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Discover Opportunity

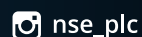
A Promising Future

**INTEGRATED REPORT &
FINANCIAL STATEMENTS**

2021



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



Nairobi Securities Exchange
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Nairobi, Kenya

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Growing the Region's Financial Services Hub

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

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Corporate Information

DIRECTORS	Mr. Kiprono Kittony, EBS Mr. Paul Mwai Mr. Michael Turner Mr. Paul Vollant Ms. Risper Alaro Ms. Isis Madison Mr. Samuel Kimani Mr. Bob Karina Ms. Nasim Devji Mr. Hosea K. Kili Mr. Donald Wangunyu Mr. Stephen Chege Mr. Geoffrey O. Odundo	Chairman Vice Chairman Retired on 3 June 2021 Retired on 3 June 2021 Retired on 3 June 2021 Retired on 3 June 2021 Joined on 3 June 2021 Joined on 3 June 2021 Chief Executive
SECRETARY	Mr. Kuria Waithaka P.O. Box 43633 - 00100 Nairobi, Kenya	
REGISTERED OFFICE	L.R. No 209/18851 The Exchange, 55 Westlands Road P.O. Box 43633 - 00100 Nairobi, Kenya	
BANKERS	KCB Bank Limited Moi Avenue Branch P.O. Box 30081 – 00100 Nairobi, Kenya Standard Chartered Bank Kenya Limited Chiromo Branch P.O. Box 3003 - 00100 Nairobi, Kenya Co-operative Bank of Kenya Limited Westlands Branch P.O. Box 48231 – 00100 Nairobi, Kenya	
AUDITOR	Deloitte & Touche LLP Deloitte Place Off Waiyaki Way P.O. Box 40092 - 00100 Nairobi, Kenya	
LEGAL ADVISERS	Hamilton Harrison & Mathews Delta Office Suites, 1st floor Block A, Off Waiyaki Way P.O. Box 30333 - 00100 GPO Nairobi, Kenya Mboya Wangong'u & Waiyaki Advocates Lex Chambers Maji Mazuri Road, Off James Gichuru Road, Lavington P.O. Box 74041 – 00200 Nairobi, Kenya Walker Kontos Advocates Hakika House Bishops Road P.O. Box 60680 – 00200 Nairobi, Kenya	

About this report

Nairobi Securities Exchange Plc is pleased to present its Integrated Report for the period January 1 2021 to December 31 2021. The report is aimed at providing adequate information to our stakeholders, giving a comprehensive overview of how the NSE created value to all its stakeholders in the period under review. It reports on how the NSE leveraged on its various forms of capitals to create and enhance value.

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

Purpose

This report is an acknowledgement of the critical importance the Group has placed in enhancing its communication with stakeholders through linking financial and non-financial standards in measuring our performance. This report will therefore provide insights into the financial, operational, strategic, social and governance performance as well as outcomes and its implications to the Group in the year under review.

Scope of the Report

The scope of this report relates to the NSE, an investment services company as well as material issues arising from its business performance and other related investments.

Any reference made to the Group will represent the NSE, its subsidiaries and associate investments. The report will however capture any material issues arising from any related transactions regarding the Group before the publication of this report.

Preparations and Presentation

This integrated report has been prepared in accordance with the International Integrated Reporting Framework. The NSE Board of Directors have applied the fundamental concepts and principles recommended in the framework in the preparation of this report. As a listed company, we have prepared this report in line with the guidelines of the Kenya Companies Act 2015 and specifications issued by the Capital Markets Authority (CMA). The Group Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS).

Assurance

The Group's Financial Statements were audited by Deloitte and Touche LLP.



Creating Investment Opportunities in Regional Economies

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

Vision, mission and core values

Who we are

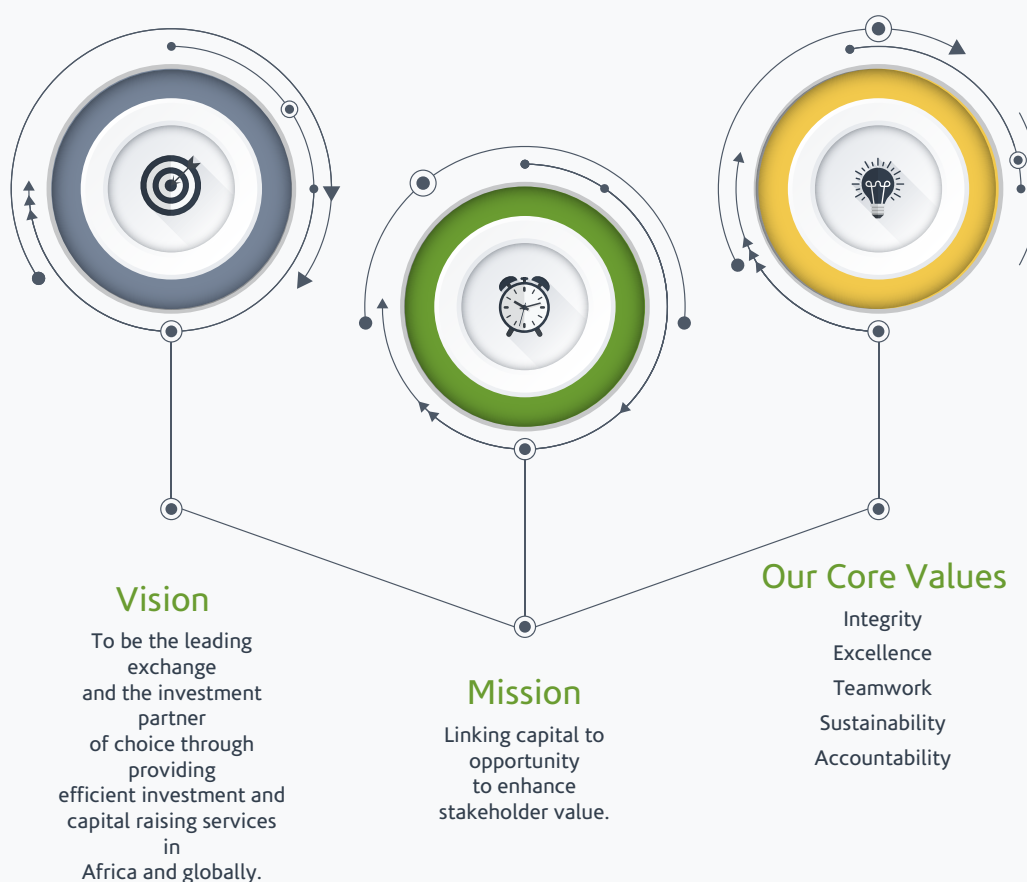
We are a leading African Securities Exchange based in Kenya, providing an avenue for capital raising anchored on a multi-asset class trading platform. We offer a broad range of products comprising of equities, bonds, Exchange Traded Funds (ETFs), Real Estate Investment Trusts (REITs), data and training services geared towards addressing investors' needs. In addition, we also a platform for the trading and settlement of securities of unquoted companies called the Unquoted Securities Platform (USP). We equally support the growth and development of medium enterprises through the Ibuka program.

Our diverse blend of domestic and international investors enable companies and the Government to mobilize domestic resources and international capital to support economic growth in Kenya. Our role positions us to turn growth in leading development market infrastructure.

Our Purpose

The Nairobi Securities Exchange (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, bonds and derivatives. We offer data and analytics solutions to a wide array of investment clients both locally and internationally.

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





Who we serve

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

01 Investors

We serve a wide array of retail and Institutional investors both local and foreign with discretionary mandate to invest in frontier equities markets and Derivatives Products. Institutional investors make up to 65% of our investors.

04 Data Clients

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

02 Issuers

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

03 Government

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

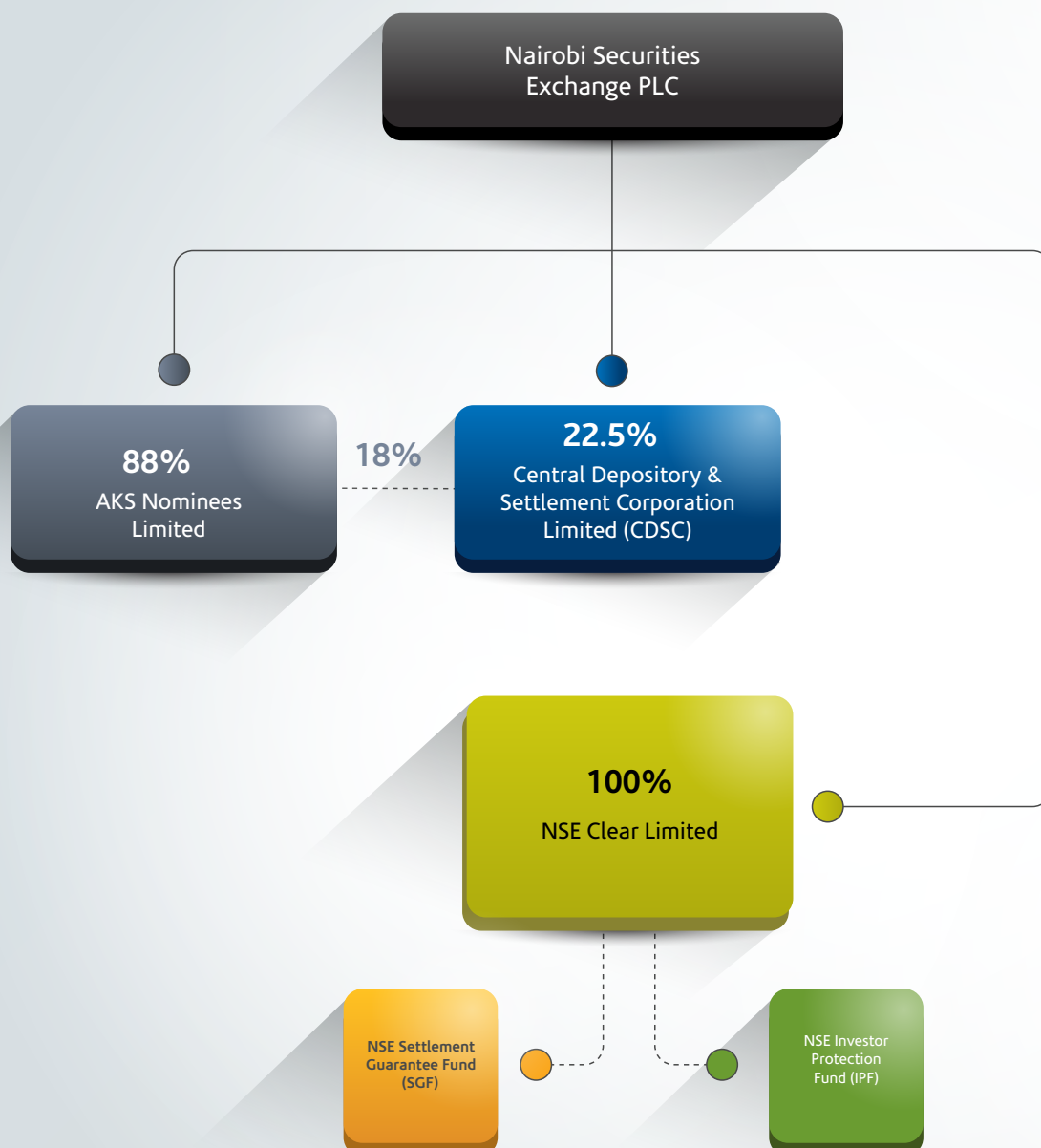
05 Training Clients

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



NSE Structure

Shareholders



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



Access To Flexible **Quoting** Requirements

The USP will offer issuers a flexible quoting and regulatory requirements whilst enabling them to trade their securities.

Our History



1920 to 1953

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



1921

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



2006

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



2011 July

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



2013 January

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



2014 June

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



2009

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



2008 April

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



2014 September

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



August 2021

Safaricom and Nairobi securities Exchange announced their partnership to enable customers invest in stocks by redeeming their accrued Bonga points. Customers redeem their points at a rate of KES 1 for every 5 points.



November 2021

NSE launched ESG Disclosures Guidance Manual.



December 2021

NSE launched Day Trading as part of its strategy to enhance market liquidity.



June 2021

NSE Derivatives Market (NEXT) formally launched the Mini NSE 25 index futures contracts meant to appeal to retail investors due to its lower initial margin requirements.



June 2020

Launched a dynamic and user-friendly mobile app, to enhance investors' participation in Kenya's capital market.



May 2021

Launched its unquoted Securities Platform (USP)



2019 February

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



2018 December

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



2019 May

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



2015 October

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



2018 January

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



2019 October

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



2019 July

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



2017 June

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



2016 July

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



Mr. Kiprono Kittony, EBS
Board Chairman

Statement From The Chairman Of The Board

Dear Shareholders,

It gives me great pleasure to present to you our Integrated Report for the Financial Year ended December 2021. The year under review remained challenging for businesses both locally and internationally. Despite the macro-economic improvements across various sectors of the economy, the protracted effects of the COVID-19 pandemic continued to stifle a full economic recovery in Kenya.

Increased uncertainty negatively affected investors' sentiments and influenced a majority of their investment strategies especially in the first half of the year 2021. The year saw increased reallocation of capital towards guaranteed investment. This consequently affected the performance of equity listed securities on the Nairobi Securities Exchange (NSE). This led to marginal decrease in equity turnover in the year under review exerting pressure on our main revenue line, trading fees.

Despite the COVID-19 related uncertainty and other macro-economic headwinds, we remained resilient boosting non-trading income and cushioning the business from adverse impact from market volatility. This is evidenced by our total income growth which increased marginally by 6.6% as will be highlighted in detail by the Group Chief Executive's statement.

During the year under review, the Board focused on executing against the company's strategic priorities whilst undertaking initiatives to enhance our efficiency, drive growth across our key revenue lines and deliver value to our shareholders.

To appreciate the Group's performance in the year 2021, allow me to highlight the strategic initiatives and interventions we undertook to deliver on our mandate whilst ensuring the business remained resilient in the year under review.



Despite the macro-economic headwinds, we remained resilient evidenced by our total income growth which increased marginally by 6.6%.



Despite the challenges, we remain resilient in maintaining market service continuity as well as executing the company's strategic priorities by undertaking initiatives to enhance our efficiency, drive growth across our key revenue lines and deliver value to our shareholders.

To appreciate the Group's performance in the year 2021, allow me to highlight the strategic initiatives and interventions we undertook to deliver on our mandate whilst ensuring the business remained resilient in the year under review.

The launch of a New Market Infrastructure - The Unquoted Securities Platform

As a business, we remained committed to providing infrastructure solutions that enhance the efficiency and effectiveness of conducting financial market transactions in Kenya and the region. This is embedded in our mission of connecting businesses to capital. Guided by this, the NSE finalised and launched the Unquoted Securities Platform (USP), an

automated solution for the trading and settlement of securities of unlisted companies.

The current Over the Counter (OTC) market ecosystem remains significantly fragmented, highly inefficient and flawed with minimal liquidity and transparency. The aforementioned equally challenges coupled with minimal regulatory oversight of the OTC market have created persistent risks for issuers and investors of unquoted companies. This however, creates an opportunity for the NSE.

The launch of the USP provided a solution that enhances efficiency, transparency as well as liquidity in the unquoted securities as evidenced by the seamless trading and settlement of inaugural REITs, the Acorn Holding D- REIT and I-REIT quoted on the market.

We equally see the platform as a pipeline building avenue for the NSE. As is the case of developed markets, we estimate that at least 5% of companies on the USP will graduate and list on various segments of the NSE. From a revenue perspective, the platform has proved to generate significant revenues for the company since its launch and we foresee great potential for the platform to provide solutions to other players including SACCOS.

Recovery of the Corporate Bond Market

Dear shareholders,

The year under review marked yet another recovery period for the corporate bond market in Kenya. The market posted its strong performance recovering from a challenging period occasioned by the failure of two corporate bonds. The recovery and performance of the two bonds underscores renewed confidence in the NSE by both issuers and investors. It equally underscores the attractiveness of our market as a capital raising avenue for enterprises seeking long term debt capital in Kenya.

In the year under review, the bond market attracted four additional listings bringing the total number of outstanding corporate bonds to five. The issuers included Centum Real Estate, Family Bank, East Africa Breweries Limited and the Kenya Mortgage Refinance Company who collectively raised Kshs. 18 Billion.

The recovery is significant and equally points at enhanced performance of the market in the future. aligned to the Group's strategy of creating a vibrant corporate bond market for issuers and investors.

Growth of the Data and Analytics Business

In line with the Group's 2020-2024 of growing non-trading income to enhance shareholder value, I am happy to report that the Group has undertaken strategic measures to grow non trading income. This is significant and will play a critical role in cushioning the business from revenue shocks arising from market challenges. Guided by this, the NSE enhanced its data offering and increased data related revenues by 40% in the year under review.

We continue to see potential for growth in the data and analytics business as a core service for both individual and institutional investors locally and internationally. Increasing our data offering will enable us target even a wider category of consumers for the products.

Progress of the Privatization Program

When I took over as the Chairman of the NSE, I prioritized the privatization of leading state assets in the country. This involved sorting legacy challenges affecting privitization of state enterprises. Through continuous engagement with various Ministries and arms of Government such as the National Treasury, the National Assembly and The Privatization Commission, we were able to support and lobby for the appointment and gazettement of Board Members to the Privatization Commission.

With the appointment of Board members who have been missing for the last two years, the Commission is now able to execute on its core mandate of identifying and preparing Government assets for privatizations. This will help develop a robust pipeline of state enterprises

which could be privatised or improved through private sector participation. This will enhance quality listings on the NSE and support us enhance opportunitites for investors.

Albeit the forthcoming elections, we believe the commission will start the development of this pipeline and facilitate its future growth.

Outlook

Our outlook for the business this year comes at an increasingly uncertain period on account of a looming Presidential election in Kenya and geo-political tensions caused by the ongoing war between Ukraine and Russia.

Despite the heightened uncertainty, we will continue delivering on the company's strategic priorities whilst adjusting our focus areas to changes in the operating environment to maximize shareholder value.

We will equally bolster our efforts to encourage listed companies tap into our market to access affordable growth capital to fund growth following a rather challenging list half of the year.

To increase the number of listed companies, we will continue to engage both the public and private sector companies for the listing of both State and private enterprises. This will enable us enhance the liquidity of the market, enable us list large cap companies thus reducing the concentration risk currently present in our market. I believe our initiatives will enable us grow shareholder value as well as position the business for future growth.

Conclusion and Appreciation

As I conclude my statement, I would like to express my sincere gratitude to various teams that have played a significantly important role in supporting our resilience in the year. I would like to thank the Board of the NSE PLC for their guidance and perspective on steering the business in the year. The Board's commitment to the growth of the company has been relentless.

I would equally like to thank the Management and staff for the hard work and commitment in an extremely challenging operating environment. As a Board, we have noted your ability and willingness to adopt to support the business accordingly.

I would like to thank the Government of Kenya for the renewed interest and commitment to enhance the growth of Kenya's Capital Markets. Over the last one year, we have increased our engagement with the Government through the National Treasury, The Central Bank of Kenya the Capital Market Authority, as well as the Privatization Commission. I strongly believe we have laid the foundation that we needed to spearhead a market recovery in Kenya.

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

Finally, I would like to thank our shareholders who are the cornerstone of our business. I have continued to receive significant support from our shareholders. I would like to reassure you of my commitment to grow the business and continually enhance shareholder value.

Thank You,

KIPRONO KITONY, EBS

BOARD CHAIRMAN

NAIROBI SECURITIES EXCHANGE





Mr. Geoffrey Odundo

Chief Executive

CEO's Statement

A Reflection Of Progress

Dear Shareholders,

On behalf of the Management and Staff of the Nairobi Securities Exchange, I am delighted to share with you highlights on the operational and financial performance of your company for the year ending December 31, 2021.

Already more than two (2) years full into the COVID-19 pandemic, it is sobering to reflect on the ongoing responses to the global pandemic, as well as future disruptions to the capital markets. The past year has really put to the test scaling principles and elucidating important lessons about catalyzing and sustaining transformative change in rapidly evolving contexts.

Operating Environment

The global economy experienced recovery in 2021, with the International Monetary Fund (IMF) projecting a Gross Domestic Product (GDP) growth of 5.9%. The containment of the Covid-19 pandemic was a key factor in economic recovery in 2021. Economic activity continued to adapt to the pandemic and associated restrictions. The period witnessed a restoration of supply chains which facilitated the movement of goods and persons across the globe.

Kenya's GDP forecast for 2021 was adjusted higher by the National Treasury to 6.6% from 6.4%, mainly as a result of a recovery in key sectors that support the economy. Inflation in 2021 averaged 6.1%, triggered mainly by increased food and fuel prices. The Government made several decisions to stimulate the economy including reducing and maintaining the Central Bank Rate at 7%.

The period also witnessed the cessation of tax concessions and other incentives following improved vaccination levels.

The year was also characterised by the other challenges including adverse weather conditions which was declared a national disaster in September 2021.

Trading and Financial Performance

As highlighted by the Chairman in his statement, our trading and financial performance in the year was marginally affected by the protracted effects of the COVID-19 pandemic which influenced trading strategies for a majority of our local and international investors.

Bonds turnover (Ksh)

956b

2021 956

2020 610

Equity turnover declined by 7.6 % to Kshs. 137.4 Billion compared to Kshs. 148.6 Billion recorded in 2020. Bonds turnover however recorded significant improvements posting a 38.3% growth to close the year at Kshs. 936 Billion.

Our benchmark indices recorded overall improvements in the year under review compared to the year 2020. The all-inclusive NSE All Share Index posted a 9.43% increase year over year to close at 166.46. The NSE 20 Share Index recorded a marginal increase of 1.83% to close the year at 1,902.57. The NSE 25 Share Index added a 9.62% to settle at 3743. 90.

During the year, the NSE introduced market making on its Derivatives Market. The initiative significantly boosted trading activity on the market reflected in the 600% growth in turnover to Kshs. 289 Million compared to Kshs. 40 Million.

During the year, net the Group recorded a 4% decline in Profit before Tax to Kshs. 210 Million from Kshs. 218 Million recorded in the year 2020. Profit

after Tax reduced by 21% to Kshs. 132.5 Million from Kshs. 167 Million recorded the previous year reflecting the impact of increase in exceptional provisions resulting from International Financial Reporting Standards adjustments in our asset holdings and additional tax charges consequently increasing administrative expenses.

We recorded strong growth in our data and investment income lines which increased by 40% and 24% respectively. This was a result of proactive data sales to our institutional clients both locally and internationally and prudent management of our investible cash.

Total assets decreased marginally by 4% from Kshs. 2.31 Billion in 2020 to Kshs. 2.2 Billion in 2021 on account of a write down of our fixed asset and payment of a special dividend at the close of the year.



In addition, we will continue to lay our focus on the corporate debt market which provides an ideal opportunity for companies to raise medium term funding. The NSE will focus on supporting the high growth sectors in the country especially the technology industry which had demonstrated an appeal for funding from the private equity investors, through providing desirable exit platforms. We also recognize that as a member of the United Nations Sustainable Stock Exchanges Initiative we have a role to play in promoting climate friendly assets. We will therefore build on the success of our Green Bond market and encourage more issuers to take up this sustainable financing opportunity.



Market Outlook

The Exchange will continue to drive investor interest in all its products while encouraging companies to tap into the capital markets, to fund their businesses as well as manage their risks. These include our Exchange Traded Funds (ETFs), Real Estate Investment Trust (REITs) and the Derivatives market. We currently have a strong demand side as evidenced by the recent successful oversubscription of the capital raising done by companies in our equity and corporate bond markets. Our focus will be on building the supply side. In line with this, we will continue to engage both public and private institutions to consider blending their capital structures, by taking up equity capital which has proven to be critical to their long term sustainability.

In line with our efforts to enhance Corporate Governance we will continue to encourage our issuer companies to implement Environmental Social and Governance (ESG) reporting using the ESG Guidance Manual provided by the NSE in 2021.

The launch of the Unquoted Securities Platform in May 2021 has permitted the Exchange to explore the untapped opportunities that exists in the ever growing private over the counter markets space in Kenya.

