




**CAPITAL
MARKETS AUTHORITY**
Promoting the Integrity and Growth of the Capital Markets

2017 | ANNUAL REPORT &
FINANCIAL STATEMENTS

"A proactive regulator of a competitive and robust capital market."



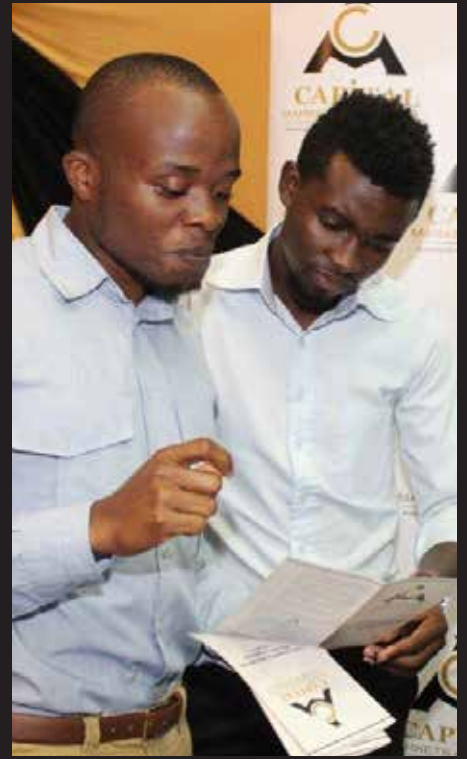
"To promote the development of Kenya's capital market to be an investment destination of choice through facilitative regulation and innovation."





CAPITAL
MARKETS AUTHORITY

Promoting the Integrity and Growth of the Capital Markets



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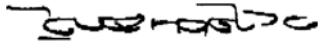
LETTER OF TRANSMITTAL

**The Cabinet Secretary
The National Treasury
Nairobi**

Dear Hon. Cabinet Secretary,

I have the honour of submitting the Annual Report of Capital Markets Authority for the fiscal year ended 30 June, 2017. The Report has been prepared in accordance with the provisions and requirements of Section 36 (2) of the Capital Markets Act, Cap 485A.

Respectfully yours,



James P.M. Ndegwa
Chairman

AUTHORITY INFORMATION

Background Information

The Capital Markets Authority is a body corporate established under the Capital Markets Act, 1989. The Act was amended in 2000 and renamed as Capital Markets Act.

Principal Activities

The Authority promotes and facilitates the development of an orderly, fair, and efficient capital market in Kenya.

Key Management



Paul M. Muthaura

| | |
|---------------------------|---|
| Position | Chief Executive |
| Date joined the Authority | 15 September, 2005 |
| Profession | Advocate of the High Court of Kenya |
| Key qualifications | LLM, LLB, MPhil, Dip Law, Dip in Financial Management |



Wyckliffe Shamiah

| | |
|---------------------------|-----------------------------|
| Position | Director, Market Operations |
| Date joined the Authority | 20 May, 1995 |
| Profession | Accountant |
| Key qualifications | MBA, BA, CPA (K) |



Edwin Njamura

| | |
|---------------------------|--|
| Position | Director, Corporate Services |
| Date joined the Authority | 17 July, 2012 |
| Profession | Management |
| Key qualifications | EMBA, BCOM, CPA(K), FA, BSP, MKIM, M.loD (K) |



Luke Ombara

| | |
|---------------------------|--|
| Position | Director, Regulatory Policy and Strategy |
| Date joined the Authority | 15 February, 1995 |
| Profession | Economist |
| Key qualifications | MA, BA, BSP |

AUTHORITY INFORMATION



Esther Maiyo

| | |
|---------------------------|----------------------------------|
| Position | Manager, Internal Audit |
| Date joined the Authority | 15 February, 1995 |
| Profession | Accountant |
| Key qualifications | MBA, BCOM, CPA(K), CPS (K), CISA |



Johnstone Oltetia*

| | |
|---------------------------|-----------------------------|
| Position | Manager, Market Supervision |
| Date joined the Authority | 20 May, 1997 |
| Profession | Financial Analyst |
| Key qualifications | MBA, BCOM, CFE |



Daniel Warutere*

| | |
|---------------------------|--|
| Position | Manager, Market Supervision |
| Date joined the Authority | 4 January, 2008 |
| Profession | Advocate of the High Court of Kenya |
| Key qualifications | LLB, CPA, CPS, IFC-Milken Institute Fellow |



Abubakar Hassan

| | |
|---------------------------|--|
| Position | Manager, Investigation and Enforcement |
| Date joined the Authority | 1 April, 2016 |
| Profession | Advocate of the High Court of Kenya |
| Key qualifications | MBA, LLB, CPA, CPS(K), CIFA, CFE(US) |



Mary Njuguna

| | |
|---------------------------|-------------------------------------|
| Position | Manager, Corporate Approvals |
| Date joined the Authority | 15 December, 2009 |
| Profession | Advocate of the High Court of Kenya |
| Key qualifications | MSC, LLB, Dip-French, CPS(K) |



Andrew Muthabuku

| | |
|---------------------------|---|
| Position | Manager, Human Capital & Administration |
| Date joined the Authority | 1 July, 2011 |
| Profession | Human Resources & Administration |
| Key qualifications | MBA, BA, H-Dip (HRM) |

*Daniel Warutere was appointed to this position on 25 May, 2017 following the secondment of Johnstone Oltetia to The National Treasury on 2 May, 2017

AUTHORITY INFORMATION



Richard Chirchir

| | |
|---------------------------|--|
| Position | Manager, Information Communications & Technology |
| Date joined the Authority | 22 June, 2009 |
| Profession | Computer Science Engineering |
| Key qualifications | BSC, Pg Dip - Computer Science |



John Njoroge

| | |
|---------------------------|-------------------------|
| Position | Manager, Finance |
| Date joined the Authority | 4 February, 2008 |
| Profession | Accountant/Economist |
| Key qualifications | BA, CPA(K), CPS(K), BSP |



Kamunyu Njoroge

| | |
|---------------------------|--|
| Position | Manager, Investor Education & Public Awareness |
| Date joined the Authority | 3 January, 2005 |
| Profession | Economist |
| Key qualifications | MA (Econ), BA (Econ), ACSI (UK), CIFA, MKIM, M.LoD (K) |



Matthew Mukisu

| | |
|---------------------------|-----------------------------|
| Position | Manager, Derivatives |
| Date joined the Authority | 7 March, 2016 |
| Profession | Economist |
| Key qualifications | MA (Economics), BSC, CPA(K) |



Hellen Ombati

| | |
|---------------------------|--|
| Position | Manager, Legal Affairs & Corporation Secretary |
| Date joined the Authority | 6 May, 2016 |
| Profession | Lawyer and Certified Secretary |
| Key qualifications | MBA, LLB, Dip-French, Dip in Law, CPS (K) |



James Kivuva

| | |
|---------------------------|--|
| Position | Manager, Strategic Projects |
| Date joined the Authority | 15 February, 2016 |
| Profession | Information Technologist |
| Key qualifications | BSC, PRINCE 2, CBAP, Advanced Sysbase Database Administration and Performance Tuning Certification |

KEY

| | |
|-----------------|---|
| ACSI | Associate Chartered Institute of Securities and Investments |
| BA | Bachelor of Arts |
| BCOM | Bachelor of Commerce |
| BSC | Bachelor of Science |
| BSP | Balanced Scorecard Professional |
| CBAP | Certified Business Analysis Professional |
| CIFA | Certified Investment and Financial Analyst |
| CFE | Certified Fraud Examiner |
| CISA | Certified Information Systems Auditor |
| CPA | Certified Public Accountant |
| CPS | Certified Public Secretary |
| Dip | Diploma |
| EMBA | Executive Master of Business Administration |
| FA | Financial Analyst |
| H. Dip | Higher Diploma |
| HRM | Human Resource Management |
| IFC | International Finance Corporation |
| IOD | Institute of Directors |
| KIM | Kenya Institute of Management |
| LLB | Bachelor of Laws |
| LLM | Master of Laws |
| MA | Master of Arts |
| MBA | Master of Business Administration |
| MPhil | Master of Philosophy |
| MSc. | Master of Science |
| Pg Dip | Post Graduate Diploma |
| Prince 2 | Projects In Controlled Environments |

BOARD MEMBERS OF THE AUTHORITY

| Name | |
|-------------------------|---|
| Mr. James Ndegwa | Chairman |
| Mr. Paul. Muthaura, MBS | Chief Executive |
| Dr. Kamau Thugge, CBS | Principal Secretary, The National Treasury |
| Dr. Geoffrey Mwau, EBS | Alternate to the Principal Secretary, The National Treasury |
| Hon. Prof. Githu Muigai | Attorney General |
| Mr. Nevis Ombasa | Alternate to the Attorney General |
| Dr. Patrick Njoroge | Governor, Central Bank of Kenya |
| Mr. John Birech | Alternate to the Governor Central Bank of Kenya |
| Mr. Paul Ngugi | Member |
| Ms. Linda Muriuki | Member |
| Mr. Moibi Mose | Member |
| Dr. Thomas Kibua | Member |
| Ms. Christine Okoth | Member |
| Mr. Harry Kimtai | Member (Resigned on 9 May, 2017) |

AUTHORITY INFORMATION

REGISTERED OFFICE

3rd Floor, Embankment Plaza
Longonot Road, Upper Hill
P.O. Box 74,800, 00200
Nairobi

AUTHORITY CONTACTS

Telephone: (254) 2221910/ 2264900/
2221869/2226225
E-mail: corporate@cma.or.ke
Website: www.cma.or.ke
Twitter: @CMAKenya
Facebook: Capital Markets Authority - Kenya

PRINCIPAL BANKERS

Commercial Bank of Africa Limited
Mara / Ragati Roads Upper Hill
P.O. Box 30437, 00100
Nairobi

HFC Limited

Kenyatta Avenue/Koinange Street, Rehani House
P.O. Box 30088, 00100
Nairobi

KCB Mortgage Centre

Salama House
Mama Ngina Street
P.O. Box 45129, 00100
Nairobi

AUDITORS

Authorized Independent Auditor

Mbaya & Associates

Certified Public Accountants
3rd Floor, Westlands Heights
Karuna Road, Westlands
P. O. Box 45390 - 00100
Nairobi,
Kenya

On Behalf of

The Auditor-General

Kenya National Audit Office
Anniversary Towers
University Way
P.O. Box 30084, 00100
Nairobi

PRINCIPAL LEGAL ADVISER

The Attorney General

State Law Office
Harambee Avenue
P.O. Box 4,0112, 00200
Nairobi

OTHER LEGAL ADVISERS

Archer & Wilcock Advocates

Marakwet Close, Kilimani
P.O. Box 10201, 00400
Nairobi

Mohammed Muigai Advocates

MM Chambers, 4th Floor, K-Rep Centre
Wood Avenue, Off Lenana Road, Kilimani
P.O. Box 61323-00200, Nairobi, Kenya

Waweru Gatonye & Co. Advocates

Timau Plaza, 4th Floor, Argwings Kodhek
Timau Road Junction
P.O. Box 55207, 00200
Nairobi,
Kenya

SNAPSHOT OF APPROVED INSTITUTIONS AND LICENSEES



| | | |
|------------------------------|--|---|
| APPROVED INSTITUTIONS* | REIT MANAGERS | FUND MANAGERS |
| 5 | 7 | 27 |
| INVESTMENT BANKS | REIT TRUSTEES | INVESTMENT ADVISERS |
| 13 | 3 | 13 |
| STOCKBROKERS | AUTHORIZED REAL ESTATE INVESTMENT TRUSTS (REITS) | AUTHORIZED DEPOSITORIES |
| 9 | 1 | 14 |
| AUTHORIZED SECURITIES DEALER | APPROVED COLLECTIVE INVESTMENT SCHEMES | APPROVED EMPLOYEE SHARE OWNERSHIP PLANS (ESOPS) |
| 1 | 22 | 13 |

*APPROVED INSTITUTIONS

| | INSTITUTION | ADDRESS | NATURE OF OPERATION |
|----|---|--|----------------------|
| 1. | The Nairobi Securities Exchange | P.O. Box 43633- 00100, Nairobi | Securities Exchange |
| 2. | Central Depositories and Settlement Corporation Limited | P.O. Box 3464 - 00100, Nairobi | Central Depository |
| 3. | Global Credit Rating Company | P.O. Box 76667, Wendywood 2144, South Africa | Credit Rating Agency |
| 4. | Agusto & Company Limited | P.O. Box 56136, Ikoyi Lagos, Nigeria | Credit Rating Agency |
| 5. | Metropol Corporation Limited | P.O. Box 35331 – 00200, Nairobi | Credit Rating Agency |

2017 OVERVIEW

Market capitalisation

Kshs **2.2** trillion



Revenue earned in 2016/17

Financial Year was **17%**
higher than previous year



M-Akiba
Minimum investment

3,000

Coupon rate
10%
per year



Risk-based
onsite inspection
of **28** market
intermediaries

77
Stakeholder forums held,

55%
held in counties



128

Approved Institutions And
Licencees



Capital Markets Fraud And
Investigation Unit
investigated

19
criminal
cases



20
Treasury Bonds
issuances which
generated
Kshs **298.43** billion



The total number of staff as at 30
June, 2017 was 107. Staff gender
distribution of the Authority



Male
59%

Female
41%

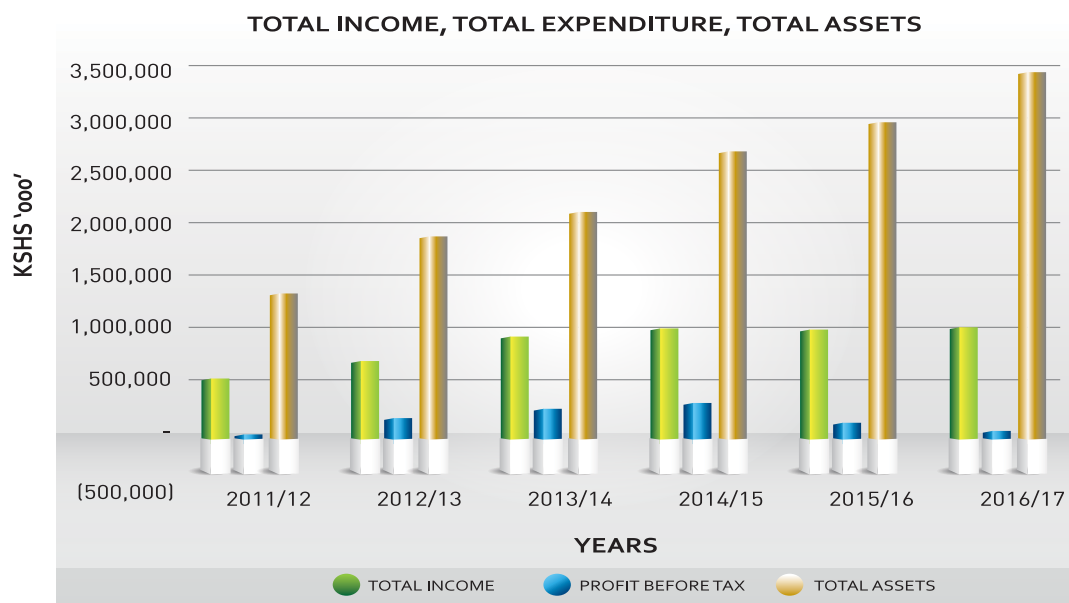
CMA BUSINESS PLAN 2016 to 2017

| CMA 2016-2017 BUSINESS PLAN SUMMARY | |
|-------------------------------------|--|
| Regulatory Approach | Concerted shift to disclosure-based regulation Adoption of risk based supervision |

| Strategic Themes in Action | | |
|--|--|---|
| Strategic Theme | Aim | Deliverables |
| Facilitative policy, legal and regulatory environment | To ensure the policy, legal and regulatory environment attracts interest from both the issuers and investors | 1. Facilitative capital markets policies 2. Facilitative and robust laws |
| Capital market products and services | Increase the range, depth and liquidity of available capital markets products and services | A wide variety of capital markets products and services available to investors |
| Capital market infrastructure and institutional arrangements | To have a capital market infrastructure and institutions that meets international standards | Capital market infrastructure and institutions of world class integrity |
| Investor education and public awareness | To have a public that is well educated and aware of capital market opportunities | 1. Increased segments of various capital markets users 2. Increased avenues for the delivery of capital market education |

FIVE YEAR PERFORMANCE REVIEW

| Financial Year | 2011/2012 | 2012/2013 | 2013/2014 | 2014/2015 | 2015/2016 | 2016/2017 |
|--------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Kshs | 000' | 000' | 000' | 000' | 000' | 000' |
| Total Income | 510,290 | 672,319 | 880,961 | 993,036 | 949,986 | 983,540 |
| Surplus Before Tax | (7,728) | 153,581 | 220,352 | 277,297 | 137,780 | 13,529 |
| Total Assets | 1,297,400 | 1,857,046 | 2,085,523 | 2,645,130 | 2,936,260 | 3,340,222 |



Source: Capital Markets Authority

Capital Markets Authority

CHAIRMAN'S STATEMENT

Mr. James Ndegwa

Chairman



“During the period under review, Kenya’s capital markets greatly benefitted from policy and regulatory support from the Government which, among other initiatives, is working steadily towards issuing its first Sukuk and other conventional sovereign debt issuances, buoyed by its consistent sovereign rating.”

CHAIRMAN'S STATEMENT (continued)

An Overview of Global Growth

According to the World Economic Outlook April, 2017, global economic activity is expected to pick up in the long term with a much awaited cyclical recovery in investment, manufacturing and trade. World growth is expected to rise from 3.1 percent in 2016 to 3.5 percent in 2017 and 3.6 percent in 2018.¹

Stronger activity and expectations of more robust global demand, coupled with agreed restrictions on oil supply by OPEC nations, have helped commodity prices recover from their troughs in early 2016. However, in the medium term, strategic efforts towards correcting structural problems such as low productivity growth, high income inequality and a shift from inward looking policies to promote global economic integration are required for the realization of a positive global outlook.

Additionally, forward- looking economic policies will play an important role in staving off emerging downside risks while coordinated and renewed multilateral efforts will be critical in tackling common challenges in an integrated global economy.

The contribution of emerging markets and developing economies towards the overall growth of the global economy cannot be understated as witnessed in the recent years; they now account for more than 75 percent of global growth in output and consumption, almost double the share of just two decades ago. The external environment remains a significant enabler in the realization of these transformations as terms of trade, external demand and in particular external financial conditions remain increasingly influential determinants of medium term growth in these economies as they become more integrated into the global economy.²

Politically, the year witnessed two key global events: First the global reaction to the results of the 23 June, 2016 referendum leading to the announcement of Brexit and causing the UK Government to invoke Article 50 of the Treaty on European Union, which puts the UK on a course to leave the EU by March 2019. And then the November 2016 US elections which saw Donald Trump elected as President of the United States of America raising uncertainty over the future of long established foreign treaty and trade arrangements, and indeed the USA's overall relationship with the rest of the world. The possible direction of foreign policies targeted towards developing nations and the implications of the rise of protectionism, are a key concern for Kenya, as for many African nations.

A key driver of the sustained growth observed during the year was a deliberate shift in national policy by the super economies towards infrastructure investments. Further to US President Donald Trump's pledge to close the US\$1 trillion infrastructure funding gap, the United Kingdom continued to champion infrastructure investments to mitigate the uncertainties caused by Brexit, while the Eurozone's €315 billion three-year Juncker Plan appears to be well in force. China's President Xi Jinping's New Silk Road plan to connect China with Central Asia, the Middle East and Europe through road, rail and port construction is also well underway as a further testimony to growing priority of infrastructure as a key tool of fiscal stimulus.

“Emerging markets and developing economies now account for more than 75% of global growth in output and consumption”

Regional Outlook

Africa's real GDP growth slowed down to 2.2 percent in 2016, mainly due to the continued decline in commodity prices and weak global economic growth. East Africa was the fastest growing region at 5.3 percent real GDP growth, followed by North Africa at 3 percent. Growth in other regions was less pronounced, ranging from a low of 0.4 percent in West Africa, dragged down by the recession in Nigeria, to 1.1 percent in Southern Africa, with South Africa, the region's largest economy, posting only 0.3 percent growth.³

“With dynamic private sectors, entrepreneurial spirit and vast resources, Africa has the potential to grow faster and more inclusively”

With dynamic private sectors, entrepreneurial spirit and vast resources, Africa has the potential to grow faster and more inclusively. The continent's average growth is expected to rebound to 3.4 percent in 2017, assuming that the recent recovery in

1. <http://www.imf.org/-/media/Files/Publications/WEO/2017/April/pdf/c1.ashx>
 2. <http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017>
 3. African Economic Outlook 2017, Entrepreneurship and Industrialization

CHAIRMAN'S STATEMENT (Continued)

commodity prices is sustained, the world economy is strengthened and domestic macroeconomic reforms are entrenched. In 2018, growth is expected to consolidate, expanding by 4.3 percent.

The continent is showing signs of recovery with growth projected to reach 2.6 percent in 2017. However, the recovery remains inconsistent, with growth expected to rise only slightly above population growth, a pace that hampers efforts to boost employment and reduce poverty.

Nigeria, South Africa, and Angola, the continent's largest economies, are seeing a rebound from the sharp slowdown in 2016, but the recovery has been slow due to insufficient adjustment to low commodity prices and policy uncertainty. Furthermore, several oil exporters in the Central African Economic and Monetary Community (CEMAC) are facing economic difficulties.

The latest data reveals that seven countries (Côte d'Ivoire, Ethiopia, Kenya, Mali, Rwanda, Senegal and Tanzania) continue to exhibit economic resilience, supported by domestic demand, posting annual growth rates above 5.4 percent in 2015-2017. These countries house nearly 27 percent of the region's population and account for 13 percent of its total GDP.

The global economic outlook is improving and should support the recovery in the region. Africa's Pulse, a World Bank publication notes that the continent's aggregate growth is expected to rise to 3.2 percent in 2018 and 3.5 percent in 2019, reflecting a recovery in the largest economies. It will remain subdued for oil exporters, while metal exporters are projected to see a moderate uptick. GDP growth in countries whose economies depend less on extractive commodities should remain robust, underpinned by infrastructure investments, resilient services sectors and the recovery of agricultural production. This is especially the case for Ethiopia, Senegal, and Tanzania and to some extent Kenya.

The composition of total financial flows to Africa reflects the dynamism of its domestic markets. In 2017, inflows are projected at almost US\$180 billion. Remittances will reach US\$66.2 billion, up from US\$64.6 billion in 2016. Foreign direct investment inflows are expected to reach over US\$57 billion in 2017, supported mainly by greenfield investments from emerging economies, with China leading the pack. Tax revenue remains the most important source of domestic financing in African countries but has slowed with the decline in commodity prices.

