices in NSE and the capital markets at large. The NSE committed to embrace, support and enact a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.

Development of Kenya's Green Bond Market

The Kenya Bankers Association and NSE hosted a green finance session with key market players in July 2016, to discuss the development of a Green Bond Market in the country. Kenya Bankers Association has partnered with NSE towards raising the country's first bank-supported climate change-aligned corporate debt instrument, paving the way for Kenya to join its peers in the Continent in tapping the growing investor demand for green investments.

CHIEF EXECUTIVE'S STATEMENT (Continued)

Regional Integration

The African Development Bank (AfDB) and the African Securities Exchanges Association (ASEA) - (of which the NSE is a founder member and hosts the Secretariat) signed a 5-year Memorandum of Understanding (MoU) to amplify the impact of their strategically aligned joint efforts to promote resources mobilization to fund Africa's economic growth.

Environment and Conservation

The NSE held its second annual Charity Trading Day in 2016 bringing the Trading day total amount over two years to slightly over Kshs. 13 million. The NSE Charity Trading Day brings together capital market participants, the financial community and celebrities to network have fun and raise funds towards charitable efforts.

The NSE remains publicly committed to being an active participant in the debate around sustainable and responsible business practices, both globally and within the region.

Delivery on the Strategy

We have an ardent focus on strategy execution, which is the impetus to how we operate as an exchange. We continually execute on our corporate vision, "to be a leading securities exchange in Africa, with a global reach" by constantly focusing on our long-term strategic objectives.

Looking at 2017, our key focus is improving out market infrastructure. We are focused on establishing our company as an innovative, customer-focused organization that delivers leading capital market services. In 2017 we will complete the upgrade of our Automated Traded System, which will support the trading of new equity and quasi-equity instruments in a robust platform with dynamic surveillance capability.

We will also look to achieve our key strategic ambition of product diversification. We will work towards launching the Derivatives Market, Exchange Traded Funds and other new products to broaden our product offering. The Exchange is also aggressively promoting all its market segments to bring new issuers to market and boost vibrancy of the bourse. NSE is also working with the Government

of Kenya, the Capital Markets Authority and other stakeholders to facilitate the introduction of rules and regulations to support securities lending and borrowing in an effort to enhance liquidity in the market.

Appreciation

2016 has been a challenging year, however we delivered a fair performance amidst a tempestuous climate, and this would not have been possible without the dedication and hard work of the NSE team.

I wish to convey my gratitude and appreciation to our Trading Participants, the investor community and the issuers who drive value in our market. We appreciate shareholders who showed their confidence and trust in NSE plans and strategy.

I would like to thank all our shareholders for their interaction with me and the NSE team and for their confidence and trust in our leadership to execute the NSE strategy and continuously deliver good shareholder value. We have worked hard to build a more collaborative relationship and I look forward to continuing our work in 2017. I wish to sincerely thank our Board of Directors for their strategic counsel and leadership.

I thank the Capital Markets Authority and the Government of Kenya for the support they continue to offer to the Exchange.



GEOFFREY O. ODUNDO
CHIEF EXECUTIVE

21 April 2017

In March 2016, NSE in partnership with the Sustainable Stock Exchanges (SSE) Initiative, UN Global Compact, International Finance Corporation (IFC) and UN Women rang the Bell for Gender Equality

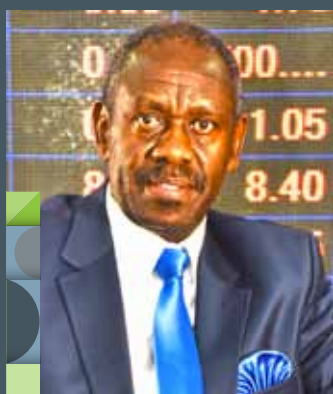
The NSE held its second annual Charity Trading Day in 2016 bringing the Trading day total amount over two years to slightly over Kshs. 13 million

BOARD OF DIRECTORS

**Mr. Samuel Kimani**

Mr. Samuel Kimani, the Chairman of the Nairobi Securities Exchange (NSE), is the Managing Director and Chief Executive Officer of Jamii Bora Bank Ltd. He has previously held senior management positions in the financial services industry. He is a member of ICPAK and holds an MBA in Strategic Management and a BSc in Civil Engineering, both from the University of Nairobi, an Advanced Management Program (AMP 177) Harvard and is a CPA (K).

Mr Kimani has a wealth of experience in the banking industry having served as the as Deputy CEO and Finance Director of the KCB Group. Prior to this, he served at the Central Bank of Kenya as Deputy Chief Banking Manager, Deputy Director Financial Markets, Principal Financial Accountant, and the Chief Internal Auditor. He also headed the Surveillance Division of the Deposit Protection Fund. He has also served as a Senior Auditor at PriceWaterhouseCoopers. He sits on the board of Kenya Deposit Insurance Corporation (KDIC) and is a member of the University of Stellenbosch Executive Education Advisory Board (USB-AB).

**Mr. Bob Karina**

Mr. Bob Karina is the Founder and Chairman of Faida Investment Bank and the Vice Chairman of the Nairobi Securities Exchange (NSE) Ltd. He is also the Vice Chairman of the Rwanda Stock Exchange (RSE) and serves as the Chairman of the Market Operations & Development Committee.

He is a Board Member of the Central Depository and Settlement Corporation (CDSC), where he serves as the Chairman of the Finance Committee. He is an accomplished Stockbroker, an information technology professional and a successful businessman. He plays other roles including; Chairman of Norwich Union Properties Ltd., Chairman of Association of Kenya Stockbrokers (AKS) Nominees Ltd and Founder Member of the Institute of Certified Investment and Financial Analysts (ICIFA). A Director of Kenya Industrial Estates (KIE), a government parastatal that promotes industrialization through development of SMEs. He is also a member of the Institute of Directors. He also served as Director of Kenya Private Sector Alliance (KEPSA) and Director at the National Chamber of Commerce and Industry (KNCCI). Mr. Karina was instrumental in the establishment of the CDSC, the implementation of the NSE's Automated Trading System (ATS), the Wide Area Network (WAN), and the Broker Back Office (BBO) system, as the Chair of the implementation committees that spearheaded these developments in the Kenyan Capital Markets. He has broad experience in advising institutional and corporate investors, corporate finance consulting and research analysis. He holds a Master of Science (MSc) in Corporate Finance from the University of Liverpool, in the UK.

**Mr. Jimnah Mbaru, EBS**

Mr. Jimnah Mbaru is a director of several companies/organizations in a variety of sectors including Financial, Insurance, Health, Policy Analysis, Government and Education in Kenya and Africa. He is the Chairman of Dyer and Blair Investment Bank Ltd. He is a Director of many companies including Occidental Insurance Company Limited, Pinebridge Investments East Africa Limited, Britam Investments Company Limited and Sanlam Africa Core Real Estate Investors Limited, listed on the Mauritius Stock Exchange.

He is also a Member of the Uganda Securities Exchange and sits on the Investment Committee of the Africa Capitalization Fund Limited, which is managed by IFC Asset Management Company, LLC, a wholly-owned subsidiary of the International Finance Corporation. He was Chairman of the Nairobi Securities Exchange from 1992 to 2001 and from 2006 to 2008. From 2009 to 2012 he was the Chairman of National Cereals and Produce Board (NCPB). He was the founding Chairman of the African Securities Exchange Association (ASEA) from 1993 to 1995 and again in 1998 to 2000. He was involved in setting up the Dar-es Salaam Stock Exchange (DSE), Uganda Securities Exchange (USE) and Rwanda Stock Exchange. He was also involved in re-organizing Botswana Stock Exchange. He was a member of the National Economic and Social Council, a think tank for advising the Kenya Government from 2004 - 2011. He was a member of the Advisory Council of the University of Stellenbosch Business School in South Africa from 2004 to 2011. In recognition of his outstanding services rendered to the Republic of Kenya, Mr. Mbaru received a state commendation and was awarded the medal of The Elder of the Order of the Burning Spear (EBS) by the President of Kenya in 2006. Mr. Mbaru holds a Bachelors of Commerce (Hons) degree, Bachelor of Laws (LLB-Hons) degree both from the University of Nairobi and an MBA from IMD in Lausanne, Switzerland. He is a Fellow of the Kenya Institute of Management. He has published a book titled "Transforming Africa: New Pathways to Development".

BOARD OF DIRECTORS (Continued)



Dr. Winnie Nyamute

Dr. Winnie Nyamute holds a PhD in Business Administration (Finance), an MBA (Finance) and a Bachelor of Commerce (Accounting). She is a Certified Public Accountant, a Member of Kenya Institute of Management, the Association of Women Accountants of Kenya and the Institute of Directors (IOD). Winnie is currently a lecturer (Finance and Accounting) at the University of Nairobi. She serves on the Research and Education Committee of the Institute of Certified Public Accountants of Kenya (ICPAK).

She is a past member of the ICPAK's Audit Quality Assurance and the Special Interest Group Committees. She is a faculty advisor for the Certified Financial Analyst (CFA) Challenge, University of Nairobi (UoN) as well as a board advisor for the Finance Students Association (FISA) of UoN. She is the coordinator for partnerships and linkages for the School of Business (UoN). Winnie is a panel judge of the Excellency in Financial Reporting (FiRe) Awards Scheme.



Mr. Hosea Kili, OGW

Mr. Hosea Kili is the Group Managing Director and CEO of CPF Financial Services Ltd. He holds an MBA in Strategic Management from the Management College of Southern Africa, a Postgraduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws (LLB Hons.) degree from the University of Nairobi. Mr. Kili possesses a wealth of experience in governance and leadership developed over a period of over 20 years; having served in key management positions in several organizations.

Mr. Kili has also served as Chairman of the East & Central Africa Social Security Association (ECASSA), a regional body for organizations in the social security sector; and Institutional Consultants Ltd (ICL) a subsidiary of the Institute of Certified Public Secretaries Kenya (ICPSK). He is currently the Chairman of the Association of Pensions Administrators of Kenya (APAK). A visionary leader, Mr. Kili was awarded the Presidential Order of Grand Warrior of Kenya (OGW) in December 2011. He has been recognized on numerous occasions for his leadership achievements and has been presented with numerous awards, including the runners up CEO of the year in 2013 at the Company of the Year (COYA) Awards. Mr. Kili is an advocate of the High Court of Kenya and an active member of the Law Society of Kenya (LSK). He is a fellow of the ICPSK and a member of the Kenya Institute of Management (KIM) and the Chartered Institute of Arbitrators (Kenya Branch).



Ms. Sharon Maviala

Ms. Sharon Maviala is a Director/Co-Owner of Pinnacle Projects Limited, a real estate project management firm. In her current position she provides strategic, legal and project management counsel to developers with multi-million real estate projects.

Prior to this, she served as Company Secretary/Chief Legal Officer for Pan Africa Insurance Holdings Limited, a listed financial services company, and practised as a commercial lawyer in her early career. She has extensive experience in corporate law and real estate project delivery honed from diverse senior management roles in the financial services and in the real estate sector. Ms. Maviala is a member of the Law Society of Kenya, Institute of Certified Public Secretaries of Kenya and the Institute of Directors. She holds an MBA (Strategic Management) from USIU - Africa and a Bachelor of Laws (LLB Hons.) degree from the University of Reading, England.

BOARD OF DIRECTORS (Continued)



Mrs. Nasim Devji

Mrs. Nasim Devji is the Managing Director and Group Chief Executive of Diamond Trust Bank (DTB) Group. Mrs. Devji joined the DTB Group in 1996 following which she was appointed Group Chief Executive Officer of Diamond Trust Bank in East Africa in 2001. She is a Fellow of the Institute of Chartered Accountants of England and Wales, an Associate of the Institute of Taxation (United Kingdom) and a Fellow of the Kenya Institute of Bankers. Mrs. Devji is also a Director of DTB Tanzania, DTB Uganda, DTB Burundi, Jubilee Insurance Burundi and Diamond Trust Insurance Agency Limited.

She is also a member of Kenya Deposit Insurance Corporation. Mrs. Devji was recognized as the "Leading African Woman in Business of the Year" at the 2010 Africa Investor Investment and Business Leader Awards. In 2011, she received the "CEO of the Year" Award from the Capital Markets Authority during the Capital Markets Awards and the "Chief Executive of the Year in Banking" Award by Think Business. Mrs. Devji again received the "Chief Executive of the Year in Banking" Award during the Think Business Banking Awards 2013. In 2014, she yet again received "Chief Executive of the Year" Award during the Investment Awards.



Mr. Michael Turner

Mr. Michael Turner is the Managing Director of Actis in East Africa and is responsible for Actis' USD. 300M Private Equity, Energy and Real Estate investments in East Africa. Prior to this, Michael was the manager of the Actis Africa Agribusiness Fund and the founder manager of the first SME PE fund in East Africa - the Acacia Fund.

Based in Nairobi, Kenya Michael is an experienced private equity investor and has developed a deep understanding of PE investment in agribusiness, financial services, real estate and energy throughout Sub Saharan Africa. Prior to joining Actis, Michael worked in investment banking in London, for Lehman Brothers and Kleinwort Benson, having started his career with Price Waterhouse. He holds a number of Company Directorships in Kenya.

Michael holds a first class degree in Civil Engineering and is also a Fellow of the Institute of Chartered Accountants in England & Wales.