The Platform offers a very prominent value proposition through increased transparency, better turnaround time in closure of trades and an avenue for capital raising for entities that are not yet ready for the main market. This asset class provides an avenue for private companies, Savings and Credit Co-operative Organisations (Saccos) and other specialized units to trade.

We will aggressively target to grow interest especially among Small and Medium Sized Enterprise (SME) companies.

The retail sector is a key focus for us in 2022. In this regard, we have developed initiatives to support interest from the retail sectors, key among them being point for shares and day trading of shares. With the upcoming Kenyan elections in August 2022, we remain positive of a productive business environment that will enable investors and issuers seek opportunities in the capital markets.

Appreciation

On behalf of the Management of the Exchange, I would like to extend my appreciation and gratitude to our Board of Directors for their guidance, to our staff for their loyalty and dedication, to our Regulator for their excellent work, and to listed companies, trading participants and service providers for their unwavering support.



GEOFFREY O. ODUNDO

CHIEF EXECUTIVE



Directors Report

NSE Annual Report &
Financial Statements





Kiprono Kittony, EBS Board Chairman

Nationality Kenyan

Background Law, Commerce

Appointment Director since May 30, 2018.

Mr. Kiprono Kittony is the Chairman of the Nairobi Securities Exchange PLC. He holds both a Bachelor of Commerce (B.Com) degree and a Bachelor of Laws (LL.B) degree from the University of Nairobi and a Global Executive MBA from the United States International University (USIU).

Mr. Kittony was appointed Chairman of the NSE Board on July 13, 2020 and as a Board Director of the NSE on May 30, 2018. He is the immediate former National Chairman of the Kenya National Chamber of Commerce & Industry (KNCCI), the premier business membership organization in Kenya.

He is an established entrepreneur and business leader having served in several capacities including being the immediate past Chairman of the Media Owners Association and AAR Insurance Limited. During his seven year tenure at the KNCCI, he was widely credited with revitalizing the organization through a series of transformative initiatives that placed the Chamber at the forefront in terms of shaping national trade and general economic policy.



Paul Mwai Board Vice-Chairman

Nationality Kenyan

Background Investment Banking

Appointment Director since May 30, 2018.

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

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

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



Geoffrey Odundo Chief Executive

Nationality Kenyan

Background Economics and Investment Banking

Appointment CEO since March 3, 2015

Mr. Odundo is the Chief Executive of the Nairobi Securities Exchange Plc (NSE). He holds a Masters Degree in Strategic Management and an undergraduate degree in Mathematics and Economics and is an Advanced Management Program (AMP) graduate from Strathmore/IESE (Spain) Business School.

He is an accomplished Investment Banker and has been in the financial services sector for the last 30 years holding senior roles in the Asset Management, Corporate Finance and Securities Trading.

Prior to this, he was the Managing Director of Kingdom Securities Limited and Chief Manager, Merchant and Investment Banking at the Co-operative Bank of Kenya Group.

Mr. Odundo is a Director of the Central Depository and Settlement Corporation Limited; NSE Clear Limited and Trustee of the NSE Fidelity Funds. He is the Vice Chairman of the REITs Association of Kenya (RAK) and a past Director of the Association of Stock Exchanges of Africa (ASEA).

Mr. Odundo is a Council Member of the Institute of Certified Financial Analysts (ICIFA), member of Working Committee of the World Federation of Exchanges (WFE) a member of the Central Bank of Kenya's Consolidated Fund for Debt Management (CFDDM) Committee.



Michael Turner

Non-Executive Director representing Listed Companies

Nationality Kenyan

Background Finance, Accounting

Appointment Chairman of the NSE Board on March 21, 2014

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

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

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

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



Paul Volland

Non-Executive Director

Nationality Kenyan

Background Law, Investments

Appointment Director since June 02, 2016.

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

He is a Vice President at Largo Resources, a Canadian listed mining company. Prior to joining Largo, Mr. Volland was the General Manager of Business Development at TNG Ltd. in Shanghai, China and before that the Managing Director for EMEA at Element Commodities. He began his career with the Noble Group in Hong Kong and London.



Risper Alaro

Independent Non-Executive Director

Nationality Kenyan

Background Finance, Accounting

Appointment Director since May 30, 2018.

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

Ms. Alaro was appointed a Non-Executive Director on the Board of NSE on May 30, 2018. She also serves as a Non-Executive Director on the Boards of Bank of Kigali PLC, Kenya Climate Ventures Ltd and Population Services Kenya (PSK). She is currently serves as the Group Finance Director at Centum Group PLC.



Isis Nyong'o-Madison

Independent Non-Executive Director

Nationality Kenyan

Background E-Commerce & IT

Appointment Director since May 30, 2019

Ms. Isis is well established in the technology ecosystem and brings deep experience in navigating the Africa business landscape.

As a Principal at Asphalt & Ink, she serves as a Senior Advisor with the Albright Stonebridge Group advising leading global foundations and technology companies on their Africa strategies. This advisory work ranges from strategy formulation, stakeholder mapping, partnership development and navigating policy changes.

Isis has 10 years of Board experience that includes a mix of publicly listed, privately held, academic and non-profit Boards. She currently serves on the boards of Southbridge Group (pan-African investment bank) and Nourishing Africa (pan-African digital platform for agri-entrepreneurs). She has been named in the Top 40 under 40 in Kenya for several years and shortlisted on the Forbes Top 20 Youngest Power Women in Africa. The World Economic Forum selected her as a Young Global Leader in 2012. Isis holds degrees from Stanford University and Harvard Business School.



Donald Wangunyu

Non-Executive Director Representing Trading Participants

Nationality Kenyan

Background Finance & Investment

Appointment Director since June 3rd, 2020

Mr. Donald serves as the Chairman of the Board of the Kenya Association of Stockbrokers and Investment Banks (KASIB).

Previously, he served as the chairman of the KASIB committees overseeing the growth of long-term funding for KASIB, the industry committee that oversaw the removal of capital gains tax from listed market securities, the Broker Back Office System (BBO) Functionality Management Committee. BBO is the system used by all stock-brokers and investment bank in Kenya.

Donald further serves on the Board of Standard Investment Bank and chairs the Risk and compliance Board committee of the investment bank. Donald is a member of the Planning and Economic Council of the Dominican Friars of East Africa and an Advisory Board member of the East Africa Forum for Alternative Investments. His broad experience further includes serving as a member of the Capital Markets Master Plan implementation group, the Central Depository and Settlement Corporation (CDSC) Market Operations committee and the system selection committees of the CDSC.

Donald is the Founder and Chief Executive Officer of FourFront Management, the first and only Fully licensed Robo-Advisor in the Country.



Stephen Chege

Non-Executive Director Representing Listed Companies

Nationality Kenyan

Background Law

Appointment Director since June 3rd, 2020

Mr. Chege is the Chief External Affairs Officer at Vodacom Group. He holds a Master of Laws (LLM) degree in International Trade and Investment Law from the University of Nairobi and also a Bachelor of Laws from the same University. He is also a Certified (Company) Secretary.

Mr. Chege was previously the Chief Corporate Affairs Officer at Safaricom where he held other roles including Head of Regulatory and Public Policy, Senior Manager – Public Policy and Market Regulation and Principal In-house counsel. He was also the Public Policy Manager, Vodafone Group Public Policy in the UK.

Mr. Chege has over 20 years' experience in policy, legal and regulatory affairs and Environmental Social and Governance matters, primarily within the telecommunications and ICT industry.

Executive Committee Members



Geoffrey Odundo
Chief Executive



Kuria Waithaka
Company Secretary &
Chief Legal Officer



David Wainaina
Chief Operating Officer



Jane Kiarie
Chief Finance Officer



Lucy Kamar
Chief Officer, Human
Resources & Administration



Loise Wangui
Chief Officer, Regulatory
Affairs



Terrence Adembesa
Chief Business Officer (former)



Irungu Wagemma
Chief Officer, Strategy, Risk
and Compliance



Fredrick Okong'o
Chief Internal Auditor

Directors' Report

The directors present their annual report together with the audited financial statements of Nairobi Securities Exchange PLC (NSE/the "Company"/the "Exchange") and its subsidiaries and structured entities (together, the "Group") for the year ended 31 December 2021, which show the state of affairs of the Company and the Group.

Principal Activities

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

NSE Clear Limited is a wholly owned subsidiary of the NSE. The principal objectives of NSE Clear Limited are to carry on the business of a clearing house and as such, to provide clearing and settlement services for transactions in derivative securities whether carried out on or off a securities exchange, to act as a central counterparty in derivative securities transactions and to carry out all activities that pertain to a clearing house. The license to operate a derivatives exchange was issued by the Capital Markets Authority to the NSE on 19 October 2015. The derivatives market was launched in July 2019.

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

The Company's holding in AKS Nominees Ltd (AKS) is 89% (2020: 89%). AKS holds an 18% shareholding in the ordinary shares of the Central Depository Settlement Corporation (CDSC) (2020: 18%). The principal activity of the subsidiary is holding equity shares in CDSC in trust for its members who are authorised to operate

as stockbrokers and investment banks in the Nairobi Securities Exchange (NSE).

Additionally, in 2020, the Company incorporated the NSE Limited Liability Partnership (NSE LLP). The Partners of the NSE LLP are the NSE PLC, Chief Executive and the Chief Operating Officer of the NSE PLC. The LLP has a Management Committee that oversees the day to day activities of the LLP. The Management Committee of the LLP reports to the Board of Directors of NSE PLC. The principal activity of the LLP is to run the recently launched Unquoted securities platform. As per the Partnership Deed, NSE PLC shall contribute 100% of the capital of the NSE LLP.

Business Review

The year under review remained challenging on account of protracted economic effects of the COVID-19 pandemic. The business remained resilient. The NSE 20 index rose by 1.83% from 1868.39 points in 2020 to close at 1902.57 points in 2021.

The Group reported a Profit before Tax of Ksh 210 Million from Ksh 218 Million in 2021 representing a decline of 4%. Profit after Tax stood at Ksh. 132.5 Million from Ksh. 167 in 2021 a decline of 21%.

Equity turnover stood at Ksh. 137 Million from Ksh. 148 Million occasioned by reduced equity trading activity occasioned by reallocation of capital to fixed income assets. This in turn led to a reduction in equity trading levies from Kshs 356.8 Million for the twelve months ended 31 December 2020 to Ksh. 329.7 Million in 2021.

Bonds turnover increased by 38% to a historical high of Ksh. 956 Billion for the twelve months ended 31 December 2021 as compared to Ksh. 691 Billion the same period in 2020.

Bonds turnover (Ksh)

956b

2021 956

2020 610

Interest income increased by 24% from Ksh. 85.1 Million in 2020 to Ksh. 105.7 Million in 2021 due to our active treasury management.

Our data business recorded a good performance increasing from Ksh. 36.8 Million to Ksh. 52.4 Million owing to a proactive institutional sale strategy.

Administrative expenses increased by 7% from Ksh. 467.2 Million to Ksh. 500 Million in the period under review. The increase was as a result of exceptional provisions resulting from IFRS adjustments in our asset holdings and additional tax charges.

Share of profit of associate decreased by 121% to a loss of Kshs. 3.3 Million in 2021 from Kshs. 16.1 Million in 2020 owing to low equity levies received from our associate investment company.

Other comprehensive profit resulted from the fair value movement of our quoted investment amounting to Kshs. 26.7 Million.

Total assets decreased marginally by 4% from Kshs. 2.31 Billion in 2020 to Kshs. 2.2 Billion as at 2021 as a result of a write down of our fixed assets and payment of a special dividend at the close of the year.

Non-current liabilities as at both periods (2020 and 2021) included Kshs. 11.75 Million made up of contributions received from clearing members in 2019 towards the NSE Derivatives Settlement Guarantee Fund.

Current liabilities (Ksh)

113m

2021  2.2

2020  2.31

Current liabilities stood at Kshs. 113 Million at the close 2021 and included a dividend payable of Kshs. 67 Million.

Share Capital increased by Kshs. 2 Million due to shares issued to staff through Employee Share Ownership Plan.

Return on assets and return on equity reduced from 7.25% and 7.72% respectively in the twelve months ended 31 December 2020 to 5.96% and 6.38% respectively in the same period 2021.

Dividend

The Group profit for the year of Kshs 132,534,000 (2020: Kshs 167,918,000) has been added to retained earnings. The Directors recommend the approval of a Special dividend of Kshs 1.00 and final dividend of Sh 0.40 per share amounting to Kshs 260 Million and Kshs 104 Million respectively (2020: Kshs 0.53 per share amounting to Kshs 137 Million).

Directors

Mr. Bob Karina, Mr. Hosea Kiili, Ms. Nasim Devji and Mr. Samuel Kimani retired as Directors on 3 June 2021 and were replaced by Mr. Donald Wangunyu and Mr. Stephen Chege on the same date.

The current members of the Board of Directors are as shown on page 22.

Disclosures To Auditor

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

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

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

Terms Of Appointment Of Auditors

Deloitte & Touche LLP were appointed during the year and, having expressed their willingness, continue in office in accordance provisions of section 719 (2) of the Kenyan Companies Act, 2015.

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

By order of the Board
Mr. Kuria Waithaka



Secretary
29 March 2022

Highlights

NSE Annual Report &
Financial Statements

Significant Events - 2021



Highlights

Significant Events during the Year

1. NSE Joins 30% Club

On February 17th 2022, the NSE joined the 30% Club, an organization that advocates for increase in gender diversity in Boards and Senior Management within the workplace.

By joining the 30% Club, the NSE will champion for at least 30% representation of women on Boards and Senior Management of companies listed on the NSE and within the larger Capital Markets ecosystem. The NSE is committed to supporting enhance gender diversity in line with its to enhance sustainable growth among companies in Kenya.



2. NSE Rings the Bell for Gender Equality

In commemoration of the 2021 International Women's Day, the NSE joined over 100 stock Exchanges globally to Ring the Bell for Gender Equality on March 11th 2022. The annual event was held in partnership with Global Compact Network Kenya, UN Women and International Finance Corporate (IFC), UN Sustainable Stock Exchanges (SSE) Initiative is aimed at raising awareness of the fundamental importance of gender equality to business business growth and sustainable economic development.

The event was graced by Prof. Margaret Kobia, Cabinet Secretary, Ministry of Public Service, and Gender Affairs who gave an assurance of the Governments' support towards gender equality in Kenya.



(Left) Ms. Mary Mulili, Executive Director, UBA Bank Kenya, Mr. Geoffrey Odundo, Chief Executive NSE (centre), Ms. Elizabeth Obando, WEE Team Leader, UN Women (Second from Right) , Ms. Carole Kariuki, CEO KEPSA (right) join Prof. Margaret Kobia, Cabinet Secretary, Ministry of Public Service, and Gender Affairs as she rings the bell to commemorate the 2021 International Women's Day.

3. The NSE Completes the Integration of its Bond System

The Nairobi Securities Exchange announced the successful integration of its bond system with Refinitiv's Fixed Income Call Outs application (FICO) on February 23rd 2022. FICO is an automated workflow that facilitates negotiations and agreements of fixed Income bonds trading terms among Kenyan banks, brokerage firms and the Central Securities Depository (CSD).

The integration is part of enhancements of our trading systems and was aimed at facilitating seamless trading of fixed income transactions supporting accurate price discovery, enhanced market liquidity, improved trade negotiations and execution as well as an enhanced trade cycle process. Equally, the integration sought to enhance the monitoring and transparency which will lead to increased trading and operational efficiency.

Following the integration, market players have benefited from certainty of executions as well as leverage on the integration to access and process real time and historical data on fixed incomes transactions. Similarly, the integration has led to reduced costs by eliminating cost duplication of related work and manual interventions. The adoption of Refinitiv's FICO makes Kenya one of the first frontier markets globally to deploy an automated Over the Counter (OTC) FI workflow that integrates with both the securities exchange and the CSD.

4. Launch of the Unquoted Securities Platform (USP)

On May 13, 2021, the NSE launched the Unquoted Securities Platform (USP), a market infrastructure that facilitates the trading, clearing and settlement of securities of unquoted companies.

The USP offers issuers an opportunity to access the capital markets for long term funding through private placements whilst enjoying flexibility in listing requirements and obligations. Equally, the USP enables companies that are not quoted and have a register of shareholders to enjoy price discovery and increase liquidity of their shares. The platform increases transparency as well as access to information for investors as prices are published daily.

Acorn Holdings Ltd quoted its Income and Development Real Estate Investments Trusts on the Unquoted Securities Platform. The quoting makes Acorn the first company to tap into the market infrastructure for the trading of shares of unquoted companies.



5. Real-time Derivatives Market data

On March 3rd, 2021, the NSE finalized the introduction of real-time Derivatives Market data on the Elektron Real Time platform offered by Refinitiv. Through the onboarding of the data, Elektron Real Time now provide investors with level one real-time updates on the NSE's single stock futures and index futures products.

Elektron Real Time is a data feed infrastructure built by Refinitiv, a leading global financial markets infrastructure and data provider. This initiative makes Refinitiv the first international data vendor to onboard the NEXT data and extends the NSE derivatives market's regional and global reach.

6. New Broker Network

The Nairobi Securities Exchange (NSE) successfully transitioned to a new state of the art broker connectivity solution, SD-WAN, powered by Safaricom as the technology partner on October 2nd 2021.

SD-WAN is a virtual Wide Area Network (WAN) architecture that allows businesses to leverage any combination of transport services, including MPLS, Long Term Evolution (LTE) and broadband internet services – to securely connect users to business applications. The network interconnects the NSE, the Central Depository and Settlement Corporation (CDSC) and all the Trading Participants in the market to offer higher trading platform availability.

The integration reduced connectivity costs to the brokers by approximately 30 per cent as well as ensured higher uptime and performance and increased network security. The NSE is leveraging on Safaricom's experience and excellent service support to ensure a stable, secure and resilient network infrastructure for securities trading.

7. NSE Partners with Safaricom for Bonga Deals

On August 10th 2022, the NSE partnered With Safaricom to enable Kenyans invest in stocks using their accrued Bonga Points. The service is available to all Safaricom customers, who can redeem their points through licensed Trading Participants, with ten already activated.

Through the initiative, the NSE intends to unlock more investment opportunities to investors using convenient and innovative solutions. The partnership resonates with NSE's resolve to connect capital with opportunities as anchored in the NSE 2020-2024 strategic plan. It further provides an avenue for retail investors to participate in the NSE.

The current trading participants able to extend the services to the clients include; NCBA Capital, Faida Investment Bank, AIB-AXYS, ABC Capital, Old Mutual Securities, Kingdom Securities, Suntra Investments, Francis Drummond & Company, Dyer & Blair Investments and Sterling Capital LTD.

8. EGM Securities Becomes Kenya's First Online Trading Broker to Offer Derivatives

April 20th 2021, EGM Securities, a subsidiary of the global Equiti Group, became Kenya's first online trading broker to offer NSE derivatives contracts on the NSE Derivatives Market. NSE derivatives contracts are based on the most liquid traded equities and index in Kenya.

The new NSE derivatives offering is part of NSE's initiatives to enhance easier access of the market by retail investors through enhancing the customer onboarding and trading experience.

9. Nation Media Group Launched Kenya's First Share Buyback Programme at the NSE

Nation Media Group launched Kenya's first share buyback programme. NMG's shareholders approved a minimum price equivalent to the par value of an ordinary share and a maximum Buyback price of KES 25.00 per ordinary share ("Buyback Price").

The share buyback sought to address undervaluation and also to facilitate those shareholders who seek to liquidate part or all their shares. All the ordinary shares that were acquired by the company are currently being held as treasury shares.



(Left to right) NSE vice-chairman Paul Mwai, NSE chief executive Geoffrey Odundo, CDSC chief executive Nkoregamba Mwebesa, CMA CEO Wycliffe Shamiah, Faida Investment Bank Operations Director Rina Karina, Nation Media Group CEO Stephen Gitagama and ENS Africa partner Mahesh Acharya toast to commemorate the commencement of NMG's share buy back program.

10. Family Bank's Corporate Bond Commence Trading at the NSE

The Capital Markets Authority gave Family Bank a nod to list the first tranche of its Medium Term Note under the Fixed Income Market Segment at the NSE after a successful offer that raised a total of KES 4.42 billion against a KES 3 billion target, marking a subscription rate of 147.3%.

The performance of the bond demonstrated renewed confidence by investors in the corporate bond market in Kenya.



11. CMA, NSE and KEPFIC Sign MOU to Support Infrastructure Projects Financing and Development

The Capital Markets Authority (CMA), the NSE and the Kenya Pension Funds Investment Consortium (KEPFIC) signed a Memorandum of Understanding (MOU) to support infrastructure projects financing and development through the capital markets.

The pension's sector regulator, the Retirement Benefits Authority (RBA), introduced infrastructure as a distinct investment category under the pension fund investment regulations. This allows pension funds to directly invest up to 10 percent of their portfolio in the asset class, potentially unlocking approximately Ksh.140 billion for infrastructure investments.

The MoU is significant and will support deepen Kenyan capital markets and unlock investments in some of the products on the NSE including REITs.



12. EABL Lists Kshs. 10 Billion Medium Term Note on the NSE

East African Breweries Limited listed its Kshs. 10 Billion Medium Term Note on the NSE following its successful primary issuance. The five-year, fixed rate instrument was offered at an interest rate of 12.25 percent payable semi-annually. The offer was opened on October 6 and closed on October 21, 2021.

The funds raised will be used to finance investments in expanding production, repay debts taken in the ordinary course of business, refinance short-term borrowings and provide working capital.



13. NSE Driving ESG Reporting Excellence

The NSE launched its Environmental, Social and Governance (ESG) Disclosures Guidance Manual. By issuing these guidelines, the NSE aims at improving and standardizing ESG information reported by listed companies in Kenya.

The guidelines provide a granular, tactical approach to ESG reporting that meets international standards on ESG reporting. Further guidance has been provided on how listed companies can integrate ESG considerations into their organisations, helping capture significant opportunities for stakeholders while managing critical business risks. Consistent application of these guidelines will help improve the capital markets in Kenya by providing information that investors are now demanding to facilitate decision making and capital allocation.



14. NSE Launches Day Trading

Kenya was the first frontier market to launch day trading as part of NSE's strategy to enhance market liquidity following approval from the Capital Markets Authority (CMA). Day trading refers to the practice of purchasing and selling a security within a single day or trading session or multiple times over the course of the day.



The colorful event was graced by the Director General of the National Treasury, Albert Mwenda representing the Cabinet Secretary Ukur Yatani who noted, "The launch of day trading is a testament of the country's continued development in enhancing its capital market capabilities and an acknowledgement of the positive impact of continued collaboration between the National Treasury, The Capital Markets Authority and the Nairobi Securities Exchange."

The NSE currently has 65 listed securities on the trading system and all investors who currently have accounts at the Central Depository System (CDS) are able to take part in day trading.

15. Corporate Leaders Rally to Secure Nairobi's Water Supply

The private sector has been urged to take seriously the risk of a likely water crisis in Nairobi to avoid the

experience of Cape Town, South Africa, whose taps almost ran dry in 2018.

A breakfast event co-hosted by the Upper Tana Nairobi Water Fund Trust (UTNWFT) - a conservation charitable trust and the Nairobi Securities Exchange (NSE) to enlighten business leaders about the risk noted that unsustainable farming practices by farmers in the Upper Tana catchment basin, coupled with climate change, population growth and increased industrial demand are threatening the sustainable supply of water to the city- drawing parallels with Cape Town. Back in 2018, in what was dubbed Day Zero, residents and industry in Cape Town faced the prospect of their taps being turned off and needing to line up to collect water at supply points after the watersheds of the Greater Cape Town region dried up. Industry and the City of Cape Town had been warned by NGOs and scientists for years that invasive trees -mostly pines and eucalyptus - were draining the catchment, but nothing was done until it was almost too late.

The event, which was presided over by Environment and Forestry Principal Secretary, Dr Chris Kiptoo, brought together business leaders of listed companies, fund managers, institutional investors, and stockbrokers.