African countries will need to explore other options of mobilizing domestic resources to minimize vulnerability of revenues to volatility in commodity prices.⁴

“African countries will need to explore other options of mobilizing domestic resources to minimize vulnerability of revenues to volatility in commodity prices”

Kenya's Capital Markets Policy Issues Capping of interest rates

A key policy change in the financial services industry in the 2016/2017 Financial Year was the passing into law of the Banking (Amendment) Act, 2016 which came into force on 14 September, 2016. The law set the maximum interest rate chargeable for a credit facility in Kenya at no more than 4 percent above the Central Bank Rate. In addition, the Act set the minimum interest rate granted on a deposit held in an interest earning account in Kenya to at least 70 percent of the base rate. The implementation of this Act led to the growth in the average savings rates and a decrease in the average lending rates offered by commercial banks in the same period.

However, real questions and doubts remain as to whether the interest rate cap will achieve its intent of reducing the cost of accessing credit by Kenyans, with the Kenya Bankers Association (KBA) and the Nairobi Securities Exchange separately providing data that suggested a decline in lending to the private sector and a decline in the performance of listed commercial banks. In response to this, a Presidential Statement and subsequently a policy pronouncement by the Cabinet Secretary for the National Treasury at the close of this Fiscal Year indicate that the Government will work closely with the Central Bank of Kenya and the Kenya Bankers Association to conduct a more comprehensive assessment of its impact in order to inform its possible review.

Consolidation of non-bank financial sector regulators

In April 2017, the Kenya Cabinet approved the draft Financial Services Authority (FSA) Bill 2016 whose aim is to merge the functions of four regulatory bodies; that is the Retirement Benefits Authority, Insurance Regulatory Authority, Capital Markets Authority and the Sacco Societies Regulatory Authority.

CHAIRMAN'S STATEMENT (Continued)

Through the FSA, Kenya seeks to increase efficiency and ease of doing business within the financial services industry by providing consolidated supervision of financial services to eliminate regulatory gaps and increase protection of consumers of financial services through the introduction of a robust market conduct framework encompassing many previously unregulated financial services including non -deposit taking credit providers.

However, the Bill is yet to be forwarded to the National Assembly for consideration and the Authority will continue to proactively engage on the road map for the same in the coming financial year.

Market Development Reforms and Innovations

During the period under review, Kenya's Capital Markets greatly benefitted from policy and regulatory support by the Government which, among other initiatives, is working steadily towards issuing its first Sukuk and other conventional sovereign debt issuances, buoyed by its consistent sovereign rating, the most recent being Standard & Poor's affirmation of the country's short and long term foreign and local currency sovereign credit ratings at "B+/B" with a stable outlook on strong external position and monetary policy flexibility. This was complemented by the tax neutrality and incentive measures pronounced during the 2017/2018 budget delivered in March 2017 by the Cabinet Secretary for the National Treasury, designed to support the introduction of Islamic Finance products, Asset-Backed Securities (ABS) and Real Estate Investment Trusts (REITs). It is noteworthy that Kenya's current estimated infrastructure funding gap is US\$2-3 billion per year over the next 10 years, re-emphasizing the need to fully leverage market based financing.

"Kenya's current estimated infrastructure funding gap is US\$2-3 billion per year over the next 10 years, re-emphasizing the need to fully leverage market-based financing"

The pilot tranche of the M-Akiba issued in April 2017, was overwhelmingly successful with more than 100,000 registered potential investors missing out due to the small issue size and presenting a strong foundation for the further Kshs4.85 billion tranche planned for the coming financial year. The success of this

product is expected to demonstrate the true potential of this Financial Technology (FinTech) solution from the Government in mobilizing savings towards the 30 percent level projected in the Kenya Vision 2030.

Related to M-Akiba, the Authority further introduced a new concept of a "Regulatory Sandbox" which is a 'safe space' in which businesses are allowed to test innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory consequences. The aim of establishing a Sandbox is to allow firms to 'experiment' with new technology and offer innovative financial products and services subject to appropriate controls for investor protection. This is an exciting area that will be pursued further in the new financial year.

"The Authority has, over the last couple of years, attained Global and Regional awards for its excellence in innovation, particularly in service delivery improvements"

The Authority has, over the last couple of years, attained Global and Regional awards for its excellence in innovation, particularly in service delivery improvements. This year the Authority was once again recognized as "The most innovative capital markets regulator in Africa". These achievements come against the backdrop of deliberate reforms currently taking place in Kenya in the public sector in order to realize more effective service provision. The Mwongozo Code, issued by His Excellency the President of the Republic of Kenya in January 2015, has been a critical document in entrenching the principles and values of public service and best practices in corporate governance.

As Chairman of the Capital Markets Authority Board I am proud to note that we have complied with these principles and values fully and I believe, in so doing, we have been able to steer the capital markets to be increasingly more competitive with other emerging markets globally. I further wish to state that my Board has consistently inculcated sound corporate governance practices, which are grounded on our national values as well as global international practices, in the capital markets industry as a whole, to ensure its sustainability.

CHAIRMAN'S STATEMENT (Continued)

The Authority signed the 2016/17 Performance Contract (PC) on 23 February, 2017 following negotiations with the National Treasury in December 2016, and subsequent vetting by the Performance Management and Coordination Office in January 2017. Cumulatively, the gross majority of the Authority's 2016/2017 PC targets were met or exceeded as at end of June 2017. Key areas where commitments were exceeded include: fees and levies collections; investor education and public awareness, stakeholder engagement, youth internship and apprenticeship, starting a business, protecting investors, research and regulatory and policy proposals. The Authority however remains committed to continuous performance improvement towards ensuring that the targets are met across all functions as prescribed by the performance contracts.

International Cooperation Agreements

Internationally, the Authority has entered into Memoranda of Understanding with two global regulators; the Australian Securities Investment Commission and the Abu Dhabi Global Market to provide a framework for co-operation and referrals between the different approaches used in the respective jurisdictions on financial markets innovations in line with the growth of fintech globally. Through the cooperation agreements, the Authority hopes to exchange lessons learned on best practices as it works towards establishing its own regulatory sandbox to support the growth of fintech companies in the country.

Appreciation and Outlook

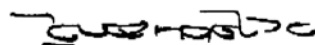
The support extended by the Government to the Authority is critical to the success we achieve in performing our duties and responsibilities. I wish to thank the National Treasury, our capital markets industry colleagues and all the other financial services regulators who have played a significant role in supporting the Authority as it executes its mandate.

The commitment and diligence of the CMA Board Members in preparing for and attending Board and Committee meetings as well as other events of the Authority has been tremendous. The excellent work of the Authority's management and staff under the able leadership of Mr. Paul Muthaura has been exemplary and the support the team as a whole provides to the Board's execution of its statutory mandate is immense.

The drive with which the Authority's staff and our industry partners have worked towards achieving the 10-Year Capital Market Master Plan is equally impressive and very significant ground has already been covered. With this rapid progress I am confident that, while there are inevitable short term challenges to be addressed, the future looks promising as Kenya prepares to position itself as the "Heart of African Capital Markets" by the year 2023.

We therefore look forward to the exciting years ahead in the capital markets as new products and innovations are introduced to meet demands from the dynamic set of local, regional and international investors with eyes set on Kenya as an investment destination of choice.

Signed



Mr. James Ndegwa
Chairman

CORPORATE GOVERNANCE STATEMENT



The Board of the Authority (the Board) is responsible and accountable to the Government of Kenya, through The National Treasury, in ensuring that the Authority complies with the law and the highest standards of corporate governance.

The Board of the Authority (the Board) is responsible and accountable to the Government of Kenya, through The National Treasury, in ensuring that the Authority complies with the law and the highest standards of corporate governance. The Authority is in compliance with the Mwongozo Code and has seven independent directors out of a board of eleven members. The independent members are: Mr. James Ndegwa, Ms. Linda Muriuki, Mr. Moibi Mose, Dr. Thomas Kibua, Mr. Harry Kimtai, Ms. Christine Okoth and Mr. Paul Ngugi.

- i) There are eleven members of the Board all of whom, save for the Chief Executive, are non-executive directors.
- ii) The Members possess a broad range of skills and competencies, including legal, finance, banking, economics and human resource.
- iii) During the period under review, the Board met 22 times.

COMPOSITION OF THE BOARD

During the period under review, the Board was composed as follows:

1. Mr. James Ndegwa

Mr. Ndegwa holds a BA (Hons) and an MA degree from Oxford University. An insurer by profession, he is an Associate of the Chartered Insurance Institute (UK) and an Associate of the Insurance Institute of Kenya. He is the Chairman of First Chartered Securities Limited and a director of several companies. Prior to his present position, he was the Managing Director of Lion of Kenya Insurance Company Limited until 2003.

2. Dr. Kamau Thugge (Principal Secretary, The National Treasury)

Dr. Thugge holds a doctorate in Economics from the Johns Hopkins University. He was appointed an Economic Advisor to the Treasury in December 2005 after serving as an Economic Affairs Director, Treasury since July 29, 2004. Prior to joining The National Treasury, he worked at the International Monetary Fund from 1985 to 2004.

CORPORATE GOVERNANCE STATEMENT (Continued)

3. Alternate to Principal Secretary, The National Treasury: Dr. Geoffrey Mwau (Director General, Budget, Economics and Fiscal Affairs, The National Treasury)

Dr. Mwau graduated from McGill University in Canada with a PhD in Economics in 1994. He worked as a Senior Advisor to the Executive Director representing Kenya and 21 other African countries at the Executive Board of World Bank. Prior to joining the World Bank, he was a Senior Regional Advisor on Economic Policy Analysis with the United Nations Economic Commission for Africa. Previously, Dr. Mwau also worked for the International Monetary Fund (IMF) as an economist for Rwanda, Malawi, Botswana, and Uganda.

4. Hon. Prof Githu Muigai

Professor Muigai is the Attorney General of the Republic of Kenya. He holds a Bachelor's Degree in Law and was called to the bar in 1985. He also holds a Master's Degree in International Law from Columbia University School of Law, New York and a PhD in Constitutional Law from the University of Nairobi.

He is a Fellow of the Chartered Institute of Arbitrators (UK) and a member of the American Association of Trial Lawyers. In addition to Law practice, he is an Associate Professor of Public Law in the School of Law of the University of Nairobi. He specialises in Public Law, Human Rights and trans-national legal practice.

5. Alternate to Hon. Attorney General: Mr. Nevis Ombasa

Mr. Ombasa is a lawyer by profession. He holds a Bachelor of Arts (Econs) degree from D.A.V.V. University India and a Bachelor of Laws (LLB) degree from Karnataka University, India. He has previously worked in the law firm of Maobe Maotsetung & Co. Advocates and Omboga & Co. Advocates. Mr. Ombasa is currently working in the Office of the Attorney General and Department of Justice as a State Counsel in the Government Transactions division.

6. Dr. Patrick Njoroge (Governor, Central Bank of Kenya)

Dr. Njoroge is an economist by profession, and holds a PhD in Economics from the University of Yale, USA. He holds a Masters degree in Economics and a Bachelors degree in the same discipline from the University of Nairobi. He joined the Washington-based IMF in 1995 as an economist and rose through the ranks to hold the position of adviser. Prior to that, he worked briefly in the mid 1980s at the Ministry of Planning and as an economist at the Ministry of Finance in the 1990s.

7. Alternate to Governor, Central Bank of Kenya: Mr. John Birech

Mr. Birech holds an MA (Economics); B Phil. (Economics) and BA (Economics) from the University of Nairobi. He is presently the Ag. Director, Financial Markets Department, Central Bank of Kenya.

Mr. Birech joined the Central Bank of Kenya in September, 1984 and has served in various areas of the Bank including Banking, Bank Supervision and Financial Markets Department. Mr. Birech also sits in the Monetary Policy Committee of the Bank.

8. Ms. Linda Muriuki

Ms. Muriuki is an Advocate of the High Court of Kenya with over Twenty-Five years' experience. Linda obtained a B.A. Economics degree from York University, Canada after which she graduated with an LLB (Honours) from the University of Leeds, United Kingdom. She obtained a Masters Degree as a Graduate of the Global Executive Masters of Business Administration from United States International University, Kenya in collaboration with Columbia University New York, U.S.A. She is a Commissioner for Oaths, Notary Public, Certified Public Secretary (Kenya) and a Professional Director.

9. Mr. Moibi Mose

Mr. Mose is an Advocate of the High Court of Kenya with over fifteen years experience. He is a Commissioner for Oaths and Notary Public. Mr. Moibi holds a Bachelor of Laws (LLB) degree (Honours) from the University of Nairobi and is currently pursuing a Master of Laws (LLM) from the same institution. Mr. Moibi is a Managing Partner at Ongweny & Moibi Advocates with vast experience in Conveyancing, Civil and Commercial Litigation, Company Secretarial Services, Wills and Estates, Real Estate, Family Court, Election Petitions and Immigration Law. He previously worked at Sichale & Company Advocates as well as Munoru Kagiri & Wamae Advocates.

10. Dr. Thomas Kibua

Dr. Kibua is Director of Academic Programmes at Strathmore University Institute of Public Policy and Governance, Economic Advisor to the Governor of Makueni County and Partner and Senior Economist with African Development and Economic Consultants Ltd (ADEC), a Kenyan firm he co-founded in 1979 and which offers advisory services in economics, management, finance and development. Previously, he served as Director of Health Policy and Systems Research at the African Medical and Research Foundation (April 2008 -March 2011); the Executive Director of the Institute of Policy Analysis and Research (IPAR) a non-governmental think-tank specialising in policy analysis and research (2003-2008); and Chairman of Egerton University Council (2009-2012).

He previously taught for many years at the Department of Economics, University of Nairobi. He was Deputy Governor of the Central Bank of Kenya for the statutory period of eight years (1993-2001), served as Advisor to the President of East and Southern Africa Trade and Development Bank (2001), worked on long Term

CORPORATE GOVERNANCE STATEMENT (Continued)

Technical Assistance Programme as Economic Advisor to the Kenyan Ministry of Health (health care financing) (1991-1993) and sat on several Boards of State Corporations (Capital Markets Authority, Export Processing Zones Authority, Export Promotion Council and Deposit Protection Fund) and private companies.

Dr. Kibua graduated from the University of Nairobi with a Bachelors degree and a Masters degree in Economics in April 1974 and June 1976, respectively; a Master's degree in Economics from Yale University, USA, in 1979; and a Doctor of Philosophy degree from the University of Nairobi in 1983. He has extensive hands-on experience in: (a) the management of macro-economic affairs (especially public finance management), (b) university teaching, (c) research, research management and capacity building, (d) knowledge management and (e) and consultancy on development and economic governance and management issues. His areas of specialisation include development economics, economic governance and management (macroeconomic management and public finance management) and quantitative methods. He has written extensively on development and economic policy issues.

11. Mr. Harry Kimtai - (Resigned on May 9, 2017)

Mr. Kimtai is an Economist and holds a Master of Philosophy degree in Economics specialising in Regional Planning and Economic Growth, a Master of Economics degree and a Bachelor degree in Arts from Bhopal University, India. He joined Kenya Revenue Authority as a Management Trainee in 1996 and rose to the rank of Principal Revenue Officer in charge of revenue. In 2007 he joined Branded Fine Foods as General Manager Administration, Planning and Logistics.

12. Ms. Christine Okoth

Ms. Okoth is currently the Managing Director - MAL Consultancy Limited. She is an experienced Human Resource and Business Leader, with over 15 years of HR and business partnering practice. Prior to her current position, Christine worked at Safaricom Limited where she held several roles including HR Systems and Communications, Head of Talent and Resourcing and Head of HR Business Partnership. She holds a degree in International Relations and Marketing from The United States International University. She is a certified Lead and Internal Auditor, Project Manager, HR Information Systems Manager, Competency Assessor, Organization Design Expert, a Leadership Coach and Mentor. Christine is a member of the Institute of Human Resource Management (IHRM) Kenya, and Chartered Institute of Personnel Development (CIPD) in the United Kingdom.

13. Mr. Paul Ngugi

Mr. Ngugi holds a Masters of Social Science (M.Soc.SC) in Development Administration from the University of Birmingham (UK), a Bachelor of Arts from the University of Nairobi and a Diploma of Professional Development in Management with Specialization in Budgeting and Financial Management from the University of Connecticut (USA). Mr. Ngugi is a Member of the Institute of Directors of Kenya. He has served as Alternate Director to Permanent Secretary, Ministry of Finance in various boards of state corporations including Kenya Roads Board, Housing Finance, Kenya Meat Commission and National Oil Corporation among others. He also served as Director in Kenya Dairy Board and Chairman of the Micro and Small Enterprises Authority (MSEA). He has attended a course in Corporate Governance for Directors and Mwangozo Induction Programme for Boards of State Corporations, among others. Mr. Ngugi was a long serving public servant and retired as Director of Budget at the National Treasury in the year 2013.

14. Mr. Paul M. Muthaura (Chief Executive)

Mr. Muthaura is the Chief Executive, Capital Markets Authority. In his time with the Authority he has held positions as the Director, Regulatory Policy and Strategy; Head of Legal Framework and Head of Enforcement.

Mr. Muthaura is a member of the Board of the International Organization of Securities Commissions (IOSCO), the Steering Committee of the Growth and Emerging Markets Committee of IOSCO, the Financial Stability Board (FSB) Regional Consultative Group for Sub-Saharan Africa and the Consultative Committee of the East African Securities Regulatory Authorities (EASRA). Mr. Muthaura is also an ex-officio member of the Boards of Directors of the Retirement Benefits Authority, the Insurance Regulatory Authority and the Vision 2030 Delivery Secretariat.

He has previously worked as an Emerging Markets Advisor with the General Secretariat of the International Organization of Securities Commissions (IOSCO). Before moving into the regulatory industry, Mr. Muthaura was a senior commercial associate with the law firm of Daly and Figgis Advocates.

Mr. Muthaura is an Advocate of the High Court of Kenya and is the holder of a Bachelor of Laws degree from the University of Warwick, a Masters in Banking and Finance Law from the London School of Economics and Political Science and a Masters in Philosophy from the Maastricht School of Management.

REPORT OF THE BOARD MEMBERS' OF THE AUTHORITY

The Board Members of the Authority submit their Report together with the audited financial statements for the year ended 30 June 2017, which show the state of the affairs of the Authority.

Principal activities

The Authority promotes and facilitates the development of an orderly, fair and efficient capital market in Kenya.

Results

The results of the Authority for the year ended 30 June 2017 are set out on page 29.

Board Members of the Authority

The Board Members of the Authority who held office during the year and to the date of this report are set out on page 3.

Auditor

The Auditor-General is responsible for the statutory audit of the Authority in accordance with Article 229 of the Constitution of Kenya. Section 39 (1) of the Public Audit Act 2012, empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Mbaya & Associates Certified Public Accountants were nominated by the Auditor General to carry out the audit of the Authority for the year ended 30 June 2017.

By order of the Board



Chief Executive

Nairobi,

14 September, 2017

STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES

Board Committees

Subject to fundamental, strategic, policy and formal matters reserved for its decision, pursuant to Section 14 of Capital Markets Act, the Board works through a number of committees which operate within defined Terms of Reference. Other committees are formed on ad-hoc basis as need arises. During the period under review, the Board constituted the following committees:

The Finance and Planning Committee

This committee consists of four members all of whom are non-executive members of the Board. The committee was chaired by Mr. Paul Ngugi. This committee has oversight on all financial issues including budgets, financial reporting process and controls and procurement. The committee met eight times during the year. Five meetings were scheduled and three meetings were special.

The Audit, Corporate Governance and Risk Management Committee

This committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Dr. Thomas Kibua. It has oversight responsibility of reviewing, assessing adequacy and monitoring of internal controls, risk management and corporate governance processes; examining internal and external audit reports and recommendations; overseeing financial reporting and reviewing the accounting principles, policies and practices adopted in the preparation of financial statements. The committee met six times during the year.

The Human Resource and Communication Committee

This committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Mr. Moibi Mose. It is responsible for human resource matters including recruitment, management succession as well as corporate communications function. The committee met four times during the year.

The Technical and Policy Committee

The committee consists of five members all of whom are non-executive members of the Board. The committee was chaired by Mr. John Birech. It is responsible for considering technical and policy matters of the Authority, including reviewing the Authority's strategy and continuous oversight of the review of the capital market legal and regulatory frameworks. The committee met six times during the year.

Ad-Hoc Board Committees

The following were the Ad hoc Committees in the financial year:

- i) The Implementation Committee for the Capital Markets Master Plan- established in 2015.
- ii) The Board established the ICT Adhoc Committee in February 2017. It consists of two non executive members of the Board, and three external experts from ICT industry. It is a dedicated ICT Committee to assist in providing Strategic Oversight of ICT at the Authority.

The Board Members are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on 30 June 2017. This responsibility includes:

- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) safeguarding the assets of the authority; (v) selecting and applying appropriate accounting policies; and
- (vi) making accounting estimates that are reasonable in the circumstances.

STATEMENT OF BOARD MEMBER'S RESPONSIBILITIES (Continued)

The Board Members accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act.

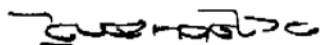
The Board Members are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority transactions during the financial year ended 30 June 2017, and of the Authority's financial position as at that date. The Board Members further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Authority's financial statements were approved by the Board on September 14 2017 and signed on its behalf by:

Chairman



Chief Executive



CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Authority recognizes the importance of and its duty to be a responsible corporate citizen and in this context we have due regard to our responsibilities to all our stakeholders including our internal stakeholders. Through the new Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, (Corporate Governance Code) we have championed the need for companies to have due regard to Environmental, Sustainability and Governance considerations and remain committed to holding ourselves to the same standard.

The Authority undertook an Environmental Sustainability Audit in the 2016/17 Financial Year as part of the Performance Contracting requirements. The Audit noted that the Authority has been involved in tree planting programmes and automated office processes to reduced paper usage, which helped the Authority make its contribution towards reducing the depletion of the forest cover. The Authority will continue implementing the recommendations of the Audit including mainstreaming environmental issues in the coming year.

In its support to environmental and ecosystem sustainability, the Authority contributed Kshs250,000 to the NSE Charity Trading Day, whose key initiative is to support the protection of rhinos in Kenya.

In its efforts to assist Kenyans affected by the drought menace, the Authority contributed Kshs1 million towards the National Famine Relief Fund initiative coordinated by the Kenya Red Cross Society and championed by Her Excellency the First Lady of the Republic of Kenya, Mrs. Margaret Kenyatta.

The Authority also continued with sponsorship for the construction of a multipurpose facility to provide students of Nthunguni Secondary School in Machakos County with a modern science laboratory; which is due for completion within 2017/18 Financial Year. During the year the Authority also participated in a Joint initiative with NSE and CDSC and donated business studies books to Shimo La Tewa Secondary School in Mombasa County.