Mr. James Mworira

Mr. James Mworira is the Group Chief Executive Officer and Managing Director of Centum Investment Company Limited, a position he has held since December 2008. Centum is the largest listed investment company in East Africa, with direct and third party assets under management of approximately USD 1.8 billion up from USD 60 million at the time James took over the leadership of the organization. The Group's primary focus is on the development of investment grade assets of scale across key sectors of the economy, including real estate and infrastructure, power, financial services, agribusiness, education and healthcare, amongst others. During James' tenure as CEO, the Group's net asset value has increased seven fold.

James is an Advocate of the High Court of Kenya, a CFA Charter Holder, a Chartered Global Management Accountant, a Fellow of the Kenyan Institute of Management and a member of the Institute of Certified Public Accountants of Kenya. He holds a Bachelors of Laws Degree from the University of Nairobi. He is also a World Economic Forum Young Global Leader, and an Archbishop Tutu Leadership Fellow.

James serves on the boards of several organisations, including Sidian Bank and Almasi Beverages, where he is the Chairman of the respective boards, Nairobi Securities Exchange, Nairobi Bottlers Limited, General Motors East Africa Limited and Lewa Wildlife Conservancy.

James has received numerous awards in his career to date, including East Africa Business Leader of Year 2015 at the All Africa Business Leaders Awards, the Corporate Council for Africa, Africa Business Leader of the Year 2014 which was presented in Washington DC, the Africa Young Business Leader of the Year 2011 at the Africa Business Leaders Awards and the Champion of Governance CEO of the Year Award in 2015.

James was recently appointed as Chancellor of Machakos University and was awarded a Doctorate degree in Business from the same university.

BOARD OF DIRECTORS (Continued)



Mr. Paul Volland

Mr. Paul Volland holds a Master of Science (MSc) in Finance and international Business, Business Administration, Geopolitics, International Law, Finance Management from the ESDS Business School (France). He is an alumnus of the Finance and International Business international exchange program of Boise State University (USA).

Paul is a Graduate of the Australian Institute of Company Directors (GAICD). He is currently the General Manager for Business Development at TNG Limited in Shanghai. Prior to this he served as Managing Director at Element Commodities in Vienna and Shanghai and has also served at the Noble group in London and Hong Kong.



Mr. Geoffrey O. Odundo

Mr. Geoffrey O. Odundo is the Chief Executive of the Nairobi Securities Exchange Limited. Mr. Odundo, an accomplished Investment Banker has been in the financial services sector for the last 24 years, 18 of which have been in the Capital Markets in various senior roles in asset management, corporate finance and securities trading. Prior to his appointment, Mr. Odundo was the Managing Director and Chief Executive Officer of Kingdom Securities Limited.

He was instrumental in the setting up of Co-op Trust Investment Services, Co-op Consultancy Services Limited and Kingdom Securities Limited. Mr. Odundo has advised on a number of corporate finance mandates in both the public and private sectors; he has also managed key mandates in the asset management industry. He has contributed to the growth of the Capital Markets in his previous role as a Director/Board Secretary of the Kenya Association of Stock Brokers and Investment Banks, Chairman of the Financial Standards Committee of the Kenya Bureau of Standards and on the Board of the Nairobi Securities Exchange Limited. He is currently a Director of the Central Depository and Settlement Corporation Limited, Director of the NSE Clear Limited as well as a trustee of the NSE Fidelity Funds. He is a Council Member of the Institute of Certified Investment and Financial Analysts (ICIFA). He holds a Master's degree in Strategic Management and an undergraduate degree in Mathematics and Economics.

EXECUTIVE COMMITTEE



Mr. Geoffrey O. Odundo
Chief Executive



Ms. Jane Kiarie
Finance and Administration Director



Mr. Terry Adembesa
Derivatives Market Director



Ms. Lina Ng'inja
Ag. Business Development and
Commercial Director



Mr. Kuria Waithaka
Legal and Corporate Affairs Director



Mr. Tom Kimaru
Regulatory Affairs Director



Mrs. Lucy Kamar
Head of Human Capital



Mr. Caleb Musau
Operations and Technology Director

CORPORATE GOVERNANCE STATEMENT

Overview

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

The Role of the Board

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

The Key Responsibilities of the Board include:

- a) To define and chart out the Group's vision and mission. The Board has ultimate responsibility for the attainment of the Group's vision;
- b) To set the strategy, approve business plans and annual budgets and of any subsequent material changes in strategic direction;
- c) To monitor management's implementation of the strategic plans and financial objectives as defined by the Board;
- d) To define levels of materiality, reserving specific powers to itself and delegating other matters with the necessary written authority to management;
- e) To ensure that the Group is managed with a view to ensuring that the Group is ethical in all its dealings and exercises corporate social responsibility;
- f) To ensure that procedures and processes are in place to protect the Group's assets and reputation;
- g) To ensure compliance by the Group with all relevant laws and regulations, audit and accounting principles, and such other principles as may be established by the Board from time to time;
- h) To approve Terms of Reference of Board Committees and make appointments and changes in the composition of such Committees as are established from time to time;
- i) To identify key risks, opportunities and strengths relating to the Group;

- j) To set policies on internal controls and obtain regular assurance that the system is functioning effectively and is effective in managing risks;
- k) To appoint the Chief Executive, senior staff, the external auditor and other consultants; and
- l) To exercise such other powers as are necessary to enforce the requirements of the Capital Markets Authority Act, Articles of Association and the Rules governing the Group.

Division of Responsibilities

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

The Chief Executive has overall responsibility for the business of the Group. The Chief Executive enforces the provisions of the Capital Markets Authority Act (the "Act") and the rules of the Group and immediately reports any violations to the Board and the Capital Markets Authority (CMA/ the "Authority") and ensures compliance with the requirements of the Act, and rules in operations, transactions and all affairs of the Group including listings and continuous reporting obligations of listed companies. The Chief Executive is also responsible for the supervision of the trading activities of the Group and takes all necessary steps to maintain orderly and efficient trading and functioning of facilities, in accordance with the Group's rules and as prescribed by the Act.

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

CORPORATE GOVERNANCE STATEMENT *(Continued)*

Board Composition

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

- a) Six (6) Independent and Non-Executive Directors;
- b) Two (2) Directors appointed to represent Trading Participants;
- c) Two (2) Directors appointed to represent Listed Companies and
- d) One (1) Executive Director.

Below is the current composition of the Board:

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

Board Committees

The Board reconstituted the Board Committees and membership on 22 November 2016, establishing seven (7) Board Committees from the previous nine (9) Committees as shown below, with delegated authority to assist the Board effectively carry out its obligations.

	Board Committees - upto 22 November 2016	Board Committees - from 22 November 2016
a)	Finance, Strategy & Business Development Committee	Business, Strategy, Finance & Human Capital Committee
b)	Trading, Technology & Education Committee	Trading & Technology Committee
c)	Listing & Admissions Committee	Listing & Admissions Committee
d)	Derivatives Market Oversight Committee	Derivatives Market Oversight Committee
e)	Disciplinary, Compliance & Surveillance/ Self-Regulatory Committee	Self-Regulatory Organization (SRO) Committee
f)	Human Capital Committee	Merged with a) above
g)	Audit, Risk & Corporate Governance Committee	Audit, Risk & Compliance Committee
h)	Remuneration & Nominating Committee	Remuneration & Nominating Committee
i)	Property Sub-Committee	Merged with a) above

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

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

CORPORATE GOVERNANCE STATEMENT (Continued)

Below is a summary of the roles, membership and activities of the various committees.

a) Business Strategy, Finance & Human Capital Committee

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

b) Trading & Technology Committee

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

c) Listing & Admissions Committee

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

d) Derivatives Market Oversight Committee

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

e) Self-Regulatory Organization (SRO) Committee

The general mandate of the Self-Regulatory Organisation (SRO) Committee is to protect investors by monitoring and enforcing the NSE Market Participants Business Conduct and Enforcement Rules, the NSE Listing Rules, the Derivatives Rules and any other Rules of the NSE as may be necessary for the maintenance of a fair

and orderly market, and any other laws and the enforcement powers of which have been delegated to the SRO function of the NSE, enforce compliance of Capital Market Laws, Regulations, Rules, Guidelines and Directives by all Trading Participants and Issuers of Securities, to review compliance with continuing listing obligations by listed companies and to make recommendations to the Board on the necessary action for non-compliance which include imposing penalties and other sanctions.

f) Audit, Risk & Compliance Committee

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

g) Remuneration & Nominating Committee

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

CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD & BOARD COMMITTEES' MEMBERSHIP AND NUMBER OF MEETINGS HELD AND ATTENDED IN 2016

Director	Classification	Designation		Board	Finance, Strategy & Business Development Committee	Trading, Technology & Education Committee	Audit, Risk & Corporate Governance Committee	Listings & Admissions Committee	Property Sub-Committee	Disciplinary, Compliance & Surveillance / SRO Committee	Remuneration & Nominating Committee	Human Capital Committee	Derivatives Market Oversight Committee
S Kimani	Non-executive	Chairman - Board Chairman Listings & Admission Committee, Remuneration & Nominating Committee	Membership	✓				✓			✓		
			Attendance	8/8			5/5	1/2			3/3		1/4
E Njoroge*	Non-executive		Membership										
			Attendance	3/4				1/2			2/2	1/3	
B Karina	Non-executive	Vice Chairman - Board Chairman Trading & Technology Committee	Membership	✓	✓	✓		✓			✓		
			Attendance	8/8	5/5	5/5		2/2			5/5	4/4	
S Maviala	Non-executive		Membership	✓				✓		✓			✓
			Attendance	8/8				2/2	1/1	4/5		4/4	3/4
H Kili	Non-executive	Chairman Self-Regulatory Organization (SRO) Committee	Membership	✓	✓		✓	✓		✓			
			Attendance	7/8	2/2		3/7	2/2		5/5		1/1	
Dr. W Nyamute	Non-executive	Chairperson Audit, Risk & Compliance Committee	Membership	✓			✓	✓		✓	✓		
			Attendance	8/8			7/7	2/2		4/5	1/1		

CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD & BOARD COMMITTEES' MEMBERSHIP AND NUMBER OF MEETINGS HELD AND ATTENDED IN 2016 (Continued)

Director	Classification	Designation	Board	Finance, Strategy & Business Development Committee	Trading, Technology & Education Committee	Audit, Risk & Corporate Governance Committee	Listings & Admissions Committee	Property sub-Committee	Disciplinary, Compliance & Surveillance/SRO Committee	Remuneration & Nominating Committee	Human Capital Committee	Derivatives Market Oversight Committee
M Turner	Non-executive	Chairman Business Strategy, Finance, & Human Capital Committee	Membership	✓	✓		✓		✓			
			Attendance	6/8	4/5		2/2					
J Mbaru	Non-executive		Membership	✓	✓		✓					
			Attendance	5/8	1/5		1/2					
J Mworia	Non-executive		Membership	✓	✓		✓					✓
			Attendance	5/8	4/5		2/2			2/4		1/4
N Devji	Non-executive		Membership	✓		✓	✓			✓		
			Attendance	5/8		5/7	1/2			3/5	4/4	
P Vollant*	Non-executive		Membership	✓	✓		✓					✓
			Attendance	2/4	1/1							
G Odundo**		Chief Executive	Membership									
			Attendance	8/8	5/5	7/7	2/2	1/1	5/5	5/5	4/4	4/4

* Mr. Edward Njoroge retired as a director on 2 June 2016 and Mr. Paul Vollant was appointed as a director on the same day.

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

CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD COMMITTEES, MEMBERSHIP AND NUMBER OF MEETINGS HELD AND ATTENDED IN THE YEAR 2016

Name		Finance, Strategy & Business Development Committee	Trading, Technology & Education Committee	Audit, Risk & Corporate Governance Committee	Disciplinary, Compliance & Surveillance/ Self-Regulatory Committee	Derivatives Market Oversight Committee	Property Sub-Committee
A Desimone	Membership	3/4					
C Mweti	Membership	1/4					
E Burbidge	Membership	3/4					
J Kihumba	Membership		4/5				
J Kirimi	Membership		2/5				
R Mambo	Membership		2/5		3/3		
M Lopokoiyit	Membership		2/5				
J Odhiambo	Membership		4/5				
K Senanu	Membership		3/5				
I Onyango	Membership			4/6			
P Mwai	Membership			3/6			
L Otieno	Membership						1/1
A Gupta	Membership						1/1
S Mwangi	Membership					3/4	
E Kigen	Membership					4/4	
H Muga	Membership					2/4	
A Mulisa	Membership					3/4	
J Swai	Membership					3/4	

NAIROBI SECURITIES EXCHANGE CORPORATE GOVERNANCE FACTSHEET

Number of Board Members	11
Number of Independent Non-Executive Directors	6
Number of Trading Participant Non-Executive Directors	2
Number of Non-Executive Directors representing Listed Companies	2
Number of Executive Directors	1
Number of women on the Board	3
Separate Chairman and CEO	Yes
Terms of Reference for Board Committees	Yes
Independent Audit Committee	Yes
Number of Financial experts on Audit Committee	2
Number of Board Meetings held in 2016	8
Number of Annual General Meetings in 2016	1
Re-election of Directors in accordance with Articles of Association	Yes
Board Induction programs conducted	Yes

CORPORATE GOVERNANCE STATEMENT (Continued)