16. NSE Supports Small Businesses Withstand the Shocks of Covid

The NSE raised approximately Kshs. 4.8 Million in cash and in kind in its sixth edition of the Annual Charity Trading Day bringing the total contribution to Kshs. 43.8 Million since inception.



Celebrities and dealers join NSE's leadership on stage in celebration of the 6th NSE Charity Trading Day

The NSE Charity Trading Day is an annual event that brings together known personalities, to make calls to clients on behalf of the dealers while encouraging them to make trades. The Charity Trading Day provides an opportunity for capital market players to come together and play their part in addressing some of the challenges that plague our society.

17. NSE Joins UN SSE Sustainable Derivatives Network

The NSE today made a voluntary commitment to become a signatory of the Sustainable Stock Exchange (SSE)'s derivatives exchanges network to further the sustainability of financial markets. NSE's collaboration with and contributions to the UN's SSE Initiative reiterates its commitment to building a new kind of finance, shifting paradigms to support a new world view.

Throughout the last decade, the role of Stock Exchanges and equity markets in driving sustainable development has been well-explored, seeing the number of SSE members rise from 5 founding signatories to over 100 today. Meanwhile, the potential of derivatives exchanges and the derivatives market remains less understood.

18. NSE in Partnership with Mtech Sponsors the Kitale Golf Tournament

The NSE in partnership with Mtech, a Multinational Technology Company that specializes in digital solutions, sponsored the Kitale Golf Club Tournament held in Kitale Club. The prestigious event brought together top golfers in the North Rift and Western region of the country which presented a unique opportunity for NSE to promote itself to potential investors and high net worth individuals in the region.

One of NSE's key objective is to keep prospecting for new customers and expanding our reach to new markets through the training and public education department.



NSE Board Chairman Kiprono Kittony, EBS teeing off during a golf tournament jointly sponsored by Nairobi Securities Exchange and MTECH Limited at Kitale Golf Club

Enterprise Risk Management (ERM) Framework

Background

The objective of the NSE's Enterprise Risk Management (ERM) framework is to protect shareholders' value in order to enhance NSE's competitive advantage, improve business performance and optimize risk management and compliance value. The framework is aligned to ISO 31000:2018 Risk Management Guidelines, COSO Enterprise Risk Management 2017 as well the applicable laws, regulations and guidelines. The NSE has succeeded in applying the risk framework to such an extent as to make risk management not only a reporting and oversight obligation, but a management discipline. In support of this, an internal risk working group was established in 2018 and in 2019, NSE joined World Federation of Exchanges Enterprise Risk Management Working Group, to further support the formal risk reporting structures and to drive risk management into the organisational practice.

Roles and responsibilities

NSE Board and Risk Committee

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

NSE Management

The NSE executive and its management structures are responsible for applying the defined risk management process across the enterprise. This is done to enable management to identify potential events that, if they occur, will affect the NSE in terms of achieving its enterprise objectives. Risks must be managed within the NSE's set risk appetite.

Risk appetite is a measure and allocation of the amount of risk that the NSE is willing to accept in pursuit of its strategy and states that the NSE will only tolerate risks that permit us to:

- achieve our strategic business objectives;
- comply with all applicable laws and regulations;
- conduct our business in a safe and sound manner; and,
- protect and/or enhance our shareholder value)

Chief Executive Office

The Chief Executive Office, under which the Strategy, Risk and Compliance functions are domiciled, is responsible for enterprise risk framework and spearheads implementation and reporting for ERM. This includes:

- defining and implementing the risk process
- facilitating risk workshops as may be deemed necessary;
- ensuring updates to risk reporting at least quarterly
- ensuring risk actions are updated and tracked;
- compiling and presenting report-backs to line management;
- providing formal risk reporting to the NSE executive committee;
- providing risk reporting to the Risk Committee of the Board; and
- entrenching risk management as an effective management tool in the enterprise.

Risk Management Approach

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

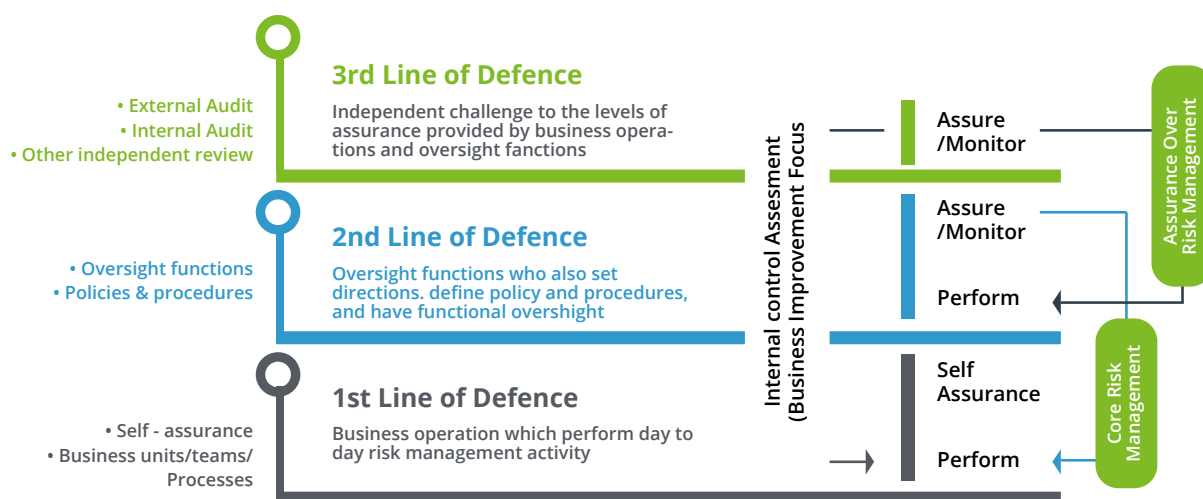
- Operational risk – The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, in the following areas:
 - Human capital related
 - Technology and systems;
 - Information security;
 - Fraud and theft;
 - Procurement and third party;
 - Contracts management;
 - Legal and compliance;
 - Business disruption and continuity;
 - Regulation of markets;
 - Market operations;
 - NSE client concentration;
 - Strategic arrangements; and
 - Reputation.

- Finance risk – This is an umbrella term for any risk associated with any form of financial management of the enterprise such as market risk, credit risk, price risk, liquidity risk, capital risk, etc.
- Strategic risk – This risk is the impact on the organisation arising from adverse business decisions and/or the lack of responsiveness to changes.
- Black swan risk – Anticipating and considering low probability (not identified as a possible emerging risk on its risk radar) and catastrophic impact events as part of the enterprise's risk approach.

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

Risk Management Governance Model

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



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

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

Value Creation Process

NSE enables value creation by providing a trusted and well-regulated financial market infrastructure to support the economy. Our value creation process is embedded in our mission - Linking capital to opportunity to enhance stakeholder value.

Core focus of value creation

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

Our Finances

NSE PLC's funding is sourced from shareholders and internally generated income. These funds are used to run NSE's operations with a view to generate profits. As at December 31, 2021, these stood at Issued Share Capital of Sh. 1,040 million, Share Premium of Sh. 279 million and Retained Earnings of Sh. 746 million. Financial resources are required to operate the business and support growth, expansion and innovation. NSE balances the need to distribute value to investors through a balanced return to shareholders, reinvestment and reduced prices to clients.

Our Technology

At the core of NSE's operations is a robust ICT foundation. This comprises three world class trading systems for equities (Automated Trading System (ATS)) bonds (Broker Back Office (BBO)) and Derivatives, coupled with comprehensive software, hardware and disaster recovery resources.

In March 2020, NSE successfully migrated its disaster recovery site to a tier 3 contracted data center located more than forty kilometers away from the primary data center in Westlands. This transition enabled NSE to leverage the benefits of colocation in mature third party data center facility while giving an unmatched confidence to our key trading stakeholders on business continuity. In the Cyber Security front, one of the most significant initiatives was the engagement of a Managed Security Services (MSS) to complement the internal Security Operations Centre (SoC). This enabled NSE to mature its security incidents and events detective and response capability.

Finally, the team spearheaded the migration of the broker wide area network from traditional Multiprotocol Label Switched Network (MPLS) to Software defined wide area network (SD-WAN). This project was completed in December 2021 and among other benefits enables trading intermediaries to be connected to the NSE sites through a fast, highly available, resilient and secure network.

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

Our Stakeholder Relationships

NSE actively engages with its key stakeholder groups.

For example, the Green Bonds Program Kenya (GBPK) has been a key partner in the structuring of the first green bond product launched in October 2, 2019. The bond, issued by Acorn group was subscribed by 85% and cross-listed in the Nairobi Securities Exchange and the London Stock Exchange.

NSE also works closely with the United Nations Sustainable Stock Exchanges Initiative (UN SSE) to encourage sustainable running of stock exchanges.

It also sits in several working groups of the World Federation of Exchanges (WFE), influencing global policies affecting world exchanges.

The NSE Investment Challenge and the annual Charity Trading Day are the flagship projects in Social Investment. We are able to respond to the needs of our stakeholders and reinforce confidence in our brand because we have reliable systems, our people are skilled and client-centered, and we apply our financial resources efficiently.

Our Innovation

Innovation is a core value of the NSE. In the wake of Covid-19, investors were enabled to access the market via online portals link to trade through the brokers available on our website as well as an enhanced mobile application that serves as a gateway to broker apps and online platforms. Moreover, to facilitate continuous market awareness, an online e-learning platform was launched for remote training purposes and to act as a trading simulator. Additionally, a new Unquoted Securities Platform (USP) was created to facilitate efficient, reliable and transparent Over-the-Counter (OTC) Transactions.

NSE continues to explore other global disruptive technologies in a bid to enhance its offering to investors. The NSE's brand includes the technologies and systems in place and the intellectual know-how we need to facilitate an efficient and world-class market. The NSE brand relies on technology delivery and positive relations with our stakeholders.

Our Talent (People)

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

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

Total Number of Employees = 42		Males = 57%		Females = 43%	
	2021		2020		Variance
	Sh '000		Sh '000		%
Revenue	714,267		669,939		6.62%
Stakeholder contribution					
Taxes to Government	85,391		19,982		327.34%
Shareholders dividend paid	267,537		23,151		1055.62%
Payment to suppliers	222,967		196,873		13.25%
Human capital	171,841		172,270		-0.25%

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

NSE 2020 – 2024 Strategy



Taking off: NSE 2020 - 2024 Strategic Intent

An ambitious journey towards 2024



2020 - 2024 Strategic Direction - Innovation & Technology Driven Strategy

Vision

To be the leading exchange and the investment partner of choice through providing efficient investment and capital raising services in Africa and globally.

Mission

Linking capital to opportunity to enhance stakeholder value.



Sustainable
Business Growth



Operational
Excellence



Strategic
Partnerships



People

Our Core Values

Integrity
Excellence
Teamwork
Sustainability
Accountability

Some of the key strategic achievements in 2021 included:

- I. Additional listings, namely Crown Paints- Rights Issue, 1&M- Bonus Issue, Acorn – Green Bond, and Nairobi Business Ventures.
- II. Corporate bond, namely Family Bank and East African Breweries Limited.
- III. Unquoted Securities Platform REIT listing by Acorn Holdings Limited.

2020 – 2024 Strategy Implementation Status and the Key focus areas in 2022

- I. We are in the third year of the 2020 – 2024 Strategic Plan which is centered on 4 pillars – (i) Sustainable Business Growth; (ii) Strategic Partnership; (iii). Operational Excellence and, (iv) People.
- II. In the last year, 2020, we achieved an average implementation of 94 % with significant improvements in Strategic Partnership, Operational Excellence and People pillars.
- III. There is more work to be done on Sustainable Business Growth which has initiatives such as enhancing market liquidity, increasing number of listed companies, growth of derivatives market, diversification of revenues, improving local market participation and distribution channels.
- IV. In 2022, we will lay focus on growing the market size through targeting listing of large state and corporate institutions, cross listings and growth of our SME segment.
- V. We continuously engage key stakeholders especially with the Government to encourage privatization of publicly owned companies as well as encourage the Government to reduce its shareholding in some listed State Owned Enterprises.
- VI. In addition, we expect better uptake of our new products which includes derivatives, exchange traded, real estate instruments and our recently launched Unquoted Securities platform.
- VII. We will continue to implement on our business continuity plans which place special focus on ensuring uninterrupted market availability to investors and remote access by trading participants, cost optimization as well as protecting the health and safety of our staff and market players.
- VIII. NSE is leveraging on adoption of various technology enabled platforms to reach out to more investors during this period as we seek to grow our retail investor footprint. The NSE will also continue participating in a number of engagements through various online platforms to enhance investor knowledge on opportunities in the market during this period.

Sustainability

Statement

NSE Annual Report &
Financial Statements



Continued Investment In Sustainability

Our sustainability agenda remains an integral part of the business and a commitment from every function to be a responsible corporate citizen and hold ourselves accountable to the communities we operate in.

During the year, we made a conscious effort to advance the sustainability agenda through mitigating the devastating impact of the COVID-19 pandemic, championing for reporting excellence through ESG disclosures, accelerating diversity and inclusion, upholding corporate governance and promoting green finance.

As a company, we have moved beyond corporate social responsibility as a business add-on, to mainstream, transforming our business to align strategy, structure and other activities to ensure long-term stakeholder value in addition to financial returns.

Our Response To Covid-19

The NSE and its market participants were listed as one of critical Financial Institution (FI) by the Government thus there was ensured business continuity should the crisis escalate to a total lockdown. We have worked extremely hard to ensure that there were no disruptions to any of our operations and put in place measures for issuer and investor protection as follows:

Work From Home

facilitated through provision of data and airtime



Teams' platform enabled



Provision of face masks



medical cover

Provision of Covid-19 testing

a) Support to Staff

- Following the outbreak of the Covid-19 pandemic and the Government advisory on measures to help mitigate further spread of the virus in the country, the NSE Management in consultation with the Board, implemented a 'Work from Home arrangement' for all staff.

Below is an update on the same:

- i. The NSE successfully activated its enterprise business continuity plans (e.g. remote working and possible working from alternate sites) to ensure our operational resilience and ability to serve our markets, against the backdrop of social distancing policies that the government directed.
- ii. All staff were facilitated to work from home through provision of data and airtime allowance.
- iii. Virtual meetings, using the 'Teams' platform, was enabled.
- iv. The few essential staff who had to work from the office were provided with transport to and from the office.
- v. Provision of face masks and gloves for use by staff at the Exchange and emphasis on consistent maintenance of hygiene.
- vi. Regular communication with the team to ensure that everyone was well and keeping safe to help ensure psychological and overall wellbeing.
- vii. Facilitation of Covid-19 medical cover and provision for tests, as may have been required, in addition to sensitization on Covid-19 and its impact.

This was done through various means of communication and included an awareness program which was facilitated in conjunction with the medical insurance intermediary for all staff.

- viii. Administration of a survey on the 'Work from Home' Arrangement to establish the staff experience with this arrangement, with a view to identifying areas of challenge in order to come up with mitigation measures to ensure optimum support to all staff.
- ix. NSE also undertook a Risk Assessment of the Work Place with the help of an Occupational Health & Safety (OSH) approved Auditor to ensure compliance with the protocols as had been issued by the Government ; and
- x. Reviewed the OSH Policy Statement to incorporate Covid-19 measures.

b) Support to Trading Participants

- Trading Participants were enabled to remotely access the Equity Trading System over a secure internet virtual private networks (VPNs).
- Trading of Bonds and Derivatives were availed through a web based system enabling Trading Participants to access the system from any location within Kenya as long as they have a stable internet connection.
- The NSE continued to offer uninterrupted technology and operation support to Trading Participants.

c) Support to Investors

- Advised investors to trade online through the respective mobile and online trading with a repository for these in NSE website through the portal link <https://www.nse.co.ke/trade-on-nse.html>.
- NSE remained open with the normal trading hours, to preserve the benefits of price formation and access to liquidity for the economy.
- The NSE is also closely monitoring capital adequacy and liquidity of trading participants to ensure settlement and therefore investor protection.

d) Support to Government/Regulators

- The NSE is worked closely with regulators, service providers and various stakeholders in the capital markets ecosystem to ensure an integrated approach to contingency plans that safeguard integrity, continuity and uninterrupted access to the markets.

VPNs

secure internet
virtual private
networks

Trading enabled

from any location
within Kenya



Online trading
through portal

worked closely with regulators

to ensure continuity and
uninterrupted access to
the markets

e) Support to Businesses

- The NSE has been very deliberate in supporting micro, small and medium enterprises (SMEs) by providing 360 degrees support in access to finance, capacity building, access to markets and laws & policies. The support is to ensure the businesses recover, are resilient and grow despite the economic shock of COVID-19 pandemic.
- The NSE raised Kshs. 4.8 Million during its annual Charity Trading Day to support SMEs withstand the shocks of the Covid-19 pandemic through the KEPSA Revolving Fund that was established to support SMEs in the country.

f) Support to the Markets

- The NSE has risk mitigation measures such as the circuit breaker trigger points, currently at 5% drop in the benchmark index, the NSE 20 share Index. Circuit breakers trigger temporary halts in trading of securities during market volatility to provide investors with a brief pause to better understand market conditions and make or adjust their trading decisions accordingly.

360°

support and access to
finance, markets and
law policies

4.8 m

raised to support SME's

Risk mitigation measures

such as circuit breaker trigger
points

Our Contribution To The SDGS



GOAL 5

Achieve gender equality and empower all women and girls

TARGET

Ensure women's full and effective participation and equal opportunities for leadership

In 2021, the NSE promoted gender diversity through the annual Ring the Bell for Gender Equality, to recognize women in leadership and raise awareness on the importance of achieving a gender equal future for sustainable development.

Ensured accessibility of capital market services to female entrepreneurs of all ages through programs such as Ibuka and the Growth Enterprise Market Segment.

GOAL 9

Industry Innovation & Infrastructure

TARGET

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation



Heightened discussions on Green bond issuances by Kenyan Government to list their debut Sovereign Green Bond and with County Governments to list social bonds to support various developmental projects.

The NSE participated in the strengthening of the legal and regulatory framework through national green bond programmes. These have introduced clear green-bond guidelines and governance, including independent certification and monitoring of proceeds, issuing benchmark sovereign green bonds, and developing securitization vehicles.

**12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION**
**GOAL 12**

Ensure sustainable consumption and production patterns

TARGET

Encourage companies to adopt sustainable practices and to integrate sustainability information into their reporting cycle

The NSE provided ESG reporting guidance and offered sector specific training among listed companies. NSE is proud to be a part of the growing number of Exchanges publishing their ESG reporting guidance. A total of 60 out of the 114 stock exchanges, that is 53% tracked by the SSE, have published ESG reporting guidance for their listed companies. The gap in guidance on ESG reporting leads to incomplete corporate information, creating a challenge for investors seeking a comprehensive view of a company's material issues.

GOAL 13

Take urgent action to combat climate change and its impacts

TARGET

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



The NSE ensured the development of Green finance initiatives in the markets and raised awareness on the importance of a just transition towards a net-zero economy

**GOAL 17**

Global Partnerships

TARGET

Enhance the global partnership for sustainable development complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technologies and financial resources to support the achievement of sustainable development goals in all countries.

NSE made a voluntary commitment to become a signatory of the Sustainable Stock Exchange (SSE)'s derivatives exchanges network to further the sustainability of financial markets. NSE's collaboration with and contributions to the UN's SSE Initiative reiterates its commitment to building a new kind of finance, shifting paradigms to support a new world view.

The NSE partnered with AIB-AXYS to launch the University Stock Market Challenge where students were trading on the NSE Digital Academy with the aim of increasing financial literacy among the Youth and their knowledge of capital markets.

Corporate Governance Statement

NSE Annual Report &
Financial Statements



Corporate Governance Statement

Overview

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

The Role of the Board

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

The Key Responsibilities of the Board include:

- To define and chart out the NSE's vision and mission. The Board has ultimate responsibility for the attainment of the NSE's vision;
- To set the strategy, approve business plans and annual budgets and of any subsequent material changes in strategic direction;
- To monitor Management's implementation of the strategic plans and financial objectives as defined by the Board;
- To define levels of materiality, reserving specific powers to itself and delegating other matters with the necessary written authority to Management;
- To ensure that the NSE is managed with a view to ensuring that the company is ethical in all its dealings and has put in place sustainable business practices;
- To ensure that procedures and processes are in place to protect the NSE's assets and reputation;
- To ensure compliance by the NSE 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;
- 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;
- To identify key risks for the NSE and establish mechanisms for managing or mitigating them;
- To set policies on internal controls and obtain regular assurance that the system is functioning effectively and is effective in managing risks;
- To appoint the Chief Executive and senior management staff;
- To procure suitable external auditors for shareholders: and
- To exercise such other powers as are necessary to enforce the requirements of the Capital Markets Act and regulations and guidelines thereunder, the NSE's Articles of Association and the internal regulations and rules governing the NSE.

Corporate Governance Statement (Continued)

Division of Responsibilities

The Chairman and the Chief Executive are responsible for the sustainable operations of the NSE. 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 NSE'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 NSE'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 NSE. The Chief Executive enforces the provisions of the Capital Markets Act (the "Act") and the rules of the Group and immediately reports any violations to the Board and the Capital Markets Authority ("CMA/Authority") and ensures compliance with the requirements of the Act, and rules in operations, transactions and all affairs of the Group including listings and continuous reporting obligations of listed companies.

The Chief Executive is also responsible for the supervision of the trading activities of the NSE and takes all necessary steps to maintain orderly and efficient trading and functioning of facilities, in accordance with the NSE'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 NSE, attends all meetings of the Committees and provides technical input where necessary and promotes the objectives and functions of the NSE. The Chief Executive also liaises with the Authority and its representatives in respect of administrative, regulatory and technical matters of the NSE. The Chief Executive is also responsible for the stewardship of the NSE's assets and, jointly with the Chairman, for representation of the NSE externally.

Corporate Governance Statement (Continued)

Board Composition

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

- a) Three (3) Independent and Non-Executive Directors;
- b) One (1) Non-Executive Director
- c) Two (2) Directors appointed to represent Trading Participants;
- d) Two (2) Directors appointed to represent Listed Companies; and
- e) One (1) Executive Director.

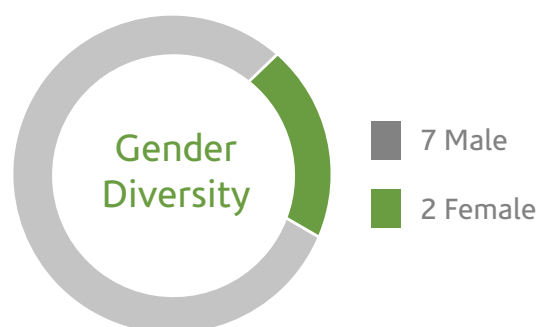
Below is the current composition of the Board:

Mr. Kiprono Kittony	Board Chairman/ Independent Non-Executive Director
Mr. Paul Mwai	Vice Chairman/ Trading Participant/Non-Executive Director
Mr. Stephen Chege	Listed Companies/Non-Executive Director
Mr. Michael Turner	Independence/ Non-Executive Director
Mr. Donald Wangunyuu	Trading Participant/ Non-Executive Director
Ms. Risper Alaro	Listed companies/ Non-Executive Director
Ms. Isis Madison	Independent Non-Executive Director
Mr. Paul Vollant	Non-Executive Director
Mr. Geoffrey O. Odundo	Chief Executive

Diversity of the NSE Board

Nationality

Kenyan	7
French	1
British	1



Skills

Law	2
Business Administration	3
Finance & Accounting	2
IT & Communication	1
Investment Banking	3

Tenure

Less than 1 year	22%
1-3 years	42%
Above 3 years	33%

Corporate Governance Statement (Continued)

Board Composition (Continued)

The Board established six (6) Board Committees with delegated authority to assist the Board effectively carry out its obligations. These Board Committees are:

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

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

There is also the Derivatives Risk Management Committee, which though a sub-committee of the Derivatives Market Oversight Committee, has within its membership, one member of the Board, a member of the Audit, Risk and Compliance Committee, for purposes of linkage and interface of risk matters between the Audit, Risk and Compliance Committee and the Derivatives Risk Management Committee.