On the internal stakeholders, the following initiatives have been taken:

The Authority remains keen on compliance with the Occupational Safety and Health Act. This is achieved through continuous sensitization on safety in addition to initiatives to optimize work place ergonomics and productivity.

The Authority has on regular basis conducted HIV Testing Services as an initiative for HIV/AIDS prevention as well as establishing access to independent counselling for staff.

The Authority has consistently ensured compliance with the one third gender rule, with the current ratio of male to female standing at 59%:41% respectively thereby exceeding the minimum threshold of 33 percent.

The Authority also takes into consideration the face of Kenya when conducting recruitment and promotions for various positions in line with the Presidential initiatives on National Values.

In line with the Public Procurement and Asset Disposal Act 2015's requirement on preference and reservations, the Authority has ensured that the Access to Government Procurement Opportunities (AGPO), is maintained above the minimum 30 percent threshold, and runs initiatives to empower Youth, Women and Persons with Disabilities to better leverage available opportunities.

The main entrance to the premises was fitted with ramps for ease of access by People With Disabilities (PWD), and deliberate effort is also made to attract PWDs into employment by sharing information with the National Council of Persons with Disability.

BOARD COMMITTEE MEMBERSHIP AND NUMBER OF MEETINGS

| | Board Member | Classification | Designation | Finance & Planning Committee (FPC): Total Number of Meetings 8 (5 scheduled; 3 special meetings) | Audit, Corporate Governance and Risk Management (AC): Total Number of Meetings 5 (all scheduled) | Technical & Policy Committee (TPC): Total Number of Meetings 6 (5 scheduled; 1 special meeting) | Human Resources and Corporate Communications (HRCC): Total Number of Meetings 4 (all scheduled) | Board (Total Number of Meetings 22 (9 scheduled; 13 special meetings)) |
|-----|--|---|------------------------------|--|--|---|---|--|
| 1. | Mr. James Ndegwa | Independent | Board Chairman | | | | | 22/22 |
| 2. | Mr. Nevis Ombasa | Representing the AG | | 2 (Co-opted) | | 3/6 | 2/4 | 8/22 |
| 3. | Mr. John Birech | Representing the Governor, CBK | Chairperson TPC | | 4/5 | 6/6 | | 17/22 |
| 4. | Dr. Geoffrey Mwau/ Mr. Nzomo Mutuku/ Mr. Sammy Makove/ Mr. Ronald Inyangala | Representing the Principal Secretary, National Treasury | | 3/8 | 2/5 | 2/6 | | 2/22 |
| 5. | Mr. Paul Ngugi | Independent | Chairperson FPC | 8/8 | 2 (Co-opted) | 5/6 | 1 (Co-opted) | 20/22 |
| 6. | Ms. Linda Muriuki | Independent | | | 3/5 | 4/6 | | 17/22 |
| 7. | Dr. Thomas Kibua | Independent | Chairperson AC | | 4/5 | | 3/4 | 20/22 |
| 8. | Mr. Moibi Mose | Independent | Chairperson HRCC | 6/8 | | | 3/4 | 15/22 |
| 9. | Ms. Christine Okoth | Independent | Chairperson Ad-Hoc committee | 4 (Co-opted) | 4/5 | | 4/4 | 21/22 |
| 10. | Mr. Harry Kintai | Independent | | 5/8 | 1 (Co-opted) | 1 (Co-opted) | 1/4 | 17/22 |

4. Dr. Geoffrey Mwau is the Alternate to the Cabinet Secretary - The National Treasury. Dr. Geoffrey Mwau attended one (1) Technical and Policy Committee meeting. Mr. Nzomo Mutuku, Mr. Sammy Makove and Mr. Ronald Inyangala attended Board and Board Committee meetings on behalf of the National Treasury.

10. Mr. Harry Kintai resigned from the Board of Directors of the Capital Markets Authority with effect from 9 May, 2017.

BOARD ALLOWANCES FOR JULY 2016-JUNE 2017

| Director's Name | Director | Chairman's Honoraria | Sitting allowances | Board Retainer Allowance | Total |
|--------------------------------|--|----------------------|--------------------|--------------------------|---------------|
| Mr. James Ndegwa | Chairman | 1,044,000.00 | 720,000.00 | 840,000.00 | 2,604,000.00 |
| Ms. Linda Muriuki | Director | | 640,000.00 | 840,000.00 | 1,480,000.00 |
| Mr. George Mose Moibi | Director | | 920,000.00 | 840,000.00 | 1,760,000.00 |
| Nevis Ombasa | Alt. to Attorney General | | 660,000.00 | - | 660,000.00 |
| Dr. Thomas Nzioka Kibua | Director | | 780,000.00 | 840,000.00 | 1,620,000.00 |
| Mr. John Birech | Alt. to Governor CBK | | 860,000.00 | - | 860,000.00 |
| Mr. Paul B.M.Ngugi | Director | | 1,060,000.00 | 912,258.00 | 1,972,258.00 |
| Mr. Harry Kimutai | Director | | 1,000,000.00 | 793,258.00 | 1,793,258.00 |
| Ms. Christine Okoth | Director | | 1,160,000.00 | 912,258.00 | 2,072,258.00 |
| Mr. Simon Indimuli | Representing the National Treasury | | 40,000.00 | - | 40,000.00 |
| Mr. Ronald Inyangala | Representing the National Treasury | | 40,000.00 | - | 40,000.00 |
| Dr. Geoffrey Mwau | Alt. to PS, National Treasury | | 20,000.00 | - | 20,000.00 |
| Mr. Nzomo Mutuku | Representing, the National Treasury | | 40,000.00 | - | 40,000.00 |
| Mr. Sammy Makove | Representing, the National Treasury | | 80,000.00 | - | 80,000.00 |
| *Mr. Humphrey Muga | Staff Retirement Benefits Scheme Chair | | 120,000.00 | - | 120,000.00 |
| P.S. National Treasury | Payment made to office of PS National Treasury | | | 840,000.00 | 840,000.00 |
| Office of the Attorney General | | | | 840,000.00 | 840,000.00 |
| Central Bank of Kenya | | | | 840,000.00 | 840,000.00 |
| | | 1,044,000.00 | 8,140,000.00 | 8,497,774.00 | 17,681,774.00 |

*Mr. Humphrey Muga is the Authority's nominee to the Staff Retirement Benefit Scheme.



SEATED (Left to Right)

1. Dr. Thomas Kibua 2. Ms. Christine Okoth 3. Mr. James Ndegwa - Chairman 4. Mr. Paul Muthaura - Chief Executive
5. Mr. Paul Ngugi 6. Mr. Harry Kimtai



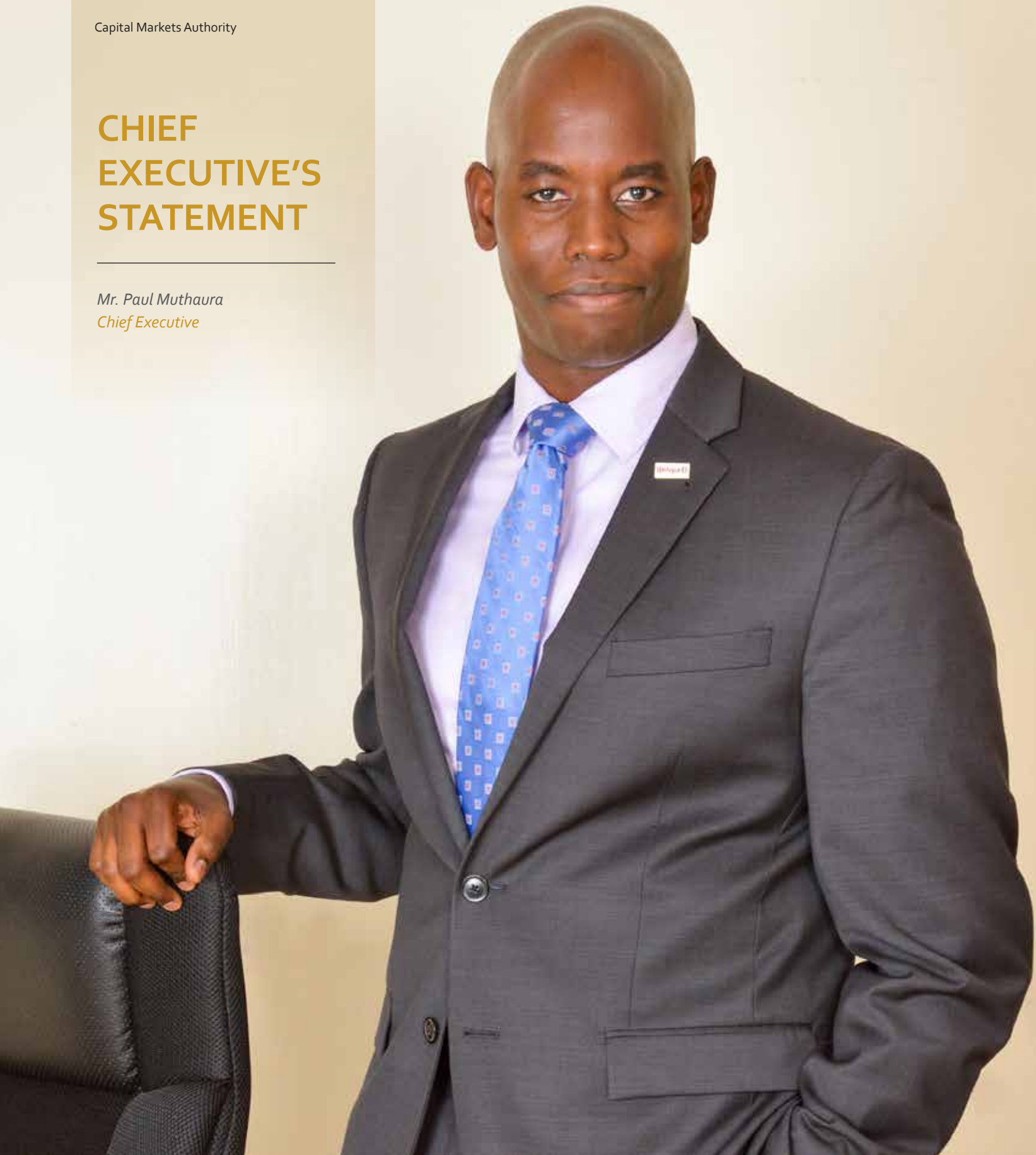
STANDING (Left to Right)

1. Dr. Geoffery Mwau, Alt. PS National Treasury
2. Dr. Kamau Thugge - PS National Treasury
3. Mr. John Birech, Alt. Governor CBK
4. Mr. Moibi Mose
5. Mr. Nevis Ombasa, Alt. Attorney General
6. Prof. Githu Muigai - Attorney General
7. Linda Muriuki
8. Dr. Patrick Njoroge - Governor CBK

Capital Markets Authority

CHIEF EXECUTIVE'S STATEMENT

Mr. Paul Muthaura
Chief Executive



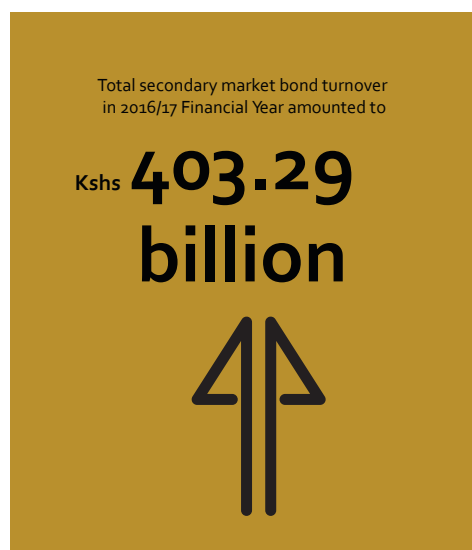
CHIEF EXECUTIVE'S STATEMENT (Continued)

I. Market Performance

Kenya's capital markets continued to exhibit resilience in the face of both internal and external challenges in 2016/17 Financial Year. Market capitalization for listed companies at the Nairobi Securities Exchange (NSE) grew by 11.35 percent during the period under review, rising to Kshs2.22 trillion as at 30 June, 2017.

“Market capitalization for listed companies grew by 11.35 percent during the period under review”

This was largely driven by the resilience of the NSE 20-Share Index, which experienced a significant decline of 19.90 percent between July 2016 and February, 2017, during which time it fell below the 3000 point mark; only to resurge by 29 percent to 3607.18 points at the close of the financial year. The earlier decline in the index in the first half of the year was mainly influenced by depressed performance of listed companies as reflected in the high instances of profit warnings and the uncertainty arising from the impact of the capping of the interest rates domestically, coupled with key global events such as Britain's decision to exit the European Union and the election of Donald Trump as the President of the United States of America.



The second half recovery was driven mainly by renewed interest in the market following introduction of new products notably the listing of Kenya's first Exchange Traded Funds (ETFs), the M-Akiba bond and positive capital markets policy pronouncements by the Cabinet Secretary for

the National Treasury in his delivery of the 2017/2018 Budget Statement.

Total secondary market bond turnover in 2016/17 Financial Year amounted to Kshs403.29 billion, a 6.96 percent increase from Kshs377.04 billion recorded in 2015/16 Financial Year. This improved performance was driven by efforts of the Kenyan Government to bring down primary market rates by dropping high bids during its securities' auctions resulting in institutional investors such as commercial banks redeploying the funds in the secondary market. The general drop in the equities market (equity turnover recording Kshs152.29 in 2016/17 Financial Year, a 13.19 percent decrease from total turnover recorded in 2015/16 Financial Year), further boosted performance of the secondary bond market due to their inverse correlation, leading to a shift by investors to bond investments. Statistics indicate that the Kenyan markets remain an attractive destination for investors, particularly foreign investors, who account for more than seventy percent of the total market turnover. This was further catalysed by the policy decision to remove caps on foreign ownership of companies listed on the Nairobi Securities Exchange as the country works towards making Nairobi an international financial services centre.

“The market also witnessed significant growth in the private equity industry”

The market also witnessed significant growth in the private equity industry as observed by the number of deals entered into during the year. Overall, we remain optimistic and confident in Kenya's potential to withstand shocks, both local and external, and believe that we will be witnessing more favourable performance in the coming year, largely driven by innovations and favourable policy and regulatory environment.

II. Capital Market Master Plan

The Capital Market Master Plan identified 113 recommendations to be implemented over its 10 year (2014 – 2023) term. Key milestones achieved in the year under review included;

- i. On-boarding of a consultant to conduct a gap analysis on national and county financing through support of the Financial Sector Support Project (FSSP) expected to make policy recommendations aimed at enhancing

CHIEF EXECUTIVE'S STATEMENT (Continued)

- the uptake of capital market products and services that can be leveraged towards bridging these gaps and supporting devolution;
- ii. Stewardship Code for Institutional Investors was gazetted on 23 June, 2017;
 - iii. Tax neutrality measures on Real Estate Investment Trusts (REITS) and Asset-Backed Securities (ABS) with respect to VAT were adopted by the National Treasury vide the Finance Act 2017;
 - iv. Amendments to the Capital Markets Act, the Cooperatives Societies Act and Sacco Societies Act to facilitate Shariah compliant finance products as well as tax statutes to provide for equivalent tax treatment of these alternative financial products with the conventional financial products.
 - v. The Public Finance Management Act (PFMA) was amended to provide for issuance of sovereign Sukuks (Islamic bond);
 - vi. CMA staff and industry participants continued to receive level I Chartered Institute for Securities & Investment (CISI) certification and the first batch received level II certification;
 - vii. Regulations to facilitate Securities Lending and Borrowing (SLB) and Short Selling were approved by the Board and submitted to National Treasury for gazettelement;
 - viii. Issuance of the following policy guidance notes to facilitate roll out of new products:
 - Policy Guidance Note on Asset-Backed Securities; and
 - Policy Guidance Note on issuance of Global Depository Notes/ Receipts
 - ix. Onboarding of a consultant to undertake an impact assessment of investor education by the Authority and develop a white paper to inform national consumer financial education policy and strategy;
 - x. Following the issuance of Policy Guidance Note on Exchange Traded Funds (ETFs), the Authority approved the first issue and listing of an ETF in February, 2017 by New Gold ETF Issuer;
 - xi. Onboarding of a consultant to support capacity building, strengthen regulatory oversight and inform product implementation for derivatives markets;
 - xii. The Authority through support of Frontclear conducted an analysis of gaps in legislation hindering certainty in insolvency netting and settlement finality in REPO and Derivative transactions with the recommendations set to be implemented in 2017/18 Financial Year, following stakeholder engagement with a view to Kenya securing clean ICMA & ISDA opinions; and
 - xiii. The Authority through the Financial Services Volunteer Corps (FSVC), United States Securities and Exchange Commission (US SEC) and Bloomberg LLP conducted a comprehensive capacity building initiative to supporting capital markets liquidity in Kenya through Securities Lending and Borrowing and strengthening of Collective Investment Schemes (CIS) reporting and structuring.

III. Review of the Policy Framework

To ensure policy proposals made to the National Treasury are inclusive and represent market and industry requirements, the Authority adopted an industry roundtable engagement approach that provides a platform for key stakeholders to share their views, vision and proposals on industry direction. This was implemented in the 2016/2017 Financial Year as the Authority sought to amalgamate policy proposals from industry players for consideration by the National Treasury.

“2016/2017 Financial Year was characterized by key policy wins for the capital markets”

2016/2017 Financial Year was characterized by key policy wins for the capital markets and the overall financial services sector industry as convergence on efforts aimed at growing the industry and increasing product offerings was attained. These were witnessed through the Budget Statement, 2017 which entrenched key gains for the industry and are summarized as overleaf:

CHIEF EXECUTIVE'S STATEMENT (Continued)

| | | |
|---|----------------------------------|--|
| 1 | Islamic Finance | <ul style="list-style-type: none"> Proposed amendments to the Capital Markets Act, the Cooperatives Societies Act and Sacco Societies Act to facilitate issuance of shariah compliant finance products. Amendment of the Public Finance Management Act to provide for issuance of Sukuk (Islamic bond). Amendment of tax statutes to provide for equivalent tax treatment of these Islamic financial products with the conventional financial products. Regulatory frameworks to facilitate development of Takaful Retirement Benefits Schemes in Kenya to be developed. |
| 2 | Tax neutrality for REITs and ABS | Amendment of the VAT Act to exempt from VAT transactions related to transfer of assets into Real Estate Investment Trusts (REITs) and Asset Backed Securities (ABS). |
| 3 | NIFC Bill | <ul style="list-style-type: none"> Nairobi International Financial Centre (NIFC) Bill was approved by the Cabinet in December 2016, and subsequently assented to by the President in early July 2017. |
| 4 | FSA Bill | <ul style="list-style-type: none"> The Financial Services Authority Bill was approved by the Cabinet for submission to the National Assembly for consideration. |

Source: Budget Statement 2017

“the Finance Act 2016 amended the Capital Markets Act, making the Authority the primary regulator of spot commodity markets in Kenya”

Moreover, the Finance Act 2016 amended the Capital Markets Act, making the Authority the primary regulator of spot commodity markets in Kenya, a critical step, in collaboration with the Ministry of Trade and other key stakeholders, in establishing a commodity exchange in the country.

Sufficient measures are being put in place to ensure that the policy pronouncements that have an impact in the Kenyan capital markets are highlighted through targeted investor education forums and joint public education and awareness efforts amongst the financial sector regulators to raise awareness of the evolving and more conducive environment for the use of the capital markets to fuel economic development

IV. Newly Established Partnerships

During the financial year, the Authority was able to secure a number of MOUs with institutions of similar interest.

- The Authority signed a Co-operation Agreement with Financial Services Regulatory Authority of the Abu Dhabi Global Market (ADGM) on Regulation of Financial Technology.

Signed on 18 June, 2017, it provides a framework for co-operation and referrals between the Innovation Functions of the two Authorities. The agreement was based on the mutual desire by the Authorities to promote innovation in financial services in their respective markets. The Agreement provides for a Referral mechanism where the Authorities through their Innovation functions will refer to each other Innovator Businesses that would like to operate in the other's jurisdiction. It also caters for the Authorities to participate in joint innovation projects on the application

CHIEF EXECUTIVE'S STATEMENT (Continued)

of key technologies such as digital and mobile payments, block chain and distributed ledgers, big data, flexible platforms (API) and other areas of new technology and to share information about innovations in financial services in their respective markets.

- b. Memorandum of Understanding with the Association of Chartered Certified Accounts (ACCA) to undertake joint financial literacy initiatives

In June, 2017, the Authority signed a Memorandum of Understanding with the ACCA to undertake joint financial literacy initiatives for an additional period of two years. The partnership aims to enhance financial literacy in Kenya through programs targeting various stakeholders and builds on the previous joint initiatives under an earlier MOU. The joint financial literacy initiatives are aimed, in amongst other targets, at promoting excellence in financial reporting by the media, having recognized the pivotal role that the media plays in deepening financial literacy in Kenya.

- c. Memorandum of Understanding with the Australian Securities Investment Commission on establishment of a Regulatory Sandbox

In October 2016, the Authority and the Australian Securities and Investment Commission (ASIC) signed a co-operation agreement which aims to promote innovation in financial services. It also sets up as framework for cooperation between the Authority and ASIC in the expanding space of innovation in financial services. This is in line with IOSCO recommendations as articulated in its Fintech report dated February, 2017 where greater multilateral and bilateral collaboration and greater national regulatory coordination is encouraged to address the potential risk for regulatory arbitrage arising from the cross-cutting nature of Financial Technology (FinTech).

- d. Launch of Business Incubation and Accelerator Listing Experience

The Capital Markets Authority (CMA) partnered with industry players to engage with companies with the potential to list, in March 2017, through a new initiative dubbed "the business incubator and accelerator experience." This is a continuous program intended to provide interested companies with a

realistic and practical feel of the listing process. Interested firms are given an opportunity to participate in a stage by stage, one on one, structured engagements with the CMA, NSE, Nominated Advisors (NOMADS), Transaction advisors, Lawyers, Auditors, Stockbrokers and Investment Banks, among other service providers, to allow for confidential B2B discussions on their readiness for listing.

The Authority will continue promoting this initiative in the forthcoming financial year as it works towards achieving the Capital Markets Master Plan (CMMP) goal of having at least three to four companies listed on the GEMS market segment annually.

"the Authority launched an anonymous reporting portal in July 2016 to enable whistle blowers to report malpractices in the capital markets."

- e. Launch of an anonymous Whistleblowing Portal

As part of its mandate of ensuring fair, orderly and efficient markets, the Authority launched an anonymous reporting portal in July 2016 to enable whistle blowers to report malpractices in the capital markets. The portal which is accessible through the Authority's website, gives whistle blowers an opportunity to share anonymous but verifiable evidence with the potential to complement and support CMA's investigation and enforcement efforts. The public is encouraged to use this facility objectively and play an active role in ensuring transparency in capital markets operations.