CAPITAL STRUCTURE

a) Share Capital

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

b) Top 20 Shareholders at 31 December 2016

No	Shareholder	No. of Shares	%
1	Standard Chartered Kenya Nominees Ltd A/C KE002374	41,764,400	16.0940%
2	Standard Chartered Kenya Nominees Ltd A/C KE22446	16,625,333	6.4070%
3	CFC Stanbic Nominees Ltd A/C NR1030823	10,225,066	3.9400%
4	CFC Stanbic Nominees Ltd A/C NR1030824	9,236,167	3.5590%
5	Investor Compensation Fund Board	8,750,000	3.3720%
6	The Permanent Secretary to the Treasury	8,750,000	3.3720%
7	Standard Chartered Kenya Nominees Ltd A/C KE002012	7,535,067	2.9040%
8	Nyaga Stockbrokers Limited	7,000,000	2.6975%
9	Shah Munge & Partners Limited	7,000,000	2.6975%
10	Discount Securities Limited	7,000,000	2.6975%
11	Francis Thuo & Partners Limited	7,000,000	2.6975%
12	Sterling Capital Limited	7,000,000	2.6975%
13	ABC Capital Limited	7,000,000	2.6975%
14	Old Mutual Securities Limited	7,000,000	2.6975%
15	Kingdom Securities Limited	7,000,000	2.6975%
16	Renaissance Capital (Kenya) Limited	7,000,000	2.6975%
17	Dyer & Blair Investment Bank Limited	7,000,000	2.6975%
18	Stanbic Nominees Ltd A/C NR4323488	5,051,000	1.9460%
19	Faida Investment Bank Limited	5,000,000	1.9270%
20	Standard Chartered Nominees Non-resident A/C 9661	4,536,800	1.7480%
Top 20 shareholders		187,473,833	72.2440%
Others		72,026,958	27.7560%
Total issued shares		259,500,791	100.0000%

c) Distribution of Shareholders at 31 December 2016

	No. of Shareholders	No. of Shares	%
Less than 500	1,279	277,414	0.107%
501 – 5,000	10,423	13,507,741	5.205%
5,001 – 10,000	624	4,436,409	1.710%
10,001 – 100,000	546	14,291,460	5.507%
100,001 – 1,000,000	57	13,098,006	5.047%
Above 1,000,000	34	213,889,761	82.424%
Total	12,963	259,500,791	100.000%

CORPORATE GOVERNANCE STATEMENT (Continued)

CAPITAL STRUCTURE (Continued)

d) Shareholder Analysis by Domicile at 31 December 2016

	No. of shareholders	No. of shares	%
Individual investors			
Local	12,123	32,845,368	12.657%
East African	91	397,671	0.153%
Foreign	106	2,880,736	1.110%
	12,320	36,123,775	13.920%
Institutional investors			
Local	613	113,249,506	43.641%
East African	9	262,566	0.101%
Foreign	21	109,864,944	42.337%
	643	223,377,016	86.080%
Total	12,963	259,500,791	100.000%

e) Directors Holding Shares at 31 December 2016

Name		No. of shares	%
Mr. Geoffrey O. Odundo		49,000	0.019%
Ms. Nasim Devji		45,600	0.018%
Mr. Samuel Kimani	8,000	0.003%	
Mr. Hosea K. Kili		4,400	0.002%
Dr. Winnie Nyamute		2,000	0.001%
Total		109,000	0.043%

CORPORATE SOCIAL INVESTMENT

NSE is cognizant of its responsibilities towards the environment, local communities and ethical practices. The company continues to highlight the importance of sustainable business practices in delivering value and supporting economic growth.

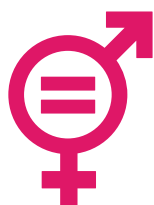
Globally there is more focus on responsible investing. Investors today expect businesses to be more transparent and accountable. We must communicate openly about our financial practices and more so about our social and environmental approaches. Generally majority of institutional investors now evaluate companies' performance on environmental, social and corporate governance (ESG) issues. Businesses that are transparent build trust and contribute to a strong and fair market.

In 2016 NSE embarked on a number of new initiatives while continuing to deliver greater impact on our older CSI projects.

Promoting Gender Equality in the Capital Markets

In celebration of the 2016 International Women's Day, NSE in partnership with the Sustainable Stock Exchanges (SSE) Initiative, UN Global Compact, International Finance Corporation (IFC) and UN Women rang the Bell for Gender Equality. The Bell Ringing is purposed to create awareness on the importance of Gender Equality to Capital Markets.

Mr. Geoffrey Odundo, NSE Chief Executive, handing over a sponsorship cheque to Ms. Dorcas Muthoni CEO, Openworld Limited for the SME FEST.



NSE is championing Gender Equality, together with other Exchanges, investors, regulators and the private sector

As a member of the UN Sustainable Stock Exchanges (SSE), the NSE is championing Gender Equality, together with other Exchanges, investors, regulators and the private sector, to realise UN Sustainable Development Goal (SDG) Five which is to 'Achieve gender equality and empower all women and girls.'

Supporting Corporate Sustainable Practices

In an effort to promote corporate sustainability practices in NSE and the capital markets at large, the NSE has committed to embrace, support and enact a set of core values in the areas of human rights, labour standards, the environment and anti-corruption by joining the world's largest corporate sustainability initiative, the UN Global Compact.

NSE also signed on to the Code of Ethics for Business in Kenya. The "Code of Ethics" was developed on behalf of the private sector by Kenya Private Sector Alliance (KEPSA), Global Compact Network Kenya, and the Kenya Association of Manufacturers (KAM), and has been endorsed by H.E. President Uhuru Kenyatta as a key intervention towards addressing corruption and unethical practices within the private sector.



NSE recognizes that ethical business brings about good business. We are committed to play a proactive role in building a globally competitive and prosperous nation

'The code' is an initiative by the business community of Kenya to promote and enhance the ethics of business conduct in Kenya in line with the ten principles of the UN Global Compact. By signing the code, NSE recognizes that ethical business brings about good business. We are committed to play a proactive role in building a globally competitive and prosperous nation, with a high quality of life, as envisioned in Vision 2030. As good corporate citizens, we commit to treating our stakeholders with respect, to run our businesses with responsibility, to act in compliance with applicable laws, and to be actively involved in corruption prevention.

CORPORATE SOCIAL INVESTMENT (Continued)

Youth and Public Awareness

The NSE Investment Challenge is a Financial Education tool kit which is a simulation of the trading activities in securities listed on the Nairobi Securities Exchange.

Catherine Gitonga, Founder & CEO of Smart Youth Investment; Bob Karina, Vice Chairman NSE; Geoffrey Odundo, CEO NSE and NSE Investment Challenge participants executing a trade



The Challenge is a flagship Corporate Social Responsibility (CSR) Project that NSE has been running since 2008. It aims at enhancing financial literacy in our youth and creating a culture of saving and investing. It also aims at inculcating prudent financial management skills with the intention of molding a new crop of future investors. It lays emphasis on the use of technology, information and research in making investment decisions to optimize returns.



Through our National recruitment drive we educated 14,894 students on the Investment Challenge and Capital Markets at large

Each participant gets Kshs 3 million virtual start-up capital to trade with using live data from NSE for a 3 months period. During the competition the participants are mentored & judged by professionals in the Capital Markets Industry.

In 2016 we registered 9,804 students in comparison to 8,904 in 2015. Through our National recruitment drive we educated 14,894 students on the Investment Challenge and Capital Markets at large. In 2016 participation of the Challenge was opened up to the general public through the available platform and with the launch of the NSE Investment Challenge Application.

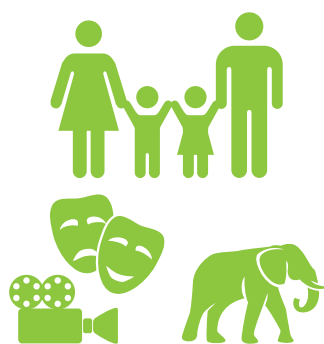
The NSE Charity Trading Day

The annual NSE Charity Trading Day aims at showcasing a humane and cohesive capital market in an event that mobilizes support of all stakeholders. The Charity Trading Day provides a unique opportunity for our Capital Markets to build its communities, transforming the lives and livelihoods of Kenyans while providing a platform for the market to clearly communicate its key business in a fun and relaxed setting.

Geoffrey Odundo, CEO NSE; Winnie Nyamute Director NSE look on as Ian Douglas Hamilton, CEO Save the Elephants rings the bell to end the NSE Charity Trading Day.



In 2016 the NSE held its second Charity Trading Day and managed to raise over Kshs.5.8 Million bringing the Trading Day total amount over 2 years to approximately Kshs. 13 Million. NSE hosted over 10 performers, actors, journalists and other cultural icons that acted as guest traders at the Exchange trading floor. Since its launch, the NSE Charity Trading Day continues to make a great impact in our society.



The Charity Trading Day provides a unique opportunity for our Capital Markets to build its communities, transforming the lives and livelihoods of Kenyans

CORPORATE SOCIAL INVESTMENT (Continued)

By donating the days' trading revenues one day each year, while raising funds from various corporates, we continue to positively transform our community through wildlife and nature conservation while supporting various humanitarian causes. In 2016 the Charity Trading Day beneficiaries included; Save the Elephant Foundation, Tusk Trust-new Samburu elephant sanctuary project, Borana Conservancy, (where NSE adopted a rhino called Hisa), Joy Children's Home and SOS Children's Village (where NSE has adopted a home in Meru.)

Sam Kimani, NSE Chairman; Mike Bristow, CDSC Chairman and James Ndegwa, CMA Chairman hands over a cheque to the Principal of Shimo la Tewa Secondary School.



NSE is ardent on improving the lives of the less fortunate in our society alongside undertaking wildlife and environmental conservation activities.

Corporate Governance and Financial Reporting

NSE understands that high quality corporate governance helps to underpin long-term company performance. The NSE continues to be a promoter of the annual Fire Award (Excellence in Financial Reporting Award.) Financial reporting is critical as it contributes significantly to ensuring the accountability and reliability of financial information provided to investors as they make decisions on participation in the capital markets. A robust reporting and disclosure framework is critical for issuers of securities to the public to ensure that investment decisions are based on accurate disclosures to enhance confidence in the capital markets. Our involvement in the Fire Award underscores our commitment to encourage excellence in financial reporting regionally, which is a key pillar for the sustainability and growth of our economies.

The Financial Reporting (FiRe) Award is the most prestigious and coveted Award in East Africa for financial reporting. The Award is presented annually, during a colorful, gala evening hosted by the joint promoters. For the last fourteen (14) years, the FiRe Award has recognized and awarded the best reporting entities in East Africa.

Olaji Makinwa, the Chief Guest at the 2016 FiRe Awards Gala Dinner, awarding Barclays Bank.



Our involvement in the Fire Award underscores our commitment to encourage excellence in financial reporting regionally, which is a key pillar for the sustainability and growth of our economies

The Award is aimed at promoting integrated reporting through enhancing accountability, transparency and integrity in compliance with appropriate financial reporting framework and other disclosures on governance, social and environmental reporting by private, public and other entities domiciled in East Africa. In 2016 there were a total of 354 entries due to the increased public sector entities to the Award, following the adoption of strategies to enhance more transparent financial reporting in the public sector in Kenya, which is spearheaded by the Public Sector Accounting Standards Board (PSASB).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

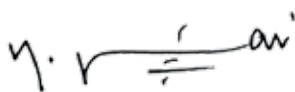
The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act 2015. They also accept responsibility for:

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

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

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

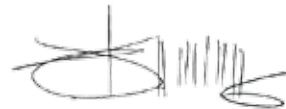
Approved by the Board of Directors on 23 March 2017 and signed on its behalf by:



Mr. Samuel Kimani
Chairman



Dr. Winnie Nyamute
Director



Mr. Geoffrey O. Odundo
Chief Executive



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

Report on the financial statements

Our opinion

We have audited the accompanying financial statements of the Nairobi Securities Exchange Limited (NSE/ the "Company"/the "Exchange") and its subsidiary and structured entities (together, the "Group") set out on pages 33 to 76, which comprise the consolidated statement of financial position at 31 December 2016 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, together with the separate statement of financial position of the Company at 31 December 2016 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company at 31 December 2016 and of the financial performance and cash flows of the Group and the Company for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015.

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers CPA. PwC Tower, Waiyaki Way/Chiromo Road, Westlands

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

Key audit matters (Continued)

Key audit matter	How our audit addressed the Key audit matter
Initial audit considerations - Consolidation of the structured entities As explained under note 3.1 to the financial statements, the Nairobi Securities Exchange Limited consolidates the results of the NSE Derivatives Settlement Guarantee Fund ("SGF") and the NSE Derivatives Investor Protection Fund ("IPF"). The two structured entities were established in 2015 as irrevocable trusts under the Trustee Act (Cap. 167) pursuant to the Capital Markets (Derivatives Markets) Regulations, 2015 and the Nairobi Securities Exchange (NSE) Derivatives Rules. The structured entities are intended to strengthen the financial integrity of the derivatives market, ensure settlement of transactions in derivatives securities and satisfy specified claims by the investing public arising out of non-settlement of obligations owed to them by trading members or losses incurred by reason of the default of the trading members. For such entities, the determination of whether they are controlled by the NSE and therefore, require to be consolidated requires a detailed analysis of the requirements of <i>IFRS 10 Consolidated financial statements</i> which are: - Power over the investee; - Exposure, or rights, to variable returns from its involvement with the investee; and - The ability to use its power over the investee to affect the amount of the investor's returns. The assessment of these indicators involves interpretation of the structure and operations of the structured entities. As this was our first year as auditor of the Group, a review of this complex determination was a key audit matter for the audit team.	We reviewed: - the trust deeds of the structured entities which cover appointment and powers of the Trustees; - the fund rules for the structured entities which include administration and management of the structured entities and contributions; and - the management service agreements between the structured entities and the NSE. We assessed financial and non-financial returns to the NSE, and the purpose and design of the structured entities in evaluating the appropriateness of consolidation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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

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



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

Responsibilities of management and those charged with governance for the financial statements

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

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

The directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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



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

Auditor's responsibilities for the audit of the financial statements (Continued)

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

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act 2015 we report to you, based on our audit, that:

- 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;
- in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- the Company's statement of financial position and statement of profit or loss and comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Richard Njoroge - P/No.1244.