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

The Board reviews the Committee composition every year to ensure that the Committees have suitable, appropriate and relevant skills required to effectively discharge the mandate of the Committees and the Board as a whole. The review also aids in incorporating into committees any members who may have retired from the Board and also those who may join the Board in the course of the year. The Committee membership review took place in June 2021.

At the said review, the Board took into account the criteria for nomination and appointment to the Board, the Board skillset and considerations to factor in based on the directors that were retiring/exiting in 2021. In view of the retirement of certain Directors, some skills that would fall away and needed to be replaced included Investment banking and Stockbroking; Banking and Finance; Accounting; Law, Governance and Fund Management.

The Board was also keen to ensure compliance with the law in respect of the composition of some Committees such as the Audit, Risk & Compliance Committee which are required to have 2/3 of their members being independent directors.

The Committee Terms of Reference are also reviewed on an annual basis to ensure that they are up to date to factor in any developments in the organizations strategic direction, operations, industry practice and global best practices. The annual review in 2021, took place in August 2021..

Corporate Governance Statement (Continued)

Board Composition (Continued)

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

■ Finance and Strategy Committee

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

■ Trading and Technology Committee

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

■ Derivatives Market Oversight Committee

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

■ Self-Regulatory Organization Listing and Admission Committee (SROLA)

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

Listing and Admissions Committee and Self-Regulatory Organization (SRO) Committee were merged on 9 June 2021.

Corporate Governance Statement (Continued)

Board Composition (Continued)

■ Audit, Risk and Compliance Committee

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

■ Remuneration, Nominating and Human Capital Committee

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

Corporate Governance Statement (Continued)

Corporate Governance Statement (Continued)

Board & Board Committees' Membership And Number Of Meetings Held And Attended In 2021

Director	Classification	Designation		Board	Finance & Strategy Committee	Trading, Technology & Innovation Committee	Audit, Risk & Compliance Committee	Listings & Admissions Committee	Self-Regulatory Organization (SRO) Committee	Remuneration, Nominating & Human Capital Committee	Derivatives Market Oversight Committee	Self-Regulatory Organization & Listing Committee
K Kittony	Non-executive	Chairman - Board	Membership	✓								
			Attendance	6/6								
B Karina ****	Non-executive		Membership	*	*	*		*		*		
			Attendance									
H Kili ****	Non-executive		Membership	*		*	*		*		*	
			Attendance	3/3		1/2	2/2		2/2		2/2	
M Turner	Non-executive	Chairman - Finance & Strategy Committee	Membership	✓	✓		✓ *	✓	✓		*	✓**
			Attendance	6/6	4/4		2/2	2/2	2/2		2/2	2/2
D Wangunyu ***	Non-executive	Chairman – Trading, Technology & Innovation Committee	Membership	✓		✓**					✓**	
			Attendance	3/3		2/2					2/2	
S Chege ***	Non-executive		Membership	✓	✓**	✓**				✓**		
			Attendance	3/3	2/2	2/2				1/2		

* Stepped down from the Committee on 3 June 2021 ** Appointed to the Committee on 3 June 2021 *** Appointed to the Board on 3 June 2021 **** Stepped down from the Board on 3 June 2021

Corporate Governance Statement (Continued)

Board & Board Committees' Membership And Number Of Meetings Held And Attended In 2021

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

* Stepped down from the Committee on 3 June 2021 ** Appointed to the Committee on 3 June 2021

*** Appointed to the Board on 3 June 2021 **** Stepped down from the Board on 3 June 2021

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

Corporate Governance Statement (Continued)

Board Committees' Membership And Number Of Meetings Held And Attended In The Year 2021 Board Committees With External Resource Persons

1. Derivatives Market Oversight Committee

Name	Nature of Participation	Attendance
J. Swai	Chairperson	4/4
E. Kigen	Member	4/4
A. Mulisa	Member	3/4

2. Trading, Technology and Innovation Committee

Name	Nature of participation	Attendance
I. Onyango*	Member	2/2
J. Waiguru	Member	4/4
F. Moturi*	Member	1/2
F. Mwangi*	Member	2/2
E. Kihanda	Member	4/4

*Stepped down from the committee on 3 June 2021

Corporate Governance Statement (Continued)

Nairobi Securities Exchange Corporate Governance Fact Sheet

Number of Board Members	9
Number of Independent Non-Executive Directors	3
Number of Non-Executive Directors	1
Number of Non-Executive Directors representing Trading Participants	2
Number of Non-Executive Directors representing Listed Companies	2
Number of Executive Directors	1
Number of women on the Board	2
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 2021	6
Number of Annual General Meetings in 2021	1
Re-election of Directors in accordance with Articles of Association	Yes
Board Induction Programs conducted	Yes

Corporate Governance Statement (Continued)

Capital Structure

a) Share capital

The authorized and issued share capital of Nairobi Securities Exchange PLC consists of only ordinary shares as disclosed in note 24 to the financial statements.

b) Top 20 Shareholders at 31 December 2021

No	Shareholder	Number of shares	%
1.	Standard Chartered Kenya Nominees Ltd A/C KE004468	41,764,400	16.06%
2.	Standard Chartered Kenya Nominees Ltd A/C KE22446	27,115,973	10.43%
3.	Standard Chartered Kenya Nominees Ltd A/C KE003414	14,356,494	5.52%
4.	Stanbic Nominees Ltd A/C NR1030823	12,523,399	4.82%
5.	Stanbic Nominees Ltd AC NR1031436	9,871,233	3.80%
6.	The Investor Compensation Fund Board	8,750,000	3.37%
7.	The Permanent Secretary to The Treasury	8,750,000	3.37%
8.	Stanbic Nominees Ltd A/C NR1030824	8,397,067	3.23%
9.	Standard Chartered Kenya Nominees Ltd A/C KE22816	7,247,499	2.79%
10.	Sterling Capital Limited	7,000,000	2.69%
11.	Nyaga Stock Brokers Ltd	7,000,000	2.69%
12.	Discount Securities Limited	7,000,000	2.69%
13.	ABC Capital Limited	7,000,000	2.69%
14.	Kingdom Securities Limited	7,000,000	2.69%
15.	Renaissance Capital (Kenya) Limited	7,000,000	2.69%
16.	Stanbic Nominees Ltd A/C NR1031142	6,879,090	2.65%
17.	Dyer & Blair Investment Bank Limited	4,300,000	1.65%
18.	Africa Allied investors Ltd	4,236,300	1.63%
19.	NCBA Investment Bank	3,500,000	1.35%
20.	Old Mutual Securities Ltd	2,215,700	0.85%
Top 20 shareholders		201,907,155	77.66%
Others		58,097,165	22.34%
Total issued shares		260,004,320	100.00%
		=====	=====

Corporate Governance Statement (Continued)

Capital Structure (Continued)

c) Distribution of Shareholders at 31 December 2021

	Number of Shareholders	Number of shares	%
Less than 500	2,967	506,320	0.195%
501 – 5,000	9,286	12,384,665	4.763%
5,001 – 10,000	624	4,507,376	1.734%
10,001 – 100,000	629	16,089,088	6.188%
100,001 – 1,000,000	46	11,336,016	4.360%
Above 1,000,000	28	215,180,855	82.760%
Total	13,580 =====	260,004,320 =====	100% =====

Corporate Governance Statement (Continued)

Capital Structure (Continued)

d) Shareholder Analysis by Domicile at 31 December 2021

	Number of Shareholders	Number of shares	%
Individual investors			
Local	12,773	34,363,707	12.34%
East African	85	249,871	0.10%
Foreign	<u>107</u>	<u>4,712,431</u>	<u>1.47%</u>
	12,965	39,326,009	13.91%
Institutional investors			
Local	593	86,614,596	35.20%
East African	5	3,833	0.02%
Foreign	17	134,059,882	50.87%
	615	220,678,311	86.09%
Total	<u>13,580</u>	<u>260,004,320</u>	<u>100%</u>

e) Directors Holding Shares at 31 December 2021

	Number of shares	%
Mr. Paul Vollant	1,460,000	0.562%
Mr. Geoffrey Odundo	49,000	0.019%
Mr. Stephen Chege	<u>15,467</u>	<u>0.006%</u>
Total	<u>1,524,467</u>	<u>0.586%</u>

Corporate Governance Policy Statements

Code of Corporate Governance Principles

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

In compliance with the Code, NSE conducted a Governance Audit and the Legal & Compliance Audit in 2018 through Strategic Business Solutions International Limited (SBSIL). All recommendations made during the audit were fully implemented.

However, NSE is planning to do a Legal and Governance audit in 2022 in line with amendments to The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 through circular no.1 of 2020 released by the Capital Markets Authority on January 2, 2020.

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

Board Charter

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

The NSE Board Charter outlines the;

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

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

Board Diversity

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

Corporate Governance Statement (Continued)

Corporate Governance Policy Statements (Continued)

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

The Board Profiles on pages 22 has more details on size, age, gender, qualifications among other factors.

Board Induction and Training

The NSE Board has established a formal induction program for the Board. All Board members receive induction on joining the Board and are updated on the various skills and knowledge at regular intervals.

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

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

Board Remuneration

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

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

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

Code of Ethics and Conduct

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

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

Corporate Governance Statement (Continued)

Corporate Governance Policy Statements (Continued)

Whistleblowing

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

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

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

Insider Dealing

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

Conflict of Interest

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

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

Enterprise Risk Management

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

(More notes on page 37 - 44)

Corporate Governance Statement (Continued)

Corporate Governance Policy Statements (Continued)

Information and Communication Technology

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

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

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

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

Procurement Policy

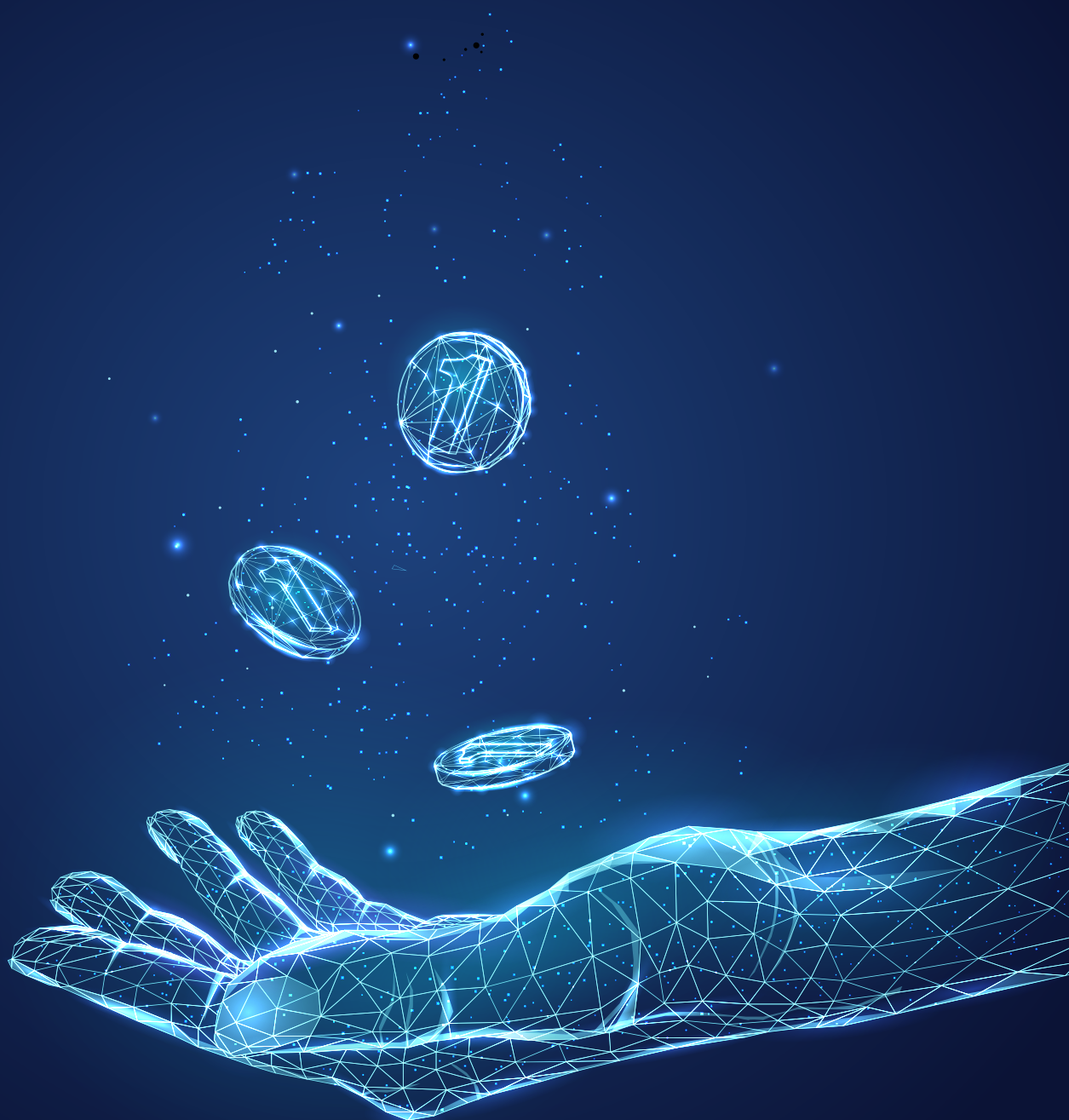
We have in place a robust Procurement Policy that ensures appropriate risk assurance, integrity in all procurement activities, consistency across the organizations purchasing practices and openness and transparency of decision making when dealings with suppliers/service providers.

The policy is based on notable principles: namely, value for money, open and fair competition, risk management, accountability and building mutually beneficial relationships with our suppliers. A Management Tender Committee oversees the award of tenders and reports to the Finance and Strategy Committee of the Board based on the limits as set out in the Procurement Policy and Procedures.

Directors'

Remuneration

NSE Annual Report &
Financial Statements



Directors' Remuneration Report

Information Not Subject To Audit

Statement of Group's policy on directors' remuneration

a) Nairobi Securities Exchange PLC

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

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

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

There were no substantial changes to the Director's remuneration policy during the year 2021.

b) NSE Clear Limited

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

There were no substantial changes to the Director's remuneration policy during the year 2021.

Directors' Remuneration Report (Continued)

Information Not Subject To Audit (Continued)

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

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

There were no substantial changes to the trustees' remuneration policy during the year 2021.

Contract of service

a) Nairobi Securities Exchange PLC

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

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

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

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

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

Directors' Remuneration Report (Continued)

Information Not Subject To Audit (Continued)

b) NSE Clear

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

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

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

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

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

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

a) Nairobi Securities Exchange PLC

During the Annual General Meeting held on 3rd June 2021, the shareholders approved the fees paid to the Directors fees for the year ended 31st December 2020 by show of hands.

At the Annual General Meeting to be held on 3rd June 2022, approval will be sought from shareholders for the fees paid to the Directors for the financial year ended 31st December 2021.

b) NSE Clear Limited

During the Annual General Meeting held on 13th May 2021, the shareholders approved the fees paid to the Directors for the year ended 31st December 2020 by show of hands.

At the Annual General Meeting to be held on 11th May 2022, approval will be sought from shareholders for the fees paid to the Directors for the financial year ended 31st December 2021.

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

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

Directors' Remuneration Report (Continued)

Information Subject To Audit

The following table shows a single figure remuneration for the Chairman, Non-Executive Directors and Executive Director in respect of qualifying services for the year ended 31st December 2021 together with the comparative figures for 2020.

Year ended 31 December 2021

Name	Category	Fees	Sitting allowances	Gross pay + other allowances	Provident scheme contribution	Total
		Kshs	Kshs	Kshs	Kshs	Kshs
Kiprono Kittony	Non-Executive	1,200,000	565,714	-	-	1,765,714
Bob Karina*	Non-Executive	480,000	821,429	-	-	1,301,429
Hosea Kili	Non-Executive	360,000	564,286	-	-	924,286
Isis Madison	Non-Executive	720,000	1,257,142	-	-	1,977,142
Nasim Devji	Non-Executive	360,000	328,571	-	-	688,571
Michael Turner	Non-Executive	720,000	1,042,857	-	-	1,762,857
Paul Vollant	Non-Executive	720,000	942,857	-	-	1,662,857
Paul Mwai*	Non-Executive	840,000	1,371,429	-	-	2,211,429
Risper Alaro	Non-Executive	720,000	1,214,286	-	-	1,934,286
Samuel Kimani*	Non-Executive	360,000	678,571	-	-	1,038,571
Donald Wangunyu	Non-Executive	360,000	435,714	-	-	795,714
Stephen Chege	Non-Executive	360,000	371,428	-	-	731,428
Geoffrey Odundo	Executive	-	-	24,589,136	2,222,400	26,811,536
		<u>7,200,000</u>	<u>9,594,284</u>	<u>24,589,136</u>	<u>2,222,400</u>	<u>43,605,820</u>
		=====	=====	=====	=====	=====

*Included in the Director's fees for the year ended 31 December 2021 is amounts relating to fees earned for services rendered in other NSE Group Companies as tabulated below:

Directors' Remuneration Report (Continued)

Information Subject To Audit (Continued)

	Sitting Allowances			
	NSE Clear	IPF	SGF	Total
	Kshs	Kshs	Kshs	Kshs
Samuel Kimani	57,143	57,143	57,143	171,429
Bob Karina	57,143	57,143	57,143	171,429
Paul Mwai	57,143	57,143	57,143	171,429
	<u>171,429</u>	<u>171,429</u>	<u>171,429</u>	<u>514,287</u>
	=====	=====	=====	=====

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

Year ended 31 December 2020

Name	Category	Fees	Sitting allowances	Gross pay + other allowances	Provident scheme contribution	Total
		Kshs	Kshs	Kshs	Kshs	Kshs
Kiprono Kittony	Non-Executive	960,000	888,571	-	-	1,848,571
Bob Karina*	Non-Executive	960,000	1,771,429	-	-	2,731,429
Hosea Kili*	Non-Executive	720,000	1,214,285	-	-	1,934,285
Isis Nyong'o	Non-Executive	720,000	1,371,428	-	-	2,091,428
Nasim Devji	Non-Executive	720,000	814,285	-	-	1,534,285
Michael Turner	Non-Executive	720,000	1,271,429	-	-	1,991,429
Paul Vollant*	Non-Executive	720,000	1,285,714	-	-	2,005,714
Paul Mwai	Non-Executive	720,000	1,285,714	-	-	2,005,714
Risper Alaro	Non-Executive	720,000	1,342,857	-	-	2,062,857
Samuel Kimani	Non-Executive	960,000	1,291,428	-	-	2,251,428
Geoffrey Odundo	Executive	-	-	22,662,500	2,222,400	24,884,900
		<u>7,920,000</u>	<u>12,530,740</u>	<u>22,662,500</u>	<u>2,222,400</u>	<u>45,342,040</u>
		=====	=====	=====	=====	=====

*Included in the Director's fees for the year ended 31 December 2020 is amounts relating to fees earned for services rendered in other NSE Group Companies as tabulated below:

Directors' Remuneration Report (Continued)

Information Subject To Audit (Continued)

	NSE Clear	IPF	SGF	Sitting Allowances
	Kshs	Kshs	Kshs	Total Kshs
Samuel Kimani	114,286	114,286	114,286	342,857
Bob Karina	114,286	114,286	114,286	342,857
Paul Volland	57,143	57,143	57,143	171,429
Hosea Kili	57,143	57,143	57,143	171,429
	<u>342,858</u>	<u>342,858</u>	<u>342,858</u>	<u>1,028,572</u>
	=====	=====	=====	=====

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

Mr. Kuria Waithaka



Secretary

29 March 2022

Cash & Derivatives Market Report

NSE Annual Report &
Financial Statements



Cash And Derivatives Market Report For The Year Ended

31 December 2021



Terrence Adembesa

Chief Business Officer (former)

The Nairobi Securities Exchange (NSE) remained resilient in a gradually improving operating environment following a challenging prior FY20 following the outbreak and spread of the COVID-19 Pandemic.

Following a contraction in real Gross Domestic Product (GDP) in the FY20, FY21 recorded significant improvements supported by rebounds in various sectors specifically trade, transport, services and industry. The rebound came against a backdrop of improving private consumptions, employment conditions and household incomes. The improvements in both the demand and the supply side enhanced economic performance in the year with the World Bank estimating a 5.0 percent growth in real GDP in the FY21.

During the period under review, Management prioritised delivering key objectives of the sustainable business growth pillar of the Group's 2020-2024 Strategic Plan. The cash market and derivatives report will outline our achievements in the period under review and demonstrate our ability to develop innovative solutions to enable issuers and investors raise and deploy capital

in Kenya.

As I will highlight in this report, Management delivered a promising performance setting momentum for a strong recovery in our Cash and Derivatives market business lines.

Main Board Listings

Management actively engaged both the private and public sector in an effort to seek listings.

On the private sector space, Management had a number of roadshow engagements with local corporates on the opportunities available in the capital markets. Management is confident that these long term efforts while raising the much needed awareness and required capital market knowledge will gradually bear the much needed corporate listings.

Management further engaged with the National Treasury and the Privatization Commission on the development of a deal pipeline to support the Government's funding objectives. Management will continue to engage and it is our hope that the incoming administration will heed the call to tap into the equities market, critically as well to help in the achievement of the objective of moving Kenya into an emerging market.

Increased Momentum on the Corporate Bond Market

The year under review marked yet another recovery period for the corporate bond market. The market continued its strong performance underscoring its attractiveness as a preferred capital raising avenue for enterprises seeking debt capital in Kenya.

The bond market attracted four additional listings bringing the total number of outstanding corporate bonds to five. The issuers included Centum Real Estate, Family Bank, East Africa Breweries Limited and the Kenya Mortgage Refinance Company who collectively raised Kshs. 18 Billion.

The offers equally enjoyed a positive performance with three of the four issues enjoying record oversubscriptions. The performance is a testament of

the markets depth and ability to support issuers raise significant amount of debt capital from the market.

Management continues to engage potential issuers in the bond market to increase opportunities for investors and enable companies raise capital.

Taking Leadership in the Unquoted Market in Kenya

In FY21, the NSE launched the Unquoted Securities Market (USP), a world class market infrastructure aimed at facilitating the trading, clearing and settlement of unquoted securities in Kenya. The launch of this market infrastructure sought to address legacy concerns in the unquoted market such as inefficiencies in the transfer of securities, lack of liquidity as well as inability to raise capital effectively for unlisted companies. The USP offers an automated solution that will enable the market grow and thrive.

Since its launch, the USP has quoted two Real Estate Investment Trusts (REITs); the Acorn-Acorn Student Accommodation (ASA) Development REIT and the ASA Income REIT.

Through the USP, the two REITs have attracted domestic retail and institutional investors evidenced by the high volume of shares traded over the review period. Collectively, the two REITs traded shares worth 17,740,500 valued at 362,945,922 in the year 2021. The performance cements our product ability to address challenges in the unquoted market in its first year of launch.

17m worth of REITs Trades 2021

This year, Management seeks to connect more issuers to capital through this platform whilst enhancing efficiencies in the transfer of securities in the unquoted markets. Management is working towards extending these solutions to unlisted financial sector players as well as leading private enterprises.

The Exchange hopes that the USP will equally provide a strong pipeline of companies that will graduate to the main market segments.

Raising Additional Capital through the Equity Market

In the year under review manufacturer, Crown Paints PLC raised Kshs. 642 Million in their rights issue recording an oversubscription of 13.7 percent.

Building Pipeline through the Ibuka Program

In recognition of the challenges companies face, the NSE developed Ibuka, an incubation and acceleration program aimed at preparing companies to list or access other capital raising options available through the NSE.

Through the program, Ibuka registered companies have enjoyed bespoke advisory services supporting them to restructure various aspects of their businesses in preparation of future capital raises on our debt or equity markets.

In the FY21, Management admitted four companies on the program including Ashleys Kenya Limited, Automobile Association of Kenya, Ruai Family Hospital and Optiven Group.