- f. CMA Resource Center Portal

During the financial year, the Authority launched its Resource Center Portal. The portal was developed based on modern information communication technologies to facilitate online access to the rich information that the Authority possesses. The Portal which was implemented in September 2016 is

CHIEF EXECUTIVE'S STATEMENT (Continued)

geared towards making more information content available online and to remove geographical barriers in accessing basic capital market information. The portal can be accessed through the link; <http://www.cmarcp.or.ke/>.

V. Review of legal and regulatory framework

In its drive to widen the scope of available capital markets products in the Kenyan market in line with the 10-year Capital Market Master Plan, the Authority developed a number of regulations and frameworks to support the operationalization of new capital markets products. These included:

- i. Policy Guidance Note on Global Depository Receipts/Notes, issued in June, 2017;
- ii. Policy Guidance Note on Asset Backed Securities, issued in April, 2017.
- iii. Stewardship Code for institutional investors, gazetted into operation in June, 2017.

The following regulations are still under development and are hoped to be finalized in the next financial year.

- iv. Securities Lending and Borrowing and Short Selling Regulations.
- v. Regulations on Online Forex Trading, in line with the policy pronouncement by the Cabinet Secretary, National Treasury in the 2016 budget statement.

Technical Assistance Provided by CMA Kenya

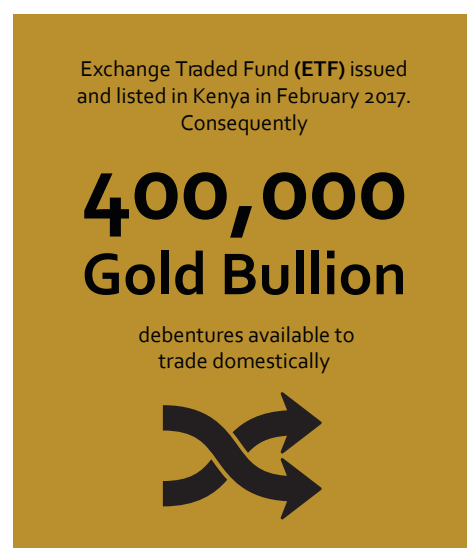
Noting the significant reforms undertaken in recent years in the areas of market supervision and regulation, market development and investor education, the Authority has stood prepared to share lessons learned with fellow regulatory authorities across the African continent. In this regard, the Authority was able to support a number of technical assistance programmes as follows:

- i. Between 20-24 March, 2017, the Authority hosted staff from Swaziland's Financial Services Regulatory Authority (FSRA) where the participants were taken through an overview

of the Kenyan capital markets, regulation procedures, legislation and guidelines, Kenya's Capital Markets Master Plan and implementation status amongst others.

- ii. In March, 2017, the Authority hosted staff from Botswana's Non-Bank Financial Institutions Regulatory Authority where capacity building initiatives were offered in line with the Authority's rules and regulations governing investments, licensing policies and procedures of fund administrators, risk based supervision, inspection policies and procedures, enforcement amongst others.

"Focusing on innovation and development of the capital market"



VI. Market Development

Financial Year 2016/2017 marked a significant year on the market development front as the Authority made key advancements in introducing and providing a facilitative regulatory

environment for the introduction of new capital markets products.

- i. Exchange Traded Funds

In line with its strategic objective of broadening the array of products in the capital market, the Authority approved the secondary listing of the first Exchange Traded Fund (ETF) in Kenya in February, 2017. Consequently, 400,000 gold bullion debentures issued by New Gold Issuer (RF) Limited were listed on the Main Investment Market Segment of the Nairobi Securities Exchange, commencing trading on the NSE on 27 March, 2017.

CHIEF EXECUTIVE'S STATEMENT (Continued)

The ETF is expected to open the doors to local investors wishing to indirectly participate in the gold market, where they have previously had to either trade in the commodity in its physical form (bullion) or do so through offshore markets. It is also expected to provide diversification benefits from a portfolio perspective.

ii. M-Akiba Bond Issuance

Financial Year 2016/2017 saw the debut of the first mobile phone based retail bond issued by the Government of Kenya through the National Treasury. The bond was issued in two phases; a pilot phase offered in March, 2017 that was 100 percent subscribed, raising Kshs150 Million, with a minimum investment amount of Kshs3,000 and a maximum amount of Kshs140,000 through Mobile Network Operators and Kshs999,999 through Pesalink. The second tranche of the issue was offered on 30 June, 2017 following the successful pilot phase and is aimed to raise Kshs1 billion with a green shoe option of Kshs3.85 billion.

iii. Islamic Finance

Following the commissioning of Islamic Finance Advisory and Assurance Services (IFAAS), in association with Simmons & Simmons to lead the Project Management Office (PMO) on Islamic Finance in the country in October 2015, the Joint Financial Sector Regulators have made notable steps towards creating an enabling environment for the growth of Islamic finance in the country.

During the financial year, the PMO team made policy proposals to the National Treasury most of which were adopted in the 2017 Budget Statement; ranging from proposed amendments to statutory provisions such as the Public Finance Management Act and amendment of the Capital Markets Act to incorporate the definition of Sukuks (Islamic bonds).

Additionally, the Islamic corporate governance structure upon which Kenya's Islamic finance industry will operate has been established with the formation and official launch of the Islamic Finance Steering Committee (IFSC) and Islamic Finance Consultative Committee (IFCC) with the former drawing members from financial services regulatory bodies and the latter being members drawn from the industry, including Islamic scholars. The members have since been gazetted in the Kenya Gazette.

VII. Policy/Research Conducted

As one of the initiatives to deepen Kenya's capital markets, CMA initiated various studies and contributed to financial sector publications;

- i. Consultative paper on policy framework for the implementation of a regulatory sandbox to support financial technology (Fintech) innovation in the Capital Markets in Kenya

The Authority developed a strategy paper outlining a proposed policy framework for the implementation of a regulatory sandbox to support financial technology (Fintech) innovation in the capital markets in Kenya that was the basis of extensive public consultation.

The consultative paper was subjected to public exposure for a 30 day period and a forum with industry players held in June, 2017 aimed at receiving feedback on the Authority's approach in establishing a regulatory sandbox.

- ii. A research paper on access to funding by National and County Governments

In 2010, through the promulgation of a new Constitution, Kenya adopted a devolved system of government with 47 county governments as the devolved units. To seek solutions towards infrastructural financing for both state and county development projects, the Authority with support from the World Bank through the Financial Services Sector Project on-boarded a consultant in May, 2017 who will be conducting a study aimed at proposing potential capital markets products that can be used by the institutions to raise funds. Leveraging the capital markets is expected to shift reliance on transfers from the national government in financing infrastructural and overall development projects at the county level.

- iii. The Authority also provided inputs towards publications in financial services industry such as the Foreign Investment Survey 2016 and the Kenya Financial Sector Stability Report 2016, a joint annual publication prepared by the Joint Financial Sector Regulators Forum.

CHIEF EXECUTIVE'S STATEMENT (Continued)

VIII. Financial Highlights Results

| RESULTS | As at 30 June 2017 Shs'000 | As at 30 June 2016 Shs'000 |
|---|-------------------------------|-------------------------------|
| The results for the year are summarised below:- | | |
| Total income for the year | 983,540 | 949,986 |
| Total operating expenditure for the year | (970,011) | (812,206) |
| Surplus for the year before tax and transfer | 13,529 | 137,780 |
| Tax expense | - | - |
| Surplus for the year | 13,529 | 137,780 |

IX. Future Outlook

Throughout the 2016/2017 Financial Year, the Authority is proud to have made significant steps in line with the Capital Markets 10 Year Master Plan and the Authority's Strategic Plan 2013-17 which will be entering its final year of implementation in 2017/18 Financial Year.

This has equally been supported by the Authority's internal policy on high quality performance dubbed "Uwezo Kipeo," that has created a spirit of excellence amongst staff as they execute their duties. Acknowledging its human capital as one of its most invaluable resources, the Authority will continue to forge ahead in confidence as it executes its dual mandate of market development and regulation.

In conclusion therefore, I wish to thank the Board for their guidance and unfailing support throughout the year. I would also like to extend my sincere appreciation to the various stakeholders both in Government and private sectors who have made the development and implementation of the Capital Markets Master Plan a reality.

My special appreciation goes to the Management and staff of the Authority for their tireless commitment and willingness to drive the Authority's ambitious and multi-faceted agenda on market development and effective regulation. The teams' excellent work in fulfilment of the responsibility entrusted to us has resulted in our recognition two years in a row as "The Most Innovative Capital Markets Regulator in Africa" and moves us ever closer to facilitating the Kenyan capital markets to become the true Heart of the African Capital Markets.

Signed



Mr. Paul Muthaura
Chief Executive

MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

Operational and Financial performance

The Authority promotes and facilitates the development of an orderly, fair, and efficient capital market in Kenya. This mandate has continued to be delivered in the year. Revenue earned was 17 percent higher than last financial year driven mainly by market activity. The results in the year are a recurrent surplus of Kshs14million, which is 90 percent drop from previous year.

“Sustaining wealth creation”

The Authority is in a strong cashflow position capable of meeting obligations as they fall due. The performance at hand has a bearing on the future market activities. It is of importance to note that any changes affecting investors in the economic, social and political environment, has a significant impact on the capital markets industry.

SECTION B

Compliance with statutory requirements

The Authority is in compliance with all statutory obligations including but not limited to: remittances of PAYE, NHIF, NSSF, VAT, HELB, Withholding tax etc within the stipulated deadlines.

The Authority being the capital markets regulator in Kenya, is subject to legal proceedings in the normal course of business. While it is not possible to forecast or determine the final results of all pending legal proceedings, the Authority assesses the adequacy of its provisions periodically against case developments and related legal costs.

A full provision has been made in the books, and CMA has a prequalified list of legal consultants, from which services are sourced competitively from time to time.

SECTION C

Key projects and investment decisions being implemented

A Change Management Project (Uwezo Kipeo) is being implemented. The project aims at cultivating a culture of excellence driven by outcomes, staff empowerment and a globally benchmarked code of conduct and ethics. This involves a complete review of how we manage and motivate staff, the single most important resource of the Authority.

“Unwavering commitment to excellence”

The project is designed to bring on board more skills, systems, agility, and raising the capability of CMA to regulate the capital markets, and being ready to take on new challenges in making Kenya a great place to invest. The project is donor funded and highly successful.

SECTION D

Major risks identified in the ERM

The Authority updated its Enterprise Risk Management Framework in 2017, on the basis of which Risk Management has been mainstreamed within the Authority to allow for structured risk assessments on a continuous basis.

The Board is responsible for the Authority's risk management and at least once every quarter receives reports to enable the review, monitoring and evaluation of the implementation and effectiveness of the ERM framework. The Authority in the course of its mandate identified key corporate risks, the associated risk levels, and their mitigation strategies as defined overleaf:

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

1. Trading, clearing and settlement systems failure

The Authority will mitigate the risk by:

- a). Ensuring implementation of the Principles for Financial Markets Infrastructure and effective business plan by the market players.
- b). Taking enforcement action against violations
- c). Strengthening supervision of the ATS system at NSE and the CDS systems
- d). Carrying out the system audits and ensure strengthening the weaknesses noted.

2. Sub-optimal level of uptake of new and/or existing capital markets products and services

The Authority shall collaborate with relevant stakeholders on investor education and public awareness programmes on new products and services to support their successful implementation and maintain an updated database on necessary reforms and continuously review the market to provide guidance to the relevant stakeholders.

3. Negative perception of capital markets by Investors

The Authority shall continuously engage its stakeholders on matters relating to capital markets research initiatives and undertake sensitization forums on capital market products and services. The Authority shall further put in place a robust complaints handling and effective enforcement framework to strengthen investor confidence and promote participation in the markets.

4. Sub-optimal staff capacity

The Authority shall effectively train its staff and align the departmental activities to the corporate activities and projects, while optimizing vacancy ratios and supporting effective learning and development programs.

5. Unfavourable changes in the macro economic environment

The Authority shall monitor the trends of macro economic factors and monitor the policy changes that have an impact on capital markets and execute its mandate as the lead advisor to Government on capital markets matters.

6. Judicial misapplication of the law

The Authority shall collaborate and partner with relevant bodies to facilitate training on dynamics and regulations, prosecution and continuous legal education involving capital markets.

The Authority will build internal capacity of internal counsel especially on development law to enable proper representation.

SECTION E

Material arrears in statutory/financial obligations

The Authority has no statutory arrears and has been prompt to remit all pension deductions to an independent administrator appointed competitively by the Trustees. The defined contribution Scheme operated has been in Surplus.

There is an existing engagement with KRA for the latter to grant waiver of penalties and interest in line with prior confirmations being pursued in conjunction with the Authority's tax consultants.

SECTION F

Financial probity and serious governance issues

There are no issues of financial improbity reported by any board committee or by external auditors. There are no governance issues and no conflicts of interest at the Board or top management of the Authority.

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Capital Markets Authority set out on pages 29 to 54, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Mbaya & Associates, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Capital Market Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Capital Market Authority Act, Cap 485A of the Laws of Kenya.

Further, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Capital Market Authority in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with ISSAI and accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. These matters were addressed in

Report of the Auditor-General on the Financial Statements of Capital Markets Authority for the year ended 30 June 2017

the context of the audit of the financial statements, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context. I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

| | Key Audit Matters | How the Audit Addressed the Key Audit Matter |
|----|--|--|
| 1. | <p>Revenue Revenue primarily include; capitalization, rights and new issue fees, NSE – transaction fees, application and licensing fees and market development fees. I treated this as a key audit matter due to its materiality and its status as the main income stream of the organization. The risk for interest income from Investor Compensation Fund (ICF) being recognized as revenue for the authority presents a key audit matter due to the financial significance it has in the financial statements.</p> | <p>I addressed the key audit matter by performing the following procedures:-</p> <ul style="list-style-type: none"> ▪ I evaluated internal control activities, and supporting documentation on revenue recognition, and also performed walkthrough procedures of key controls and confirmed that they were adequate and sufficient. ▪ I inspected significant investment securities and investments instructions and verified the ownership. ▪ I tested revenue recognition by comparing individual income items to the related investment security and verified their accuracy and completeness. |
| 2. | <p>Investments of Investors Compensation Fund As outlined in the financial statements, the Authority holds financial investments worth Kshs.1.88 billion which are valued at their fair value. These included marketable securities, and share investments. I consider that valuing financial assets and financial liabilities at their fair value is a key audit matter, given their significance in the financial statements.</p> | <p>I addressed this key audit matter by performing the following:-</p> <ul style="list-style-type: none"> ▪ I obtained the valuation reports of the quoted equities and verified to the prevailing market values as 30th June 2017. ▪ I reviewed transaction reports of the financial investments during the year with the investors compensation fund account to confirm the investment movements |

| | | |
|----|---|---|
| 3. | <p>Employees Costs I considered this a key audit matter due to the following:-</p> <ul style="list-style-type: none"> ▪ The employee costs absorb 44% of the total income earned by the Authority. ▪ In comparison to the previous year, the employee costs have increased by 22%. ▪ The core mandate of the Authority, as the regulator of the Capital Markets, is personnel driven. | <p>My audit procedures covered assessment of the payroll's internal control environment as well as testing of the operating effectiveness of the related financial controls for accuracy and completeness.</p> <p>I also assessed the recruitment process of the Authority, as well as its staff appraisal process to ensure that the capacity of the Human Resource is sufficient and adequate.</p> |
| 4. | <p>Procurement I considered this a key audit matter due to the materiality of the expenses incurred by the organizations as well as its responsibility as a public entity to ensure compliance with the Public Procurement and Disposal Act and value for money principals were met.</p> | <p>I addressed this key audit matter by inspecting procurement documentation and:-</p> <ul style="list-style-type: none"> ▪ I verified that there was an appropriate level of segregation of duties. ▪ I verified that tender invitation and quotation evaluation processes were performed in a transparent and objective manner. ▪ I analyzed the resultant tender award and noted that the selection process ensured value for money in terms of cost and quality. |

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management 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, management is responsible for assessing the corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the corporation's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit 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 include my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness 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 conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I 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 my 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 and for the purpose of giving an assurance on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's 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 Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up

to the date of my audit report. However, future events or conditions may cause the Authority's 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 and business activities of the Authority's to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I 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 my independence, and where applicable, related safeguards.

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



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

08 January 2018

Report of the Auditor-General on the Financial Statements of Capital Markets Authority for the year ended 30 June 2017

NOTE:

This is a copy of the Audit Report by the Auditor General on the financial statements for the year ended 30th June 2017. Whereas the financial statements published in this annual report are the same as in the signed accounts, the pagination is slightly different from that referenced in the auditor's report because of the additional business-related material included in the annual report. The financial statements as presented in this report are in pages 43 to 75.

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30th June 2017

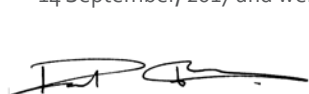
| | Note | 2017 Shs'000 | 2016 Shs'000 |
|---|-----------|------------------|------------------|
| Revenue from non-exchange transactions | | | |
| Capitalization, rights and new issue fees | 6 | 759,059 | 749,682 |
| Donor fund income | 7 | 109,246 | 91,140 |
| | | 868,304 | 840,822 |
| Revenue from exchange transactions | | | |
| Other income | 8 | 115,457 | 108,510 |
| Total revenue | | 983,761 | 949,332 |
| Expenses | | | |
| Operating expenditure | 30 | (970,011) | (812,206) |
| Total expenses | | (970,011) | (812,206) |
| Other gains/ (losses) | | | |
| (Loss)/Gain on disposal of property and equipment | 9 | (221) | 654 |
| Surplus before tax | 10 | 13,529 | 137,780 |
| Tax expense | 11 | - | - |
| Surplus for the year | | 13,529 | 137,780 |

STATEMENT OF FINANCIAL POSITION

As at 30th June 2017

| ASSETS | Note | 2017 Shs'000 | 2016 Shs'000 |
|--|-------|------------------|------------------|
| Current assets | | | |
| Inventories | 12 | 1,102 | 1,591 |
| Trade and other receivables from non exchange transactions | 13(a) | 47,639 | 52,154 |
| Trade and other receivables from exchange transactions | 13(b) | 22,134 | 24,780 |
| Staff loans and advances/guarantee fund | 14 | 47,095 | 34,759 |
| Held-to-maturity investments | 15 | 626,967 | 370,934 |
| Cash at bank and in hand | 16 | 64,350 | 269,384 |
| Investors' Compensation Fund | 17 | 689,791 | 512,558 |
| | | 1,499,078 | 1,266,160 |
| Non-current assets | | | |
| Property and equipment | 18 | 56,314 | 82,657 |
| Intangible assets | 19 | 6,019 | 4,702 |
| Staff loans and advances/guarantee fund | 14 | 324,292 | 249,175 |
| Held-to-maturity investments | 15 | 260,999 | 341,118 |
| Investors' Compensation Fund's investments | 17 | 1,193,520 | 992,448 |
| | | 1,841,144 | 1,670,100 |
| Total Assets | | 3,340,222 | 2,936,260 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 20 | 168,639 | 139,246 |
| Provision for liabilities and charges | 21 | 85,842 | 95,906 |
| Current tax payable | 22 | - | - |
| Deferred income | 23 | - | 7,200 |
| Investors' Compensation Fund | 17 | 689,790 | 512,558 |
| | | 944,271 | 754,910 |
| Non-current liabilities | | | |
| Investors' Compensation Fund liabilities | 17 | 1,193,520 | 992,448 |
| Total liabilities | | 2,137,791 | 1,747,358 |
| Net assets | | 1,202,431 | 1,188,902 |
| Funds | | | |
| Capital fund | 24 | 27,886 | 27,886 |
| General fund | 25 | 698,582 | 931,016 |
| Building fund | 26 | 475,963 | 230,000 |
| Total Funds | | 1,202,431 | 1,188,902 |
| Total Funds and Liabilities | | 3,340,222 | 2,936,260 |

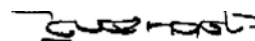
The financial statements set out on pages 43 to 75 were approved for issue by the Board Members of the Authority on 14 September, 2017 and were signed on its behalf by:



Chief Executive
Date: 14 September, 2017



ICPAK No. 1849
Director, Corporate Services
Date: 14 September, 2017



Chairman of the board
Date: 14 September, 2017

STATEMENT OF CHANGES IN NET ASSET

For the year ended 30th June 2017

| | Capital fund Shs'000 | General fund Shs'000 | Building fund Shs'000 | Total Shs'000 |
|---------------------------|----------------------------|----------------------------|-----------------------------|------------------|
| At 1st July 2015 | 27,886 | 923,236 | 100,000 | 1,051,122 |
| Surplus for the year | - | 137,780 | - | 137,780 |
| Transfer to building fund | - | (130,000) | 130,000 | - |
| At 30th June 2016 | 27,886 | 931,016 | 230,000 | 1,188,902 |
| At 1st July 2016 | 27,886 | 931,016 | 230,000 | 1,188,902 |
| Surplus for the year | - | 13,529 | - | 13,529 |
| Transfer to building fund | - | (245,963) | 245,963 | - |
| At 30th June 2017 | 27,886 | 698,582 | 475,963 | 1,202,431 |

STATEMENT OF CASH FLOWS

For the year ended 30th June 2017

| | Note | 2017 Shs'ooo | 2016 Shs'ooo |
|---|------|------------------|------------------|
| Cash flows from operating activities | | | |
| Surplus for the year | | 13,529 | 137,780 |
| Adjustments for: | | | |
| Tax expense | 11 | - | - |
| Depreciation of property and equipment | 18 | 51,791 | 34,835 |
| Amortisation of intangible assets | 19 | 3,785 | 38,801 |
| Deferred donor funded income | | (7,200) | (34,862) |
| Gain on disposal of property and equipment | 9 | 221 | (654) |
| Interest income | 8 | (100,569) | (101,282) |
| Operating profit before working capital changes | | (38,442) | 74,618 |
| Decrease/(increase) in: | | | |
| Inventories | | 489 | 449 |
| Trade and other receivables | | 7,161 | 27,119 |
| Staff loans and advances | | (87,453) | (17,709) |
| Increase/(decrease) in: | | | |
| Trade and other payables | | 29,393 | (7,520) |
| Provision for liabilities and charges | | (10,064) | 7,166 |
| Investors' Compensation Fund | | 378,306 | 202,308 |
| Staff benevolent fund | | - | - |
| Cash generated from operations | | 279,391 | 286,431 |
| Interest received | 8 | 100,569 | 101,282 |
| Income tax paid | | | (18,007) |
| Net cash generated from operating activities | | 379,959 | 369,706 |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | 18 | (26,046) | (12,656) |
| Purchase of intangible assets | 19 | (5,102) | (1,216) |
| Proceeds from disposal of property and equipment | | 376 | 654 |
| Purchase of treasury bonds from the Investors' Compensation Fund | | (194,311) | (177,620) |
| (Purchase)/sale of treasury bills from the Investors' Compensation Fund | | (157,818) | (107,156) |
| (Purchase)/sale of treasury bonds | | 24,716 | 51,681 |
| (Purchase)/sale of treasury bills | | (200,631) | (113,579) |
| Net cash used in from investing activities | | (558,816) | (359,892) |
| Net increase/(decrease) in cash and cash equivalents | | (178,857) | 9,814 |
| Cash and cash equivalents at start of the year | | 338,839 | 329,025 |
| Cash and cash equivalents at end of the year | | 159,982 | 338,839 |