A handwritten signature in blue ink, appearing to read 'Richard Njoroge', written in a cursive style.

**Certified Public Accountants
Nairobi**

23 March 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Group 2016 Sh'000	Group 2015 Sh'000	Company 2016 Sh'000	Company 2015 Sh'000
Revenue	6	527,164	663,903	527,164	663,903
Interest income	9	94,766	101,010	79,885	93,911
Other income	10	95,255	43,344	95,255	44,293
Total income		717,185	808,257	702,304	802,107
Administrative expenses		(487,291)	(448,323)	(483,438)	(446,789)
Share of profit of associate	15 (c)	3,221	21,560	3,221	21,560
Profit before income tax	7	233,115	381,494	222,087	376,878
Income tax expense	11 (a)	(49,159)	(75,902)	(46,111)	(74,257)
Profit for the year		183,956	305,592	175,976	302,621
Other comprehensive income					
<i>Items that will not be reclassified to profit or loss</i>					
Revaluation surplus on buildings		110	-	110	-
Deferred income tax on revaluation surplus	24	(22)	-	(22)	-
		88	-	88	-
<i>Items that may be reclassified to profit or loss</i>					
Share of exchange differences from associate arising from translation of foreign operation	15 (c)	(290)	61	(290)	61
Other comprehensive income for the year		(202)	61	(202)	61
Total comprehensive income for the year		183,754	305,653	175,774	302,682
		=====	=====	=====	=====
		Sh	Sh	Sh	Sh
Earnings per share					
- Basic and diluted	28	0.71	1.18	0.68	1.17
		=====	=====	=====	=====

The notes on pages 38 to 76 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	Group 2016 Sh'000	Group 2015 Sh'000	Company 2016 Sh'000	Company 2015 Sh'000
ASSETS					
Non-current assets					
Property and equipment	12	184,164	164,369	184,164	164,369
Investment property	13	313,474	307,705	313,474	307,705
Intangible assets	14	168,084	157,048	168,084	157,048
Investment in associate	15 (b)	99,134	100,703	99,134	100,703
Investment in subsidiary and structured entities	16	-	-	130,000	130,000
Corporate bonds	17	-	15,277	-	15,277
Government securities	18	96,490	109,799	96,490	109,799
Long-term restricted investments	19	143,204	135,921	-	-
		1,004,550	990,822	991,346	984,901
Current assets					
Trade and other receivables	20 (a)	70,921	76,533	70,921	76,533
Due from related company	29 (f)	-	-	1,259	1,362
Current income tax	11 (c)	48,170	73,345	47,220	73,210
Corporate bonds	17	15,281	-	15,281	-
Government securities	18	102,959	-	102,959	-
Fixed deposits	22	-	415,323	-	415,323
Short-term restricted cash and investments	21	292,505	333,500	292,505	333,500
Cash and cash equivalents	21	479,359	28,712	478,174	26,418
		1,009,195	927,413	1,008,319	926,346
TOTAL ASSETS		2,013,745	1,918,235	1,999,665	1,911,247
EQUITY AND LIABILITIES					
Equity					
Share capital	23	1,038,003	778,500	1,038,003	778,500
Share premium		277,185	277,185	277,185	277,185
Retained earnings		547,852	718,753	536,901	715,782
Other reserves		(475)	(185)	(475)	(185)
Revaluation reserve		580	504	580	504
Shareholders' funds		1,863,145	1,774,757	1,852,194	1,771,786
Non-current liabilities					
Deferred income tax	24	5,631	5,364	5,891	5,364
Tenant deposits	25 (a)	7,273	6,255	7,273	6,255
		12,904	11,619	13,164	11,619
Current liabilities					
Trade and other payables	25 (b)	119,218	115,470	118,029	114,355
Dividends payable	26	16,278	13,287	16,278	13,287
Current income tax	11 (c)	-	902	-	-
Due to structured entity	29 (f)	-	-	-	200
Trading members' contributions		2,200	2,200	-	-
		137,696	131,859	134,307	127,842
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		2,013,745	1,918,235	1,999,665	1,911,247

The financial statements on pages 33 to 76 were approved and authorised for issue by the Board of Directors on 23 March 2017 and were signed on its behalf by:

Mr. Samuel Kimani
Chairman

Dr. Winnie Nyamute
Director

Mr. Geoffrey O. Odundo
Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital Sh'000	Share premium Sh'000	Other reserves Sh'000	Retained earnings Sh'000	Revaluation reserve Sh'000	Total Sh'000
Year ended 31 December 2015						
At start of year	778,500	277,185	(246)	487,107	516	1,543,062
Profit for the year	-	-	-	305,592	-	305,592
Other comprehensive income, net of tax	-	-	61	-	-	61
Total comprehensive income for the year	-	-	61	305,592	-	305,653
Transfer of excess depreciation	-	-	-	17	(17)	-
Deferred tax on transfer of excess depreciation	-	-	-	(5)	5	-
Transactions with owners:						
2014 dividend declared in the year	-	-	-	(73,958)	-	(73,958)
At end of year	778,500	277,185	(185)	718,753	504	1,774,757
Year ended 31 December 2016						
At start of year	778,500	277,185	(185)	718,753	504	1,774,757
Profit for the year	-	-	-	183,956	-	183,956
Other comprehensive income, net of tax	-	-	(290)	-	88	(202)
Total comprehensive income for the year	-	-	(290)	183,956	88	183,754
Transfer of excess depreciation	-	-	-	17	(17)	-
Deferred tax on transfer of excess depreciation	-	-	-	(5)	5	-
Transactions with owners:						
Bonus issue	259,503	-	-	(259,503)	-	-
2015 dividend declared in the year	-	-	-	(95,366)	-	(95,366)
At end of year	1,038,003	277,185	(475)	547,852	580	1,863,145

The revaluation reserve relates to the valuation surplus on property.

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

The notes on pages 38 to 76 are an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital Sh'000	Share premium Sh'000	Other reserves Sh'000	Retained earnings Sh'000	Revaluation reserve Sh'000	Total Sh'000
Year ended 31 December 2015						
At start of year	778,500	277,185	(246)	487,107	516	1,543,062
Profit for the year	-	-	-	302,621	-	302,621
Other comprehensive income, net of tax	-	-	61	-	-	61
Total comprehensive income for the year	-	-	61	302,621	-	302,682
Transfer of excess depreciation	-	-	-	17	(17)	-
Deferred tax on transfer of excess depreciation	-	-	-	(5)	5	-
Transactions with owners:						
2014 dividend declared in the year	-	-	-	(73,958)	-	(73,958)
At end of year	778,500	277,185	(185)	715,782	504	1,771,786
Year ended 31 December 2016						
At start of year	778,500	277,185	(185)	715,782	504	1,771,786
Profit for the year	-	-	-	175,976	-	175,976
Other comprehensive income, net of tax	-	-	(290)	-	88	(202)
Total comprehensive income for the year	-	-	(290)	175,976	88	175,774
Transfer of excess depreciation	-	-	-	17	(17)	-
Deferred tax on transfer of excess depreciation	-	-	-	(5)	5	-
Transactions with owners:						
Bonus issue	259,503	-	-	(259,503)	-	-
2015 dividend declared in the year	-	-	-	(95,366)	-	(95,366)
At end of year	1,038,003	277,185	(475)	536,901	580	1,852,194

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

The notes on pages 38 to 76 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Group		Company	
		2016	2015	2016	2015
		Sh'000	Sh'000	Sh'000	Sh'000
Cash flows from operating activities					
Cash generated from operations	27	220,572	49,595	224,254	47,601
Tax paid	11(c)	(24,641)	(158,646)	(19,616)	(157,768)
Net cash generated from/(used in) operating activities		195,931	(109,051)	204,638	(110,167)
Cash flows from investing activities					
Purchase of property and equipment	12	(41,422)	(9,070)	(41,422)	(9,070)
Purchase of intangible assets	14	(29,389)	(40,116)	(29,389)	(40,116)
Interest received		92,825	95,089	77,944	93,911
Dividend received from associate	15 (b)	4,500	3,375	4,500	3,375
Proceeds on maturity of corporate and treasury bonds		12,911	67,012	12,911	67,012
Net maturity/(investment) in fixed deposits		415,323	(178,004)	415,323	(178,004)
Investment in restricted investments		(7,283)	(130,000)	-	-
Investment in NSE Clear Limited	16	-	-	-	(20,000)
Investment in NSE Derivatives Settlement Guarantee Fund	16	-	-	-	(100,000)
Investment in NSE Derivatives Investor Protection Fund	16	-	-	-	(10,000)
Proceeds on disposal of equipment		246	-	246	-
Purchase of treasury bond		(100,620)	-	(100,620)	-
Net cash generated from/(used in) investing activities		347,091	(191,714)	339,493	(192,892)
Cash flows from financing activities					
Dividends paid	26	(92,375)	(73,859)	(92,375)	(73,859)
Net cash used in financing activities		(92,375)	(73,859)	(92,375)	(73,859)
Increase/(decrease) in cash and cash equivalents		450,647	(374,624)	451,756	(376,918)
Cash and cash equivalents at the start of the year		28,712	403,336	26,418	403,336
Cash and cash equivalents at the end of the year	21	479,359	28,712	478,174	26,418

The notes on pages 38 to 76 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 REPORTING ENTITY

The Nairobi Securities Exchange Limited (NSE/the “Company”/the “Exchange”) is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The NSE is licensed as an exchange by the Capital Markets Authority (CMA) of Kenya and obtained a license on 19 October 2015 to operate a derivatives exchange. The NSE currently has the primary market services as a main line of business. The consolidated financial statements of the Group at and for the year ended 31 December 2016 comprise the Company and its subsidiary and controlled structured entities (collectively referred to as the “Group”) and reflect the Company’s interest in an associate company.

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

2 STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULTS OR FINANCIAL POSITION

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

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS and the Companies Act (Cap. 486).

b) Basis of preparation

i. Basis of measurement

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

b) Basis of preparation (continued)

ii. Use of estimates and judgment

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

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

New and amended standards adopted by the Group

All new and revised standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2016 merely clarify the existing requirements, thus do not affect the Group's accounting policies or any of the disclosures. These include:

Amendments to IAS 1, 'Presentation of Financial Statements': The amendments provide clarifications on a number of issues, including:

- **Materiality**: An entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- **Disaggregation and subtotals**: Line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance.
- **Notes**: Confirmation that the notes do not need to be presented in a particular order.
- **OCI arising from investments accounted for under the equity method**: The share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/ accounting policies are not required for these amendments.

Annual Improvements to IFRSs 2012-2014 Cycle: The latest annual improvements, clarify:

- **IFRS 5**: when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.
- **IFRS 7**: Gives specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for derecognition.
- **IFRS 7**: Improvements clarified that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.
- **IAS 19**: Improvements clarified that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise.
- **IAS 34**: Improvements clarified what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report' and adds a requirement to cross-reference from the interim financial statements to the location of that information and make the information available to users on the same terms and at the same time as the interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

b) Basis of preparation (continued)

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

New and amended standards adopted by the Group (continued)

Amendment to IAS 27 'Separate Financial Statements': The amendments allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates. IAS 27 currently allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. The amendments introduce the equity method as a third option. The election can be made independently for each category of investment (subsidiaries, joint ventures and associates). Entities wishing to change to the equity method must do so retrospectively.

Amendments to IFRS 11 'Joint arrangements': These amendments clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. They require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. This includes measuring identifiable assets and liabilities at fair value; expensing acquisition-related costs; recognising deferred tax, and; recognising the residual as goodwill, and testing this for impairment annually. Existing interests in the joint operation are not re-measured on acquisition of an additional interest, provided joint control is maintained. The amendments also apply when a joint operation is formed and an existing business is contributed.

Amendments to IAS 16 and IAS 38: The IASB has amended IAS 16 Property, Plant and Equipment to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment. IAS 38 Intangible Assets now includes a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. This presumption can be overcome if either: the intangible asset is expressed as a measure of revenue (i.e. where a measure of revenue is the limiting factor on the value that can be derived from the asset), or it can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in associates and joint ventures: Clarifies that:

- The exception from preparing consolidated financial statements is also available to intermediate parent entities which are subsidiaries of investment entities.
- An investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities.
- Entities which are not investment entities but have an interest in an associate or joint venture which is an investment entity have a policy choice when applying the equity method of accounting. The fair value measurement applied by the investment entity associate or joint venture can either be retained, or a consolidation may be performed at the level of the associate or joint venture, which would then unwind the fair value measurement.