Currently, two of the companies in the program are in the process of selecting transaction advisors in preparation of their listing and/or capital raises whilst five have applied to join the Unquoted Securities Platform.

Exchange Traded Funds

As investors globally continue to shift from active investments to passive investments, the NSE continues to position itself to support investors deploy capital passively through Exchange Traded Funds.

According to Refinitiv Lipper Data, global exchange traded funds received a record USD 1.22 Trillion in inflows last year. The record growth in assets tracking passive investments through ETFs is an indicator of future trends in preference by investors.

High returns, low costs as well as transparency continue to attract investments in ETFs globally and there is growing demand for similar investment products in Kenya.

As a market anchored on meeting local investor demands while positioning to leverage future trends, the NSE launched the Exchange Traded Fund in FY17 with the first ETF, the ABSA Gold ETF listed on the market.

In the year under review, the listed ETF continued its impressive performance driven by heightened demand by investors seeking to hedge against price volatility in equity markets as uncertainty driven by variant COVID-19 viruses increased in the year.

Management is currently engaging various international issuers to issue ETFs tracking performance of various off-shore securities as well as the index. Management is equally working closely with other market players to enhance knowledge and awareness of the product.

Real Estate Investment Trusts

Real Estate Investment Trusts (REITs) continue to attract issuers specifically property developers and property owners in Kenya. In the year under review, two new REIT schemes were approved by the Capital Markets Authority providing momentum for growth of REITs as an alternative to raising capital.

Management is currently engaging leading property developers and entrepreneurs to launch and list REITs.

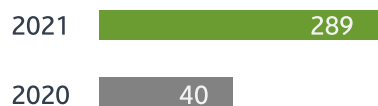
The following members were active in the NSE derivatives market (NEXT) in 2021; AIB-AXYS Africa Ltd (AIBC), Genghis Capital Ltd (GENC), Kingdom Securities Ltd (KING), Standard Investment Bank (STIB), Sterling Capital Ltd (STER), Faida Investment Bank Ltd (FINB), NCBA Investment Bank Ltd (NICS), EGM Securities Ltd (EGMS), and NCBA Custody (NICC) all trading under the Co-operative Bank (K) Ltd as their clearing bank. Notably, EGM Securities Ltd joined the market during the year becoming the first non-dealing online forex broker to offer NSE derivatives securities.

The 2021 period saw the introduction of market making in the derivatives market which significantly boosted

trading activity. Turnover for 2021 stood at Kshs. 289 million representing a gain of over 600% compared to 2020 (Kshs. 40 million) while average daily turnover stood at Kshs. 1.2 million representing a 380% gain over 2020 (Kshs. 0.25 million).

In terms of securities traded, Safaricom Plc (SCOM), Equity Group Holdings Plc (EQTY) and KCB Group Plc (KCBG) were the most actively traded securities by turnover accounting for 81% of total turnover. This reflected similar trading patterns observed in the equities market with investors seeking additional returns in the derivatives market by trading the aforementioned futures contracts to take advantage of various market events affecting the securities.

Turnover (KSh) KSh 289m



Open interest, which represents the total number of outstanding positions held by investors in the market, peaked at 939 contracts worth approximately Kshs. 36 million in 2021 up from previous highs of 468 contracts worth Kshs. 15.6 million. This increase was supported by improved confidence by investors in taking up larger positions as market liquidity grew.

Overall, the market continued to be retail dominated thanks to the relative ease of onboarding retail clients and the segment's speed and willingness to test new products. The market was also supported by increased participation by high net worth clients and multi-asset balanced funds with flexible investment mandates that took advantage of the leveraged returns offered by the derivatives market.

The Exchange will continue to engage key stakeholders in order to continue to grow the market. The team will specifically focus on:

Enhancing awareness, knowledge and training of key market participants and the wider investment community;

Engaging administrators, trustees and fund managers to address the need to update Investment Policy

Statements that govern local institutional assets; and

Onboarding of online trading members who have built a sizeable community of retail investors who are active in trading offshore and volatile markets across a diversified pool of asset classes.

Outlook for the year 2022

Management is keen on increasing the number of companies raising equity and debt capital through the market. In recognition of challenges that might emanate from the upcoming general election, Management will work towards working with clients to close current transactions before the election as well as build a strong pipeline for business growth in the year 2022.

Operations & IT Department

NSE Annual Report &
Financial Statements



Operations And IT Department



David Wainaina

Chief Operating Officer

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

The financial year under review presented a number of opportunities. It was the year that the Department championed the launch of the unquoted Trading platform. (USP). The objective of the USP is to assist companies regardless of the balance sheet size access long term funds through the capital market. This can be undertaken through restricted offers or private placements. Where a company has an existing register the same can be availed to the USP for purposes of secondary trading.

It was also the year when the Department led the rolling out of day trading. This means that investors can buy and sell listed securities within the same day. Day trading enabled investors to participate in covered shot selling which means that an investor can sell shares bought in the same trading session. To make day trading more attractive the NSE Board approved a 5% discount on the close out trade which is levied at 0.114% as

opposed to 0.12%. This discount is enjoyed directly by the investor. Day trading has so far contributed approximately 2% of the market activity on average.

From a system perspective the Department continued to manage a world class equities infrastructure provided by the millennium IT which is part of the London stock Exchange Group. The system was extremely resilient devoid of any system issues. It is worth noting that the market achieved 100% system availability throughout the year. On the backend of this system is a broker back office system. This system has mature gateways which brokers are able to sponsor clients who may wish to trade directly. This connectivity is guided by the NSE trading rules with a trading participant as the sponsor. (Sponsored access) . The NSE continued to invest considerably in cyber security and is certain of the cyber resilience of the business.

On the bonds section, the Department in liaison with the Central Bank of Kenya (CBK) were able to scope a bond interface to support secondary trading of bonds in the new depository by the CBK currently under implementation. Once the new CDS is rolled

40%

increase in Data revenue

out the NSE will continue supporting a transparent secondary market for fixed income securities including Government and corporate bonds. It is worth noting that during the current financial year the bonds market registered the highest trading activity of 936 Billion.

Finally, on the information services front the team embarked on marketing reliable and credible market data in NSE's possession. This was done at local and international level resulting to a 40% growth in data revenue from Ksh 39M to Ksh 51M. We noted that there was increased appetite by data consumers to assist in making investment decisions. This was channeled through licensed data vendors as well as the NSE Website.

In conclusion the Department is bullish that building on the 2021 foundation we expect better performance in 2022 guided by the revised 2020-2022 strategic plan.

Financial Statements

NSE Annual Report &
Financial Statemets



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Statement Of Directors' Responsibilities

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

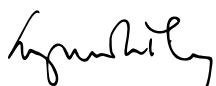
The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act 2015. They also accept responsibility for:

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

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

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

Approved by the Board of Directors on 29 March 2022 and signed on its behalf by



Mr. Kiprono Kittony
Chairman



Ms. Risper Alaro
Director



Mr. Geoffrey O. Odundo
Chief Executive



Independent Auditor's Report To The Shareholders Of The Nairobi Securities Exchange Plc

Report On The Financial Statements

Our opinion

We have audited the accompanying financial statements of Nairobi Securities Exchange PLC ("NSE"/ the "Company") and its subsidiaries and structured entities (together, the "Group") set out on pages 89 to 158, which comprise the consolidated statement of financial position at 31 December 2021 and the consolidated statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with the separate statement of financial position of the Company at 31 December 2021, the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company at 31 December 2021 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and company 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 consolidated and company financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

Independent Auditor's Report To The Shareholders Of The Nairobi Securities Exchange Plc (Continued)

Report On The Financial Statements (Continued)

Other Matters

The financial statement of NSE PLC for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2021.

Other information

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

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

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

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

Responsibilities of the Directors for the consolidated and company financial statements

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

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

Independent Auditor's Report To The Shareholders Of The Nairobi Securities Exchange Plc (Continued)

Auditors' responsibilities for the audit of the consolidated and company financial statements

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

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

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

Independent Auditor's Report To The Shareholders Of The Nairobi Securities Exchange Plc (Continued)

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

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

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

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

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

Report of the Directors

In our opinion the information given in the report of the directors on page 19 to 25 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 72 to 74 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Anne Muraya, Practising certificate No. 1697.



For and on behalf of Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Nairobi

29 March 2022

Statement Of Profit Or Loss And Other Comprehensive Income for The Year Ended 31 December 2021

	Notes	Group		Company	
		2021 Kshs'000	2020 Kshs'000	2021 Kshs'000	2020 Kshs'000
Revenue	6	550,593	548,257	544,635	548,257
Interest income	9	105,752	85,138	93,880	68,195
Other income	10	57,922	36,544	64,537	73,060
Total income		714,267	669,939	703,052	689,512
Administrative expenses		(500,010)	(467,212)	(486,518)	(457,507)
Share of (loss)/profit of associate	15(b)	(3,389)	16,187	(1,910)	8,930
Profit before income tax	7	210,868	218,914	214,624	240,935
Income tax expense	11(a)	(78,334)	(50,996)	(71,305)	(49,562)
Profit after tax for the year		132,534	167,918	143,319	191,373
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Fair value gain/(loss) on equity instruments at fair value through other comprehensive income net of deferred tax		26,613	(5,764)	26,613	(5,764)
Total items that will not be reclassified to profit or loss		26,613	(5,764)	26,613	(5,764)
Items that may be reclassified to profit or loss					
Share of exchange differences from associate arising from translation of foreign operation	15(b)	108	(101)	60	(56)
Total items that may be reclassified to profit or loss		108	(101)	60	(56)
Total other comprehensive income		26,721	(5,865)	26,673	(5,820)
Total comprehensive income for the year		159,255	162,053	169,992	185,553
		=====	=====	=====	=====
		Kshs	Kshs	Kshs	Kshs
Earnings per share - Basic and diluted	30	0.51	0.65	0.55	0.74
		=====	=====	=====	=====

Statement Of Profit Or Loss And Other Comprehensive Income for The Year Ended 31 December 2021

	Notes	Group		Company	
		2021	2020	2021	2020
		Kshs'000	Kshs'000	Kshs'000	Kshs'000
Profit for the year attributable to:					
Ordinary equity holders of the parent	30	130,525	167,801	143,319	191,373
Non-controlling interests	16(e)	2,009	117	-	-
		<u>132,534</u>	<u>167,918</u>	<u>143,319</u>	<u>191,373</u>
		=====	=====	=====	=====
Total comprehensive income for the year					
attributable to:					
Ordinary equity holders of the parent		157,246	161,936	169,992	185,553
Non-controlling interests	16 (e)	2,009	117	-	-
		<u>159,255</u>	<u>162,053</u>	<u>169,992</u>	<u>185,553</u>
		=====	=====	=====	=====

Consolidated Statement Of Financial Position At 31 December 2021

	Notes	2021 Kshs'000	2020 Kshs'000
ASSETS			
Non-current assets			
Property and equipment	12	171,382	196,439
Investment property	13	313,100	313,100
Intangible assets	14	126,217	148,550
Investment in associate	15 (b)	236,752	287,667
Financial assets at fair value through other comprehensive income – Quoted equity instruments	17	75,333	48,720
Long-term restricted investments	19	144,333	170,938
Deferred income tax	20	-	5,007
		<u>1,067,117</u>	<u>1,170,421</u>
Current assets			
Trade and other receivables	21 (a)	92,419	69,654
Financial assets at fair value through profit or loss - Government securities	18	365,598	281,144
Tax recoverable	11 (c)	32,423	19,222
Fixed deposits	22	43,766	126,469
Short-term restricted cash and investment	22	238,652	243,488
Cash and cash equivalents	22	374,417	402,748
		<u>1,147,275</u>	<u>1,142,725</u>
TOTAL ASSETS		<u>2,214,392</u>	<u>2,313,146</u>
		=====	=====
EQUITY AND LIABILITIES			
Equity			
Share capital	24	1,040,017	1,038,003
Share premium	25	278,579	277,185
Retained earnings		746,246	883,258
Other reserves		536	428
Revaluation reserve		2,433	(24,180)
		<u>2,067,811</u>	<u>2,174,694</u>
Equity attributable to the owners of the parent			
Non-controlling interest	16 (e)	17,518	15,509
Total equity		<u>2,085,329</u>	<u>2,190,203</u>
Non-current liabilities			
Settlement Guarantee Fund members contributions	26	11,750	35,250
Tenant deposits	27 (a)	2,216	3,233
Deferred income tax	20	1,137	-
		<u>15,103</u>	<u>38,483</u>
Current liabilities			
Trade and other payables	27 (b)	44,490	50,194
Dividends payable	28	67,070	32,066
Trading members' contributions		2,400	2,200
		<u>113,960</u>	<u>84,460</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<u>2,214,392</u>	<u>2,313,146</u>
		=====	=====

The financial statements on pages 89 to 158 were approved and authorised for issue by the Board of Directors on 29 March 2022 and were signed on its behalf by:

Mr. Kiprono Kittony
Chairman

Ms. Risper Alaro
Director

Mr. Geoffrey O. Odondo
Chief Executive

Company Statement Of Financial Position at 31 December 2021

	Notes	2021 Kshs'000	2021 Kshs'000
ASSETS			
Non-current assets			
Property and equipment	12	171,380	196,436
Investment property	13	313,100	313,100
Intangible assets	14	126,217	148,550
Investment in associate	15 (b)	112,619	140,905
Investment in subsidiaries and structured entities	16	241,899	241,899
Financial assets at fair value through other comprehensive income – Quoted equity instrument	17	75,333	48,720
Deferred income tax	20	-	587
		<u>1,040,548</u>	<u>1,090,197</u>
Current assets			
Trade and other receivables	21 (a)	89,435	67,672
Due from related party	31	12,913	6,526
Financial assets at fair value through profit or loss - Government securities	18	365,598	281,144
Tax recoverable	11 (c)	27,248	15,405
Fixed deposits	22	27,933	126,469
Short-term restricted cash and investments	22	238,652	243,488
Cash and cash equivalents	22	362,834	401,027
		<u>1,124,613</u>	<u>1,141,731</u>
TOTAL ASSETS		<u>2,165,161</u>	<u>2,231,928</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	24	1,040,017	1,038,003
Share premium	25	278,579	277,185
Retained earnings		735,465	859,683
Other reserves		3	(57)
Revaluation reserve		2,433	(24,180)
		<u>2,056,497</u>	<u>2,150,634</u>
Shareholders' funds		<u>2,056,497</u>	<u>2,150,634</u>
Non-current liabilities			
Tenant deposits	27(a)	2,216	3,233
Deferred income tax	20	1,719	-
		<u>3,935</u>	<u>3,233</u>
Current liabilities			
Trade and other payables	27 (b)	38,285	46,621
Dividends payable	28	66,444	31,440
		<u>104,729</u>	<u>78,061</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<u>2,165,161</u>	<u>2,231,928</u>

The financial statements on pages 89 to 158 were approved and authorised for issue by the Board of Directors on 29 March 2022 and were signed on its behalf by:

Mr. Kiprono Kittony
Chairman

Ms. Risper Alaro
Director

Mr. Geoffrey O. Odundo
Chief Executive

Consolidated Statement Of Changes In Equity for The Year Ended 31 December 2021

	Share capital Kshs'000	Share premium Kshs'000	Other reserves Kshs'000	**Revaluation reserve Kshs'000	Retained Earnings Kshs'000	Due to owners of the parent Kshs'000	Non- controlling interest Kshs'000	Total equity Kshs'000
Year ended 31 December 2020								
At start of year	1,038,003	277,185	323	(18,416)	732,992	2,030,087	56,113	2,086,200
Profit for the year	-	-	-	-	167,801	167,801	117	167,918
Other comprehensive income, net of	-	-	(101)	(5,764)	-	(5,865)	-	(5,865)
Total comprehensive income for the year	-	-	(101)	(5,764)	167,801	161,936	117	162,053
Dividend paid by AKS Nominees	-	-	-	-	(2,391)	(2,391)	-	(2,391)
2019 dividend declared in the year	-	-	-	-	(20,760)	(20,760)	-	(20,760)
Reduction in NCI on increase in shareholding in AKS Nominees Ltd	-	-	206	-	5,616	5,822	(40,721)	(34,899)
	=====	=====	=====	=====	=====	=====	=====	=====
At end of year	1,038,003	277,185	428	(24,180)	883,258	2,174,694	15,509	2,190,203
	=====	=====	=====	=====	=====	=====	=====	=====
Year ended 31 December 2021								
At start of year	1,038,003	277,185	428	(24,180)	883,258	2,174,694	15,509	2,190,203
Profit for the year	-	-	-	-	130,525	130,525	2,009	132,534
Other comprehensive income, net of tax	-	-	108	26,613	-	26,721	-	26,721
Total comprehensive income for the year	-	-	108	26,613	130,525	157,246	2,009	159,255
2020 dividend declared in the year	-	-	-	-	(137,535)	(137,535)	-	(137,535)
2021 special dividend declared in the year	-	-	-	-	(130,002)	(130,002)	-	(130,002)
Issue of shares to employees share ownership plan	2,014	1,394	-	-	-	3,408	-	3,408
	=====	=====	=====	=====	=====	=====	=====	=====
At end of year	1,040,017	278,579	536	2,433	746,246	2,067,811	17,518	2,085,329
	=====	=====	=====	=====	=====	=====	=====	=====

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

Company Statement Of Changes In Equity for The Year Ended 31 December 2021

	Share capital	Share premium	Other reserves	Revaluation Reserve	Retained earnings	Total equity
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Year ended 31 December 2020						
At start of year	1,038,003	277,185	(1)	(18,416)	689,070	1,985,841
Profit for the year	-	-	-	-	191,373	191,373
Other comprehensive income, net of tax	-	-	(56)	(5,764)	-	(5,820)
Total comprehensive income for the year	-	-	(56)	(5,764)	191,373	185,553
2019 dividend declared in the year	-	-	-	-	(20,760)	(20,760)
At end of year	1,038,003	277,185	(57)	(24,180)	859,683	2,150,634
	=====	=====	=====	=====	=====	=====
Year ended 31 December 2021						
At start of year	1,038,003	277,185	(57)	(24,180)	859,683	2,150,634
Profit for the year	-	-	-	-	143,319	143,319
Other comprehensive income, net of tax	-	-	60	26,613	-	26,673
Total comprehensive income for the year	-	-	60	26,613	143,319	169,992
2020 dividend declared in the year	-	-	-	-	(137,535)	(137,535)
2021 special dividend declared in the year	-	-	-	-	(130,002)	(130,002)
Issue of shares to employee share ownership plan	2,014	1,394	-	-	-	3,408
At end of year	1,040,017	278,579	3	2,433	735,465	2,056,497
	=====	=====	=====	=====	=====	=====

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

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

Statement Of Cash Flows for The Year Ended 31 December 2021

		Group		Company	
	Notes	2021	2020	2021	2020
		Kshs'000	Kshs'000	Kshs'000	Kshs'000
Cash flows from operating activities					
Cash generated from operations	29	135,901	136,289	141,719	181,581
Tax paid	11 (c)	(85,391)	(19,982)	(80,842)	(16,262)
Net cash from operating activities		50,510	116,307	60,877	165,319
Cash flows from investing activities					
Purchase of property and equipment	12	(5,528)	(9,920)	(5,528)	(9,920)
Purchase of intangible assets	14	(3,648)	(10,848)	(3,648)	(10,848)
Interest received		105,752	85,138	93,880	68,195
Dividend received from associate	15 (b)	47,634	2,700	26,436	2,700
Dividends received by subsidiary		-	2,160	-	-
Proceeds on disposal of equipment		4,117	85	4,117	85
Net investment in treasury bonds		(84,567)	(169,296)	(84,454)	(169,296)
Investment in subsidiary	16 (b)	-	(34,899)	-	(34,899)
Investment in market making fund		(712)	-	(712)	-
Net cash generated from/(used in) investing activities		63,048	(134,880)	30,091	(153,983)
Cash flows from financing activities					
Dividends paid	28	(232,533)	(19,801)	(232,533)	(19,696)
Contributions from clearing members	26	(23,500)	-	-	-
Net cash used in financing activities		(256,033)	(19,801)	(232,533)	(19,696)
(Decrease)/increase in cash and cash equivalents		(142,475)	(38,374)	(141,565)	(8,360)
Cash and cash equivalents at the start of year	22	943,643	982,017	770,984	779,344
Cash and cash equivalents at the end of year	22	801,168	943,643	629,419	770,984
Consisting of:					
Bank balance	22	374,417	402,748	362,834	401,027
Short-term restricted cash and investment	22	238,652	243,488	238,652	243,488
Fixed deposits	22	43,766	126,469	27,933	126,469
Long-term restricted investments	19	144,333	170,938	-	-
Cash and cash equivalents at the end of year		801,168	943,643	629,419	770,984

Notes To The Financial Statements

1. Reporting Entity

The Nairobi Securities Exchange Plc (NSE/the “Company”/the “Exchange”), formerly known as the Nairobi Securities Exchange Limited, was incorporated in Kenya under the Companies Act and is domiciled in Kenya. The NSE is licensed as an exchange by the Capital Markets Authority (CMA) of Kenya and obtained a license on 19 October 2015 to operate a derivatives exchange. The NSE currently has the primary market services as a main line of business. The consolidated financial statements of the Group at and for the year ended 31 December 2021 comprise the Company and subsidiaries and controlled structured entities (collectively referred to as the “Group”) and reflect the Company’s interest in an associate company.

2. Standards And Interpretations Affecting The Reported Results Or Financial Position

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

a) Statement of compliance

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

b) Basis of preparation

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

i. Basis of measurement

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

Notes To The Financial Statements (Continued)

2. Standards And Interpretations Affecting The Reported Result Or Financial Position (Continued)

b) Basis of preparation (continued)

i. Basis of measurement (continued)

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

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

ii. Use of estimates and judgment

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

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

i. Relevant new standards and amendments to published standards effective for the year ended 31 December 2021

Several new and revised standards and interpretations became effective during the year. The Directors have evaluated the impact of the new standards and interpretations and none of them had a significant impact on the Group's financial statements.

The following revised IFRSs were effective in the current year and the nature and the impact of the relevant amendments are described below.

Impact of the initial application of Interest Rate Benchmark Reform

In the prior year, the Phase 1 amendments Interest Rate Benchmark Reform—Amendments to IFRS 9/ IAS 39 and IFRS 7 came into effect. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

Notes To The Financial Statements (Continued)

2. Standards And Interpretations Affecting The Reported Result Or Financial Position (Continued)

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2021 (continued)

The Phase 2 amendments Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as ‘risk free rates’ or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

Both the Phase 1 and Phase 2 amendments are not relevant to the Group.

Impact of the initial application of COVID-19-Related Rent Concessions beyond 30 June 2021—Amendments to IFRS 16

In the prior year, Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16 was amended. This practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before 30 June 2021.

In March 2021, the Board issued Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2022.

The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying IFRS 16 as if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- Any reduction in lease payments affects only payments originally due on or before 30 June 2022 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022)
- There is no substantive change to other terms and conditions of the lease
- Impact on accounting for changes in lease payments applying the exemption

The amendments are not applicable to the Group in the current year.

Notes To The Financial Statements (Continued)

2. Standards And Interpretations Affecting The Reported Result Or Financial Position (Continued)

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

ii. Impact of new and amended standards and interpretations in issue but not yet effective

At the date of authorization of these financial statements, the Group has not yet applied the following new and revised IFRS Standards that have been issued but are not yet effective.

New and Amendments to standards	Effective for annual periods beginning on or after
Amendments to IAS 10 and IAS 28 – Sale contribution of assets between Investor and its Associate or Joint Venture	Yet to be set, however earlier application permitted
Annual Improvements to IFRS Standards 2018-2020 Cycle - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture	Annual periods beginning on or after 1 January 2022
IFRS 17 - insurance contracts	Annual periods beginning on or after 1 January 2023
Amendments to IAS 1 -Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2023
Amendments to IFRS 3 - Reference to the Conceptual Framework	Annual periods beginning on or after 1 January 2022
Amendments to IFRS 16 - Property, Plant and Equipment – Proceeds before Intended Use	Annual periods beginning on or after 1 January 2022
Amendments to IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract	Annual periods beginning on or after 1 January 2022
Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies	Annual periods beginning on or after 1 January 2023
Amendments to IAS 8 - Definition of Accounting Estimates	Annual periods beginning on or after 1 January 2023
Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction	Annual periods beginning on or after 1 January 2023

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Notes To The Financial Statements (Continued)

2. Standards And Interpretations Affecting The Reported Result Or Financial Position (Continued)

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

(ii) Impact of new and amended standards and interpretations in issue but not yet effective (continued)

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted. The directors of the Group anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Annual Improvements to IFRS Standards 2018–2020.