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

| | Approved budget 2016-2017 Shs'000 | Adjustments (Reallocations) 2016-2017 Shs'000 | Final budget 2016-2017 Shs'000 | Actual on comparable basis 2016-2017 Shs'000 | Performance difference 2016-2017 Shs'000 |
|---|--|--|---|--|---|
| Revenue | | | | | |
| Fee income from NSE | 561,279 | 0 | 561,279 | 385,547 | (175,732) |
| Licenses and permits | 21,600 | 0 | 21,600 | 19,789 | (1,811) |
| Market development Fees | 13,391 | 0 | 13,391 | 13,023 | (368) |
| Capitalisation and bond approvals | 388,900 | 0 | 388,900 | 340,699 | (48,201) |
| Fee based income | 985,170 | 0 | 985,170 | 759,059 | (226,112) |
| Donor Funding- gifts and services-in-kind | 323,912 | 0 | 323,912 | 109,246 | (214,666) |
| Finance income - external investments | 52,371 | 0 | 52,371 | 100,569 | 48,197 |
| Gains on disposal, rental income and agency fees | - | - | - | (221) | (221) |
| Other income | 3,330 | 0 | 3,330 | 14,888 | 11,558 |
| Total income | 1,364,784 | 0 | 1,364,784 | 983,540 | (381,244) |
| Expenses | | | | | |
| Personnel cost | 482,958 | 0 | 482,958 | 429,889 | 53,069 |
| Rent and maintenance | 54,162 | 0 | 54,162 | 53,365 | 797 |
| Equipment maintenance and stationery | 31,912 | 0 | 31,912 | 29,501 | 2,411 |
| Telephone, postage and utilities | 16,910 | 0 | 16,910 | 14,327 | 2,583 |
| Entertainment and public relations | 40,000 | (3,930) | 36,070 | 33,183 | 2,887 |
| Medical scheme and insurance expenses | 27,975 | 0 | 27,975 | 26,365 | 1,610 |
| Training and conferences | 72,000 | (4,000) | 68,000 | 62,047 | 5,953 |
| Motor vehicle running expenses | 7,600 | 0 | 7,600 | 6,113 | 1,487 |
| Subscriptions and IOSCO membership | 14,875 | - | 14,875 | 11,946 | 2,929 |
| Authority board members' emoluments and allowance | 36,949 | 0 | 36,949 | 36,968 | (19) |
| Professional & consultancy services | 22,190 | 20,465 | 42,655 | 31,148 | 11,507 |
| Litigation/legal expenses | 24,000 | (12,595) | 11,405 | (346) | 11,751 |
| Market Development & Islamic Finance | 55,344 | 10,817 | 66,161 | 39,893 | 26,268 |
| Capital Markets Masterplan | 20,000 | (11,700) | 8,300 | 4,891 | 3,409 |
| Donor Funded Projects | 287,667 | 0 | 287,667 | 102,521 | 185,146 |
| Depreciation of property, plant and equipment | 55,927 | 0 | 55,927 | 51,791 | 4,136 |
| Amortisation of intangible assets | 62,294 | 0 | 62,294 | 3,785 | 58,509 |
| Auditor's remuneration | 817 | 943 | 1,760 | 1,760 | 0 |
| Investors' education and awareness programme | 35,000 | 0 | 35,000 | 26,767 | 8,233 |
| Tribunal expenses | 5,194 | 0 | 5,194 | 4,097 | 1,097 |
| Total expenditure | 1,353,774 | 0 | 1,353,774 | 970,011 | 383,762 |
| Surplus for the period | 11,010 | 0 | 11,010 | 13,529 | 2,519 |

The Authority has not recognized in the financial statements items for which commitments in the budget had been made amounting to Kshs29.5million(2016:Kshs7.8million).This in compliance to IPSAS19. The procurement of the same had been completed in 2016/17 but the delivery was made in 2017/18.(Note 28b)

In its 279th meeting held on 28th April 2017, the Board approved reallocation of budget to market intervention and professional and consultancy votes respectively; from training & development, market development, Capital Markets Master-Plan and legal /litigation votes respectively, totaling to Ksh30million. This was to facilitate forensic audit/investigations of operations of past Management and Board of Mumias Sugar Company Ltd; conducted through the firm of M/S J. Miles Limited.

STATEMENT OF CASH FLOWS YEAR ON YEAR COMPARISON (Continued)

Notes on Significant variances (10percent and above) between actual and budget.

REVENUE

- a) **Finance income from NSE** was affected by the low market trading volumes in the year .
- b) The performance of the **Capitalization and bond approvals fees** was lower than budget arising from low market activity from mainly institutions(borrowers), than anticipated in the year.
- c) **Donor Funding-gifts and services-in-kind** was low, since substantial portions of the Projects being supported by donor funding have been extended for delivery in 2017/18 Financial Year.
- d) **Finance income from external investments** was above the budget as the Authority continued investing excess cash per policy.
- e) **Other income** line was above budget arising from partnering support for investor education activities, coupled with refund for legal costs incurred in prior years.

EXPENDITURE

- a) The Authority's staff complement was gradually filled in the year, and the **Personnel cost** was well within the budget.
- b) **Telephone, postage and utilities** was below budget due to cost control strategies that the Authority continued to implement in the year.
- c) **Motor vehicle running expenses** was within the budget as cost control strategies (e.g. use of fuel cards, negotiated transport rates, pooling of taxi cabs) contributed to the low costs.

- d) **Subscriptions and IOSCO membership** expenses was within the budget and all programmed IOSCO engagements in the year were undertaken , well within the allocated budget.
- e) **Professional & consultancy services** expenses were spent below budget, as there were some carry over of activities into next year.
- f) **Litigation/legal costs** was lower than budget as the number of prior year provisions were reversed, due to several respondents to some cases negotiating for out of court settlement. This is in line with enhancement of alternative resolution mechanisms.
- g) **Market Development & Islamic Finance** expenses were lower than budget due to support of programmes by donor funding .
- h) **Capital Markets Masterplan expenses** was below budget as the main activities in the implementation road maps still under working group review and development.
- i) **Donor Funded Projects cost** was lower than budget as some of the donor funded projects targeted to be started and completed in the year didn't kick off in time due to lengthy kick off logistical reasons.
- j) **Amortisation of intangible assets** was well within the budget level as few intangible assets were acquired.
- k) **Investors' education and awareness programme expenses** was below budget as partnering(cost sharing) with other stakeholders was improvised for some of the activities undertaken.
- l) Although substantial number of meetings were held, the **Tribunal's** other activities (like training) were minimal hence the cost was well within the budget.

NOTES

1. Statement of compliance and basis of preparation

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the authority and all values are rounded to the nearest thousand (Shs '000'). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

The Authority adopted IPSAS in the year 2014 following the gazettment of the Public Sector Accounting Standards Board (PSASB) which was established by the Public Financial Management Act (PFM) No.18 of 24th July 2012. PSASB issued financial reporting standards and guidelines to be adopted by all state organs and public sector entities, which the Authority complies with.

2. Adoption of new and revised standards

New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017.

| Standard | Impact |
|---|--|
| IPSAS 39: Employee Benefits | Applicable: 1 January, 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach. |
| IPSAS 40: Public Sector Combinations | Applicable: 1 January, 2018 The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations. |

3. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions Fees

The Authority recognizes revenues from fees when the

event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Authority and the fair value of the asset can be measured reliably.

NOTES (Continued)

Donor Income

Donor funds are received through Government supported programmes and other development Agencies. These funds are recognised at fair value when there is reasonable assurance that the Authority will comply with the conditions attaching to them and the funds will be received. Donor funds related to purchase of assets are treated as deferred income and allocated to statement of financial performance income over the useful lives of the related assets while grants related to expenses are treated as donor fund income in the income statement.

ii) Revenue from exchange transactions

The Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Interest income

Interest income is accrued as it is earned over the life of the investments held.

b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Taxes

Current income tax

The Authority is exempt from income tax vide PFMA regulation no.34 of 2015.

On 20 March, 2015, The National Treasury issued PFMA Regulation No. 34 which under Section 219 exempts the Authority from paying taxes in the future. The Authority will

however be required to submit 90 percent of its surplus to the National Treasury.

d) Property and equipment

All property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation is calculated using the straight line method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

| | Rate |
|----------------------------|-------|
| Motor vehicles | 25% |
| Furniture & fittings | 12.5% |
| Office equipment | 20% |
| Computers, copiers & faxes | 25% |

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining surplus for the year.

e) Leases

Operating leases

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

f) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets,

NOTES (Continued)

excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life of three years.

The useful life of the intangible assets is assessed as finite.

g) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Authority has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are

recognized in surplus or deficit.

Impairment of financial assets

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- i) The debtors or a group of debtors are experiencing significant financial difficulty.
- ii) Default or delinquency in interest or principal payments.
- iii) The probability that debtors will enter bankruptcy or other financial reorganization.
- iv) Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

NOTES (Continued)

h) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is not remote.

i) Employee benefits

Retirement benefit plans

The Authority provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

The Authority and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the Authority's contributions are charged to the statement of comprehensive income in the year to which they relate.

j) Gratuity obligations

The Authority pays service gratuity to staff on contract under their terms of employment. Employee entitlements to gratuity are recognized when they accrue to employees. A provision for gratuity payable is made in the statement of financial position. The gratuity is not subject to actuarial valuation.

k) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

The Authority manages the Investor Compensation Fund (ICF) and reports the funds held in the bank, call accounts on behalf of ICF as part of cash and cash equivalents.

m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

NOTES (Continued)

n) Related party

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. Members of key management are regarded as related parties.

o) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

4. Significant judgments and sources of estimation uncertainty

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

a) Significant judgements made in applying the Authority's accounting policies

The judgements made by the board members of the Authority in the process of applying the Authority's accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

Whether the Authority has the ability to hold 'held-to maturity' investments until they mature. If the Authority were to sell other than an insignificant amount of such investments before maturity, it would be required to classify the entire class as 'available-for-sale' and measure them at fair value.

b) Key sources of estimation uncertainty

Key assumptions made about the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include:

i) Retirement benefit obligations

The pensions contributions into the Defined Contribution (DC) Scheme are expensed as incurred in the year.

ii) Impairment losses

Estimates made in determining the impairment losses on receivables. Such estimates include the determination of the net realisable value or the recoverable amount of the asset. The movement on the impairment provision is set out in Note 12.

5. Risk management objectives and policies

a) Financial risk management

The Authority's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Authority's overall risk management policies are set out by the board and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the Authority's performance by setting acceptable levels of risk. The Authority does not hedge against any risks.

i) Credit risk

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 Authority-wide basis. The Authority does not grade the credit quality of financial assets that are neither past due nor impaired.

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 with each institute.

NOTES (Continued)

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 the credit limit and the credit period for each customer. The utilisation of the credit limits and the credit period is monitored by management on a monthly basis.

| | Fully performing Shs'000 | Past due but not impaired Shs'000 | Impaired Shs'000 | Total Shs'000 |
|--|-----------------------------|--------------------------------------|---------------------|------------------|
| At 30th June 2017 | | | | |
| Held-to-maturity investments | 887,966 | - | - | 887,966 |
| Staff loans and advances/ fund | 367,208 | - | 4,179 | 371,387 |
| Trade receivables | 48,089 | - | - | 48,089 |
| Other receivables | 13,219 | - | - | 13,219 |
| Cash at bank, in hand and deposits | 64,210 | - | - | 64,210 |
| Maximum exposure to credit risk | 1,380,691 | - | 4,179 | 1,384,870 |

| | Fully performing Shs'000 | Past due but not impaired Shs'000 | Impaired Shs'000 | Total Shs'000 |
|--|-----------------------------|--------------------------------------|---------------------|------------------|
| 30th June 2016 | | | | |
| Held-to-maturity investments | 712,052 | - | - | 712,052 |
| Staff loans and advances/ fund | 279,755 | - | 4,179 | 283,934 |
| Trade receivables | 53,120 | - | - | 53,120 |
| Other receivables | 6,812 | - | - | 6,812 |
| Cash at bank, in hand and deposits | 269,244 | - | - | 269,244 |
| Maximum exposure to credit risk | 1,320,983 | - | 4,179 | 1,325,162 |

NOTES (Continued)

The ageing analysis of past due but not impaired trade receivables is

| | 2017 Shs'000 | 2016 Shs'000 |
|---------------|-----------------|-----------------|
| Over 6 months | 4,179 | 4,179 |
| | 4,179 | 4,179 |

The past due debtors are nil. An impairment provision of Shs 4,104,000 (2016: Shs 57,866,000) is held against the impaired receivables. The Authority does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

NOTES (Continued)

5. Risk management objectives and policies (continued)

a) Financial risk management (continued)

ii) Liquidity risk (continued)

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the Authority's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The Authority manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

The table below summarises the maturity analysis for financial liabilities to their remaining contractual maturities. The amounts disclosed are the contractual undiscounted cash flows.

| | Less than one month Shs'000 | Between 1-3 months Shs'000 | Between 3-12 months Shs'000 | Over 1 year Shs'000 | Total Shs'000 |
|---------------------------------------|-----------------------------------|----------------------------------|-----------------------------------|---------------------------|------------------|
| Year ended 30th June 2017 | | | | | |
| Trade and other payables | 41,443 | - | 196 | - | 41,639 |
| Accruals | 31,079 | - | 3,144 | 9,110 | 43,333 |
| Provision for liabilities and charges | 42,338 | - | 28,060 | - | 70,398 |
| Gratuity obligations | 13,269 | - | - | - | 13,269 |
| | 128,129 | - | 31,400 | 9,110 | 168,639 |
| Year ended 30th June 2016 | | | | | |
| | Less than one month Shs'000 | Between 1-3 months Shs'000 | Between 3-12 months Shs'000 | Over 1 year Shs'000 | Total Shs'000 |
| Trade and other payables | 19,766 | 1,290 | - | - | 21,056 |
| Accruals | 32,029 | - | 19,005 | - | 51,034 |
| Provision | 25,074 | 3,813 | 27,654 | - | 56,541 |
| Gratuity obligations | 10,615 | - | - | - | 10,615 |
| | 87,484 | 5,103 | 46,659 | - | 139,246 |

NOTES (Continued)

5. Risk management objectives and policies (continued)

iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: interest rate risk, price risk and foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the interest rate movement may have a significant impact on Authority's value of investments .

The Authority's investments in fixed rate bonds expose it to fair value interest rate risk. The Authority has no interest bearing liabilities. The Authority considers that a change in interest rates of 2 percentage points in the year ending 30 June, 2017 is reasonably possible. If the interest rates on the Authority's held-to-maturity investments at the year-end were to decrease/increase by this number of percentage points, with all other factors remaining constant, the surplus would be lower/higher by Kshs13million (2016: Kshs14,241,000).

Price risk

Marketable instruments held by the Authority include Treasury Bonds and Treasury Bills whose market prices are subject to change. The Authority review the portfolio, set exposure limits and respond to market price changes and conditions to secure both fair values and cash flow from such instruments.

Foreign exchange risk

Foreign exchange risk would arise where transactions or bank balances are denominated in foreign currency. The Authority's transactions and bank balances are denominated in Kenya Shillings. Hence the exposure to foreign exchange risk does not exist.

NOTES (Continued)

6. Revenue from non - exchange transactions

| | 2017 Shs'000 | 2016 Shs'000 |
|---|-----------------|-----------------|
| Fees income | | |
| Capitalization, rights and new issue fees | 340,699 | 268,194 |
| NSE - transaction fees | 385,547 | 434,945 |
| Application and licensing fees | 19,789 | 33,404 |
| Market development fees | 13,023 | 13,139 |
| | 759,059 | 749,682 |

The Authority charges fees on the following basis :

- Capitalization / rights issues at a rate of 0.25 percent of the value of the issue.
- Approval for listing of Government securities is charged at a rate of 0.075 percent of the amount raised.
- New issues / IPOs at a rate of 0.15 percent of the value of the issue.
- NSE Transaction fees at a rate of 0.12 percent of the value of the equities traded and 0.0015 percent of the value of bonds traded.
- Application for license at Kshs2,500 while annual licensing fees are up to a maximum of Kshs250,000.
- Market development fees are charged to listed companies at a rate of 0.01 percent subject to a minimum of Kshs50,000 and a maximum of Kshs100,000 per annum.

7. Donor fund income

| | 2017 Shs'000 | 2016 Shs'000 |
|-------------------|-----------------|-----------------|
| Donor fund income | 109,246 | 91,140 |

The Authority received support worth Kshs69.7 million (2015:Kshs56.4 million) in the year to support institutional capacity for Islamic Finance deepening study and for the change management support initiative "Uwezo Kipeo". A further Kshs7.2 million (2015: Kshs34.9million) was recognized from deferred income related purchase of Enterprise Resource Planning(ERP) software, Risk Based Supervision System (RBSS) and related Information Technology (ICT systems).

8. Revenue from exchange transactions - other income

| | 2017 Shs'000 | 2016 Shs'000 |
|----------------------|-----------------|-----------------|
| Interest income | 100,569 | 101,282 |
| Miscellaneous income | 14,888 | 7,228 |
| | 115,457 | 108,510 |

NOTES (Continued)

9. (Loss)/Gain on disposal of property and equipment

| | 2017 Shs'000 | 2016 Shs'000 |
|---|-----------------|-----------------|
| Gain or (loss) on disposal of obsolete and retired Property and Equipment | (221) | 654 |

10. Surplus before tax

| | Note | 2017 Shs'000 | 2016 Shs'000 |
|--|-------|-----------------|-----------------|
| a) Items charged | | | |
| The following items have been charged in arriving at net surplus for the year | | | |
| Depreciation of property and equipment | 17 | 51,791 | 34,835 |
| Amortisation of intangible assets | 18 | 3,785 | 38,801 |
| Authority board members' emoluments, allowances and other Board related expenses | 27 | 36,968 | 26,974 |
| Post employment benefits expense (Note 9(b)) | 10(b) | 31,763 | 23,137 |
| Provision for impairment of financial assets | | | |
| Trade and other receivables | | - | - |
| b) Employee benefits expense | | | |
| The following items are included in employee benefits expense: | | | |
| Retirement benefit costs | | | |
| Defined contribution scheme | | 31,451 | 22,870 |
| National Social Security Fund | | 312 | 267 |
| | | 31,763 | 23,137 |

The Authority operated an in-house defined benefits pension scheme for its employees and made contributions up to 31 December, 2011. The investment of the scheme's assets is managed by an independent fund manager, Genesis Kenya Investment Management Limited, on behalf of the Trustees.

Though the scheme is subjected to triennial valuations by independent actuaries to fulfil the statutory requirements under the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Rules 2000, the scheme is in the process of purchasing annuities for the 3 pensioners, and the winding up cause will begin. Hence the valuation will not be necessary once it becomes due. All active members already transferred to DC scheme, and all the pensioners will have an annuity in force.

The scheme has sufficient funding for the annuity arrangement, and for the winding up process.

NOTES (Continued)

11. Tax expense

| | 2017 Shs'000 | 2016 Shs'000 |
|--|-----------------|-----------------|
| Current income tax | - | - |
| Deferred income tax (Note 19) | - | - |
| Income tax expense | - | - |
| Surplus before income tax | | |
| Tax calculated at the statutory tax rate of 30 percent | - | - |
| Tax effect of: | | |
| Deferred tax asset not recognised | - | - |
| Income not subject to tax | - | - |
| Expenses not deductible for tax purposes | - | - |
| Income tax expense | - | - |

On 20 March, 2015, The National Treasury issued PFMA Regulation No.34 which under section 219 exempts the Authority from paying taxes in the future. The regulation requires corporations exempted from income tax to remit 90 percent of surplus to National Treasury. No remission was done in the year.

12. Inventories

| | 2017 Shs'000 | 2016 Shs'000 |
|-------------|-----------------|-----------------|
| Consumables | 1,102 | 1,591 |

Inventories consist of stationery and computer consumables required for day to day use by the Authority.