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

The Group has not applied the following revised standards and interpretations that have been published but are not yet effective for the year beginning after 1 January 2016.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

b) Basis of preparation (continued)

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

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

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

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

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

IFRS 16, 'Leases': This standard requires that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture). The standard is effective for annual periods beginning 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

Recognition of Deferred Tax Asset for Unrealised Losses: IAS 12 has been amended to clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

The amendment to IAS 12 is effective 1 January 2017.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

b) Basis of preparation (continued)

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

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

Disclosure Initiative – Amendments to IAS 7: Effective 1 January 2017, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and on cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example, by providing a, net debt, reconciliation. However, in this case the changes in other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as reconciliation from opening and closing balances, but a specific format is not mandated.

The Directors are assessing the impact of the standards and will subsequently choose the adoption date. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Nairobi Securities Exchange Limited and its subsidiary, controlled structured entities and interest in associate company made up to 31 December 2016. The subsidiary and structured entities undertakings have been fully consolidated.

(i) Subsidiary

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

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

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

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change

NOTES TO THE FINANCIAL STATEMENTS *(Continued)***3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***3.1 Basis of consolidation (continued)****(i) Subsidiary (continued)**

to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

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

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

(ii) Structured entities

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

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

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

(iii) Investment in associate

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

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)***3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***3.2 Transactions eliminated on consolidation**

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

3.3 Foreign currencies**i) Functional and presentation currency**

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

ii) Transactions and balances

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

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

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

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

3.4 Revenue recognition

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.4 Revenue recognition (continued)**

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

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

3.5 Property and equipment

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.6 Intangible assets**

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

3.7 Impairment of tangible and intangible assets

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

3.8 Investment property

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

3.9 Restricted cash and investments

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

Short-term restricted cash and investments

As required by the Capital Markets (Derivatives Markets) Regulations, 2015, the Group is required to maintain a minimum liquid net-worth capital requirement equal to one half of the total estimated operating costs for the next twelve (12) months period. At 31 December 2016, this amount was Sh 292.5 million (2015: Sh 333.5 million). The amounts are reflected as short-term restricted cash and investments (note 21).

Long-term restricted cash and investments

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

3.10 Financial instruments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (continued)

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

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

Loans and receivables

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

Held to maturity investments

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

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

Derecognition of financial assets

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

Other financial liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial instruments (continued)

Classes of financial instruments

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

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

3.11 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.

3.12 Employee entitlements

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

3.13 Segmental reporting

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Taxation

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

Current income tax

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

Deferred income tax

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred income tax for the year

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

3.15 Retirement benefit obligations

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

3.16 Dividends payable

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

3.17 Earnings per share

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.18 Shares reserves and share premium**

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

3.19 Minimum liquid net worth requirement

The Capital Markets (Derivatives Market) Regulations, 2015 clause 15 (1) and 15 (2) require that a futures exchange have and maintain a minimum liquid net-worth equal to one half of the estimated gross operating costs of the futures exchange for the next twelve (12) month period or such other liquid net-worth amount as may be prescribed by the Authority. The requirement is met as per Note 35.

3.20 Comparatives

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

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Taxes

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

Property, equipment and software

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

Impairment losses

At each date of reporting, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated 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 Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Valuation of financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 OPERATING SEGMENTS

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

- Cash equities and interest rate market segment comprises the equities and bond trading business. This includes other income comprising broker back office income, rental income, data fees and other incomes; and
- Derivatives market segment comprises of the futures trading business. No transactions in derivatives were carried out in the year ended 31 December 2016 (2015: nil) as the market is expected to be launched in 2017.

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

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

Statement of financial position

	Cash equities and interest rate market Sh'000	Derivatives market Sh'000	Total Sh'000
2016			
ASSETS			
Government securities	199,449	-	199,449
Long-term restricted investments	-	143,204	143,204
Short-term restricted cash and investments	292,505	-	292,505
Cash and cash equivalents	478,174	1,185	479,359
Other assets	898,279	949	899,228
	<u>1,868,407</u>	<u>145,338</u>	<u>2,013,745</u>
	=====	=====	=====
LIABILITIES			
Trade and other payables	147,211	1,189	148,400
Trading member contributions	-	2,200	2,200
	<u>147,211</u>	<u>3,389</u>	<u>150,600</u>
	=====	=====	=====
2015			
ASSETS			
Government securities	109,799	-	109,799
Long-term restricted investments	-	135,921	135,921
Short-term restricted cash and investments	333,500	-	333,500
Cash and cash equivalents	441,741	2,294	444,035
Other assets	894,845	135	894,980
	<u>1,779,885</u>	<u>138,350</u>	<u>1,918,235</u>
	=====	=====	=====
LIABILITIES			
Trade and other payables	139,261	2,017	141,278
Trading member contributions	-	2,200	2,200
	<u>139,261</u>	<u>4,217</u>	<u>143,478</u>
	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 OPERATING SEGMENTS (Continued)

Statement of financial position (continued)

	Cash equities and interest rate market Sh'000	Derivatives market Sh'000	Total Sh'000
2016			
Additions to non-current assets	6,445	7,283	13,728
	=====	=====	=====
Non-current assets	861,346	143,204	1,004,550
	=====	=====	=====
2015			
Additions to non-current assets	24,480	135,921	160,401
	=====	=====	=====
Non-current assets	854,901	135,921	990,822
	=====	=====	=====

Statement of profit or loss and other comprehensive income

	Cash equities and interest rate market Sh'000	Derivatives market Sh'000	Total Sh'000
2016			
Revenue	527,164	-	527,164
Interest income	79,885	14,881	94,766
Other income	95,255	-	95,255
	=====	=====	=====
Total Income	702,304	14,881	717,185
Administrative expenses	(483,438)	(3,853)	(487,291)
Share of profit of associate	3,221	-	3,221
	=====	=====	=====
Profit before income tax	222,087	11,028	233,115
	=====	=====	=====
2015			
Revenue	663,903	-	663,903
Interest income	93,911	7,099	101,010
Other income	44,293	(949)	43,344
	=====	=====	=====
Total Income	802,107	6,150	808,257
Administrative expenses	(446,789)	(1,534)	(448,323)
Share of profit of associate	21,560	-	21,560
	=====	=====	=====
Profit before income tax	376,878	4,616	381,494
	=====	=====	=====

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
6 REVENUE				
Transactions levy	383,572	523,939	383,572	523,939
Annual listing fees	85,120	81,428	85,120	81,428
Initial listing fees	7,430	10,125	7,430	10,125
Application and additional listing fees	1,809	1,286	1,809	1,286
Broker back office subscription	25,013	24,480	25,013	24,480
Data vending	24,220	22,645	24,220	22,645
	=====	=====	=====	=====
	527,164	663,903	527,164	663,903

7 PROFIT BEFORE INCOME TAX

The profit before income tax is arrived at after charging:

Employee benefits (note 8)	191,805	152,646	191,805	152,646
Depreciation of property and equipment (note 12)	21,595	24,272	21,595	24,272
Amortisation of intangible assets (note 14)	18,353	18,284	18,353	18,284
Directors' emoluments:				
- Executive (note 29(a))	18,170	18,154	18,170	18,154
- Non-executive (note 29(a))	14,295	13,633	13,182	13,633
Auditor's remuneration	4,088	3,254	2,857	2,424
Recovery of doubtful debts (note 20(c))	-	(100)	-	(100)
Gain on disposal of equipment	(104)	-	(104)	-
	=====	=====	=====	=====

8 EMPLOYEE BENEFITS

Salaries and wages	170,029	116,354	170,029	116,354
Staff bonus	(266)	23,149	(266)	23,149
Leave pay expense	4,869	1,331	4,869	1,331
Provident fund contribution	16,481	11,266	16,481	11,266
Social security costs (NSSF)	692	546	692	546
	=====	=====	=====	=====
	191,805	152,646	191,805	152,646

The staff numbers as at 31 December 2016 were 53 (2015: 48).

9 INTEREST INCOME

Interest on term deposits	82,522	88,417	67,641	81,318
Held to maturity investments:				
- interest on treasury bonds	10,528	9,404	10,528	9,404
- interest on corporate bonds	1,279	2,802	1,279	2,802
Interest on staff loans and advances	437	387	437	387
	=====	=====	=====	=====
	94,766	101,010	79,885	93,911

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
10 OTHER INCOME				
Gain on disposal of investment in shares	27,495	-	27,495	-
Market access fee	25,000	1,000	25,000	1,000
Rental income	20,698	26,027	20,698	26,027
Training fees	7,828	-	7,828	-
Fair value gain on investment property (note 13)	5,769	-	5,769	-
Miscellaneous income	4,642	957	4,642	957
Sale of publications and merchandising items	3,650	4,293	3,650	4,293
Private transfer fee	891	1,125	891	1,125
Nomad fees	575	553	575	553
Gain on disposal of equipment	104	-	104	-
Derivatives application & annual fees	-	4,600	-	4,600
Management services income	-	-	-	949
Exchange (loss)/gain	(1,397)	4,789	(1,397)	4,789
	<u>95,255</u>	<u>43,344</u>	<u>95,255</u>	<u>44,293</u>
	=====	=====	=====	=====

11 TAXATION**(a) Taxation charge****Current income tax**

Current year expense

48,914	75,957	45,606	74,312
<u> </u>	<u> </u>	<u> </u>	<u> </u>

Deferred income tax

Current year charge/(credit) (note 24)

245	(55)	505	(55)
<u> </u>	<u> </u>	<u> </u>	<u> </u>

49,159	75,902	46,111	74,257
<u> </u>	<u> </u>	<u> </u>	<u> </u>
=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 TAXATION (Continued)

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

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
Profit before income tax	233,115 =====	381,494 =====	222,087 =====	376,878 =====
Tax calculated at a tax rate of 20% (2015: 20%)	44,417	75,376	44,417	75,376
Tax calculated at a tax rate of 30% (2015: 30%)	3,308	1,645	-	-
Tax effects on expenses not deductible for tax	5,593	5,146	5,593	5,146
Tax effect on revenues not allowable for tax	(4,159)	(4,697)	(3,899)	(4,697)
Deferred taxation charge reversal on change of tax rates	-	(1,568)	-	(1,568)
	-----	-----	-----	-----
Income tax expense	49,159 =====	75,902 =====	46,111 =====	74,257 =====

(c) Current income tax movement

At start of year	(72,443)	10,246	(73,210)	10,246
Charge to profit or loss	48,914	75,957	45,606	74,312
Tax paid	(24,641)	(158,646)	(19,616)	(157,768)
	-----	-----	-----	-----
At end of year	(48,170) =====	(72,443) =====	(47,220) =====	(73,210) =====
Made up of:				
Current income tax recoverable	(48,170)	(73,345)	(47,220)	(73,210)
Current income tax payable	-	902	-	-
	-----	-----	-----	-----
	(48,170) =====	(72,443) =====	(47,220) =====	(73,210) =====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 PROPERTY AND EQUIPMENT (GROUP AND COMPANY)

	Building Sh'000	Motor vehicles Sh'000	Furniture & fittings Sh'000	Office equipment Sh'000	Computer equipment Sh'000	WIP Sh'000	Total Sh'000
COST OR VALUATION							
At 1 January 2015	90,372	10,995	70,801	21,039	75,655	-	268,862
Additions	-	-	212	1,758	6,996	104	9,070
At 1 January 2016	90,372	10,995	71,013	22,797	82,651	104	277,932
Additions	-	-	90	322	11,310	29,700	41,422
Disposals	-	-	(5)	(53)	(523)	-	(581)
Adjustment on revaluation	(3,846)	-	-	-	-	-	(3,846)
At 31 December 2016	86,526	10,995	71,098	23,066	93,438	29,804	314,927
Comprising:							
At valuation	86,526	-	-	-	-	-	86,526
At cost	-	10,995	71,098	23,066	93,438	29,804	228,401
Cost or valuation	86,526	10,995	71,098	23,066	93,438	29,804	314,927
DEPRECIATION							
At 1 January 2015	1,978	3,314	11,694	10,701	61,604	-	89,291
Charge for the year	1,978	2,248	8,826	3,926	7,294	-	24,272
At 1 January 2016	3,956	5,562	20,520	14,627	68,898	-	113,563
Charge for the year	-	2,248	8,832	4,141	6,374	-	21,595
Eliminated on disposal	-	-	(5)	(53)	(381)	-	(439)
Adjustment on revaluation	(3,956)	-	-	-	-	-	(3,956)
At 31 December 2016	-	7,810	29,347	18,715	74,891	-	130,763
NET BOOK VALUE							
At 31 December 2016	86,526	3,185	41,751	4,351	18,547	29,804	184,164
At 31 December 2015	86,416	5,433	50,493	8,170	13,753	104	164,369

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated equipment with a cost of Sh 68.6 million (2015: Sh 65.7 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 17.1 million (2015: Sh 16.4 million).

The building has been stated at its revalued amounts, being the fair value at 31 December 2016 less any subsequent depreciation. The revaluation was done on the basis of market comparable approach reflecting the highest and best use by Kenstate Valuers Limited, an independent registered valuer. The frequency of valuation of the building is every 5 years.