The Annual Improvements include amendments to four Standards.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements.

As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current .

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

Notes To The Financial Statements (Continued)

2. Standards And Interpretations Affecting The Reported Result Or Financial Position (Continued)

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

(ii) Impact of new and amended standards and interpretations in issue but not yet effective (continued)

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IFRS 3 business combinations – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Amendments to IAS 16 – Property, Plant and Equipment—Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

Notes To The Financial Statements (Continued)

2. Standards And Interpretations Affecting The Reported Result Or Financial Position (Continued)

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

(ii) Impact of new and amended standards and interpretations in issue but not yet effective (continued)

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

Notes To The Financial Statements (Continued)

2. Standards And Interpretations Affecting The Reported Result Or Financial Position (Continued)

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

(ii) Impact of new and amended standards and interpretations in issue but not yet effective (continued)

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8—Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error
- A change in accounting estimate that results from new information or new developments is not the correction of an error
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

Notes To The Financial Statements (Continued)

2. Standards And Interpretations Affecting The Reported Result Or Financial Position (Continued)

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

(ii) Impact of new and amended standards and interpretations in issue but not yet effective (continued)

The Board added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The Board has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The Board also adds an illustrative example to IAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognises:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:
- Right-of-use assets and lease liabilities
- Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

Notes To The Financial Statements (Continued))

3. Summary Of Significant Accounting Policies

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Nairobi Securities Exchange Plc and its subsidiaries, controlled structured entities, a limited liability partnership and interest in associate company made up to 31 December 2021. These have all been fully consolidated.

i. Subsidiaries

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

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

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

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

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

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

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.1 Basis of consolidation (continued)

i. Subsidiaries (continued)

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

ii. Structured entities

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

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

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

iii. Investment in associate

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

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

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.1 Basis of consolidation (continued)

iv. Partnership

Additionally, in 2021, the Company incorporated a Limited Liability Partnership namely NSE LLP. The Partners of the LLP are the Chief Executive and the Chief Operating Officer of the NSE PLC. The LLP also has a Management Committee that oversees the day to day activities of the LLP. The Management Committee of the LLP reports to the Board of Directors of NSE PLC. The principal activity of the LLP is to run the recently launched Unquoted Scrips Platform. As per the Partnership Deed, NSE PLC shall contribute 100% of the capital of the NSE LLP, and all profit and losses of the NSE LLP shall be allocated to NSE PLC. Separate financial statements are prepared for the NSE LLP and independent external audit performed.

3.2 Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Groups' interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3.3 Foreign currencies

i. Functional and Presentation currency

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

ii. Transactions and balances

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

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

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

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.4 Revenue recognition

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

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

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

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

Interest income from a financial asset is recognised on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

Management fee is charged by the NSE to the subsidiaries and structured entities to cater for expenses attributable to investment and treasury management services, staff costs and other general and administrative overheads.

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

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

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.5 Property and equipment

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

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

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

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

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

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

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

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

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

3.6 Intangible assets

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

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.

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

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.

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 2021, this amount was Kshs 239 million (2020: Kshs 243 million). The amounts are reflected as short-term restricted investments (note 22).

Long-term restricted cash and investments

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

3.10 Financial instruments

i. Equity Instruments

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

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

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.10 Financial instruments(Continued)

i. Equity Instruments (continued)

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

ii. Debt instruments

a) Recognition and subsequent measurement

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

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

- the Group's business model for managing the financial assets; and
- the cash flow characteristics of the asset.

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVTOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/ (losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVTPL:** Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/ (losses) in the period in which it arises.

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.10 Financial instruments(Continued)

ii. Debt instruments (continued)

b) Recognition and subsequent measurement

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

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

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

c) Impairment

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

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

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

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.10 Financial instruments(Continued)

ii. Debt instruments (continued)

c) Impairment (continued)

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

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

The general approach

The simplified approach

The General Approach

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

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

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

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

The Simplified approach

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

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.10 Financial instruments (Continued)

ii. Debt instruments (Continued)

c) Impairment (Continued)

Definition of default

The Group will consider a financial asset to be in default when:

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

In assessing whether the counterparty or borrower is in default, the Group considers indicators that are:

- Qualitative: e.g. Breach of covenant and other indicators of financial distress;
- Quantitative: e.g. Overdue status and non-payment of another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.
- Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk (SIICR)

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

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

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

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.10 Financial instruments (Continued)

ii. Debt instruments (Continued)

c) Impairment (Continued)

Significant increase in credit risk (SIICR) (continued)

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

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

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

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of the following variables:

- Probability of Default (PD)
- Loss given default (LGD) and
- Exposure at default (EAD)

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

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

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

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.10 Financial instruments (Continued)

ii. Debt instruments (Continued)

c) Impairment (Continued)

Measurement of ECL (Continued)

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

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

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

Trade and other receivables

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

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

d) Modification of contracts

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

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

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

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.10 Financial instruments (Continued)

ii. Debt instruments (Continued)

d) Modification of contracts (Continued)

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

e) Write off policy

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

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

3.11 Cash and cash equivalents

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

3.12 Taxation

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

Current income tax

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

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

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.12 Taxation (Continued)

Deferred income tax

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

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

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

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

Current and deferred income tax for the year

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

3.13 Employee entitlements

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

3.14 Segmental reporting

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

Notes To The Financial Statements (Continued)

3. Summary Of Significant Accounting Policies (Continued)

3.15 Retirement benefit obligations

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

3.16 Dividends payable

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

3.17 Earnings per share

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

3.19 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 36.

3.20 Comparatives

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

Notes To The Financial Statements (Continued)

4. Accounting Judgments And Key Sources Of Estimation Uncertainty

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

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

Taxes

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

Valuation of financial instruments

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

Valuation of land and building

The fair value model has been applied in accounting for land and building. The Group commissioned external, independent and professionally qualified real estate valuers that hold recognised relevant professional qualification and have recent experience in the location and type of property valued to determine the fair value of the property as at 31 December 2021 and 2020 on the basis of open market value. The current use of the portion of the land and building accounted for as investment property equates to the highest and best use.

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

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. The market was launched in July 2020.

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

Notes To The Financial Statements (Continued)

5. Operating Segments (Continued)

Statement of financial position

	Cash equities and interest rate market	Derivatives market	Total
	Kshs'000	Kshs'000	Kshs'000
2021			
ASSETS			
Government securities	365,598	-	365,598
Long-term restricted investments	-	144,333	144,333
Short-term restricted cash and investments	238,652	-	238,652
Cash, cash equivalents and fixed deposits	426,340	1,855	428,195
Other assets	1,038,252	7,809	1,046,061
	<u>2,068,842</u>	<u>153,997</u>	<u>2,222,839</u>
	=====	=====	=====
LIABILITIES			
Settlement Guarantee Fund members contribution	-	11,750	11,750
Trade and other payables	40,322	4,168	44,490
Dividends payable	67,070	-	67,070
Tenant deposits	2,215	-	2,215
Trading members' contributions	-	2,400	2,400
	<u>109,607</u>	<u>18,318</u>	<u>127,925</u>
	=====	=====	=====
2020			
ASSETS			
Government securities	281,144	-	281,144
Long-term restricted investments	-	170,938	170,938
Short-term restricted cash and investments	243,488	-	243,488
Cash, cash equivalents and fixed deposits	529,176	41	529,217
Other assets	1,079,004	9,355	1,088,359
	<u>2,132,812</u>	<u>180,334</u>	<u>2,313,146</u>
	=====	=====	=====
LIABILITIES			
Settlement Guarantee Fund members contribution	-	35,250	35,250
Trade and other payables	47,305	2,889	50,194
Dividends payable	32,066	-	32,066
Tenant deposits	3,233	-	3,233
Trading members' contributions	-	2,200	2,200
	<u>82,604</u>	<u>40,339</u>	<u>122,943</u>
	=====	=====	=====
2021			
Additions to non-current assets	(67,757)	(25,152)	(92,909)
	=====	=====	=====
Non-current assets	927,306	150,206	1,077,512
	=====	=====	=====
2020			
Additions to non-current assets	(109,589)	(26,926)	(136,515)
	=====	=====	=====
Non-current assets	995,063	175,358	1,170,421
	=====	=====	=====

Notes To The Financial Statements (Continued)

5. Operating Segments (Continued)

Statement of profit or loss and other comprehensive income

	Cash equities and interest rate market	Derivatives market	Total
	Kshs'000	Kshs'000	Kshs'000
2021			
Revenue	550,593	-	550,593
Interest income	94,078	11,674	105,752
Other income	55,934	1,988	57,922
Total income	700,605	13,662	714,267
Administrative expenses	(489,022)	(10,988)	(500,010)
Share of profit of associate	(3,389)	-	(3,389)
Profit before income tax	208,194	2,674	210,868
	=====	=====	=====
2020			
Revenue	548,257	-	548,257
Interest income	68,204	16,934	85,138
Other income	36,513	31	36,544
Total income	652,974	16,965	669,939
Administrative expenses	(458,630)	(8,582)	(467,212)
Share of profit of associate	16,187	-	16,187
Profit before income tax	210,531	8,383	218,914
	=====	=====	=====

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	
	2021 Kshs'000	2020 Kshs'000	2021 Kshs'000	2020 Kshs'000
6 Revenue				
Revenue recognized at a point in time				
Transaction levy	396,765	405,219	396,765	405,219
Initial listing fees	5,300	2,688	5,300	2,688
Application and additional listing fees	981	1,542	981	1,542
Unquoted securities platform fees	5,958	-	-	-
	<u>409,004</u>	<u>409,449</u>	<u>403,046</u>	<u>409,449</u>
Revenue recognized over time				
Annual listing fees	65,760	69,918	65,760	69,918
Broker back office subscription	23,377	23,691	23,377	23,691
Market access fee	-	8,334	-	8,334
Data vending	52,452	36,865	52,452	36,865
	<u>141,589</u>	<u>138,808</u>	<u>141,589</u>	<u>138,808</u>
	<u>550,593</u>	<u>548,257</u>	<u>544,635</u>	<u>548,257</u>
	=====	=====	=====	=====
7 Profit Before Income Tax				
The profit before income tax is arrived at after charging/(crediting):				
Employee benefits (note 8)	171,841	172,270	171,841	172,270
Depreciation of property and equipment (note 12)	29,512	33,559	29,511	33,558
Amortisation of intangible assets (note 14)	25,403	24,319	25,403	24,319
Directors' emoluments:				
- Executive (note 31 a))	26,812	24,885	26,812	24,885
- Non-executive (note 31 a))	16,794	20,457	16,280	19,429
Auditor's remuneration	4,841	4,207	3,671	3,093
Gain/(loss) on disposal of equipment	1,443	(1)	1,443	(1)
Revaluation deficit on valuation of property (note 12 and 13)	-	(379)	-	(379)
Increase/(decrease) in impairment of financial assets measured at amortised cost (note 34 (b) (iii))	1,266	3,966	140	4,043
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

Notes To The Financial Statements (Continued)

	Group		Company	
	2021 Kshs'000	2020 Kshs'000	2021 Kshs'000	2020 Kshs'000
8 Employee Benefits				
Salaries and wages	142,604	155,744	142,604	155,744
Bonus	11,647	-	11,647	-
Leave pay expense	3,511	1,239	3,511	1,239
Provident fund contribution	13,842	15,169	13,842	15,169
Social security costs (NSSF)	237	118	237	118
	<u>171,841</u>	<u>172,270</u>	<u>171,841</u>	<u>172,270</u>
	=====	=====	=====	=====
The staff numbers as at 31 December 2021 were 44 (2020: 49).				
9 Interest Income				
Interest on term deposits	55,834	63,471	43,962	46,528
Interest on treasury bonds	48,953	20,508	48,953	20,508
Interest on staff loans and advances	965	1,159	965	1,159
	<u>105,752</u>	<u>85,138</u>	<u>93,880</u>	<u>68,195</u>
	=====	=====	=====	=====
10 Other Income				
Fair value gain on property	-	379	-	379
Rental income	9,069	10,317	9,069	10,317
Miscellaneous income	1,071	254	1,071	254
Training fees	2,479	1,639	2,480	1,639
M-Akiba fees	-	3	-	3
Private transfer fee	931	739	931	739
Nomad fees	375	400	375	400
Gain on disposal of equipment	2,458	1	2,458	1
Annual members fees	3,350	3,650	3,350	3,650
Ibuka fees	1,670	234	1,670	234
Dividend income – quoted instrument	6,500	6,025	6,500	6,025
Surplus distributed by SGF	-	-	7,277	34,852
Gain on trading book	28,451	11,984	26,634	11,984
Management fees	-	-	1,325	1,695
IPF levy	58	8	-	-
Margin interest	113	23	-	-
Exchange gain	500	792	500	792
Derivatives fees	142	19	142	19
Equity levies market making	755	-	755	-
Unrealised gain on mark to market treasury bond	-	77	-	77
	<u>57,922</u>	<u>36,544</u>	<u>64,537</u>	<u>73,060</u>
	=====	=====	=====	=====

Notes To The Financial Statements (Continued)

	Group		Company	
	2021 Kshs'000	2020 Kshs'000	2021 Kshs'000	2020 Kshs'000
11 Taxation				
a) Taxation charge				
Current income tax				
Current year expense	72,190	53,742	68,999	50,874
Deferred income tax (note 20)				
Current year credit/(charge)	854	(2,746)	2,306	(1,312)
Potential deferred tax asset not recognized	5,290	-	-	-
	<u>78,334</u>	<u>50,996</u>	<u>71,305</u>	<u>49,562</u>
	=====	=====	=====	=====
b) Reconciliation of taxation charge to the expected tax based on accounting profit				
Profit before income tax	210,868	218,914	214,624	240,935
	=====	=====	=====	=====
Tax calculated at a tax rate of 30% (2020: 25%)	63,260	62,167	64,387	60,233
Expenses not deductible for tax purposes	10,913	-	8,047	-
Net tax effects on items not deductible for tax	(1,129)	(11,171)	(1,129)	(10,671)
Potential deferred tax asset not recognized	5,290	-	-	-
	<u>78,334</u>	<u>50,996</u>	<u>71,305</u>	<u>49,562</u>
	=====	=====	=====	=====
c) Current income tax movement				
At start of year	(19,222)	(52,982)	(15,405)	(50,017)
Charge to profit or loss	72,190	53,742	68,999	50,874
Tax paid	(85,391)	(19,982)	(80,842)	(16,262)
	<u>(32,423)</u>	<u>(19,222)</u>	<u>(27,248)</u>	<u>(15,405)</u>
	=====	=====	=====	=====
Made up of:				
Current income tax recoverable	(32,511)	(19,277)	(27,248)	(15,405)
Current income tax payable	88	55	-	-
	<u>(32,423)</u>	<u>(19,222)</u>	<u>(27,248)</u>	<u>(15,405)</u>
	=====	=====	=====	=====

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Notes To The Financial Statements (Continued)

12 Property And Equipment (Continued) - Company

	Building Kshs'000	Motor vehicles Kshs'000	Furniture& fittings Kshs'000	Office equipment Kshs'000	Computer equipment Kshs'000	WIP Kshs'000	Total Kshs'000
COST OR VALUATION							
At 1 January 2020	126,900	17,392	89,399	40,049	84,134	-	357,874
Additions	-	-	-	2,057	8,242	-	10,299
Disposals	-	-	-	(638)	(2,681)	-	(3,319)
Adjustments	(379)	-	-	-	-	-	(379)
Revaluation surplus	379	-	-	-	-	-	379
At 1 January 2021	126,900	17,392	89,399	41,468	89,695	-	364,854
Additions	-	-	-	1,367	500	3,661	5,528
Disposals	-	(4,620)	-	(1,948)	(19,020)	-	(25,588)
At 31 December 2021	126,900	12,772	89,399	40,887	71,175	3,661	344,794
Comprising:							
At valuation	126,900	-	-	-	-	-	126,900
At cost	-	12,772	89,399	40,887	71,175	3,661	217,894
Cost or valuation	126,900	12,772	89,399	40,887	71,175	3,661	344,794
DEPRECIATION							
At 1 January 2020	-	5,067	60,255	20,016	52,757	-	138,095
Charge for the year	-	4,348	10,916	6,848	11,446	-	33,558
Eliminated on disposal	-	-	-	(638)	(2,597)	-	(3,235)
At 1 January 2021	-	9,415	71,171	26,226	61,606	-	168,418
Charge for the year	-	3,578	8,871	6,744	10,318	-	29,511
Eliminated on disposal	-	(3,946)	-	(1,623)	(18,946)	-	(24,515)
At 31 December 2021	-	9,047	80,042	31,347	52,978	-	173,414
NET BOOK VALUE							
At 31 December 2021	126,900	3,725	9,357	9,540	18,197	3,661	171,380
At 31 December 2020	126,900	7,977	18,228	15,242	28,089	-	196,436

Notes To The Financial Statements (Continued)

12 Property And Equipment (Continued) - Group And Company

No depreciation has been charged in arriving at the result for the year in respect of certain fully depreciated equipment with a cost of Kshs 115.9 million (2020: Kshs 63.5 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 Kshs 13.2 million (2020: Kshs 12.6 million).

The building has been stated at its revalued amounts, being the fair value at 31 December 2021 less any subsequent depreciation. The revaluation was done on the basis of market comparable approach reflecting the highest and best use by Tysons Limited, an independent registered valuer.

13 Investment Property - Group And Company

	2021 Kshs'000	2020 Kshs'000
VALUATION		
At 1 January and 31 December	313,100 =====	313,100 =====

The fair value of the Group's investment property at 31 December 2021 and 31 December 2020 have been arrived at on the basis of a valuation carried out at 31 December 2021 and 31 December 2020 by Tysons Limited, an independent registered valuer. The fair value was adjusted for in the books of the Group and Company. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

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

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31/12/21 Kshs'000	31/12/20 Kshs'000				
Buildings	126,900	126,900	Level 2	Market comparable approach- Highest and best use	N/A	N/A
Investment property	313,100	313,100	Level 2			
Total	440,000 =====	440,000 =====				

Notes To The Financial Statements (Continued)

14 Intangible Assets - Group And Company

	Automated trading system software Kshs'000	Other software Kshs'000	Broker back office software Kshs'000	Bond software license Kshs'000	Derivatives software Kshs'000	WIP Kshs'000	Total Kshs'000
COST							
At 1 January 2020	72,443	40,877	75,195	38,191	54,338	933	281,977
Additions	7,202	2,031	-	-	-	1,615	10,848
Transfer from WIP	371	506	-	-	-	(877)	-
At 1 January 2021	80,016	43,414	75,195	38,191	54,338	1,671	292,825
Additions	63	513	2,756	-	-	316	3,648
Disposals	-	(8,521)	-	-	-	-	(8,521)
Transfer from WIP	-	1,672	-	-	-	(1,672)	-
At 31 December 2021	80,079	37,078	77,951	38,191	54,338	315	287,952
AMORTISATION							
At 1 January 2020	1,791	26,375	51,033	38,191	2,566	-	119,956
Amortisation for the year	7,536	3,830	7,519	-	5,434	-	24,319
At 1 January 2021	9,327	30,205	58,552	38,191	8,000	-	144,275
Amortisation for the year	8,006	4,352	7,611	-	5,434	-	25,403
Eliminated on disposal	-	(7,943)	-	-	-	-	(7,943)
At 31 December 2021	17,333	26,614	66,163	38,191	13,434	-	161,735
NET BOOK VALUE							
At 31 December 2021	62,746	10,464	11,788	-	40,904	315	126,217
	=====	=====	=====	=====	=====	=====	=====
At 31 December 2020	70,689	13,209	16,643	-	46,338	1,671	148,550
	=====	=====	=====	=====	=====	=====	=====

No amortisation has been charged in arriving at the results for the year in respect of certain fully depreciated intangible assets with a cost of Kshs 53.9 million (2020: Kshs 60.9 million) which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to Kshs 13.5 million (2020: Kshs 15.2 million).

Notes To The Financial Statements (Continued)

15 Investment In Associate

The investment in associate represents an investment in Central Depository and Settlement Corporation Limited (CDSC). The Group held an ownership percentage of 40.5% at 31 December 2021 (2020: 40.5%). The proportion of the voting rights in the associate held by the Company does not differ from the proportion of ordinary shares held.

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

		Country of incorporation and operation		Number of shares held by NSE @ Kshs 100 per share		Proportion of ownership interest and voting power held by NSE	
		Group		2021	2020	2021	2020
CDSC	Kenya			708,750	708,750	40.5%	40.5%
				=====	=====	=====	=====
		Company					
CDSC	Kenya			393,750	393,750	22.5%	22.5%
				=====	=====	=====	=====

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

The Group shareholding in AKS Nominees Ltd is 88.8% (2020: 88.8%) as disclosed in note 16). AKS holds an 18% shareholding in the ordinary shares of the CDSC in 2021 (2020: 18%).

b) The movement in the balance is as follows:

	Group		Company	
	2021 Kshs'000	2020 Kshs'000	2021 Kshs'000	2020 Kshs'000
At start of year	287,667	276,441	140,905	134,731
Share of profit for the year (note 15 (e))	(3,389)	16,187	(1,910)	8,930
Share of other comprehensive income for the year (note 15 (e))	108	(101)	60	(56)
Dividends received	(47,634)	(4,860)	(26,436)	(2,700)
At end of year	236,752	287,667	112,619	140,905
	=====	=====	=====	=====

Notes To The Financial Statements (Continued)

15 Investment In Associate (Continued)

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

Total assets	615,203	667,865	615,203	667,865
Total liabilities	(114,673)	(41,619)	(114,673)	(41,619)
	=====	=====	=====	=====
Net assets	500,530	626,246	500,530	626,246
	=====	=====	=====	=====
Group's share of net assets of associate	202,715	253,630	112,619	140,905
	=====	=====	=====	=====
Total revenue for the year	290,481	323,903	290,481	323,903
	=====	=====	=====	=====
Total profit for the year	(7,256)	40,496	(7,256)	40,496
	=====	=====	=====	=====

	Group		Company	
	2021	2020	2021	2020
	Kshs'000	Kshs'000	Kshs'000	Kshs'000

d) Reconciliation of share of net assets of associate to investment in associate

Share of net assets (note 15 (c))	202,715	253,630	112,619	140,905
Goodwill	34,037	34,037	-	-
	=====	=====	=====	=====
Balance as statement of financial position	236,752	287,667	112,619	140,905
	=====	=====	=====	=====

e) Share of profit of the associate:

Company

Being the direct shareholding at 22.5%

(2020 – 22.5%)

Share of (loss)/profit of associate	(3,389)	8,930	(1,910)	8,930
Share of other comprehensive income	108	(56)	60	(56)
	=====	=====	=====	=====
	(3,281)	8,874	(1,850)	8,874
	=====	=====	=====	=====

Notes To The Financial Statements (Continued)

15 Investment In Associate (Continued)

e) Share of profit of the associate (continued)

Group				
Being the direct shareholding at 22.5% (2020: 22.5%) (as computed for Company above) and the indirect shareholding at 18% from the acquisition date (2020 – 18%)				
Indirect shareholding at 18% (2020 – 18%)				
Share of (loss)/ profit of associate	(1,479)	7,257	-	-
Share of other comprehensive income	48	(45)	-	-
	<u>(1,431)</u>	<u>7,212</u>	<u>-</u>	<u>-</u>
	=====	=====	=====	=====
Total group share of profit and OCI at 40.5% (2020 – 40.5%)				
Total share of (loss)/ profit of associate	(3,389)	16,187	(1,910)	8,930
Total share of other comprehensive income	60	(101)	60	(56)
	<u>(3,326)</u>	<u>16,086</u>	<u>(1,850)</u>	<u>8,874</u>
	=====	=====	=====	=====

16 Investment In Subsidiaries And Structured Entities - Company

	Principal activity	Holding	2021 Kshs'000	2020 Kshs'000
Investment in subsidiaries				
Investment in NSE Clear Limited (note a)	Clearing house	100%	20,000	20,000
Investment in AKS Nominees Ltd (note b)	Investment	88.8%	111,899	111,899
			<u>131,899</u>	<u>131,899</u>
Investment in structured entities (note c):				
NSE Derivatives Settlement Guarantee Fund	Settlement guarantee fund		100,000	100,000
NSE Derivatives Investor Protection Fund	Investor protection fund		10,000	10,000
			<u>110,000</u>	<u>110,000</u>
			<u>241,899</u>	<u>241,899</u>
			=====	=====

a) Investment in subsidiary – NSE Clear Limited

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

Notes To The Financial Statements (Continued)

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

The license to operate a Derivatives Exchange was granted to the Nairobi Securities Exchange Limited on 19 October 2015. The derivatives market was launched in July 2019.

b) Investment in subsidiary – AKS Nominees Ltd

The Group shareholding in AKS Nominees Ltd (AKS) is 88.8% (2020: 88.8%) for a consideration of Kshs 112 million (2020: Kshs 112 million). AKS holds an 18% shareholding in the ordinary shares of the CDSC in 2021 (2020 – 18%).