NOTES (Continued)

13a. Trade and other receivables from non exchange transactions

| | 2017 Shs'000 | 2016 Shs'000 |
|--|-----------------|-----------------|
| Trade receivables | 47,382 | 53,923 |
| Statutory management expenses receivable | - | 49,286 |
| Less: Provision for impairment losses | (4,104) | (57,866) |
| Net trade receivables | 43,278 | 45,343 |
| Other receivables | 4,361 | 6,811 |
| Trade and other receivables from non exchange transactions | 47,639 | 52,154 |

13b. Trade and other receivables from exchange transactions

| | | |
|---|--------|--------|
| Trade receivables | 4,811 | 7,985 |
| Less: Provision for impairment losses | - | (208) |
| Net trade receivables | 4,811 | 7,777 |
| Prepayments | 17,323 | 17,003 |
| Trade and other receivables from exchange transactions | 22,134 | 24,780 |
| Total trade and other receivables from non exchange and exchange transactions | 69,773 | 76,934 |

The movement on the provision for impairment losses for non exchange transactions is as follows:

| | | |
|---|----------|--------|
| At 1 July | 57,866 | 57,616 |
| Less: Provision utilised as debts written off | (53,762) | 250 |
| Less: Provision reversed on debt collection | - | - |
| At 30 June | 4,104 | 57,866 |

The movement on the provision for impairment losses for exchange transactions is as follows:

| | | |
|---------------------------|-------|-----|
| At 1st July | 208 | 208 |
| Add: Additional provision | (208) | - |
| At 30 June | - | 208 |

NOTES (Continued)

14. Staff loans and advances

| | Current 2017 Shs'000 | Current 2016 Shs'000 | Non-Current 2017 Shs'000 | Non-Current 2016 Shs'000 | Total 2017 Shs'000 | Total 2016 Shs'000 |
|----------------------------------|----------------------------|----------------------------|--------------------------------|--------------------------------|--------------------------|--------------------------|
| Car loans | 10,177 | 10,032 | 23,455 | 19,968 | 33,632 | 30,000 |
| Other loans and advances | 4,921 | 1,103 | - | - | 4,921 | 1,103 |
| Provision for impairment losses | - | - | (1,922) | (1,922) | (1,922) | (1,922) |
| Miscellaneous advances | - | - | 4,179 | 4,179 | 4,179 | 4,179 |
| Staff mortgage back up funds* | 31,996 | 23,624 | 298,580 | 226,950 | 330,577 | 250,574 |
| | 47,094 | 34,759 | 324,292 | 249,175 | 371,386 | 283,934 |

* These funds are deposited with the bank to support concessionary interest rate facilities to staff.

| | |
|--|---------|
| Mortgage back up accounts are: | Shs'000 |
| HFC: Mortgage 3000013543 and Mortgage 2000094161 | 140,872 |
| KCB Mortgage MM1509100194 | 189,705 |

| | |
|--------------|----------------|
| Total | 330,577 |
|--------------|----------------|

NOTES (Continued)

15. Held-to-maturity investments - government securities

| | 2017 Shs'000 | 2016 Shs'000 |
|--------------------------------|-----------------|-----------------|
| Non-current | | |
| Treasury bonds | | |
| Maturing after four years | 155,375 | 155,375 |
| Unamortised premium | (11,525) | (13,055) |
| | 143,850 | 142,320 |
| Treasury bonds | | |
| Maturing after one year | 117,153 | 197,976 |
| Unamortised (discount)/premium | (4) | 822 |
| | 117,149 | 198,798 |
| | 260,999 | 341,118 |
| Current | | |
| Treasury bonds | | |
| Maturing within one year | 75,000 | 20,000 |
| Unamortised premium | 403 | - |
| | 75,403 | 20,000 |
| Treasury bills | 581,600 | 362,000 |
| Unamortised discount | (30,036) | (11,066) |
| | 551,564 | 350,934 |
| | 626,967 | 370,934 |
| | 887,966 | 712,052 |

The fair value of the held-to-maturity assets -treasury bonds and treasury bills at the reporting date were:

| | | |
|------------------------------|---------|---------|
| Non-current | | |
| Held-to-maturity investments | 260,999 | 341,118 |
| Current | | |
| Held-to-maturity investments | 626,967 | 370,934 |

NOTES (Continued)

16a. Banks

| | Name of the Bank | Bank. account no | Account currency | 2017 Shs'000 | 2016 Shs'000 |
|--|--------------------------------------|---------------------|---------------------|-----------------|-----------------|
| | Commercial Bank of Africa Limited | 6580810018 | Shs | 5,520 | 20,487 |

16b. Cash in hand

| | | | | | |
|--------------|--|--|-----|-----|-----|
| Cash in hand | | | Shs | 140 | 140 |
|--------------|--|--|-----|-----|-----|

16c. Short term deposits

| | | | | | |
|------------------------------------|--------------------------------------|------------------|-----|---------------|----------------|
| | Commercial Bank of Africa Limited | MM1718100068 | Shs | 20,000 | 25,374 |
| | Commercial Bank of Africa Limited | MM1718100101 | Shs | 7,000 | 137,946 |
| | HFC Bank | A/C 1345823403-0 | Shs | 31,690 | 85,437 |
| | | | | 58,690 | 248,757 |
| Total cash in hand and bank | | | | 64,350 | 269,384 |

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

| | | |
|--|----------------|----------------|
| Short-term bank deposits | 58,690 | 248,757 |
| Cash at bank and in hand | 5,660 | 20,627 |
| Investors Compensation Fund bank balance (Note 16) - (KCB) | 3,632 | 15,455 |
| Investors Compensation Fund bank balance (Note 16) - (Call accounts - KCB) | 92,000 | 54,000 |
| | 159,982 | 338,839 |

NOTES (Continued)

17. Investors' Compensation Fund

In accordance with Section 18 of Capital Markets Act, Cap 485A, the Authority is required to maintain a fund to be known as the Investors' Compensation Fund for the purpose of granting compensation to investors who may suffer pecuniary loss resulting from the failure of a licensed broker or dealer to meet its contractual obligations. This requirement was implemented in July 1995.

The fund derives its income from the following sources:

- i) Interest accruing on funds received from subscribers to public issues, between the day of closing the issue and making the refunds.
- ii) 0.01 percent of the consideration from sale and purchase of shares through the Nairobi Securities Exchange.
- iii) 0.004 percent of the consideration from sale and purchase of bonds traded through the Nairobi Securities Exchange.
- iv) Interest earned from investment of the funds held in this account.
- v) Financial penalties imposed on operators for non-compliance with Capital Markets Authority Rules and Regulations.

The movement in the fund balance during the year is as shown below:

| | 2017 Shs'000 | 2016 Shs'000 |
|--|-------------------------------|-------------------------------|
| At beginning of the year | 1,505,006 | 1,298,437 |
| Nairobi Securities Exchange transactions fees | 63,819 | 65,621 |
| Interest on investments | 169,773 | 148,578 |
| Financial penalties | 162,284 | 784 |
| Management fees | (500) | (500) |
| Gain/(loss)in Investment in NSE | (17,754) | 4,261 |
| Compensation to Discount Securities/Nyaga Stockbrokers Ltd investors | 683 | (12,175) |
| At end of the year | 1,883,311 | 1,505,006 |

NOTES (Continued)

17. Investors' Compensation Fund (continued)

The Investors' Compensation Fund balance is represented by the following assets:

| | 2017 Shs'000 | 2016 Shs'000 |
|--|------------------|------------------|
| Non-current | | |
| Equity investment in the Central Depository and Settlement | 7,000 | 7,000 |
| Equity investment in the NSE | 109,594 | 130,922 |
| | 116,594 | 137,922 |
| Treasury bonds | | |
| Maturing after five years | 737,000 | 685,550 |
| Unamortised discount (premium) | (9,977) | (13,662) |
| | 727,023 | 671,888 |
| Maturing after one year | 348,250 | 182,100 |
| Unamortised discount | 1,654 | 538 |
| | 349,904 | 182,638 |
| | 1,076,926 | 854,526 |
| | 1,193,520 | 992,448 |
| Current | | |
| Treasury bonds | 35,000 | 42,000 |
| Unamortised discount | 231 | (8) |
| | 35,231 | 41,992 |
| Treasury bills | 554,950 | 391,500 |
| Unamortised discount | (29,729) | (13,840) |
| | 525,221 | 377,660 |
| Fees receivable | 33,707 | 23,451 |
| Bank balance | 3,632 | 15,455 |
| Call account | 92,000 | 54,000 |
| | 129,339 | 92,906 |
| | 689,791 | 512,558 |
| | 1,883,311 | 1,505,006 |

NOTES (Continued)

18. Property and equipment

| | Motor vehicles Shs'000 | Computers, copiers & faxes Shs'000 | Office equipment Shs'000 | Furniture & fittings Shs'000 | Capital work-in- progress Shs'000 | Total Shs'000 |
|--|------------------------------|---|--------------------------------|------------------------------------|--|------------------|
| Cost | | | | | | |
| At 1st July 2015 | 24,188 | 108,420 | 21,542 | 84,976 | 74 | 239,200 |
| Additions | - | 6,868 | 2,582 | 3,206 | - | 12,656 |
| Disposals | (2,096) | (157) | 0 | 0 | - | (2,253) |
| | 0 | 0 | 0 | 0 | (74) | (74) |
| At 30 June 2016 | 22,092 | 115,131 | 24,124 | 88,182 | 0 | 249,529 |
| Additions | 7,726 | 7,309 | 3,934 | 3,039 | 4,037 | 26,046 |
| Disposals | | (9,365) | (3,639) | (3,254) | | (16,258) |
| Reversal | | | | | | 0 |
| At 30 June 2017 | 29,818 | 113,075 | 24,419 | 87,968 | 4,037 | 259,317 |
| Depreciation | | | | | | |
| At 1st July 2015 | (15,994) | (70,148) | (15,308) | (32,840) | - | (134,290) |
| Depreciation | (3,631) | (18,787) | (1,966) | (10,451) | - | (34,835) |
| Accumulated depreciation reversed on disposal | 2,096 | 157 | 0 | 0 | - | 2,253 |
| At 30 June 2016 | (17,529) | (88,778) | (17,274) | (43,291) | - | (166,872) |
| Depreciation | (4,028) | (17,864) | (2,416) | (27,484) | - | (51,791) |
| Accumulated depreciation reversed on disposal | | 9,365 | 3,639 | 2,656 | | 15,660 |
| At 30 June 2017 | (21,557) | (97,276) | (16,052) | (68,119) | - | (203,003) |
| Net carrying amount | | | | | | |
| At 30 June 2017 | 8,261 | 15,798 | 8,368 | 19,849 | 4,037 | 56,314 |
| At 30 June 2016 | 4,563 | 26,353 | 6,850 | 44,891 | 0 | 82,657 |

Included above in the items of property and equipment is the cost of fully depreciated assets of Shs 136,126,943(2016: Shs 65,296,641) which are still in use and have not been impaired. Work in progress was carried at cost.

Work in progress relates to the refurbishment works that are progressing of the 6th floor space that the Authority has newly occupied. The commissioning and office utilization is in the month of July, 2017. The detailed works are as follows:

NOTES (Continued)

18. Property and equipment (continued)

Work in progress relates to the refurbishment works that are progressing of the 6th floor space that the Authority has newly occupied. The commissioning and office utilization is in the month of July 2017. The detailed works are as follows:

| Description | Cost Ksh'000 |
|--|-----------------|
| i.) Tiling & Wood skirting for the 6th floor | 990 |
| ii.) Cabling works for the 6th floor | 2,187 |
| iii.) Ceiling repairs for the 6th floor | 39 |
| iv.) Electrical cabling for the 6th floor | 382 |
| v.) Biometric Access Control for the 6th Floor | 439 |
| Total | 4,037 |

19. Intangible assets

Software costs Cost

| | Shs'000 |
|-----------------------------------|----------------|
| At 1 July 2015 | 159,862 |
| Additions | 1,216 |
| Derecognition of intangible asset | |
| At 30 June, 2016 | 161,078 |
| Additions | 5,102 |
| At 30 June, 2017 | 166,180 |
| Amortisation | |
| At 1 July 2015 | 117,575 |
| Amortisation | 38,801 |
| At 30 June 2016 | 156,376 |
| Amortisation | 3,785 |
| At 30 June, 2017 | 160,161 |
| Net book value | |
| At 30 June, 2017 | 6,019 |
| At 30 June, 2016 | 4,702 |

NOTES (Continued)

20. Trade and other payables

| | 2017 Shs'000 | 2016 Shs'000 |
|----------------------|-----------------|-----------------|
| Trade payables | 41,639 | 21,056 |
| Provisions | 70,398 | 56,541 |
| Gratuity obligations | 13,269 | 10,615 |
| Accruals | 43,333 | 51,034 |
| | 168,640 | 139,246 |

Included under accruals are the provisions for various services whose movement has been presented below:

| Provisions | Leave benefits Shs'000 | Performance Shs'000 | Total Shs'000 |
|------------------------------|---------------------------|------------------------|------------------|
| At 1 July 2016 | 12,864 | 43,677 | 56,541 |
| Additional provisions raised | 16,505 | 25,833 | 42,338 |
| Provision utilized/reversed | (12,864) | (15,617) | (28,481) |
| At 30 June, 2017 | 16,505 | 53,893 | 70,398 |

| Accruals | Consultancies Shs'000 | Other Provisions Shs'000 | Total Shs'000 |
|---------------------|--------------------------|-----------------------------|------------------|
| At 1 July 2016 | 8,956 | 42,078 | 51,034 |
| Additional accruals | 1,726 | 19,434 | 21,160 |
| Accruals realized | (742) | (27,977) | (28,719) |
| At 30 June, 2017 | 9,940 | 33,535 | 43,475 |

21. Provision for liabilities and charges

| | 2017 Shs'000 | 2016 Shs'000 |
|------------------------------|-----------------|-----------------|
| At 1 July 2016 | 95,906 | 88,740 |
| Add: Additional provision | 6,672 | 8,044 |
| Less: Provision written back | (16,736) | (878) |
| At 30 June, 2017 | 85,842 | 95,906 |

The Authority being the capital markets regulator in Kenya, is subject to legal proceedings in the normal course of business. While it is not possible to forecast or determine the final results of all pending legal proceedings, the Authority assesses the adequacy of its provisions periodically against case developments and related legal costs.

NOTES (Continued)

22. Current tax payable

| | 2017 Shs'000 | 2016 Shs'000 |
|------------------|-----------------|-----------------|
| Current year tax | - | - |

23. Deferred income

In line with the Authority's accounting policy, Nil (2016: Shs 7,200,000) of the donor funded income has been deferred for future periods.

| | | |
|------------------------|----------|--------------|
| At 1 July | 7,200 | 42,062 |
| Recognised in the year | (7,200) | (34,862) |
| At 30 June | - | 7,200 |

24. Capital fund

| | | |
|--|---------------|---------------|
| At 1st July 2016 and at 30th June, 2017 | 27,886 | 27,886 |
|--|---------------|---------------|

Capital fund represents the initial contribution by the Government of Kenya towards the establishment of the Capital Markets Authority.

25. General fund

| | | |
|-------------------------------------|----------------|----------------|
| At 1 July | 931,016 | 923,236 |
| Surplus for the year | 13,529 | 137,780 |
| Transfer to building fund (Note 26) | (245,963) | (130,000) |
| At 30 June | 698,582 | 931,016 |

General fund represents accumulated surpluses over the years.

26. Building fund

| | | |
|---|----------------|----------------|
| At 1 July | 230,000 | 100,000 |
| Appropriation from general fund (Note 25) | 245,963 | 130,000 |
| At 30 June | 475,963 | 230,000 |

Building fund represents an appropriation from the general fund towards the construction of the Authority's future building. The appropriations are in line with the approved budget for the year.

NOTES (Continued)

27. Related party transactions

| | 2017 Shs'000 | 2016 Shs'000 |
|--|-----------------|-----------------|
| i) Board members of the Authority' remuneration | | |
| Honoraria | 1,044 | 1,044 |
| Retainer | 8,498 | 6,926 |
| Sitting allowances | 8,140 | 5,567 |
| Training expenses | 7,622 | 3,648 |
| Others (medical, mileage, bonus) | 11,664 | 9,789 |
| | 36,968 | 26,974 |
| There were 10 board members during the year (2016:10) | | |
| ii) Key management compensation | | |
| Gross salaries | 36,958 | 35,600 |
| Pension | 313 | 680 |
| Gratuity | 8,252 | 6,684 |
| | 45,523 | 42,964 |

There were 4 members of senior management who served during the year (2016:5)

28. Commitments

a. Contracted for but not recognised

Capital expenditure and recurrent expenditures contracted for at the balance sheet date but not recognised in the financial statements is as follows:

| | 2017 Shs'000 | 2016 Shs'000 |
|--------------------------------------|-----------------|-----------------|
| Capital expenditure contracted for | 10,000 | 8,049 |
| Recurrent expenditure contracted for | 19,505 | 7,826 |
| | 29,505 | 15,875 |

NOTES (Continued)

28. Commitments (Continued)

| | Capital Shs'000 | Recurrent Shs'000 | Total Shs'000 |
|---|--------------------|----------------------|------------------|
| b. Item description | | | |
| Consultancy to review & design the securities market surveillance system at CMA | | 7,900 | 7,900 |
| Consultancy to develop specifications for E-learning system | | 4,000 | 4,000 |
| Consultancy to develop specifications for advanced financial analysis system | | 4,000 | 4,000 |
| Consultancy for Value for Money; with a view to adopt best practice policy | - | 3,605 | 3,605 |
| Business Intelligence system | 10,000 | - | 10,000 |
| Total | 10,000 | 19,505 | 29,505 |

Operating lease commitments

Operating lease commitments represent rentals payable by the Authority for rented office space. Rental expenses during the year amounted to KShs45,783,000 (2016: KShs42,915,000).

The future minimum lease payments under operating leases are as follows:

| | 2017 Shs'000 | 2016 Shs'000 |
|--|-----------------|-----------------|
| Not later than 1 year | 45,783 | 42,915 |
| Later than 1 year and not later than 5 years | 165,510 | 128,745 |
| | 211,293 | 171,660 |

The board members of the Authority are of the view that future net revenues and funding will be sufficient to cover these commitments.

NOTES (Continued)

29. Contingent liabilities

a) A former employee of the Authority had filed a suit against the Authority for wrongful dismissal and is seeking damages amounting to Kshs46 million. The cost has not been recognised in the books, since based on professional advice, it is likely that the outcome of the suit will be in favour of the Authority and will not materially impact on these financial statements.

b) In the normal course of operation, Kenya Revenue Authority (KRA) had completed a tax audit for the period 2007 to 2012 and had issued an assessment notice. The total tax liability arising from the year 2012 assessment was Kshs46 million. The Authority in conjunction with its tax agents has been following up on the outstanding tax issues raised. Principal tax arrears amounting to Kshs12 million were paid in the previous years and the Authority had applied for set-off of tax paid in error in previous years amounting to Kshs14.8 million. The Authority had also applied for waiver of interest and penalties amounting to Kshs19 million providing mitigating grounds in support of the waiver. The KRA has in the course of the 2015/16 financial year granted full waiver of interest and penalties for the years 2003-2009 estimated at Kshs9.5million. The balance on the Statement of Account (comprising of penalties and interest for the years 2010-2012), for which waiver was applied for is being addressed by KRA. Based on the professional advice received and the mitigating grounds provided, the Authority is of the opinion that no material liability is expected to arise to have an impact on these financial statements.

NOTES (Continued)

30. Operating expenditure

30.1 Employment expense

| | 2017 Shs'000 | 2016 Shs'000 |
|--|-----------------|-----------------|
| Consolidated pay, leave pay and passages | 377,940 | 312,946 |
| Staff uniform expenses | 85 | 228 |
| Staff welfare and other costs | 10,560 | 9,428 |
| Staff retirement benefits | 31,451 | 22,870 |
| Staff gratuity | 9,541 | 6,684 |
| National Social Security Fund (NSSF) | 312 | 267 |
| | 429,889 | 352,423 |

30.2 Other administrative expenses

| | | |
|--|----------------|----------------|
| Rent and maintenance | 53,365 | 47,818 |
| Equipment maintenance and stationery | 29,501 | 30,099 |
| Telephone, postage and utilities | 14,327 | 12,337 |
| Entertainment and public relations | 33,183 | 32,835 |
| Medical scheme and insurance expenses | 26,365 | 23,444 |
| Training and conferences | 62,047 | 68,705 |
| Motor vehicle running expenses | 6,113 | 4,898 |
| Subscriptions and IOSCO membership | 11,946 | 9,825 |
| Authority board members' emoluments and allowances | 36,968 | 26,974 |
| Professional and market development services | 178,106 | 92,246 |
| Depreciation of property and equipment | 51,791 | 34,835 |
| Amortisation of intangible assets | 3,785 | 38,801 |
| Auditor's remuneration | 1,760 | 823 |
| Investors' education and awareness programme | 26,767 | 32,998 |
| Tribunal expenses | 4,097 | 3,145 |
| Provision for impairment losses | - | - |
| | 540,122 | 459,783 |
| Total expenditure | 970,011 | 812,206 |

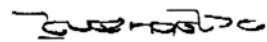
PROGRESS ON FOLLOW UP OF PRIOR PERIOD AUDITOR RECOMMENDATIONS

| Reference No. on the External Audit Report | Issue/Observations from Auditor | Management Comments | Focal Point person to resolve the issue (Name and Designation) | Status: (Resolved/ Not Resolved) |
|--|---------------------------------|---------------------|--|----------------------------------|
| <p>All observations made in the Management Letter were resolved in the financial statement of 2015/2016 Financial Year</p> | | | | |



Chief Executive

Date: 14 September, 2017



Chairman

Date: 14 September, 2017

Appendix 1: Projects implemented by the EntityProjects implemented by the State Corporation Funded by development partners (**Financial Sector Deepening Africa**)

| Project Title | Project Number | Donor | Period/ Duration | Donor Commitment | Separate donor reporting required as per the donor agreement (Yes/No) |
|---------------|--|------------|------------------|------------------|---|
| 1 | CMA-Change Management Project <i>Uwezo Kipeo</i> | FSD-Africa | 2 years | YES | NO |
| 2 | Islamic Finance Project | FSD-Africa | 2 years | YES | NO |
| 3 | Chartered Institute for Securities & Investment (CISI) Pilot programme | FSD-Africa | 2 years | YES | NO |

Status of Projects completion*(Summarise the status of project completion at the end of each quarter, i.e. total costs incurred, stage which the project is etc.)*

| | Project Number | Total Project Cost | Total expended to date | Completion % to date | Budget | Sources of Funds |
|---|--|--------------------|------------------------|----------------------|------------|---|
| 1 | CMA-Change Management Project <i>Uwezo Kipeo Phase 1</i> | 35,823,091.20 | 35,823,091.20 | 100% | GB£345,000 | Donor Funded and CMA internal resources |
| 2 | Islamic Finance Project | 33,890,694.20 | 33,890,694.20 | 45% | GB£659,953 | Donor Funded and joint Financial Regulators resources |
| 3 | Chartered Institute for Securities & Investment (CISI) Pilot programme | 18,684,493.30 | 18,684,493.30 | 100% | GB£75,000 | Donor Funded |

As per note 7 - Donor Fund income: The Authority received support from FSDA, FSSP and the funds were paid directly to the consultants.

Appendix 2: Inter Entity Transfers

| Name of the MDA/ Donor Transferring the funds | Date received | Nature: Recurrent/ Development/ Others | Total Amount KES | Where Recorded/ Recognized | | | | | Total Transfers during the year |
|---|-----------------------|--|--------------------|------------------------------------|--------------|-----------------|-------------|-------------------------|---------------------------------|
| | as per bank statement | | | Statement of Financial Performance | Capital Fund | Deferred Income | Receivables | Others must be specific | |
| FSSP | See Appendix 3 | Recurrent | 8,914,874 | 8,914,874 | - | - | - | - | 8,914,874 |
| FLSTAP | See Appendix 3 | Direct Payments | 7,199,479 | 7,199,479 | - | - | - | - | 7,199,479 |
| FSSP | See Appendix 3 | Direct Payments | 4,733,195 | 4,733,195 | - | - | - | - | 4,733,195 |
| FSDA | See Appendix 3 | Direct Payments | 88,398,279 | 88,398,279 | - | - | - | - | 88,398,279 |
| | | | | | | | | | |
| Total | | | 109,245,826 | 109,245,826 | - | - | - | - | 109,245,826 |

As per note 7 - **Donor Fund income**: The Authority received support from FSDA, FSSP and the funds were paid directly to the consultants.

The above amounts have been communicated to and reconciled with FSSP-Project implementation Unit of the National Treasury

Finance Manager
Capital Markets Authority



Sign.....

KEY:

FSSP: Financial Sector Support Project : this is a World Bank funded project that strengthens the legal regulatory and institutional environment for improved financial stability.