13 INVESTMENT PROPERTY (GROUP AND COMPANY)

	Total Sh'000
VALUATION	
At 1 January 2015 and 31 December 2015	307,705
Fair value gain	5,769

At 31 December 2016	313,474
	=====

The fair value of the Group's investment property at 31 December 2016 and 31 December 2015 have been arrived at on the basis of a valuation carried out at 31 December 2016 and 31 December 2015 by Kenstate Valuers Limited and Tysons Limited, independent registered valuers, respectively. The fair value was adjusted for in the books of the Group and Company. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

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

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31/12/16 Sh'000	31/12/15 Sh'000				
Buildings	86,526	86,416	Level 2	Market comparable approach - Highest and best use	N/A	N/A
Investment property	313,474	307,705	Level 2			
Total	400,000	394,121				

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 INTANGIBLE ASSETS (GROUP AND COMPANY)

	Automated trading system software Sh'000	Other software Sh'000	Broker back office software Sh'000	Bond software license Sh'000	WIP Sh'000	Total Sh'000
COST						
At 1 January 2015	61,169	27,655	67,931	38,191	37,979	232,925
Additions	-	3,383	-	-	36,733	40,116
At 1 January 2016	61,169	31,038	67,931	38,191	74,712	273,041
Additions	-	87	-	-	29,302	29,389
At 31 December 2016	61,169	31,125	67,931	38,191	104,014	302,430
AMORTISATION						
At 1 January 2015	56,282	22,619	17,066	1,742	-	97,709
Amortisation for the year	1,354	2,499	6,793	7,638	-	18,284
At 1 January 2016	57,636	25,118	23,859	9,380	-	115,993
Amortisation for the year	1,308	2,613	6,794	7,638	-	18,353
At 31 December 2016	58,944	27,731	30,653	17,018	-	134,346
NET BOOK VALUE						
At 31 December 2016	2,225	3,394	37,278	21,173	104,014	168,084
At 31 December 2015	3,533	5,920	44,072	28,811	74,712	157,048

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

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated intangible assets with a cost of Sh 71 million (2015: Sh 67.5 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 (2015: Sh 9.7 million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 INVESTMENT IN ASSOCIATE (GROUP AND COMPANY)

The investment in associate represents an investment in Central Depository and Settlement Corporation Limited (CDSC). The Company held an ownership percentage of 22.5% at 31 December 2016 (2015: 22.5%). The proportion of the voting rights in the associate held by the Company does not differ from the proportion of ordinary shares held.

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

	Country of incorporation and operation	Number of shares held by Nairobi Securities Exchange @ Sh 100 per share		Proportion of ownership interest and voting power held by Nairobi Securities Exchange	
		2016	2015	2016	2015
Central Depository and Settlement Corporation (CDSC) Limited	Kenya	393,750 =====	393,750 =====	22.5% =====	22.5 % =====

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

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

	2016 Sh'000	2015 Sh'000
At start of year	100,703	82,457
Share of profit for the year	3,221	21,560
Share of other comprehensive income for the year	(290)	61
Dividends received	(4,500)	(3,375)
	=====	=====
At end of year	99,134	100,703
	=====	=====

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

Total assets	457,610	618,500
Total liabilities	(17,014)	(170,932)
	=====	=====
Net assets	440,596	447,568
	=====	=====
Group's share of net assets of associate	99,134	100,703
	=====	=====
Total revenue for the year	289,571	315,038
	=====	=====
Total profit for the year	13,027	95,406
	=====	=====
Group's share of profit of associate	3,221	21,560
Group's share of other comprehensive income of associate	(290)	61
	=====	=====
	2,931	21,621
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 INVESTMENT IN SUBSIDIARY AND STRUCTURED ENTITIES (COMPANY)

	Principal activity	Holding	2016 Sh'000	2015 Sh'000
Investment in subsidiary (note 16(a)):				
Investment in NSE Clear Limited	Clearing house	100%	20,000	20,000
Investment in structured entities (note 16(b)):				
NSE Derivatives Settlement Guarantee Fund	Settlement guarantee fund		100,000	100,000
NSE Derivatives Investor Protection Fund	Investor protection fund		10,000	10,000
			110,000	110,000
			130,000	130,000

a) Investment in subsidiary

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

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

The license to operate a Derivatives Exchange was granted to the Nairobi Securities Exchange Limited on 19 October 2015. No transactions in derivatives were carried out in the period ended 31 December 2016 as the market is expected to be launched in 2017.

b) Investment in structured entities

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
17 CORPORATE BONDS – HELD TO MATURITY				
Housing Finance Group of Kenya Limited	15,281	15,277	15,281	15,277
	=====	=====	=====	=====
Maturity analysis:				
Maturing within one year	15,281	-	15,281	-
Maturing within 5 years	-	15,277	-	15,277
	-----	-----	-----	-----
	15,281	15,277	15,281	15,277
	=====	=====	=====	=====

The weighted average effective interest rate on the corporate bonds as at 31 December 2016 was 8.5 % (2015: 8.1 %).

18 GOVERNMENT SECURITIES HELD TO MATURITY**Treasury bonds maturing:**

Within one year	102,959	-	102,959	-
After 1 to 10 years	96,490	109,799	96,490	109,799
	-----	-----	-----	-----
	199,449	109,799	199,449	109,799
	=====	=====	=====	=====

The weighted average effective interest rate on the treasury bonds for the year ended 31 December 2016 was 6.5 % (2015: 7.9%).

19 LONG-TERM RESTRICTED INVESTMENTS

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

NSE Clear Limited	20,601	20,854	-	-
NSE Derivatives Settlement Guarantee Fund	110,544	104,692	-	-
NSE Derivatives Investor Protection Fund	12,059	10,375	-	-
	-----	-----	-----	-----
	143,204	135,921	-	-
	=====	=====	=====	=====

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
20 TRADE AND OTHER RECEIVABLES				
a) TRADE AND OTHER RECEIVABLES				
Receivable from non- trading brokers	154,056	154,056	154,056	154,056
Trade receivables	33,709	44,540	33,709	44,540
Prepayments and deposits	23,677	12,092	23,677	12,092
Other receivables	13,535	19,901	13,535	19,901
Provision for doubtful debts (note 20 b))	224,977 (154,056)	230,589 (154,056)	224,977 (154,056)	230,589 (154,056)
	70,921	76,533	70,921	76,533
	=====	=====	=====	=====
b) PROVISION FOR DOUBTFUL DEBTS				
Movements in the provisions for bad debts were as follows:				
At start of year	154,056	154,156	154,056	154,156
Recoveries in the year (note 20 c))	-	(100)	-	(100)
At end of year (note 20 a))	154,056	154,056	154,056	154,056
	=====	=====	=====	=====
c) CREDIT TO PROFIT OR LOSS				
Recoveries in the year (note 20 b))	-	100	-	100
	=====	=====	=====	=====

The receivable from non-trading brokers of Sh 154.1 million (2015: Sh 154.1 million) under note 20 a) represents amounts owed by Nyaga Stockbrokers Limited of Sh 121.1 million (on loan issued in 2008 and transactions levy receivable and expenses incurred for the year 2008) and Discount Securities Limited of Sh 33.0 million (on loan issued in 2008 and transactions levy receivable for the year up to March 2009). The firms were later placed under statutory management by the Capital Markets Authority (CMA) in March 2008 and March 2009 respectively. The amounts were fully provided for in 2009 and make up the provision for bad debts of Sh 154.1 million (2015: Sh 154.1 million) under note 20 b).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
21 CASH AND CASH EQUIVALENTS AND SHORT-TERM RESTRICTED CASH & INVESTMENTS				
Call deposits	4,616	54,721	4,616	54,721
Fixed deposits – original maturity of three months or less	700,918	230,825	700,918	230,825
	=====	=====	=====	=====
Total short-term deposits (note 22)	705,534	285,546	705,534	285,546
Bank and cash balances	66,330	76,666	65,145	74,372
	=====	=====	=====	=====
Total bank and cash balances and deposits	771,864	362,212	770,679	359,918
	=====	=====	=====	=====
Split into:				
Short-term restricted cash and investments (note 35)	292,505	333,500	292,505	333,500
Cash and cash equivalents	479,359	28,712	478,174	26,418
	=====	=====	=====	=====
	771,864	362,212	770,679	359,918
	=====	=====	=====	=====

22 SHORT TERM DEPOSITS

Maturing within three months:				
Fixed deposits	700,918	230,825	700,918	230,825
Call deposits	4,616	54,721	4,616	54,721
	=====	=====	=====	=====
	705,534	285,546	705,534	285,546
Maturing after three months to six months:				
Fixed deposits	-	415,323	-	415,323
	=====	=====	=====	=====
	705,534	700,869	705,534	700,869
	=====	=====	=====	=====

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

The deposits were held at the following institutions:

Co-operative Bank of Kenya Limited	277,127	604,153	277,127	604,153
Equity Bank Kenya Limited	242,466	-	242,466	-
Diamond Trust Bank Kenya Limited	111,393	-	111,393	-
Kenya Commercial Bank Limited	69,304	96,716	69,304	96,716
Stanbic Bank Kenya Limited	5,244	-	5,244	-
	=====	=====	=====	=====
	705,534	700,869	705,534	700,869
	=====	=====	=====	=====

The weighted average effective interest rate on the deposits as at 31 December 2016 was 8.5% (2015: 10.4%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
23 SHARE CAPITAL				
Authorised share capital				
At start of year: 212,500,000 ordinary shares of Sh 4 each	850,000	850,000	850,000	850,000
Increase in shares 162,500,000 ordinary shares Sh 4 each (2015: nil)	650,000	-	650,000	-
At end of year: 375,000,000 ordinary shares of Sh 4 each (2015: 212,500,000 ordinary shares of Sh 4 each)	1,500,000	850,000	1,500,000	850,000
	=====	=====	=====	=====
Issued and fully paid up				
At start of year: 194,625,000 ordinary shares of Sh 4 each	778,500	778,500	778,500	778,500
Issue of 64,875,791 bonus shares of Sh 4 each	259,503	-	259,503	-
At end of year: 259,500,791 ordinary shares of Sh 4 each (2015: 194,625,000 ordinary shares of Sh 4 each)	1,038,003	778,500	1,038,003	778,500
	=====	=====	=====	=====

At the 60th Annual General Meeting of the company held on June 2, 2016 the following ordinary resolutions were passed:

- Authorized share capital of the company be increased from Sh 850,000,000 divided into 212,500,000 shares of Sh 4.00 each to Sh 1,500,000,000 divided into 375,000,000 ordinary shares of Sh 4.00 by the creation of 162,500,000 new ordinary shares of Sh 4.00 each, such shares to rank pari passu in all respects with the existing ordinary shares.
- The new additional 162,500,000 ordinary shares of Sh 4.00 each in the capital of the company be listed on the Main Segment of the Nairobi Securities Exchange.
- The sum of Sh 259,503,064 being part of the sum standing to the credit of the Company's revenue reserve account at 31 December 2015 be capitalized and the same be applied in making payment in full and at par, 64,875,791 ordinary shares of Sh 4.00 each in the capital of the Company to be distributed as fully paid in the ratio of one (1) ordinary share of Sh 4.00 each for every three (3) fully paid up ordinary shares of Sh 4.00 each, such bonus shares to be distributed to rank pari passu in all respect with the existing ordinary shares in the capital of the Company except for the first and final dividend for the financial year 2015 of Sh 0.49 per ordinary share.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 DEFERRED INCOME TAX

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 20% (2015: 20%) except for deferred tax on revaluation of buildings which is calculated using the capital gains tax rate of 5% (2015: 5%). The net deferred tax liability is attributable to the following items:

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
Accelerated capital allowances	(4,116)	(4,973)	(4,116)	(4,973)
Straight-lined rental income	(1,301)	(1,349)	(1,301)	(1,349)
Unrealized foreign exchange loss	(50)	(304)	(50)	(304)
Revaluation surplus on buildings	(166)	(144)	(166)	(144)
Leave provision	744	487	744	487
Bonus provision	-	1,633	-	1,633
Tax losses	260	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(4,629)	(4,650)	(4,889)	(4,650)
Revaluation of investment property	(1,002)	(714)	(1,002)	(714)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(5,631)	(5,364)	(5,891)	(5,364)
	=====	=====	=====	=====
The movement in the deferred income tax liability is as follows:				
At start of year	(5,364)	(5,419)	(5,364)	(5,419)
(Charge)/credit to profit or loss - current year (note 11 (a))	(245)	55	(505)	55
Charge to other comprehensive income - current year	(22)	-	(22)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At end of year	(5,631)	(5,364)	(5,891)	(5,364)
	=====	=====	=====	=====

25 TRADE AND OTHER PAYABLES

a) Non-current portion

Tenant deposits	7,273	6,255	7,273	6,255
	=====	=====	=====	=====

b) Current portion

Accrued expenses	43,361	52,186	42,172	51,662
Annual listing fees received in advance	26,850	16,784	26,850	16,193
Trade payables	14,613	9,670	14,613	9,670
Tax penalties payable	14,527	19,585	14,527	19,585
Staff leave accrual	3,719	2,437	3,719	2,437
Amount payable to Capital Markets Authority	2,074	1,759	2,074	1,759
Amount payable to associate (note 29 (e))	1,750	4,530	1,750	4,530
Other payables	12,324	8,519	12,324	8,519
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	119,218	115,470	118,029	114,355
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2016	2015	2016	2015
	Sh'000	Sh'000	Sh'000	Sh'000

26 DIVIDENDS PAYABLE

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

At start of year	13,287	13,188	13,287	13,188
Declared amount for prior years	95,366	73,958	95,366	73,958
Paid during the year	(92,375)	(73,859)	(92,375)	(73,859)
	=====	=====	=====	=====
At end of year	16,278	13,287	16,278	13,287
	=====	=====	=====	=====

27 CASH FLOWS FROM OPERATING ACTIVITIES

Profit before income tax	233,115	381,494	222,087	376,878
Adjustments for:				
Depreciation (note 12)	21,595	24,272	21,595	24,272
Amortisation (note 14)	18,353	18,284	18,353	18,284
Share of results of associate (note 15 (c))	(3,221)	(21,560)	(3,221)	(21,560)
Interest income (note 9)	(94,766)	(101,010)	(79,885)	(93,911)
Gain on disposal of equipment	(104)	-	(104)	-
Gain on revaluation of investment property (note 13)	(5,769)	-	(5,769)	-
Working capital changes:				
Decrease in trade and other receivables	5,711	70,879	5,711	70,879
Decrease/(increase) in short-term restricted cash and investments (note 21)	40,995	(333,500)	40,995	(333,500)
Increase in trade and other payables	4,566	8,536	4,492	7,421
Movement in related party balances	97	-	-	(1,162)
Investor Protection Fund contributions	-	2,200	-	-
	=====	=====	=====	=====
Cash generated from operations	220,572	49,595	224,254	47,601
	=====	=====	=====	=====

28 EARNINGS PER SHARE

Profit attributable to owners of the Group (Sh'000)	183,956	305,592	175,976	302,621
	=====	=====	=====	=====
Number of shares at 31 December 2016 (in thousands)	259,501	259,501	259,501	259,501
	=====	=====	=====	=====
Basic and diluted earnings per share – Sh	0.71	1.18	0.68	1.17
	=====	=====	=====	=====

The basic earnings per share is the same as the diluted earnings per share as there were no potentially dilutive shares at 31 December 2016 and 31 December 2015.