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

c) Investment in structured entities

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

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

d) Non-controlling interest (NCI)

The total NCI at 31 December 2021 is Kshs 17,518,000 (2020: Kshs 15,509,000) all of which relates to AKS Nominees Limited at 11% shareholding (2020: 11%).

The following table summarises the financial information relating to the Group's company that has significant non-controlling interest.

Notes To The Financial Statements (Continued)

16 Investment In Subsidiaries And Structured Entities – Company (Continued)

d) Non-controlling interest (NCI)

	2021 Kshs'000'	2020 Kshs'000
Total assets	160,406	139,942
Total liabilities	(1,535)	(1,365)
Net assets	158,871	138,577
Revenue	21,346	2,169
Profit before tax	20,367	1,046
Taxation	(59)	(2)
Total comprehensive income	20,308	1,044
Reconciliation of NCI		
Movement in the non-controlling interest is as follows:		
At start of the year	15,509	56,113
Reduction in NCI on additional shareholding in subsidiary	-	(40,721)
NCI's share of profit	2,009	117
	17,518	15,509

17 Financial Assets At Fair Value Through Other Comprehensive Income- Quoted Equity Instruments – Group And Company

	2021 Kshs'000	2020 Kshs'000
At start of year	48,720	49,880
Fair value gain/(loss) through other comprehensive income	26,613	(1,160)
At end of year	75,333	48,720

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

Notes To The Financial Statements (Continued)

18 Government Securities – Group And Company

	2021 Kshs'000	2020 Kshs'000
At fair value through profit or loss		
Treasury bonds held for trading	375,627	283,126
Less: Fair value losses	(6,385)	(1,982)
Unamortized balance	(3,644)	-
	<u>365,598</u>	<u>281,144</u>
	=====	=====

The weighted average effective interest rate on the treasury bonds at fair value through profit or loss for year ended 31 December 2021 was 14.4 % (2020: 12.7%).

19 Long-Term Restricted Investments

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

	Group	
	2021 Kshs'000	2020 Kshs'000
NSE Clear Limited	20,005	20,022
NSE Derivatives Settlement Guarantee Fund	114,033	138,966
NSE Derivatives Investor Protection Fund	11,878	12,445
	<u>145,916</u>	<u>171,433</u>
Less: provision for expected credit losses	(1,583)	(495)
	<u>144,333</u>	<u>170,938</u>
	=====	=====

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

Notes To The Financial Statements (Continued)

20 Deferred Income Tax

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 30% (2020: 30%) The net deferred tax asset is attributable to the following items:

	Group		Company	
	2021	2020	2021	2020
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Accelerated capital allowances	(4,399)	(1,639)	(4,399)	(1,639)
Straight-lined rental income	(693)	(985)	(693)	(985)
Unrealized foreign exchange loss/(gain)	65	(116)	65	(116)
Leave provision	441	329	441	329
Tax losses	5,710	4,747	-	476
Provision for expected credit losses	4,095	4,054	3,934	3,905
Fair value loss on equity instruments at FVTOCI	1,894	-	1,894	-
Treasury bond amortization	(2,960)	(1,383)	(2,960)	(1,383)
Potential deferred tax asset not recognized	(5,290)			
	(1,137)	5,007	(1,719)	587
	=====	=====	=====	=====
The movement in the deferred income tax asset is as follows:				
At start of year	5,007	6,865	587	3,879
Credit/(charge) to profit or loss (note 11 a))	(854)	2,746	(2,306)	1,312
(Charge)/credit to other comprehensive income	-	(4,604)	-	(4,604)
Potential deferred tax asset not recognized	(5,290)	-	-	-
	(1,137)	5,007	(1,719)	587
	=====	=====	=====	=====
21 Trade And Other Receivables				
a) Trade and other receivables				
Trade receivables	42,228	34,365	42,228	34,365
Prepayments and deposits	22,478	9,950	22,478	9,950
Other receivables	17,559	24,389	17,559	23,470
Due from trading member	10,012	9,300	10,012	9,300
Clearing balances	2,984	1,063	-	-
	95,261	79,067	92,277	77,085
Less: Provision for expected credit losses (note b))	(2,842)	(9,413)	(2,842)	(9,413)
	92,419	69,654	89,435	67,672
	=====	=====	=====	=====

Notes To The Financial Statements (Continued)

21 Trade And Other Receivables (Continued)

	Group		Company	
	2021	2020	2021	2020
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
b) Provision for expected credit losses				
Movements in the provisions for expected credit losses were as follows:				
At start of year	9,413	6,644	9,413	6,644
Charge in the year	679	2,769	679	2,769
Recovered in the year	(2,485)	-	(2,485)	-
Written off in the year	(4,765)	-	(4,765)	-
	<u>2,842</u>	<u>9,413</u>	<u>2,842</u>	<u>9,413</u>
At end of year (note a))	=====	=====	=====	=====

22 Cash And Cash Equivalents And Short-Term Restricted Cash & Investments

Call deposits	32,714	113,242	32,714	113,242
Fixed deposits	601,242	650,149	585,409	650,149
	<u>633,956</u>	<u>763,391</u>	<u>618,123</u>	<u>763,391</u>
Total short-term deposits (note 23)	633,956	763,391	618,123	763,391
Bank and cash balances	26,812	10,935	15,223	9,214
	<u>660,768</u>	<u>774,326</u>	<u>633,346</u>	<u>772,605</u>
Total bank and cash balances and deposits	660,768	774,326	633,346	772,605
Less provision for expected credit losses on:				
Call and fixed deposits (note 23)	(3,601)	(1,565)	(3,601)	(1,565)
Bank and cash balances	(332)	(56)	(326)	(56)
	<u>656,835</u>	<u>772,705</u>	<u>629,419</u>	<u>770,984</u>
	=====	=====	=====	=====
Split into:				
Short-term restricted investments (note 35)	238,652	243,488	238,652	243,488
Cash and cash equivalents	374,417	402,748	362,834	401,027
Fixed deposits – maturity of three months to six months (note 23)	43,766	126,469	27,933	126,469
	<u>656,835</u>	<u>772,705</u>	<u>629,419</u>	<u>770,984</u>
	=====	=====	=====	=====

Notes To The Financial Statements (Continued)

	Group		Company	
	2021	2020	2021	2020
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
23 Short Term Deposits				
Maturing within three months:				
Fixed deposits	557,382	523,660	557,382	523,660
Call deposits	32,714	113,242	32,714	113,242
	<u>590,096</u>	<u>636,902</u>	<u>590,096</u>	<u>636,902</u>
Less: Provision for expected credit losses	(3,481)	(1,601)	(3,481)	(1,601)
	<u>586,615</u>	<u>635,301</u>	<u>586,615</u>	<u>635,301</u>
	=====	=====	=====	=====
Maturing after three months to six months:				
Fixed deposits	43,860	126,489	28,027	126,489
Less: provision for expected credit losses	(94)	(20)	(94)	(20)
	<u>43,766</u>	<u>126,469</u>	<u>27,933</u>	<u>126,469</u>
	=====	=====	=====	=====
Gross total - call and fixed deposits (note 22)	633,956	763,391	618,123	763,391
Total provision for expected credit losses	(3,601)	(1,565)	(3,601)	(1,565)
	<u>630,355</u>	<u>761,826</u>	<u>614,522</u>	<u>761,826</u>
	=====	=====	=====	=====
The deposits are classified and measured at amortised cost.				
The gross carrying deposits were held at the following institutions:				
Co-operative Bank of Kenya Limited	140,502	224,581	124,669	224,581
Equity Bank Kenya Limited	172,082	122,034	172,082	122,034
Diamond Trust Bank Kenya Limited	151,486	148,240	151,486	148,240
Kenya Commercial Bank Limited	-	140,366	-	140,366
NCBA Bank Kenya PLC	169,886	128,170	169,886	128,170
	<u>633,956</u>	<u>763,391</u>	<u>618,123</u>	<u>763,391</u>
	=====	=====	=====	=====

The weighted average effective interest rate on the deposits as at 31 December 2021 was 8.3 %. (2020: 7.4%).

Notes To The Financial Statements (Continued)

	Group		Company	
	2021	2020	2021	2020
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
24 Share Capital				
Authorised share capital:				
At start and end of year:				
375,000,000 ordinary shares of Kshs 4 each	1,500,000	1,500,000	1,500,000	1,500,000
	=====	=====	=====	=====
Issued and fully paid up:				
At start of the year:	1,038,003	1,038,003	1,038,003	1,038,003
(259,500,791 ordinary shares of Kshs 4 each)				
Issue of shares to the employees share ownership plan:	2,014	-	2,014	-
(503,529 shares of Kshs 4 each)				
At end of year	1,040,017	1,038,003	1,040,017	1,038,003
(260,004,320 ordinary shares of Kshs 4 each)	=====	=====	=====	=====
25 Share Premium				
At start of the year:	277,185	277,185	277,185	277,185
Issue of shares at a premium to the employees share ownership plan:	1,394	-	1,394	-
At end of year	278,579	277,185	278,579	277,185
	=====	=====	=====	=====

503,529 ordinary shares were issued in March 2021 to Employees Share Ownership plan at a market price of Kshs 6.77.

	Group		Company	
	2021	2020	2021	2020
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
26 Settlement Guarantee Fund - Member's Contributions				
Co-operative Bank of Kenya Limited	11,750	11,750	-	-
Stanbic Bank Kenya Limited	-	23,500	-	-
	11,750	35,250	-	-
	=====	=====	=====	=====

The contributions were received in cash in 2019. These are refundable contributions made by clearing members to the Settlement Guarantee Fund to cover any claims arising from non-settlement of margins. Each clearing member's contribution is currently at Kshs 23.5 million. The balance of Co-operative Bank of Kenya Limited contributions of Kshs 11.75 million was provided through a bank guarantee of the same amount issued by KCB Bank Kenya Limited on 5th July 2020. Stanbic Bank Kenya Limited ceased to be a clearing member in June 2021.

Notes To The Financial Statements (Continued)

	Group		Company	
	2021 Kshs'000	2020 Kshs'000	2021 Kshs'000	2020 Kshs'000
27 Trade And Other Payables				
a) Non-current portion				
Tenant deposits	2,216	3,233	2,216	3,233
	=====	=====	=====	=====
b) Current portion				
Accrued expenses	18,937	31,499	14,707	29,887
Trade payables	11,524	5,283	11,524	5,283
Other payables	8,785	7,846	8,785	7,846
Staff leave accrual	1,469	1,098	1,469	1,098
Amount payable to Capital Markets Authority	1,688	1,773	1,688	1,773
Tenant deposits	12	-	12	-
Amount payable to associate (note 30 f))	100	734	100	734
Clearing balances	1,975	1,961	-	-
	=====	=====	=====	=====
	44,490	50,194	38,285	46,621
	=====	=====	=====	=====

28 Dividends Payable

The dividends payable represent the first and final dividend for the year ended 31 December 2013 up to 31 December 2021 not paid at year end. The movement in dividends payable during the year was as follows: -

	Group		Company	
	2021 Kshs'000	2020 Kshs'000	2021 Kshs'000	2020 Kshs'000
At start of year	32,066	30,876	31,440	30,376
Declared amount for prior years	137,535	23,151	137,535	20,760
Special dividend declared in the year	130,002	-	130,002	-
Paid during the year	(232,533)	(21,961)	(232,533)	(19,696)
	=====	=====	=====	=====
At end of year	67,070	32,066	66,444	31,440
	=====	=====	=====	=====

Notes To The Financial Statements (Continued)

	Group		Company	
	2021 Kshs'000	2020 Kshs'000	2021 Kshs'000	2020 Kshs'000
29 Cash Flows From Operating Activities				
Profit before income tax	210,868	218,914	214,624	240,935
Adjustments for:				
Depreciation (note 12)	29,513	33,559	29,512	33,558
Amortisation (note 14)	25,403	24,319	25,403	24,319
Share of results of associate (note 15 (b))	3,389	(16,187)	1,910	(8,930)
Interest income (note 9)	(105,752)	(85,139)	(93,880)	(68,195)
Gain on disposal of equipment	(2,466)	-	(2,466)	(1)
(Surplus)/deficit on revaluation of building (note 12)	-	(379)	-	(379)
Surplus distributed by SGF	-	(2,160)	-	-
Issue of ESOP shares	3,408	-	3,408	-
Working capital changes:				
Increase in trade and other receivables	(22,055)	(2,190)	(21,051)	(468)
Decrease in short-term restricted cash				
Decrease in trade and other payables	(5,589)	(35,652)	(8,336)	(37,242)
(Decrease)/increase in tenant deposits	(1,018)	1,404	(1,018)	1,404
Movement in related party balances	-	-	(6,387)	(3,420)
Increase in trading members contributions	200	(200)	-	-
	=====	=====	=====	=====
Cash generated from operations	135,901	136,289	141,719	181,581
	=====	=====	=====	=====

30 Earnings Per Share - Basic And Diluted

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

	Group		Company	
	2021 Kshs'000	2020 Kshs'000	2021 Kshs'000	2020 Kshs'000
Net profit attributable to owners of the Group (Kshs'000)	130,525	167,918	143,319	191,373
	=====	=====	=====	=====
Number of shares at 31 December (in thousands)	260,004	259,501	260,004	259,501
	=====	=====	=====	=====
Basic and diluted earnings per share – Kshs	0.50	0.65	0.55	0.74
	=====	=====	=====	=====

Notes To The Financial Statements (Continued)

31 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 2021, the Group had 9 stockbrokers (2020:9) and 6 licensed investment banks (2020:6) who are shareholders. The following transactions were carried out with related parties:

	Group		Company	
	2021 Kshs'000	2020 Kshs'000	2021 Kshs'000	2020 Kshs'000
31 Related Party Transactions				
a) Directors' emoluments				
Non – executive				
Directors fees and sitting allowances (including committees)	16,794	20,457	16,280	19,429
	=====	=====	=====	=====
Executive				
	26,812	24,885	26,812	24,885
	=====	=====	=====	=====
			Group and Company	
			2021	2020
			Kshs'000	Kshs'000
b) Key management compensation				
Salaries and other short-term employment benefits			61,969	65,137
Other long term benefits			3,907	3,971
			=====	=====
			65,876	69,108
			=====	=====

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 2020: 0.12%) of the value of equity securities traded at the Exchange. During the 12 months period ended 31 December 2021, the total turnover was Kshs 154,292 million (31 December 2020: Kshs 159,852 million) resulting in a transaction levy of Kshs 185 million (31 December 2020: Kshs 191 million). NSE also charges investors, through brokers, a transaction levy of 0.0035% (31 December 2020 – 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 2021 was Kshs 1,302 billion (31 December 2020: Kshs 1,010 billion), resulting in transaction levy of Kshs 45 million (31 December 2020: Kshs 35 million).

Notes To The Financial Statements (Continued)

31 Related Party Transactions (Continued)

	Group		Company	
	2021 Kshs'000	2020 Kshs'000	2021 Kshs'000	2020 Kshs'000
Transaction levy on - equity securities	185,151	191,822	185,151	191,822
Transaction levy on - fixed income securities	45,563	35,363	45,563	35,363
Broker back office subscriptions	15,840	15,840	15,840	15,840
Data fee	1,766	1,929	1,766	1,929
Training	653	210	653	210
NOMAD fee	150	150	150	150
Annual membership fee	1,700	1,700	1,700	1,700
Sponsorship fees	-	300	-	300
Ibuka	80	-	80	-
	<u>250,903</u>	<u>247,314</u>	<u>250,903</u>	<u>247,314</u>
	=====	=====	=====	=====

d) Transactions with companies related to directors

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

	Group	Company
	2021 Kshs'000	2020 Kshs'000
Stockbrokers and investment bank representatives		
Transaction levy on - equity securities	32,218	27,671
Transaction levy on - fixed income securities	8,344	3,713
Broker back office subscriptions	4,320	2,880
Training	380	30
NOMAD fees	75	50
Annual fee	600	400
Sponsorship fees	300	300
Ibuka fees	40	-
	<u>46,277</u>	<u>35,044</u>
	=====	=====
Allowances to broker company directors sitting on Committees but are not Group Directors	43	129
	=====	=====
Listed companies related to directors		
Annual listing fees	4,500	4,500
Advertisement	-	-
Interest income on bank deposits	5,182	1,665
Purchase of data	213	213
Training	200	150
	<u>10,095</u>	<u>6,528</u>
	=====	=====

Notes To The Financial Statements (Continued)

31 Related Party Transactions (Continued)

e) Transactions with associate

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

Expenses relating to:

Share registrar services and depository levies

Dividend processing

Joint Board meetings

398	3,319
-	628
-	-
398	3,947
=====	=====
100	734
=====	=====

Net amounts payable to associate (note 21 (a) and note 26 (b))

		Company	
		2021	2020
		Kshs'000	Kshs'000
31	Related Party Transactions (Continued)		
	f) Transactions with subsidiary and structured entities		
	i. During the period, transactions with NSE Clear Limited were as follows:-		
	Expenses paid by the Company relating to:		
	Audit and tax fees	781	784
	Board allowances	400	457
	Income tax	241	151
	Derivatives platform	921	-
	CMA fees	500	-
	Management fees	209	-
	Other expenses	421	-
		3,473	1,392
		=====	=====
	Amounts due from NSE Clear Limited	8,506	6,524
		=====	=====
	ii. During the period, transactions with NSE Derivatives Investor Protection Fund (IPF) were as follows:-		
	Expenses paid by the Company relating to:		
	Trustee allowances	400	457
	Audit and tax fees	472	467
	Income tax	9	24
	Management fees	128	-
	CMA fees	500	-
	Other expenses	129	-
		1,638	948
		=====	=====
	Amounts due to NSE Derivatives Investor Protection Fund	2	-
		=====	=====

Notes To The Financial Statements (Continued)

		Company	
		2021	2020
		Kshs'000	Kshs'000
31	Related Party Transactions (Continued)		
	f) Transactions with subsidiary and structured entities (continued)		
	iii. During the period, transactions with NSE Derivatives Settlement Guarantee Fund (SGF) were as follows:-		
	Expenses paid by the Company relating to:		
	Income tax	1,814	1,021
	Trustee allowances	400	457
	Audit and tax fees	472	467
	CMA fees	500	-
	Other expenses	130	8
		3,316	1,953
		=====	=====
	Amounts due from the NSE Derivatives SGF	4,401	2
		=====	=====
	iv. During the period, transactions with NSE LLP were as follows:-		
	Expenses paid by the Company relating to:		
	Income tax	1,000	-
	Share of escrow fees	1,113	-
	Other expenses	313	-
		2,426	-
		=====	=====
	Amounts due from the NSE LLP	8	-
		=====	=====
	g) Loans and advances to Executive Director		
	At start of year	3,659	2,963
	Advances made in the year	2,166	4,417
	Loan made in the year	2,771	1,384
		(5,441)	(5,105)
	Repayments in the year	3,155	3,659
	At end of year	=====	=====
	Interest income earned on loan	295	386
		=====	=====

The balances are included in note 21 (a) under Other receivables. The repayment period for the loans and advances are one year and three months respectively. Interest on the loans was at 9% p.a (2020 – 10% p.a). All terms are as per company policy.

Notes To The Financial Statements (Continued)

32 Operating Lease Commitments (Group And Company)

The Group and Company as a lessor:

Lease rental income earned during the year was Kshs 9 million (2020: Kshs 10 million). At the end of the reporting period the Group and Company had existing contracts with tenants for the following minimum lease payments:

	2021 Kshs'000	2020 Kshs'000
Receivable within 1 year	9,909	10,182
Receivable after 1 year but within 5 years	25,926	32,310
Receivable after 5 years	-	3,525
	35,835	46,017
	=====	=====

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

33 Capital Commitments - Group And Company

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

	2021 Kshs'000	2020 Kshs'000
Authorised but not yet contracted for	47,529	76,632
	=====	=====

The capital commitments relate mainly to system infrastructure and support.

34 Risk Management Objectives And Policies

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

a) Market risk

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

i. Interest rate risk (Group and Company)

The Group and Company's investment in interest earning investments are both at amortised cost and fair value through profit or loss. These comprise of treasury bonds and bank deposits which are at fixed interest rates hence not exposed to interest rate risk.

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

Notes To The Financial Statements (Continued)

34 Risk Management Objectives And Policies (Continued)

a) Market risk (Continued)

i. Interest rate risk (Group and Company) (Continued)

The Group and Company's investments are at fixed interest rates and are therefore not exposed to interest rate risk for both 2021 and 2020.

ii. Foreign currency exchange risk (Group and Company)

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

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

	2021 Kshs'000	2020 Kshs'000
Assets		
Cash and bank balances	247	2,283
Other receivables	19	313
Fixed deposit	13,837	11,799
	14,103	14,395
Liabilities		
Accrued expenses	(3,541)	(18,632)
Net position	10,562	(4,237)
	=====	=====

At 31 December 2021, 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 Kshs 1,056,000 (2020: Kshs 424,000) higher/lower mainly as a result of translation of US dollar denominated balances.

iii. Price risk (Group and Company)

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

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

	2021 Kshs'000	2020 Kshs'000
Quoted equity instrument	75,333	48,720
	=====	=====

At 31 December 2021, if the price had weakened/strengthened by 10% against the market share price, the impact on other comprehensive income through revaluation reserve would have been Kshs 7,533,000 (2020 – Kshs 4,872,000).