FLSTAP: Financial and Legal Sector Technical Assistance Project: This was a four year World Bank Project in Kenya from 2009 Financial Year whose objective was to create a sound financial system and strengthen legal framework ensuring broad access to financial and other services. The project's term ended in June 2013.

FSDA: Financial Sector Deepening Africa; This is a project funded by the United Kingdom's Department for International Development which promotes financial sector Development.

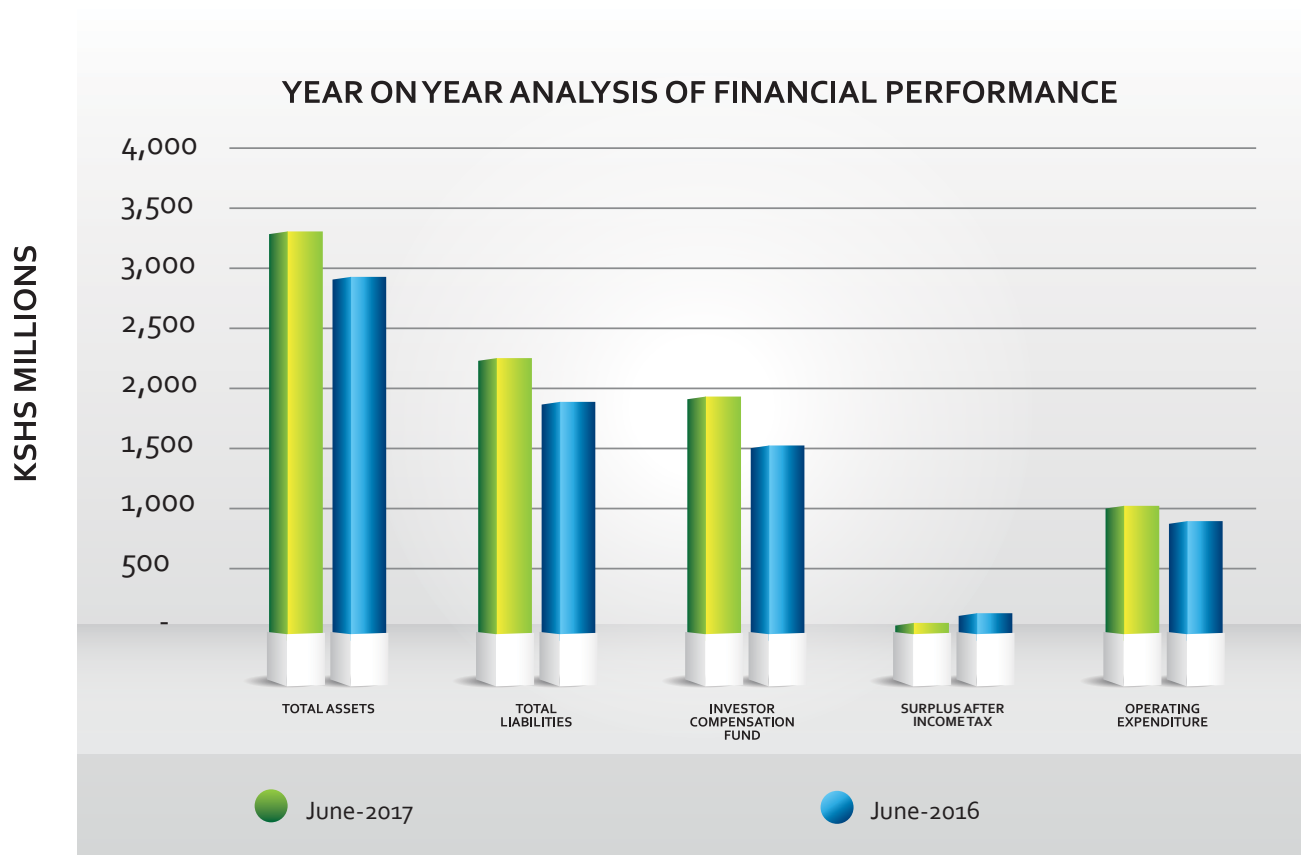
Appendix 3: Recording of Transfers from other Government Entities

| ENTITY NAME: CAPITAL MARKETS AUTHORITY Breakdown of Transfers from the National Treasury 2017/2017 | | | | |
|--|--|--|-----------------------|---|
| a | Reimbursements for Capacity building Technical Costs | | | |
| | | Bank Statement Date | Amount (Kshs) | Indicate the FY to which the amounts relate |
| | Financial Sector Support Project (FSSP) | | | |
| | | Between 26/8/2016 and 22/6/2017 | 8,914,873.70 | 2016/17 |
| | Reimbursement for Staff training and Development for Various Capital Markets technical skills | Sub Total | 8,914,873.70 | |
| b | Direct Payments | | | |
| | | Transaction Description | Amount (Kshs) | |
| | Details of the Payments | | | |
| b(i) | Capital expenditure-Aquired in FY 2013 | | | |
| | Enterprise Resource Planning (ERP) & Risk Based Supervision Systems (RBSS) Servers paid for by Financial and Legal Sector Technical Programme (FLSTAP) | Deferred Income | 7,199,479.43 | 2016/17 |
| | | Sub Total | 7,199,479.43 | |
| b(ii) | Capacity Building | | | |
| | Capacity building of Staff Payment to Nasdaq Technology Stockholm, by FSSP | Contra-Staff Training and Donor Funding income | 4,733,194.55 | 2016/17 |
| | | Sub Total | 4,733,194.55 | |
| b(iii) | Donor funded Consultancies | | | |
| | Consultancy for Islamic Finance paid to Islamic Finance Advisory & Assurance Services (I.F.A.A.S) | Contra-Donor Funded Consultancies and Donor Funding Income | 33,890,694.20 | 2016/17 |
| | Consultancy for Uwezo Kipeo paid to Promontory Group by the Financial Sector Deepening Africa (FSDA) | Contra-Donor Funded Consultancies and Donor Funding Income | 35,823,091.20 | 2016/17 |
| | Donor Funded CISI Trainings paid to Chartered Institute for Securities & Investment (CISI) by FSDA | Contra-Donor Funded Consultancies and Donor Funding Income | 18,684,493.30 | 2016/17 |
| | | Total | 88,398,278.70 | |
| | | Grand Total | 109,245,826.38 | |

As per note 7 - Donor Fund income: The Authority received support from FSDA, FSSP and the funds were paid directly to the consultants.

YEAR ON YEAR FINANCIAL PERFORMANCE COMPARISON

| | TOTAL ASSETS | TOTAL LIABILITIES | INVESTOR COMPENSATION FUND | SURPLUS BEFORE INCOME TAX | SURPLUS AFTER INCOME TAX | OPERATING EXPENDITURE |
|--------|--------------|-------------------|----------------------------|---------------------------|--------------------------|-----------------------|
| Jun-17 | 3,340,222 | 2,137,791 | 1,883,311 | 13,529 | 13,529 | 970,011 |
| Jun-16 | 2,936,260 | 1,747,358 | 1,505,006 | 137,780 | 137,780 | 812,206 |



Source: Capital Markets Authority

ORGANIZATIONAL UPDATES

MARKET SURVEILLANCE

There has been a dynamic transformation in securities markets in the recent past due to technological advances and regulatory developments. This has increased the risks posed to the markets by illegal or inappropriate conduct of the trading participants. The Authority has consistently increased its capacity in market surveillance to ensure fair and orderly trading. During the year 2016/2017, the surveillance function continued to originate cases of suspected breaches for further investigation and appropriate enforcement action.

“Entrenching excellence in regulation”

The Authority has commenced the process of procuring consultancy services to improve on its surveillance practices, enhance its capacity and tools to ensure optimal surveillance. The Authority benefitted from a surveillance training programme facilitated by Nasdaq OMX from June 27th-28th 2017.

On the regional front, the surveillance team hosted a delegation from Swaziland which included members from Swaziland Stock Exchange, fund managers, brokers and Financial Services Regulatory Authority. The surveillance team shared with the delegation the Authority’s current surveillance practices, experiences and insights into the tools for market surveillance.

Risk & Compliance:

a) Prudential Risk Based Supervision

The Authority continued with its efforts of safeguarding investors interests and fostering market confidence by ensuring players are operating within the set market legal and regulatory framework. During the year, the Authority conducted risk assessments/profiling for all licensed capital markets intermediaries and carried out 28 market intermediaries’ onsite inspections in line with Risk Based Supervision (RBS) framework. All other licensed market intermediaries were subjected to offsite monitoring and surveillance. The Authority continued with the implementation of online financial reporting by sensitizing market intermediaries on their expectations on internal controls, self-risk assessment methodologies and risk based capital adequacy requirements, among others.

The Authority also continued monitoring compliance with the legal and regulatory requirements by all listed companies, other issuers of securities to the public in Kenya as well as the NSE and CDSC.

b) AML/CFT Risk Based Supervision

As part of the efforts to ensure appropriate and effective oversight and further support and enhance the implementation of Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) requirements in the securities industry, the Authority continued to enhance its regulation and supervision activities. The Authority benefited from Technical Assistance from the International Monetary Fund (IMF) in developing a robust AML/CFT risk based supervision framework for both onsite and offsite AML/CFT examinations. Subsequently, during the piloting phase, the CMA successful conducted the first ever risk based AML/CFT standalone inspections on six (6) market intermediaries.

“Keeping the promise of the integrity in our markets”

The Authority also rolled out targeted AML/CFT sensitization workshops with the objective of creating awareness, providing clarifications and appraising the industry on new developments.

c) Collaboration with other jurisdictions

During the 2016/2017 financial year, the Authority hosted several regulators from other jurisdictions including Financial Services Regulatory Authority of Swaziland, Non-Bank Financial Institutions Regulatory Authority (NBFIRA) of Botswana and the Capital Markets Authority of Uganda and Reserve Bank of Malawi (with focus on capital market surveillance tools).

The Authority conducted joint inspections with CMA Uganda, on the operational procedures of the Uganda Securities Exchange between 21-25 November, 2016.

In respect of enhancing capacity building, the Authority benefitted from technical assistance offered by the Financial Services Volunteer Corps (FSVC) which included identification of operational gaps in the oversight of Collective Investment Schemes (CIS’s), operationalization of the Securities Lending and Borrowing (SLB) and building capacity on market indices and yield curves.

ENFORCEMENT ACTIONS FOR THE YEAR ENDED 30TH JUNE 2017

| Licensee/Listed Company | Nature of Breach | Sanction Imposed |
|---------------------------------|---|---|
| The Profin Group (K) Ltd | Failure to meet Liquid capital requirements for the period ended April and May, 2016 contrary to Regulation 30(4) of the Capital Markets (Licensing Requirements) (General) Regulations, 2002 | Directive to the company to submit a detailed proposal on the steps to be taken by the company to ensure compliance with Liquid capital requirements pursuant to Section 11(3) (i) of the Capital Markets Act |
| Regnum Consultants Ltd | <p>The Company continuously failed to comply with reporting obligations for regular submissions of monthly management and Risk Based Capital Adequacy (RBCA) returns as per regulatory timelines contrary to clause 45(1) of the Guidelines on Financial Resource Requirements for Market Intermediaries</p> <p>Continuously failing to meet Liquid capital requirements contrary to Regulation 30(4) of the Capital Markets (Licensing Requirements) (General) Regulations, 2002</p> | Financial penalty of Kshs277,777.50 issued against the company pursuant to Section 11(3) (cc) (i) and Section 25(A) (6) (b) of the Capital Markets Act |
| Bora Capital Ltd | Non-compliance with requirements of Regulations 30(4) of the Capital Markets (Licensing Requirements) (General) Regulations, 2002 on maintaining Liquid balance at Kshs1 million or 8 percent of total liabilities, whichever is higher | Directive issued to the Company to submit a detailed proposal on the steps to be taken by the company to ensure compliance with Liquid capital requirements pursuant to the provisions of Section 11(3)(i) of the Capital Markets Act |
| PWC Associates Limited | Failing to meet liquid capital requirements for the period ended January 2016 and June 2016 contrary to Regulation 30(4) of the Capital Markets (Licensing Requirements) (General) Regulations, 2002 | Warning issued for failure to comply with liquid capital requirements as set out in Regulation 30(4) of the Capital Markets (Licensing Requirements) (General) Regulations |

ENFORCEMENT ACTIONS FOR THE YEAR ENDED 30TH JUNE 2017

| Licensee/Listed Company | Nature of Breach | Sanction Imposed |
|---|---|---|
| Alpha Africa Asset Managers (AAAM Limited) | <ul style="list-style-type: none"> • Failing to seek and obtain a confirmation of No Objection from the Authority in relation to the termination of employment of the Managing Director contrary to section 24(8) of the Capital Markets Act and Regulation 53 B (1) of the Capital Markets (Licensing Requirements) (General) Regulations 2002 • Delaying in notifying the Authority of the change in the company's share capital, contrary to Regulation 54A of the Capital Markets (Licensing requirements) (General) Regulations, 2002 • Constituting a board of directors which is composed of three out five members who are close relations, contrary to Regulation 3(1)(c) of the Capital Markets (Corporate Governance) (Market Intermediaries) Regulation 2011 | <ol style="list-style-type: none"> 1. A financial penalty of Kshs186,666.48 imposed pursuant to Section 11(3)(cc)(i) and Section 25A(6)(b) of the Capital Markets Act 2. Directive issued to the company to submit to the Authority a report providing a clear update on the actions taken and the actual progress made in redressing the contravention on the composition of the board pursuant to the provisions of Section 11(3)(i) of the Capital Markets Act |
| Equity Bank Ltd | <p>Failing or neglecting to repurchase shares allocated to a former employee based on the current market price of the shares at the Exchange contrary to regulation 117 of the Capital Markets (Collective Investment Schemes) Regulations 2001</p> | <p>The Company was directed to pay to their former employee Kshs242,660 within 30 days pursuant to the provisions of Section 11(3)(cc)(ii) of the Capital Markets Act</p> |

ENFORCEMENT ACTIONS FOR THE YEAR ENDED 30TH JUNE 2017

| Licensee/Listed Company | Nature of Breach | Sanction Imposed |
|---------------------------------------|---|---|
| Faida Investment Bank | <ul style="list-style-type: none"> • Publishing unaudited full year financial statements for the period ending 31 December, 2015 contrary to Regulation 51A(2)(b) of Capital Markets (Licensing Requirements) (General) Regulations 2002 and Section.34(b) of the Capital Markets Act • Late submission of Audited accounts contrary to Regulations 41 of the Capital Markets (Conduct of Business) Market intermediaries Regulations, 2011 • Deficit in client funds for period ending 31 December, 2015 contrary to Regulation 28,29 and 30 of Capital Markets (Conduct of Business) Market Intermediaries Regulations, 2011 | <ol style="list-style-type: none"> 1. Financial penalty of Kshs316,667 imposed pursuant to Section 11(3)(cc)(i) and Section 25A(6)(b) of the Capital Markets Act 2. Directive issued to the company to regularize and reconcile the deficit in client bank balances within 60 days and submit a comprehensive report on the reconciliations undertaken for consideration by the Authority pursuant to the provisions of Section 11(3)(i) of the Capital Markets Act |
| SMEP Microfinance Bank Limited | Late submissions of half year unaudited results for the period ending 30 June 2016 contrary to Paragraph B.07 of the fifth schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 | Directive issued to the company to submit the unaudited results within six days from the date of the directive pursuant to the provisions of Section 11(3)(i) of the Capital Markets Act |
| Kurwitu Ventures Ltd | Late submissions of half year unaudited results for the period ending 30 June, 2016 contrary to Paragraph B.07 of the fifth schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 | Directive to the company to publish an interim report of its unaudited accounts for the period ended 30 June, 2016 and avail the same to the shareholders and the Authority pursuant to the provisions of Section 30G(h)(ii) of the Capital Markets Act |

ENFORCEMENT ACTIONS FOR THE YEAR ENDED 30TH JUNE 2017

| Licensee/Listed Company | Nature of Breach | Sanction Imposed |
|--------------------------------------|---|--|
| Faida Investment Bank Limited | <ul style="list-style-type: none"> • Failure to ensure that the Uchumi Supermarkets Limited (USL) Rights Issue (RI) was conducted in accordance with the Act and Regulations contrary to Regulation 5A of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 • Failure to ensure that the changes made to the approved Information Memorandum with respect to purpose of the RI proceeds and the Rights Issue expenses were submitted to the Authority for consideration and approval; being in contravention of Regulation 6 (2) of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 • Failure to make adequate disclosure to investors of all the relevant information on the likely application and impact of the funds being raised by the Rights Issue in contravention of the provisions of Regulation 12 of the Capital Markets (Securities) (Public Offer, Listing and Disclosure) Regulations, 2002 | <ol style="list-style-type: none"> 1. Regulatory Caution issued against Faida Investment Bank to ensure that its future operations as a Transaction Advisor are conducted in full compliance with the requirements of the Capital Markets regulatory framework, pursuant to the provisions of Section 11(3) (cc) and Section, 25A of the Capital Markets Act 2. The license of Faida Investment Bank was restricted for a period of 180 days (6 months) ending on 17 May, 2017 by way of prohibition from acquiring new transaction advisory clients pursuant to Section 24(4) and Section 25 A(1)(a)(iv) of Capital Markets Act |

ENFORCEMENT ACTIONS FOR THE YEAR ENDED 30TH JUNE 2017

| Licensee/Listed Company | Nature of Breach | Sanction Imposed |
|--------------------------------|---|---|
| <p>Ms. Khadija Mire</p> | <ul style="list-style-type: none"> • Failure to make adequate disclosure to investors of all the relevant information on the likely application and impact of the funds being raised by the Rights Issue in contravention of the provisions of Regulation 12 of the Capital Markets (Securities) (Public Offer, Listing and Disclosure) Regulations, 2002 • Failure to consider and ensure the approval by the Authority of several material changes regarding the application of the proceeds of and the expenses related to the RI that were made to the IM following its approval by the Authority but prior to its publication to the Investing public • Failure to ensure that the RI proceeds were applied for the intended purpose set out in the approved IM in contravention of the provisions of Article 3.1.1 (ii) and (viii) of the Capital Markets Guidelines on Corporate Governance Practices by Public Listed Companies, 2002 • Failure to ensure that accounts are complete and all necessary disclosures on encumbrances on investment properties are done • Failure to ensure that an appropriate risk management framework is applied by the Board to inform the process of reviewing branch opening and expansion proposals, in violation of fiduciary duty of care • failure to ensure that immediate public disclosure was made of the intention to dispose off significant company assets being equivalent to 10 percent of the total USL assets and 55 percent of the Rights Issue proceeds within 24 hours of disposal decision is made by the Board, in contravention of the provisions of Regulation 19 (3) of the Capital Markets (Securities) (Public Offers Listing and Disclosures) Regulations, 2002. Disclosures) Regulations, 2002 | <p>Pursuant to the provisions of Section 11(3)(cc) and Section 25A of the Capital Markets Act;</p> <ol style="list-style-type: none"> 1. Disqualification from holding office as a Director and/or key officer of a public listed company and/or issuer, Licensee or any approved institution of the Capital Markets Authority for a period of two (2) years 2. Disgorgement of Board allowances of Kshs1.77 million net of taxes 3. Directive to attend Corporate Governance Training to be eligible to be considered for appointment as director of a listed company |

ENFORCEMENT ACTIONS FOR THE YEAR ENDED 30TH JUNE 2017

| Licensee/Listed Company | Nature of Breach | Sanction Imposed |
|---------------------------|--|--|
| Dr. Jonathan Ciano | <ul style="list-style-type: none"> • Failure to ensure that the recommended changes to the Information Memorandum were approved by the board and subsequently submitted to the Authority for consideration and approval in contravention of Regulations 6(2) and 17 of the Capital Markets(Securities)(Public Offers, Listing and Disclosures) Regulations, 2002 • Failure to make adequate disclosure to investors of all the relevant information on the likely application and impact of the funds being raised by the Rights Issue (RI) in contravention of the provisions of Regulation 12 of the Capital Markets (Securities) (Public Offer, Listing and Disclosure) Regulations, 2002 • Failure to ensure that the RI proceeds were applied for the intended purpose set out in the approved IM in contravention of the provisions of Article 3.1.1 (ii) and (viii) of the Capital Markets Guidelines on Corporate Governance Practices by Public Listed Companies, 2002 • Failure to ensure that accounts are complete and all necessary disclosures on encumbrances on investment properties are done • Failure to provide adequate and relevant information to ensure that an appropriate risk management framework is applied by the Board to inform the process of reviewing branch opening and expansion proposals, in violation of fiduciary duty of care | <p>Pursuant to the provisions of Section 11(3)(cc) and Section 25A of the Capital Markets Act;</p> <ol style="list-style-type: none"> 1. Disqualification from holding office as a Director and/or key officer of a public listed company and/or issuer, Licensee or any approved institution of the Capital Markets Authority for a period of five (5) years 2. Required to pay a financial penalty of Kshs5,000,000 3. Disgorgement of deemed profits obtained by Eliehon Co. Ltd being Kshs13,500,000 4. Request for the commencement of disciplinary proceedings by Institute of Certified Public Accountants of Kenya, in respect of his professional conduct as a Certified Public Accountant of Kenya – CPA (K) |

ENFORCEMENT ACTIONS FOR THE YEAR ENDED 30TH JUNE 2017

| Licensee/Listed Company | Nature of Breach | Sanction Imposed |
|-------------------------|---|--|
| | <ul style="list-style-type: none"> • Failure to ensure that prefunding of landlords and developers was done with the consent and approval of the board of USL and in the best interest of USL in violation of fiduciary duty of care • failure to ensure that immediate public disclosure was made of the intention to dispose of significant company assets being equivalent to 10 percent of the total USL assets and 55 percent of the Rights Issue proceeds within 24 hours of disposal decision is made by the Board, in contravention of the provisions of Regulation 19 (3) of the Capital Markets (Securities) (Public Offers Listing and Disclosures) Regulations, 2002 • Failure to make necessary disclosure of conflict of interest to the USL board with regards to Eliehon Co. Ltd and Gladmark Industries Ltd, companies which used to trade with USL | |
| Mr. James Murigu | <ul style="list-style-type: none"> • Failure to ensure that the recommended changes to the Information Memorandum were brought to the attention of the full board as board liaison to the Rights Issue committee • Failure to make adequate disclosure to investors of all the relevant information on the likely application and impact of the funds being raised by the Rights Issue in contravention of the provisions of Regulation 12 of the Capital Markets (Securities) (Public Offer, Listing and Disclosure) Regulations, 2002 | Pursuant to the provisions of Section 11(3)(cc) and Section 25A of the Capital Markets Act; <ol style="list-style-type: none"> 1. Disqualification from holding office as a Director and/or key officer of a public listed company and/or issuer, Licensee or any approved institution of the Capital Markets Authority for a period of one (1) year 2. Disgorgement of Board allowances of Kshs660,000 net of taxes |