The number of shares for previous years have been adjusted for the bonus issue in the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 RELATED PARTY TRANSACTIONS

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

At 31 December 2016, the Group had 11 stock brokers (2015:18) and 5 licensed investment banks (2015:5) who are shareholders. The following transactions were carried out with related parties:

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
a) Directors' emoluments				
Non – executive				
Directors sitting allowance (including committees)	14,295 =====	13,633 =====	13,182 =====	13,633 =====
Executive	18,170 =====	18,154 =====	18,170 =====	18,154 =====
			Group and Company	2015
			2016	Sh'000
b) Key management compensation				
Salaries and other short-term employment benefits			53,154	36,154
Other long term benefits			4,984	3,003
			=====	=====
			58,138	39,157
			=====	=====
c) Transactions with shareholders				

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

The Group charges investors, through the brokers, a transaction levy of 0.12% (31 December 2015: 0.12%) of the value of equity securities traded at the Exchange. During the 12 month period, the total turnover was Sh 175,330 million (31 December 2015: Sh 231,038 million) resulting in a transaction levy of Sh 210 million (31 December 2015: Sh 277 million). NSE also charges investors, through brokers, a transaction levy of 0.0035% (31 December 2015 – 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 2016 was Sh 630,611 million (31 December 2015: Sh 474,202 million), resulting in transaction levy of Sh 22 million (31 December 2015: Sh 16.6 million).

	Group		Company	
	2016 Sh'000	2015 Sh'000	2016 Sh'000	2015 Sh'000
Transaction levy on - equity securities	210,396	277,246	210,396	277,246
Transaction levy on - fixed income securities	22,071	16,597	22,071	16,597
Broker back office subscriptions	15,840	17,280	15,840	17,280
Data fee	597	2,008	597	2,008
Training	591	-	591	-
NOMAD fee	150	153	150	153
Derivatives fees	-	1,600	-	1,600
	=====	=====	=====	=====
	249,645	314,884	249,645	314,884
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 RELATED PARTY TRANSACTIONS (Continued)

d) Transactions with companies related to directors

The Company's memorandum and articles of association require 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.

	Group and Company 2016 Sh'000	2015 Sh'000
(i) Stockbrokers and investment bank representatives		
Transaction levy on - equity securities	34,102	42,206
Transaction levy on - fixed income securities	3,356	4,863
Broker back office subscriptions	2,880	2,880
NOMAD fees	50	50
Purchase of data	120	449
Derivative application & membership fee	-	400
Training fees	385	-
	<u>40,893</u>	<u>50,848</u>
	=====	=====
Allowances to broker company directors sitting on Committees but are not Group Directors	457	371
	<u>457</u>	<u>371</u>
	=====	=====
(ii) Listed companies related to directors		
Annual listing fees	3,000	3,000
Purchase of data	-	52
Advertisement	52	-
	<u>3,052</u>	<u>3,052</u>
	=====	=====

e) Transactions with associate

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

Committee sitting allowance paid to CDSC director	143	114
	=====	=====
Expenses relating to:		
Share registrar services and depository levies	3,070	3,937
Dividend processing	943	943
Joint Board meetings	122	532
M-Akiba - logo, branding & publicity	-	871
	<u>4,135</u>	<u>6,283</u>
	=====	=====
Amounts payable to associate	1,750	4,530
	<u>1,750</u>	<u>4,530</u>
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 RELATED PARTY TRANSACTIONS (Continued)

f) Transactions with subsidiary and structured entities

	Company	
	2016 Sh'000	2015 Sh'000
(i) During the period, transactions with NSE Clear Limited were as follows:		
Management services income	-	949
	=====	=====
Expenses paid by the Company relating to:		
Audit and tax fees	776	-
Secretarial services	520	136
Market development fees	386	-
Board allowances	371	-
NSE Clear Limited set up cost	-	277
Management fees	-	949
	=====	=====
	2,053	1,362
	=====	=====
Amounts due from NSE Clear Limited	1,259	1,362
	=====	=====
(ii) During the period transactions with NSE Derivatives Investor Protection Fund were as follows:-		
Contributions received from trading members	-	2,200
	=====	=====
Expenses paid by the Company relating to:		
Trustee allowances	371	-
Audit and tax fees	377	-
Secretarial fees	109	-
Income tax	109	-
	=====	=====
	966	-
	=====	=====
Amounts due to the NSE Derivatives IPF	-	200
	=====	=====
(iii) During the period transactions with NSE Derivatives Settlement Guarantee Fund were as follows:-		
Expenses paid by the Company relating to:		
Income tax	2,603	-
Trustee allowances	371	-
Audit and tax fees	378	-
Secretarial fees	109	-
	=====	=====
	3,461	-
	=====	=====
Amounts due to the NSE Derivatives SGF	-	-
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 OPERATING LEASE COMMITMENTS (GROUP AND COMPANY)**The Group and Company as a lessor:**

Lease rental income earned during the year was Sh 21 million (2015: Sh 26 million). At the end of the reporting period the Group and Company had existing contracts with tenants for the following minimum lease payments:

	2016 Sh'000	2015 Sh'000
Receivable within 1 year	19,445	21,079
Receivable after 1 year but within 5 years	43,710	28,383
	<u>63,155</u>	<u>49,462</u>
	=====	=====

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

31 CAPITAL COMMITMENTS (GROUP AND COMPANY)

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

	2016 Sh'000	2015 Sh'000
Authorised but not yet contracted for	173,038	605,135
	=====	=====

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

32 CONTINGENT LIABILITIES (COMPANY)

On 12 January 2017, the Cabinet Secretary, the National Treasury approved a waiver of 32.5% of the outstanding penalties and interest owed on corporation tax, withholding tax, PAYE and VAT for the years 2008 to 2011 with a payment required of the 62.5% balance amounting to Sh 14,527,336. A total amount of Sh 19,585,336 had been provided for in the prior year's financial statements. The 62.5% payment required of Sh 14,527,336 was paid in January 2017. A credit of Sh 5,058,000 has been written back to these financial statements as this matter has been fully settled.

33 RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Market risk

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Market risk (continued)

(i) Interest rate risk (Group and Company)

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

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

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

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

	2016 Sh'000	2015 Sh'000
Assets		
Cash and bank balances	7,134	18,070
Trade receivables	747	287
	7,881	18,357
Liabilities		
Trade payables	(8,424)	(5,753)
Net position	(543)	12,604
	=====	=====

At 31 December 2016, 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 54,000 (2015: Sh 1,260,000) higher/lower mainly as a result of translation of US dollar denominated balances.

(iii) Price risk (Group and Company)

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

(b) Credit risk (Group and Company)

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

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

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

The amount that best represents the Group and Company's maximum exposure to credit risk as at 31 December 2016 and 2015 is made up as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

On balance sheet	2016 Sh'000	2015 Sh'000
Group		
Corporate bonds	15,281	15,277
Government securities	199,449	109,799
Long-term restricted investments	143,204	135,921
Net trade receivables	33,709	44,540
Other receivables	13,535	19,901
Short-term restricted cash and investments	292,505	333,500
Cash, cash equivalents and fixed deposits	479,359	444,035
	<u>1,177,042</u>	<u>1,102,973</u>
	=====	=====
Company		
Corporate bonds	15,281	15,277
Government securities	199,449	109,799
Net trade receivables	33,709	44,540
Other receivables	13,535	19,901
Short-term restricted cash and investments	292,505	333,500
Cash, cash equivalents and fixed deposits	478,174	441,741
	<u>1,032,653</u>	<u>964,758</u>
	=====	=====

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

Classification of trade receivables

	Fully performing Sh'000	Impaired Sh'000	Total Sh'000
Group and company			
31 December 2016			
Due from non-trading brokers	-	154,056	154,056
Trade receivables	33,709	-	33,709
Provision	-	(154,056)	(154,056)
	<u>33,709</u>	<u>-</u>	<u>33,709</u>
	=====	=====	=====
31 December 2015			
Due from non-trading brokers	-	154,056	154,056
Trade receivables	44,540	-	44,540
Provision	-	(154,056)	(154,056)
	<u>44,540</u>	<u>-</u>	<u>44,540</u>
	=====	=====	=====

There are no past due but not impaired trade receivables.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Liquidity risk (Group and Company)

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

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

	Up to 1 year Sh'000	1 – 5 years Sh'000	Total Sh'000
Group			
At 31 December 2016			
Financial assets			
Corporate bonds	15,281	-	15,281
Government securities	102,959	96,490	199,449
Long-term restricted investments	-	143,204	143,204
Short-term restricted investments	292,505	-	292,505
Cash, cash equivalents and fixed deposits	479,359	-	479,359
Trade receivables	33,709	-	33,709
Other receivables	13,535	-	13,535
	<u>937,348</u>	<u>239,694</u>	<u>1,177,042</u>
Financial liabilities			
Tenant deposits	-	7,273	7,273
Trade and other payables	115,499	-	115,499
Dividends payable	16,278	-	16,278
Investor Protection Fund/trading member contributions	2,200	-	2,200
	<u>133,977</u>	<u>7,273</u>	<u>141,250</u>
Liquidity surplus	<u>803,371</u>	<u>232,421</u>	<u>1,035,792</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

	Up to 1 year Sh'000	1 – 5 years Sh'000	Total Sh'000
Group			
At 31 December 2015			
Financial assets			
Corporate bonds	-	15,277	15,277
Government securities	-	109,799	109,799
Long-term restricted investments	-	135,921	135,921
Trade receivables	44,540	-	44,540
Short-term restricted investments	333,500	-	333,500
Cash, cash equivalents and fixed deposits	444,035	-	444,035
Other receivables	19,901	-	19,901
	841,976	260,997	1,102,973
Financial liabilities			
Tenant deposits	-	6,255	6,255
Trade and other payables	113,033	-	113,033
Dividends payable	13,287	-	13,287
Investor Protection Fund/trading member contribution	2,200	-	2,200
	128,520	6,255	134,775
Liquidity surplus	713,456	254,742	968,198
	=====	=====	=====
Company			
At 31 December 2016			
Financial assets			
Corporate bonds	15,281	-	15,281
Government securities	102,959	96,490	199,449
Trade receivables	33,709	-	33,709
Short-term restricted investments	292,505	-	292,505
Cash, cash equivalents and fixed deposits	478,174	-	478,174
Other receivables	13,535	-	13,535
	936,163	96,490	1,032,653
Financial liabilities			
Tenant deposits	-	7,273	7,273
Trade and other payables	114,310	-	114,310
Dividends payable	16,278	-	16,278
	130,588	7,273	137,861
Liquidity surplus	805,575	89,217	894,792
	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

	Up to 1 year Sh'000	1 – 5 years Sh'000	Total Sh'000
Company			
At 31 December 2015			
Financial assets			
Corporate bonds	-	15,277	15,277
Government securities	-	109,799	109,799
Trade receivables	44,540	-	44,540
Short-term restricted investments	333,500	-	333,500
Cash, cash equivalents and fixed deposits	441,741	-	441,741
Other receivables	19,901	-	19,901
	839,682	125,076	964,758
Financial liabilities			
Tenant deposits	-	6,255	6,255
Trade and other payables	111,918	-	111,918
Dividends payable	13,287	-	13,287
	125,205	6,255	131,460
Liquidity surplus	714,477	118,821	833,298
	=====	=====	=====

(d) Fair value of financial assets and liabilities

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

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

There are no financial assets carried at fair value (2015: nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

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

Group	2016 Sh'000	2015 Sh'000
Level 1		
Financial assets		
Government securities – held to maturity	199,449	109,799
	=====	=====
Level 2		
Financial assets		
Corporate bonds	15,281	15,277
Long-term restricted investments	143,204	135,921
Short-term restricted investments	292,505	333,500
Cash and cash equivalents and fixed deposits	479,359	444,035
	=====	=====
	930,349	928,733
	=====	=====
Company		
Level 1		
Financial assets		
Government securities – held to maturity	199,449	109,799
	=====	=====
Level 2		
Financial assets		
Corporate bonds	15,281	15,277
Short-term restricted investments	292,505	333,500
Cash and cash equivalents and fixed deposits	478,174	441,741
	=====	=====
	785,960	790,518
	=====	=====

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

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

34 CAPITAL RISK MANAGEMENT (GROUP AND COMPANY)

The Group and Company manage its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. At 31 December 2016 and 31 December 2015, the Group and Company did not have any borrowings.