Notes To The Financial Statements (Continued)

34 Risk Management Objectives And Policies (Continued)

b) Credit risk (Group and Company)

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

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

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

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

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

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

The amount that best represents the Group and Company's maximum exposure to credit risk as at 31 December 2021 and 2020 is made up as follows:

Notes To The Financial Statements (Continued)

34 Risk Management Objectives And Policies (Continued)

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

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

	12 – month expected credit losses	Lifetime expected credit losses		Total
		(a)	(b)	
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Group				
At 31 December 2021				
Government securities	375,627	-	-	375,627
Long-term restricted investments	145,948	-	-	145,948
Trade receivables	40,955	1,273	-	42,228
Other receivables	20,543	1,084	-	21,627
Short-term restricted cash and investments	238,652	-	-	238,652
Cash, cash equivalents and fixed deposits	422,116	-	-	422,166
Gross carrying amount	1,243,841	2,357	-	1,246,198
Loss allowance	(12,420)	(2,357)	-	(14,777)
Exposure to credit risk	1,231,421	-	-	1,231,421
	=====	=====	=====	=====

Notes To The Financial Statements (Continued)

34 Risk Management Objectives And Policies (Continued)

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

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

	12 – month expected credit losses	Lifetime expected credit losses		Total
	Kshs'000	(a) Kshs'000	(b) Kshs'000	Kshs'000
Group				
At 31 December 2020				
Government securities	283,126	-	-	283,126
Long-term restricted investments	171,433	-	-	171,433
Trade receivables	29,312	5,053	-	34,365
Other receivables	20,135	4,254	-	24,389
Short-term restricted cash and investments	243,488	-	-	243,488
Cash, cash equivalents and fixed deposits	530,838	-	-	530,838
Gross carrying amount	1,278,332	9,307	-	1,287,639
Loss allowance	(4,204)	(9,307)	-	(13,511)
Exposure to credit risk	1,274,128	-	-	1,274,128
	=====	=====	=====	=====
Company				
At 31 December 2021				
Government securities	375,627			375,627
Trade receivables	40,955	1,273		42,228
Other receivables	16,475	1,084		17,559
Short-term restricted cash and investments	238,652			238,652
Cash, cash equivalents and fixed deposits	394,695			394,695
Gross carrying amount	1,066,404	2,357		1,068,761
Loss allowance	(10,799)	(2,357)		(13,156)
Exposure to credit risk	1,055,605	-		1,055,605
	=====	=====	=====	=====
At 31 December 2020				
Government securities	283,126	-	-	283,126
Trade receivables	29,312	5,053	-	34,365
Other receivables	19,216	4,254	-	23,470
Short-term restricted cash and investments	243,488	-	-	243,488
Cash, cash equivalents and fixed deposits	529,117	-	-	529,117
Gross carrying amount	1,104,259	9,307	-	1,113,566
Loss allowance	(3,709)	(9,307)	-	(13,016)
Exposure to credit risk	1,100,550	-	-	1,100,550
	=====	=====	=====	=====

Notes To The Financial Statements (Continued)

34 Risk Management Objectives And Policies (Continued)

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

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

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

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

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

- ii. The loss allowances at end of each year relate to the following

	12-month expected credit losses Kshs'000	Lifetime expected credit losses		Total Kshs'000
		(a) Kshs'000	(b) Kshs'000	
Group				
At 31 December 2021				
Government securities	6,385	-	-	6,385
Long-term restricted investments	1,583	-	-	1,583
Trade receivables	155	1,273	-	1,428
Other receivables	330	1,084	-	1,414
Cash, cash equivalents and fixed deposits	3,933	-	-	3,933
Total	12,386	2,357	-	14,743
	=====	=====	=====	=====
At 31 December 2020				
Government securities	1,982	-	-	1,982
Long-term restricted investments	495	-	-	495
Trade receivables	28	5,053	-	5,081
Other receivables	78	4,254	-	4,332
Cash, cash equivalents and fixed deposits	1,621	-	-	1,621
Total	4,204	9,307	-	13,511
	=====	=====	=====	=====

Notes To The Financial Statements (Continued)

34 Risk Management Objectives And Policies (Continued)

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

iii. The loss allowances at end of each year relate to the following

	12-month expected credit losses	Lifetime expected credit losses		Total
	Kshs'000	(a) Kshs'000	(b) Kshs'000	Kshs'000
Company				
At 31 December 2021				
Government securities	6,385	-	-	6,385
Trade receivables	155	1,273	-	1,428
Other receivables	330	1,084	-	1,414
Cash, cash equivalents and fixed deposits	3,928	-	-	3,928
Total	10,798	2,357	-	13,155
	=====	=====	=====	=====
At 31 December 2020				
Government securities	1,982	-	-	1,982
Trade receivables	28	5,053	-	5,081
Other receivables	78	4,254	-	4,332
Cash, cash equivalents and fixed deposits	1,621	-	-	1,621
Total	3,709	9,307	-	13,016
	=====	=====	=====	=====

iv. The changes in the loss allowance during the year were as follows

	12-month expected credit losses	Lifetime expected credit losses		Total
	Kshs'000	(a) Kshs'000	(b) Kshs'000	Kshs'000
Group				
Year ended 31 December 2021				
At start of year	4,204	9,307		13,511
Additions in the year	8,182	(6,950)		1,232
At end of year	12,386	2,357	-	14,743
	=====	=====	=====	=====
Year ended 31 December 2020				
At start of year	6,050	3,495	-	9,545
Additions in the year	(1,846)	5,812	-	3,966
At end of year	4,204	9,307	-	13,511
	=====	=====	=====	=====

Notes To The Financial Statements (Continued)

34 Risk Management Objectives And Policies (Continued)

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

iv) The changes in the loss allowance during the year were as follows (continued)

	12-month expected credit losses	Lifetime expected credit losses		Total
		(a)	(b)	
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Company				
Year ended 31 December 2021				
At start of year	3,709	9,307		13,016
Additions in the year	7,089	(6,950)		139
At end of year	10,798	2,357	-	13,155
	=====	=====	=====	=====
Year ended 31 December 2020				
At start of year	5,478	3,495	-	8,973
Additions in the year	(1,769)	5,812	-	4,043
At end of year	3,709	9,307	-	13,016
	=====	=====	=====	=====

e) 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 Kshs'000	1 – 5 years Kshs'000	Total Kshs'000
Group			
At 31 December 2021			
Financial liabilities			
Tenant deposits	12	2,215	2,227
Trade and other payables	44,478	-	44,478
Dividends payable	67,070	-	67,070
Trading members' contributions	2,400	-	2,400
Settlement Guarantee Fund members contributions	-	11,750	11,750
Total financial liabilities	113,960	13,965	127,925
	=====	=====	=====

Notes To The Financial Statements (Continued)

34 Risk Management Objectives And Policies (Continued)

e) Liquidity risk - Group and Company (Continued)

	Up to 1 year Kshs'000	1 – 5 years Kshs'000	Total Kshs'000
Group			
At 31 December 2020			
Financial liabilities			
Tenant deposits	-	3,233	3,233
Trade and other payables	50,194	-	50,194
Dividends payable	32,066	-	32,066
Trading members' contributions	2,200	-	2,200
Settlement Guarantee Fund members contributions	-	35,250	35,250
Total financial liabilities	84,460	38,483	122,943
	=====	=====	=====
Company			
At 31 December 2021			
Financial liabilities			
Tenant deposits	12	2,215	2,227
Trade and other payables	38,274	-	38,274
Dividends payable	66,444	-	66,444
Total financial liabilities	104,729	2,215	106,945
	=====	=====	=====
At 31 December 2020			
Financial liabilities			
Tenant deposits	3,233	-	3,233
Trade and other payables	46,621	-	46,621
Dividends payable	31,440	-	31,440
Total financial liabilities	81,294	-	81,294
	=====	=====	=====

f) 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.
- 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).

Notes To The Financial Statements (Continued)

34 Risk Management Objectives And Policies (Continued)

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

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

	2021 Kshs'000	2020 Kshs'000
Group and Company		
Level 1		
Financial assets		
Quoted equity instrument	75,333	48,720
	=====	=====
Level 2		
Financial assets		
Government securities	365,598	281,144
	=====	=====

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

- i. Level 1 – We have determined the fair value using quoted prices (unadjusted) from the Dar Es Salaam Stock Exchange.
- ii. Level 2 – We have determined the fair value using the implied yield curve for the bond published by the Nairobi Securities Exchange.

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

	2021 Kshs'000	2020 Kshs'000
Group		
Level 1		
Financial assets		
Government securities	-	-
	=====	=====
Level 2		
Financial assets		
Long-term restricted investments	144,334	170,938
Short-term restricted cash and investments	238,652	243,488
Cash, cash equivalents and fixed deposits	418,183	529,217
	=====	=====
	801,169	943,643
	=====	=====

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.

Notes To The Financial Statements (Continued)

34 Risk Management Objectives And Policies (Continued)

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

Company	2021 Kshs'000	2020 Kshs'000
Level 1		
Financial assets		
Government securities	-	-
	=====	=====
Level 2		
Financial assets		
Short-term restricted cash and investments	238,652	243,488
Cash, cash equivalents and fixed deposits	390,767	527,496
	-----	-----
	629,419	770,984
	=====	=====

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

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

35 Capital Management

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

At 31 December 2021 and 31 December 2020, the Group and Company did not have any borrowings.

36 Minimum Liquid Net-Worth Requirements (Company)

	2021 Kshs'000	2020 Kshs'000
Estimated twelve months operating costs	477,304	486,976
	=====	=====
Required minimum liquid net-worth at one half of estimated operating costs	238,652	243,488
	=====	=====
Cash and cash equivalents and fixed deposits	390,767	527,496
	=====	=====

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

Notes To The Financial Statements (Continued)

37 Contingent Liability

- a.) This is a suit against the NSE that was filed in July 2020 by 7 of the former employees of the NSE who were declared redundant following the restructuring process. The Claimants allege wrongful termination of their employment contracts. The suit is for Kshs 40,256,024 plus general damages to be assessed by the Court. The matter is still pending in Court and has not been provided for in this financial statements.
- b.) This is a suit filed in 2010 by Mercy Nyambura Kanyara & Another against Nyaga Stockbrokers (Under Statutory Management), NSE and other Defendants on assertions that they were in breach of contractual, fiduciary and statutory duties owed to the Plaintiff. The claim is for Kshs 95,199,711 in respect of accrued shares and dividends and the costs of the suit. A ruling was delivered on 5th October 2017 striking out the suit and the Plaintiff filed an appeal against the ruling.



NOTICE OF THE 68TH ANNUAL GENERAL MEETING

NOTICE is hereby given that the **68th Annual General Meeting** of the Nairobi Securities Exchange Plc will be held by **electronic communication**, on **Friday 3rd June 2022** at **11.00 a.m.** to transact the following business:

ORDINARY BUSINESS

1. To read the notice convening the meeting, table the proxies received and confirm the presence of a quorum.
2. To confirm and adopt the Minutes of the Annual General Meeting held on 3rd June 2021.
3. To receive the Chairman's Statement and the Chief Executive's Report.
4. To receive, consider and, if thought fit, adopt the Audited Financial Statements for the year ended 31st December 2021 together with the reports of the Directors and Auditors thereon.
5. To approve a second special dividend of Kshs. 0.50 per share resulting in a total special dividend of Kshs. 1.00 per share (inclusive of the Kshs. 0.50 paid in December 2021) and a final dividend of Kshs. 0.40 per ordinary share, in respect of the Financial Year ended 31st December 2021 and to approve the closure of the Register of Members at the close of business on 3rd June 2022 for one day for the purpose of determining the qualifying members entitled to dividends.
6. To approve the Remuneration Report of the Board as detailed in the Annual Report for the Financial Year ended 31st December 2021 and to authorize the Directors to fix their remuneration.
7. Election of Directors:
 - a) In accordance with Articles 94 and 95 of the Company's Articles of Association, Mr. Kiprono Kittony (an Independent Non-Executive Director) retires by rotation and, being eligible, offers himself for re-election;
 - b) In accordance with Articles 94 and 95 of the Company's Articles of Association, Mr. Paul Vollant (a Non-Executive Director) retires by rotation, and, although being eligible, does not offer himself for re-election; and
 - c) In accordance with Articles 94 and 95 of the Company's Articles of Association, Ms. Isis Nyong'o-Madison (an Independent Non-Executive Director) retires by rotation and, being eligible, offers herself for re-election.
8. In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit, Risk and Compliance Committee, be appointed individually to continue to serve as members of the said Committee:
 - a) Ms. Risper Alaro-Mukoto;
 - b) Ms. Isis Nyong'o Madison (subject to re-election);
 - c) Mr. Michael Turner; and
 - d) Mr. Paul Mwai.

NOTICE OF THE 68TH ANNUAL GENERAL MEETING CONTINUED

9. To reappoint Messrs Deloitte & Touche as the Auditors of the Company, in accordance with the provisions of Section 721(4) of the Companies Act, 2015 and to authorize the Directors to fix their remuneration for the ensuing Financial Year in accordance with the provisions of Section 724 of the Companies Act, 2015.

SPECIAL BUSINESS

10. **Special Resolution on amendment of the Articles of Association of the Nairobi Securities Exchange Plc**

To consider and, and if appropriate, pass the following **Special Resolution**:

“Subject to obtaining regulatory approvals for the creation of a wholly owned subsidiary of the NSE Group Plc to carry on the exchange business (**“Reorganization”**), **THAT** the existing Articles of Association of the Nairobi Securities Exchange Plc be amended by incorporating the changes highlighted in the annexure attached to this resolution, with effect from the date of completion of the Reorganization.”

ANY OTHER BUSINESS

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

BY ORDER OF THE BOARD



KURIA K. WAITHAKA
COMPANY SECRETARY & CHIEF LEGAL OFFICER

DATE: 12th May 2022

Notes:

1. Nairobi Securities Exchange Plc has convened and will conduct a Virtual Annual General Meeting (“AGM”) pursuant to Section 283 of the Companies Act and Article 79 of the Company’s Articles of Association.



NOTICE OF THE 68TH ANNUAL GENERAL MEETING CONTINUED

2. The Company, pursuant to Section 283(3) of the Companies Act has made available the following documents on the Company's website www.nse.co.ke for Shareholder access:

- a) A copy of this Notice and the proxy form;
- b) The Company's Financial Statements and reports for the year 2021;
- c) Amended Articles of Association;
- d) Nomination Form; and
- e) Consent Form.

3. Shareholders wishing to participate in the meeting should register for the AGM by dialing ***483*560#** on their mobile telephone and follow the various prompts on the registration process or click on the following link <https://escrowagm.com/nse/signup.aspx> and filling in the registration form. In order to complete the registration process, the shareholder will need to have their ID/Passport Numbers that were used to purchase their shares and/or their CDSC Account Number at hand.

4. To complete the registration process, shareholders will need to provide their National ID/Passport Numbers which were used to purchase their shares and/or their CDSC Account Number. For assistance, shareholders should dial the following helpline number: **(+254) 0710888000** from 8.00 a.m. to 5.00 p.m. (EAT) from Monday to Friday.

A Shareholder domiciled outside of Kenya can send an email to CDSC Registrars via eagm@cdscregistrars.com providing their details i.e. Name, Passport/ID Number, CDS Number and Mobile telephone number requesting to be registered. CDSC Registrars shall register the shareholder and send them an email notification once registered.

5. Registration for the AGM opens on Monday **16th May 2022 at 8.00 a.m. (EAT)** and will close on **Wednesday 1st June 2022 at 5.00 p.m. (EAT)**. Shareholders will not be able to register after this time.

6. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:

- a) Sending their written questions by email to the Company's email address info@nse.co.ke or CDSC Registrars email address eagm@cdscregistrars.com;
- b) To the extent possible, physically delivering the written questions with a return physical address or email address to the Registered Office of the Company at The Exchange Building, 5th Floor, 55 Westlands Road, Nairobi or to CDSC Registrars Limited, 1st Floor, Occidental Plaza, Muthithi Road, Westlands; or
- c) Sending their written questions with a return physical address or email address by registered post to the Company's address at P.O. Box 43633 - 00100, Nairobi, or to CDSC Registrars address - P.O. Box 6341-00100, Nairobi.

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

All questions and clarifications must reach the Company on or before **Tuesday 31st May 2022 at 5.00 p.m. (EAT)**.

NOTICE OF THE 68TH ANNUAL GENERAL MEETING CONTINUED

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

7. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone. A Proxy Form is available on the Company's website via this link: www.nse.co.ke. Physical copies of the Proxy Form are also available at the following address: CDSC Registrars, 1st Floor, Occidental Plaza, Muthithi Road, Westlands. To be valid, a Proxy Form must be duly completed by the member and must be returned to CDSC Registrars on the above address or through their email address eagm@cdscregistrars.com so as to arrive not later than forty eight (48) hours before the time fixed for the meeting, failing which, it will be invalid. In the case of a corporate body, the Proxy Form must be executed under its common seal or under the hand of duly authorised officer or an attorney of such corporation. Any person appointed as a proxy should submit his/her mobile telephone number to the Company no later than forty eight (48) hours before the time fixed for the meeting. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than twenty four (24) hours after receipt to allow time to address any issues.
8. In accordance with the provisions of Article 96 of the Articles of Association of the Company, a person seeking election as a Director at the Annual General Meeting should deliver to the Company Secretary, through the Company's physical, postal or email address info@nse.co.ke (copy to kwaithaka@nse.co.ke), by 26th May 2022 at 1.00 pm, notice in writing signed by a Shareholder duly qualified to attend and vote at the meeting, of his intention to propose such person for election and notice in writing signed by the person to be proposed of his willingness to be elected as per the nomination papers which may be accessed on the Company's website www.nse.co.ke. The person so nominated will be required to send a Consent in the format also available on the Company's website.
9. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the general meeting. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers, twenty four (24) hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one hour ahead of the AGM, reminding duly registered shareholders and proxies that the AGM will begin in an hours' time and providing a link to the live stream.
10. Duly registered shareholders and proxies may follow the proceedings of the AGM using the live stream platform and may access the agenda. Duly registered shareholders and proxies may vote (when prompted by the Chairman) via the USSD prompts.



NOTICE OF THE 68TH ANNUAL GENERAL MEETING CONTINUED

11. For shareholders residing outside Kenya and wishing to participate in the AGM, the following procedure shall apply:
- a) The Shareholder domiciled outside of Kenya will send an e-mail to CDSC Registrars eagm@cdscregistrars.com providing their details i.e. Name, Passport/ID Number, and Mobile telephone number requesting to be registered.
 - b) CDSC Registrars shall register the shareholder and send them an email notification once registered.
 - c) A notification (email and SMS) shall be sent to them as well as all shareholders an hour before the AGM notifying them about the AGM. This notification will also include the link to stream the proceedings.
 - d) For voting, the shareholder will receive a verification Code via the Mobile telephone number provided.
 - e) The link shared to stream the meeting contains a voting tab. Once the shareholder selects to vote, he/she shall key in the code received via SMS and proceed to follow the prompts.
 - f) A shareholder may also ask questions via the Questions Tab.
12. Results of the AGM shall be published within twenty four (24) hours following conclusion of the AGM.
13. Shareholders are encouraged to continually monitor the Company's website www.nse.co.ke for updates relating to the AGM.

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 (AGM) of the Company to be held on 3rd June 2022 and at any adjournment thereof.

As witness my/our hand this..... day of2022

SIGNED.....

SIGNED.....

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

Agenda Item	Resolution	FOR	Against
ORDINARY BUSINESS			
4.	To adopt the audited Financial Statements for the Financial Year ended 31 st December 2021.		
5.	To approve a second special dividend of Kshs. 0.50 per share resulting in a total special dividend of Kshs. 1.00 per share (inclusive of the Kshs.0.50 paid in December 2021) and a final dividend of Kshs. 0.40 per ordinary share, in respect of the Financial Year ended 31 st December 2021 and to approve the closure of the Register of Members at the close of business on 3 rd June 2022 for one day for the purpose of determining the qualifying members entitled to dividends.		
6.	To approve the Remuneration Report of the Board in respect of the Financial Year ended 31 st December 2021 and to authorize the Directors to fix their remuneration.		
7 (a)	To re-elect Mr. Kiprono Kittony (an Independent Non-Executive Director) in accordance with Articles 94 and 95.		
7 (c)	To re-elect Ms. Isis Nyong'o Madison (an Independent Non-Executive Director) in accordance with Articles 94 and 95.		
7 (d)	To elect Mr. John Niepold, as an Independent Non-Executive Director, in accordance with Article 93 of the Company's Articles of Association		
8 (a)	To appoint Ms. Risper Alaro-Mukoto to continue serving as a member of the Board Audit, Risk and Compliance Committee.		
8 (b)	To appoint Ms. Isis Nyong'o Madison to continue serving as a member of the Board Audit, Risk and Compliance Committee.		
8 (c)	To appoint Mr. Michael Turner to continue serving as a member of the Board Audit, Risk and Compliance Committee.		
8 (d)	To appoint Mr. Paul Mwai to continue serving as a member of the Board Audit, Risk and Compliance Committee.		
9.	To re-appoint Deloitte & Touche as the auditors for the Company for the Financial Year ending 31 st December 2022 and to authorize the Directors to fix their remuneration.		



PROXY FORM CONTINUED

Agenda Item	Resolution	FOR	Against
SPECIAL BUSINESS			
10.	SPECIAL RESOLUTION ON AMENDMENT OF THE ARTICLES OF ASSOCIATION OF THE NSE To consider and, and if appropriate, pass the following Special Resolution: “Subject to obtaining regulatory approvals for the creation of a wholly owned subsidiary of the NSE Group Plc to carry on the exchange business (“Reorganization”), THAT the existing Articles of Association of the Nairobi Securities Exchange Plc be amended by incorporating the changes highlighted in the annexure attached to this resolution, with effect from the date of completion of the Reorganization.”		



ELECTRONIC COMMUNICATIONS CONSENT FORM

Please complete in BLOCK CAPITALS

Fullname of Proxy(ies):

Address: _____

Mobile Number

Date: _____

Signature: _____

Please tick ONE of the boxes below and return to: CDSC Registrars, 1st Floor, Occidental Plaza, Muthithi Road, Westlands

Approval of Registration

I/We approve to register to participate in the virtual AGM to be held on 3rd June 2022.

☐

Consent for use of the Mobile Number provided



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



ELECTRONIC COMMUNICATIONS CONSENT FORM CONTINUED

Notes:

1. If a member is unable to attend personally, this Proxy Form should be completed and returned (together with a power of attorney or other authority (if any) under which it is assigned or a notarized certified copy of such power or authority) to CDSC Registrars, 1st Floor, Occidental Plaza, Muthithi Road, Westlands, or through their email address eagm@cdscregistrars.com to arrive not later than **11.00 a.m. (EAT)** on **1st June 2022** i.e. 48 hours before the meeting or any adjournment thereof.
2. In case of a member being a corporate body, the Proxy Form must be signed under the hand of an officer or duly authorized attorney of such corporate body.
3. As a shareholder you are entitled to appoint one or more proxies to exercise all or any of your shareholder rights to attend and to speak and vote on your behalf at the meeting. A proxy need not to be a shareholder of the Company.



NOMINATION FORM FOR INDEPENDENT NON-EXECUTIVE DIRECTOR

I/ Weof P.O. Boxbeing a shareholder/shareholders of the Nairobi Securities Exchange PLC and duly qualified to attend and vote at the Company's Annual General Meeting to be held on 3rd June 2022, do hereby give notice of my/our intention to propose of P.O. Box for election as an Independent Non-Executive Director of the Company at the meeting.

SIGNED this day of 2022.

SIGNED BY

NAME.....

SIGNATURE(S)

PLEASE NOTE:

4. The Articles of Association of Nairobi Securities Exchange PLC define an "Independent Non-Executive Director" as a Non-Executive Director who, for the last 5 years, has not been employed by the Company in an executive capacity; has not been a director of a Trading Participant; has not been employed by a Trading Participant in an executive capacity; has no personal service contract(s) with a Trading Participant; is not a director or a member of the senior management of a company listed on the Company's securities exchange; and does not own or hold shares in a Trading Participant.
5. To be valid, this Nomination Form must be received by the Company Secretary;
E-mail: kwaithaka@nse.co.ke by 1.00 p.m. on Thursday, 26th May 2022.

Nairobi Securities Exchange | 55 Westlands Road, P. O. Box 43633 - 00100 Nairobi, KENYA

Tel: +254 20 2831000 Mobile: +254 724 253783 / +254 733 222007 | info@nse.co.ke | www.nse.co.ke



CONSENT FORM FOR INDEPENDENT NON-EXECUTIVE DIRECTOR

I of P. O. Box
being the person in respect of whom of P.O. Box
..... has given notice of intention to propose me as a candidate to
be elected as an Independent Non-Executive Director of the Nairobi Securities Exchange PLC at the Annual
General Meeting to be held on 3rd June 2022, do hereby notify you of my willingness to be so elected.

SIGNED this day of2022.

.....SIGNATURE

PLEASE NOTE:

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

6. "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."
7. To be valid, this Consent Form must be received by the Company Secretary;
E-mail: kwaithaka@nse.co.ke by 1.00 p.m. on Thursday, 26th May 2022.



www.nse.co.ke

Nairobi Securities Exchange PLC
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