35 MINIMUM LIQUID NET-WORTH REQUIREMENTS (COMPANY)

	2016 Sh'000	2015 Sh'000
Estimated twelve months operating costs	585,009	667,000
	=====	=====
Required minimum liquid net-worth at one half of estimated operating costs	292,505	333,500
	=====	=====
Cash and cash equivalents and fixed deposits (note 21)	478,174	441,741
	=====	=====

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

NOTICE OF THE 63RD ANNUAL GENERAL MEETING

NOTICE is hereby given that an **Annual General Meeting** of the Nairobi Securities Exchange Limited (**NSE**) shall be held at the **Kenyatta International Convention Center (KICC), Amphitheatre, Nairobi**, on **Wednesday, 31 May 2017 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 2 June 2016.
4. To receive the Chairman's Statement and the Chief Executive's Report.
5. To receive, consider and, if thought fit, adopt the Audited Financial Statements for the year ended 31 December 2016 together with the reports of the Directors and Auditors thereon.
6. To approve a first and final dividend of Kshs 0.27 per ordinary share in respect of the Financial Year ended 31 December 2016 and to approve the closure of the Register of Members at the close of business on 31 May 2017 for the purpose of determining the qualifying members entitled to dividends.
7. To approve the Directors' fees paid in respect of the Financial Year ended 31 December 2016.
8. Election of Directors
 - a) 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;
 - b) In accordance with Articles 95 and 96 of the Company's Articles of Association, Mr. Bob Karina (a director representing the Trading Participants) retires by rotation and, being eligible, offers himself for re-election;
 - c) In accordance with Articles 95 and 96 of the Company's Articles of Association, Dr. Winnie Nyamute (an Independent Non-Executive Director) retires by rotation and, being eligible, offers herself for re-election.
9. In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit, Risk and Compliance Committee be elected individually to continue serving as members of the Committee:-
 - a) Mr. Hosea Kimutai Kili
 - b) Ms. Nasim Devji
 - c) Dr. Winnie Nyamute
10. To re-appoint Messrs PricewaterhouseCoopers (PwC) as the auditors of the Company for the Financial Year ending 31 December 2017 in accordance with the provisions of Section 719 (2) of the Companies Act, 2015 and to authorize the directors to fix their remuneration.

SPECIAL BUSINESS

11. Subject to clearance with the relevant authorities including the Registrar of Companies and the Capital Markets Authority, as applicable, to consider and, if thought fit, to pass the following resolutions as Special Resolutions:-

a) Change of Name of the Company

"That the name of the Company be and is hereby changed from Nairobi Securities Exchange Limited to **Nairobi Securities Exchange PLC** in compliance with Section 53 of the Companies Act, 2015"

b) Adoption of amended Articles of Association in line with the Companies Act, 2015

"That the regulations contained in the document now submitted to this meeting and, for the purpose of identification, initialed by the Chairman of the Company be approved and adopted as the Articles of Association of the Company in substitution for and to the exclusion of all existing Articles of Association thereof."

c) Approval of establishment of Employee Share Ownership Plan (ESOP)

- i) "That, subject to approval by the Capital Markets Authority, the Shareholders of the Company hereby approve the creation of an Employee Share Ownership Plan (ESOP) Unit Trust to be called the "NSE ESOP Unit Trust" on such terms and with such structure as the Board may determine."

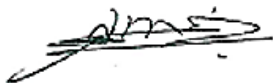
NOTICE OF THE 63RD ANNUAL GENERAL MEETING (Continued)

- ii) "That the Shareholders of the Company hereby authorize the Board to allot and finance from the resources of the Company up to Twelve Million Nine Hundred Thousand (12,900,000) ordinary shares of Kenya Shillings Four (Kshs 4/-) each in the Company (constituting, when issued, approximately 5% of the issued share capital of the Company) to the NSE ESOP Unit Trust, as and when and on such terms as the Board may determine, provided that such ordinary shares shall rank pari passu with the existing issued ordinary shares, such authorization being valid for five years from the date of this resolution."
- iii) "That the Shareholders of the Company hereby authorize the Board to do all such things as may be required for the establishment and implementation of NSE ESOP Unit Trust including finalization of the trust deed and scheme rules, procurement of approval from the Capital Markets Authority, funding of the NSE Unit Trust and listing of the shares allotted to the NSE ESOP Unit Trust."

ANY OTHER BUSINESS

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

By order of the Board



J L G MAONGA
COMPANY SECRETARY

DATE: 2 May 2017

Note:

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

A Proxy Form may be obtained from the Company's website www.nse.co.ke, the Registered Office of the Company, 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 either be returned to the Company Secretary, P. O. Box 73248 – 00200 Nairobi, email: jmaonga@maongandonye.com or the Shares Registrars on the above address so as to arrive not later than 48 hours before the time fixed for the meeting, failing which, it will be invalid. In the case of a corporate body, the proxy form must be executed under its common seal or under the hand of duly authorised officer or an attorney of such corporation.

2. In accordance with Article 157 of the Articles of Association of the Company, a copy of the entire Annual Report and Accounts may be viewed at the Company's website at www.nse.co.ke 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.
3. In accordance with Article 97 of the Articles of Association of the Company, a person seeking election at the Annual General Meeting should deliver to the Secretary at least seven (7) days prior to the day of the meeting, notice in writing signed by a shareholder duly qualified to attend and vote at the meeting, of his intention to propose such person for election and notice in writing signed by the person to be proposed of his willingness to be elected as per the nomination papers which may be accessed on the Company's website at www.nse.co.ke.

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 **31st** day of **May 2017** and at any adjournment thereof.

As witness my/our hand this..... day of2017

Signed.....

Signed.....

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

**Strike out whichever is not desired.*

Agenda Item	Resolution	For	Against
5.	To adopt the audited Financial Statements for the FY ended 31 December 2016.	☐	☐
6.	To approve a first and final dividend of Kshs 0.27 per share in respect of the FY ended 31 December 2016.	☐	☐
7.	To approve Directors' Fees paid in respect of the FY ended 31 December 2016.	☐	☐
8. (a)	To re-elect Mr Samuel Njuguna Kimani (an Independent Non-Executive Director) in accordance with Articles 95 and 96.	☐	☐
8. (b)	To re-elect Mr. Bob Karina (a director representing the Trading Participants) in accordance with Articles 95 and 96.	☐	☐
8. (c)	To re-elect Dr Winnie Nyamute (an Independent Non-Executive Director) in accordance with Articles 95 and 96.	☐	☐
9. (a)	To re-elect Mr Hosea Kimutai Kili to continue serving as a member of Board Audit, Risk and Compliance Committee	☐	☐
9. (b)	To re-elect Ms Nasim Devji to continue serving as a member of Board Audit, Risk and Compliance Committee	☐	☐
9. (c)	To re-elect Dr Winnie Nyamute to continue serving as a member of Board Audit, Risk and Compliance Committee	☐	☐
10.	To re-appoint Messrs PricewaterhouseCoopers as the auditors for the FY ending 31 December 2017 and to authorize the Directors to fix their remuneration.	☐	☐
11. (a)	To approve change of name of the Company to Nairobi Securities Exchange PLC.	☐	☐
11. (b)	To adopt the amended Articles of Association of the Company in line with the Companies Act, 2015	☐	☐
11. (c) (i)	To approve the creation of an Employee Share Ownership Plan (ESOP) Unit Trust to be called the "NSE ESOP Unit Trust"	☐	☐
11. (c) (ii)	To authorize the Board to allot and finance from the resources of the Company up to Twelve Million Nine Hundred Thousand (12,900,000) ordinary shares in the Company (constituting, when issued, approximately 5% of the issued share capital of the Company) to the NSE ESOP Unit Trust	☐	☐
11. (c) (iii)	To authorize the Board to do all such things as may be required for the establishment and implementation of NSE ESOP Unit Trust	☐	☐

Note:

i) To be valid, a Form of Proxy must be duly completed by the member and must either be returned to the Company Secretary, P. O. Box 73248 – 00200 Nairobi, email: jmaonga@maongandonye.com or to the Shares Registrars CDSC Limited, Nation Centre, 10th Floor, Kimathi Street, Nairobi so as to arrive not later than 48 hours before the time fixed for the meeting, failing which, it will be invalid.

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

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

We of P. O. Box being shareholders of the Nairobi Securities Exchange Limited and duly qualified to attend and vote at the Company's Annual General Meeting to be held on the **31st** day of **May 2017**, do hereby give notice of our intention to propose of P.O. Box for election as an Independent Non-Executive Director of the Company at the meeting.

SIGNED this day of 2017.

SEALED WITH THE COMMON SEAL OF)

In the presence of:)

DIRECTOR)

DIRECTOR/SECRETARY)

SEAL

PLEASE NOTE:

- 1) Article 97 of the Articles of Association of Nairobi Securities Exchange Limited provides as follows:

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

- 2) Article 1 of the Articles of Association of Nairobi Securities Exchange Limited defines "Independent Non-Executive Director", "Non-Executive Director" and "Executive Director", as follows:

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

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

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

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

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

I of P. O. Box
being the person in respect of whom of P.O. Box
..... has given notice of intention to propose as a candidate to be
elected as an **Independent Non-Executive Director** of the Nairobi Securities Exchange Limited at the Annual General
Meeting to be held on the **31st** day of **May 2017**, do hereby notify you of my willingness to be so elected.

SIGNED this day of, 2017.

.....
SIGNATURE

PLEASE NOTE:

Article 1 of the Articles of Association of Nairobi Securities Exchange Limited defines "Independent Non-Executive Director", "Non-Executive Director" and "Executive Director" as follows:

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

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

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

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

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

We of P. O. Box being shareholder(s) of Nairobi Securities Exchange Limited and duly qualified to attend and vote at the Company's Annual General Meeting to be held on the **31st** day of **May 2017**, do hereby give notice of our intention to propose of P.O. Box for election as a Trading Participant & Non-Executive Director of the Company at the meeting.

SIGNED this day of, 2017.

SEALED WITH THE COMMON SEAL OF)

In the presence of:)

DIRECTOR)

DIRECTOR/SECRETARY)

SEAL

PLEASE NOTE:

- 1) Article 97 of the Articles of Association of Nairobi Securities Exchange Limited provides as follows:

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

- 2) Article 1 of the Articles of Association of Nairobi Securities Exchange Limited defines "Non-Executive Director", "Executive Director" and "Trading Participant" as follows:

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

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

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

- 3) Article 94 of the Articles of Association of Nairobi Securities Exchange Limited provides as follows:

*"Unless and until otherwise from time to time determined by an ordinary resolution of the Company, but always subject to the provisions of the Companies Act and the Capital Markets Act, the number of Directors (including the Chief Executive and excluding alternates) shall not be less than Seven (7) and not more than Eleven (11) in number and shall be elected in accordance with the Companies Act, the Capital Markets Act and these Articles. **A maximum of two (2) Directors shall be elected by the members from among or to represent the Trading Participants.** A further two Directors shall be elected by the members from among nominees of companies listed on the Nairobi Securities Exchange to represent the said listed companies. Any other directors shall be elected by the members in accordance with the Companies Act provided that at all times at least one third of the Directors must be Independent Non-executive Directors."*

CONSENT TO ACT AS TRADING PARTICIPANT AND NON-EXECUTIVE DIRECTOR OF A COMPANY

I of P. O. Box being
the person in respect of whom of P.O. Box
..... has given notice of intention to propose as a candidate to be
elected as a Trading Participant & Non-Executive Director of the Nairobi Securities Exchange Limited at the Annual
General Meeting to be held on the **31st** day of **May 2017**, do hereby notify you of my willingness to be so elected.

SIGNED this day of, 2017.

.....
SIGNATURE

PLEASE NOTE:

- 1) Article 1 of the Articles of Association of Nairobi Securities Exchange Limited defines "Non-Executive Director", "Executive Director" and "Trading Participant" as follows:

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

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

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

- 2) Article 94 of the Articles of Association of Nairobi Securities Exchange Limited provides as follows:

*"Unless and until otherwise from time to time determined by an ordinary resolution of the Company, but always subject to the provisions of the Companies Act and the Capital Markets Act, the number of Directors (including the Chief Executive and excluding alternates) shall not be less than Seven (7) and not more than Eleven (11) in number and shall be elected in accordance with the Companies Act, the Capital Markets Act and these Articles. **A maximum of two (2) Directors shall be elected by the members from among or to represent the Trading Participants.** A further two Directors shall be elected by the members from among nominees of companies listed on the Nairobi Securities Exchange to represent the said listed companies. Any other directors shall be elected by the members in accordance with the Companies Act provided that at all times at least one third of the Directors must be Independent Non-executive Directors."*

OPPORTUNITY IS KNOCKING | LET US HELP YOU GET SETTLED IN.



With our diverse range of products, The Nairobi Securities Exchange is here to help you discover opportunities. Come and let us help you on your journey of wealth creation.

Contact us on:

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