ENFORCEMENT ACTIONS FOR THE YEAR ENDED 30TH JUNE 2017

| Licensee/Listed Company | Nature of Breach | Sanction Imposed |
|-------------------------|--|------------------|
| | <ul style="list-style-type: none"> • Failure to consider and ensure the approval by the Authority of several material changes regarding the application of the proceeds of and the expenses related to the RI that were made to the IM following its approval by the Authority but prior to its publication to the Investing public • Failure to ensure that the RI proceeds were applied for the intended purpose set out in the approved IM in contravention of the provisions of Article 3.1.1 (ii) and (viii) of the Capital Markets Guidelines on Corporate Governance Practices by Public Listed Companies, 2002 • Failure to ensure that accounts are complete and all necessary disclosures on encumbrances on investment properties are done • Failure to ensure that an appropriate risk management framework is applied by the Board to inform the process of reviewing branch opening and expansion proposals, in violation of fiduciary duty of care • Failure to ensure that immediate public disclosure was made of the intention to dispose of significant company assets being equivalent to 10 percent of the total USL assets and 55 percent of the Rights Issue proceeds within 24 hours of disposal decision is made by the Board, in contravention of the provisions of Regulation 19 (3) of the Capital Markets (Securities) (Public Offers Listing and Disclosures) Regulations, 2002 | |

ENFORCEMENT ACTIONS FOR THE YEAR ENDED 30TH JUNE 2017

| Licensee/Listed Company | Nature of breach | Sanction imposed |
|---------------------------|---|---|
| Mr. Chadwick Okumu | <ul style="list-style-type: none"> • Preparation of inaccurate and incomplete financial statements for the year ending 30 June, 2014 • Occasioned the commingling of the Rights Issue (RI) proceeds with funds from the USL trading account making it difficult to track the use of the RI proceeds undermining quantitative and qualitative evaluation of the use of the RI funds contrary to the provisions of Article 3.2 (iv) the Capital Markets Guidelines on Corporate Governance Practices by Public Listed Companies 2002 | <p>Pursuant to the provisions of Section 11(3)(cc) and Section 25A of the Capital Markets Act;</p> <ol style="list-style-type: none"> 1. Disqualification from holding office as a Chief Financial Officer, Director and/or key officer of a public listed company and/or issuer, Licensee or any approved institution of the Capital Markets Authority for a period of two (2) years 2. Request for the commencement of disciplinary proceedings by Institute of Certified Public Accountants of Kenya, in respect of his professional conduct as a Certified Public Accountant of Kenya – CPA (K) |
| Mr. Barth Ragalo | <ul style="list-style-type: none"> • Failure to make adequate disclosure to investors of all the relevant information on the likely application and impact of the funds being raised by the Rights Issue in contravention of the provisions of Regulation 12 of the Capital Markets (Securities) (Public Offer, Listing and Disclosure) Regulations, 2002. • Failure to consider and ensure the approval by the Authority of several material changes regarding the application of the proceeds of and the expenses related to the RI that were made to the IM following its approval by the Authority but prior to its publication to the Investing public. • Failure to ensure that the RI proceeds were applied for the intended purpose set out in the approved IM in contravention of the provisions of Article 3.1.1 (ii) and (viii) of the Capital Markets Guidelines on Corporate Governance Practices by Public Listed Companies, 2002. | <p>Pursuant to the provisions of Section 11(3)(cc) and Section 25A of the Capital Markets Act;</p> <ol style="list-style-type: none"> 1. A Regulatory Caution to ensure that in any future engagement as a Director and/or key officer of a public listed company and/or issuer, Licensee or any approved institution of the Capital Markets Authority Mr. Ragalo ensures compliance with the Corporate Governance Code 2. Disgorgement of Board allowances net of tax in the amount of Kshs855,000 3. Directive issued to Mr. Ragalo to attend Corporate Governance Training in order to be eligible to be considered for appointment as director of a listed company |

ENFORCEMENT ACTIONS FOR THE YEAR ENDED 30TH JUNE 2017

| Licensee/Listed Company | Nature of Breach | Sanction Imposed |
|-------------------------|--|--|
| | <ul style="list-style-type: none"> • Failure to ensure that accounts are complete and all necessary disclosures on encumbrances on investment properties are done. • Failure to ensure that an appropriate risk management framework is applied by the Board to inform the process of reviewing branch opening and expansion proposals, in violation of fiduciary duty of care. • Failure to ensure that immediate public disclosure was made of the intention to dispose of significant company assets being equivalent to 10 percent of the total USL assets and 55 percent of the Rights Issue proceeds within 24 hours of disposal decision is made by the Board, in contravention of the provisions of Regulation 19 (3) of the Capital Markets (Securities) (Public Offers Listing and Disclosures) Regulations, 2002 | |
| FCB Capital Ltd | Failed to comply with reporting obligations for regular submissions of monthly Risk-Based Capital Adequacy(RBCA) returns of period September 2016 and Fund Managers portfolio funds report for the quarter as per regulatory timelines contrary to Clause 45(1) of the Guidelines on Financial Resource Requirements for Market Intermediaries | Financial penalty of Kshs51,111.06 was imposed pursuant to Section 11(3)(cc)(i) and Section 25A(6)(b) of the Capital Markets Act |

ENFORCEMENT ACTIONS FOR THE YEAR ENDED 30TH JUNE 2017

| Licensee/Listed Company | Nature of Breach | Sanction Imposed |
|--|--|--|
| British American Asset Management Ltd | <ul style="list-style-type: none"> • Failing to implement the investment policy in line with Capital Markets (Collective Investment Schemes) Regulations, 2001. • Failing to exercise its duty of care towards the fund by failure to decline the request of the promoter to invest in Chase Bank more than the prescribed limit contrary to Regulation 78(2) (b) of the Capital Markets (Collective Investment Schemes) Regulations, 2001. • Failing to exercise effective management of the portfolio of investments as evidenced by its decision to invest in Chase Bank in excess of prescribed limit contrary to Regulation 17(1) of the Capital Markets (Collective Investment Schemes) Regulations, 2001 | Pursuant to the provisions of Section 11(3)(cc) and Section 25A of the Capital Markets Act, disgorgement of Kshs4,820,989.81 being cumulative monthly payments for fund management service for non-compliance with regulatory requirements as Fund Manager of Genghis Unit Trust |
| Kenya Commercial Bank Ltd | <ul style="list-style-type: none"> • Failing to promptly exercise duty of care towards the fund after noting increased portfolio growth of deposits in Chase Bank contrary to Regulation 27(1) of the Capital Markets (Collective Investment Schemes) Regulations, 2001 • Failing to take prompt action against the fund manager and failing to report the same to the Authority after noting the omission of the fund manager to seek approval to deviate from the limits set up by the Investment policy contrary to Regulation 27(k) of the Capital Markets (Collective Investment Schemes) Regulations, 2001 | Pursuant to the provisions of Section 11(3)(cc) and Section 25A of the Capital Markets Act; <ol style="list-style-type: none"> 1. Directive for disgorgement of fees of Kshs1,758,566.46 2. Financial penalty of Kshs3,517,132.92 was imposed |

ENFORCEMENT ACTIONS FOR THE YEAR ENDED 30TH JUNE 2017

| Licensee/Listed Company | Nature of Breach | Sanction Imposed |
|--------------------------------------|--|--|
| Car & General Limited | Failure to publish a profit warning as per Paragraph G.05 (1) (f) of the Fifth Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 | Regulatory Caution against Car & General Limited to ensure that it is fully compliant with the requirements of the Capital Markets regulatory framework |
| A Baumann & Co. Ltd | Failure by the company to adhere to regulatory requirements from the year 2008 when the company was suspended from trading on the NSE | Mandatory delisting of the company |
| Hutchings Biemer Limited | Failure to comply with regulatory requirements from the year 2001 when the company was suspended from trading on the NSE | Mandatory delisting of the company |
| CMC Holdings Limited | The existence of a scheme involving over-invoicing on importation of vehicles into Kenya by CMC and operation of various off-shore bank accounts for purposes of channeling the margins from the over-invoicing for the benefit of select former key officers of CMC Holdings to the detriment of the Company and its shareholders | During the period the Authority recovered the sum of Kshs131,077,000.00 from former directors of the Company as disgorgement of sums irregularly received from offshore accounts |
| Various Market Intermediaries | Late submission of Monthly Management Accounts and/or Monthly Risk-Based Capital Adequacy returns contrary to the provisions of Regulation 32 (2) of the Capital Markets (Licensing requirements) (General) Regulations 2002 and Clause 45 (1) of the Guidelines on Financial Resource Requirements for Market Intermediaries | During the period, the Authority imposed financial penalties for amounts ranging from Kshs2,222.22 to Kshs15,555.55 against seven market intermediaries which delayed in submission of the regulatory reports for periods seven (7) days or less. The cumulative amount of the financial penalties imposed amounted to Kshs45,555.51 |

ORGANIZATIONAL UPDATES (Continued)

STRATEGIC PROJECTS

The Authority continued to enhance its project management techniques by establishing a Strategic Projects Department. The department coordinates projects that are central to the Authority in achieving its strategic objectives and the implementation of the Capital Market Master Plan. Most of the Authority's projects are funded by donors such as World Bank and Financial Sector Deepening Africa (FSDA) among others. During the year under review, the Unit coordinated the following projects:

| Project Name | Funded by | Projected Outcome |
|---|-----------|--|
| Surveillance connectivity (to Alternative Trading System (ATS) and Perago (CDSC) upgrade) | CMA | Integrate the surveillance system with upgraded market infrastructure systems in NSE and CDSC to enable effective surveillance of the market. |
| Islamic Finance Policy Regulatory and Institutional Framework | FSDA | Deepening and enhancing the Islamic finance markets in Kenya: this will be achieved by: <ul style="list-style-type: none"> i. Regulatory reform, the establishment of a National Shariah Supervisory Board, capacity building and awareness, i. Development of an institutional, policy and regulatory framework for the Islamic finance industry in Kenya |
| Implementation of Uwezo Kipeo | FSDA | Enable the Authority to have a more effective and robust institutional capacity model by constantly adapting to changing markets and responsibilities and be the leader in change management |

The Unit has also come up with a Project Management Methodology that is being used by the Authority to manage its projects.

ORGANIZATIONAL UPDATES (Continued)

HUMAN CAPITAL & ADMINISTRATION

Capacity Building

a. Learning & Development

During the 2016/2017 Financial Year, the highest percentage of the identified trainings needs/gaps were bridged through individual learning approach and this is due to the high level of job specialization within the Authority. This is as illustrated in Diagram 1 below;

Overall Training Overview

Categorization by 'Type of Training'



Diagram 1: Types of training

The trainings attended by staff were sourced locally, internationally and through online platforms. As indicated in Diagram 1 and 2, majority of staff attended local trainings which comprised of continuous professional development programs offered by professional bodies. Introduction of the Learning Management System under the Uwezo Kipeo project is anticipated to increase the use of online courses through e-learning.

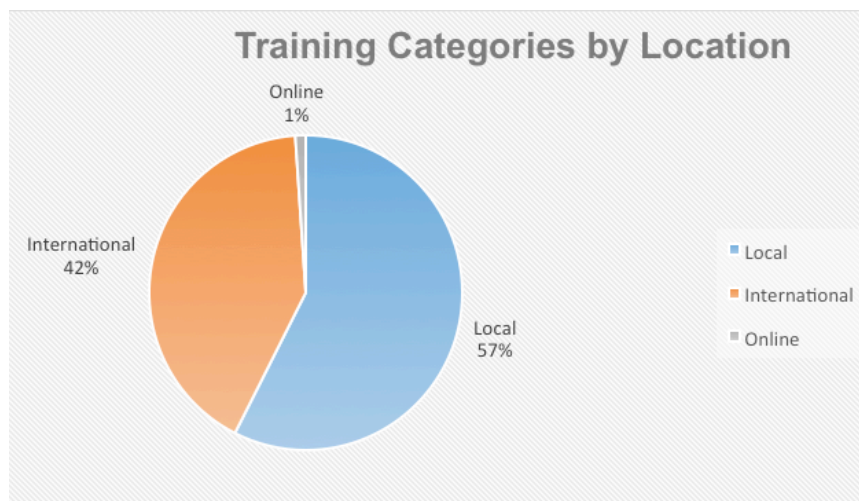


Diagram 2: Training categories by location

ORGANIZATIONAL UPDATES (Continued)

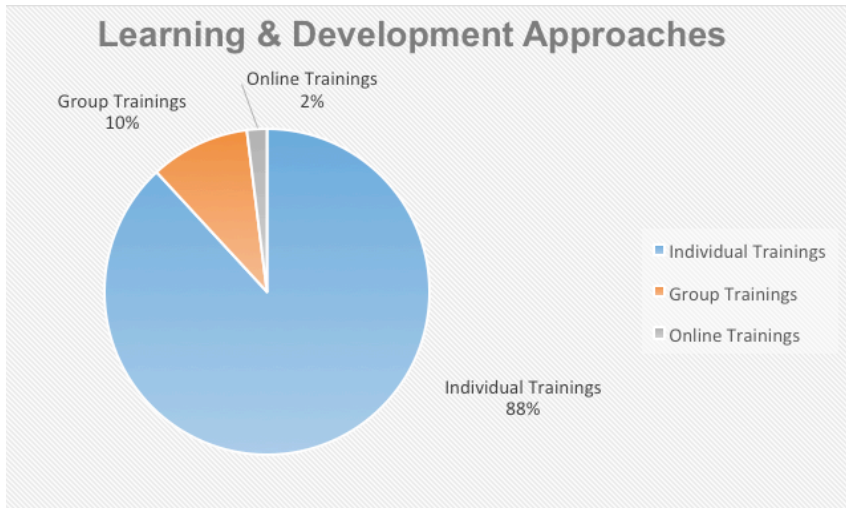


Diagram 3: Learning and development approaches

Overall, there were five (5) major types of staff development. As illustrated in Diagram 3, majority of the trainings undertaken were capacity-building. This is attributed to the high level of involvement and participation of the Authority in the wider capital markets and related sectors which interpreted into more requirements for exposure, workshops and networking meetings to deepen and widen knowledge and skills for the employees.

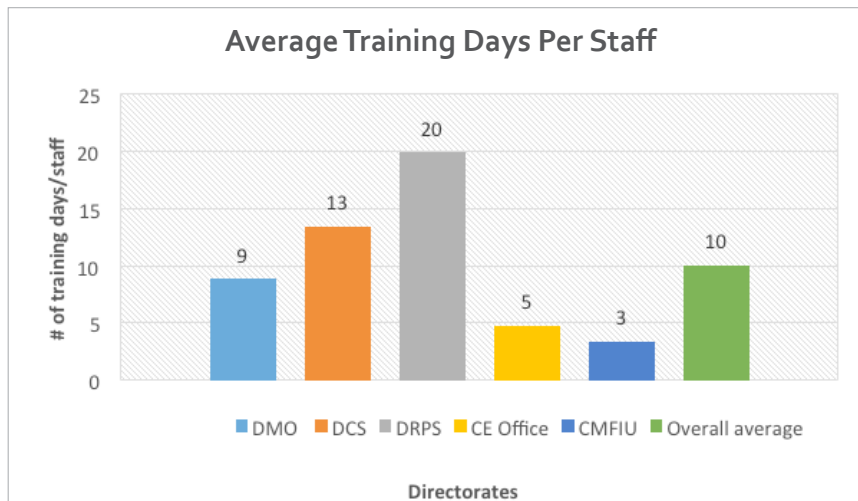


Diagram 4: Average training days per staff

Compliance Analysis

On average, each staff utilized 10 days for training and development and therefore surpassed the Learning & Development policy minimum requirement of five (5) training days per employee.

Recruitment

The Authority continued to strengthen institutional capacity by acquiring additional talent. During the year, a total of eight positions were competitively filled. Total number of staff as at 30 June, 2017 stood at 107. During the period, the Authority supported progressive involvement of youth, by providing attachment and internship opportunities to 25 students and graduates. The Graduate Trainee Programme rolled out in the previous year continued being implemented to enhance manpower and succession planning.

ISO 9001:2015

To achieve efficiency in operations and continually meet and exceed stakeholders' diverse expectations, the Authority continued to implement and improve the Quality Management System(QMS). In addition, several milestones were achieved towards preparations to transitioning the QMS from ISO 9001:2008 to ISO 9001:2015. They included: capacity building for all staff and internal auditors, documentation of processes in accordance with ISO 9001:2015 standard requirements, internal assessment of the QMS and conducting of Management Review meeting.

ORGANIZATIONAL UPDATES (Continued)

Office Space

With increased staff numbers, enhanced level of operations and the need to maintain a conducive work environment for employees, the Authority acquired additional office space on 6th floor of Embankment Plaza and completed structured cabling, tiling and electrical works. The space has since been occupied by the Directorate of Corporate Services.

Team Building

During the period, an outdoor teambuilding activity was held to strengthen relationships, promote cohesion and build synergy amongst staff and ultimately achieve high levels of productivity. The Authority organized a Sports Day at the Public Service Club in May 2017 where staff had an opportunity to undertake various activities geared towards enhancing team work, cohesion and promotion of work-life balance.

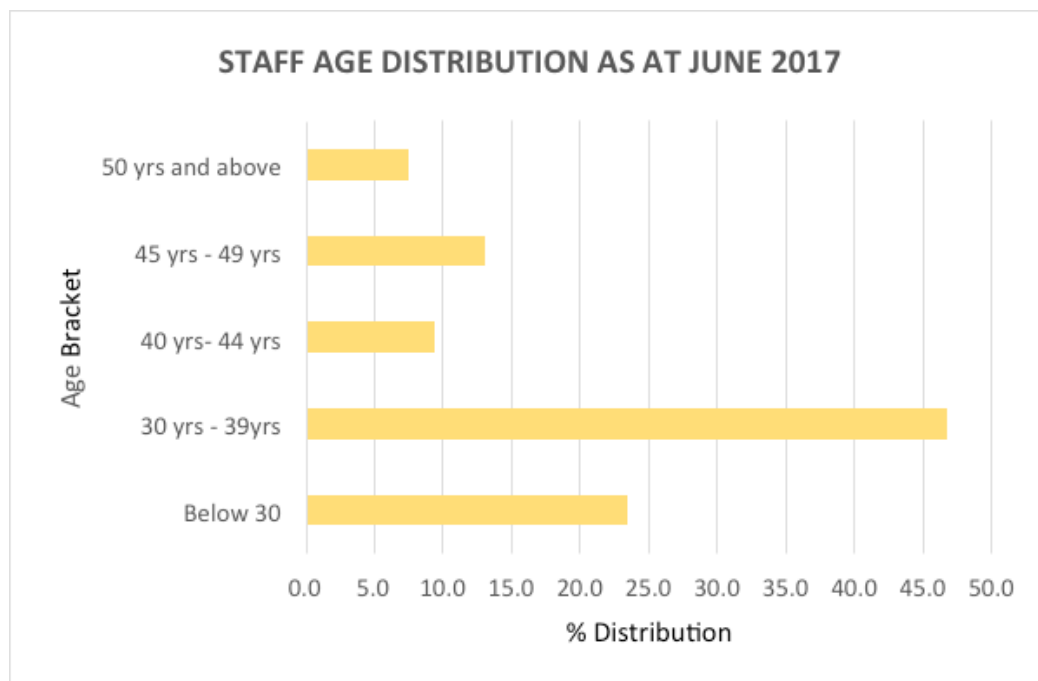
Performance Management

The Authority remained committed to ensuring that employees executed their responsibilities in an effective and satisfactory manner. This promotes a high-performance culture and the achievement of the Authority's overall objectives.

During the year, the Authority implemented, for the first time, a new performance management system -The Annual Capability Review (ACR). The system was roll out in the entire organization and everyone participated in the end of year review-The Look Back. The Authority will continue to improve on the new system to drive productivity at all levels and more importantly help the organization deliver its objectives as outlined in the Strategic Plan.

Staff Age Analysis

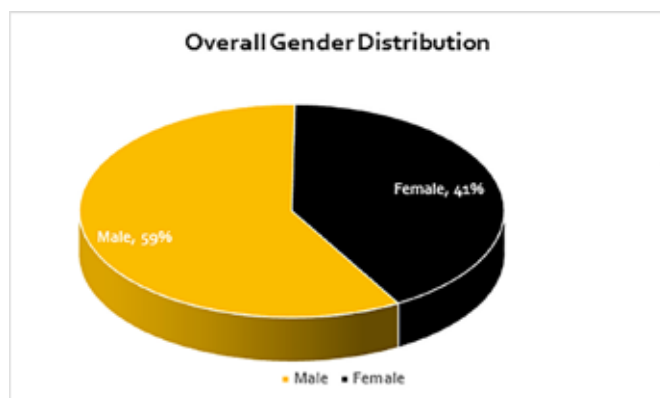
The Authority has embraced diversity in the workforce as reflected in the age distribution analysis. The staff ages range from 50 years and above to below 30 years with the highest percentage being within the age bracket of 30- 39 years.



ORGANIZATIONAL UPDATES (Continued)

Gender Distribution Analysis

The Authority continued to comply with the gender policy by ensuring representation of both genders in its establishment. As at 30 June 2017, the percentage of male employees stood at 59 percent while female was 41 percent.



CORPORATE COMMUNICATIONS

During the year, Corporate Communications strategies and activities were designed to support the achievement of the Authority's objectives as outlined in the Strategic Plan 2013-2017 and the 10-year Capital Market Master Plan.

One of the Authority's strategic objectives is to establish a robust, facilitative policy, legal and regulatory framework for capital market development. One way to achieve this is by enhancing stakeholder participation and support for legislative changes. Corporate Communications contributed by offering support in planning media briefings for the Quarterly Capital Markets Soundness Report, Training of Trainers workshop and Master Class for Board Members of issuers of securities to the public, on the Corporate Governance Code. Additional support was provided through media relations leading to press coverage on various corporate announcements including; Policy Guidance Note on Global Depositary Receipts and Notes and; Asset-Backed Securities; approval for the listing of the first Exchange Traded Fund in Kenya; launch of the Whistle Blower Portal; partnership with the Australian Securities and Investments Commission to promote fintech innovation; admission of the Authority to the Council of the Islamic Financial Services Board as an associate member; and the Business Incubator and Accelerator on the Listing Experience.

On the second strategic objective of developing and deepening capital markets products and services, Corporate Communications Department's work laid emphasis on increasing the uptake of capital markets products and services. This was achieved through the airing of documentaries on New Products, Islamic Finance, and Capital Market Master Plan. The documentaries were aired on NTV between April and June 2017. Communications supported efforts to facilitate increased uptake of capital markets products and services by increasing awareness through media reporting. This was achieved by inviting media to the Authority's meetings and events. In the period under review, we issued seventeen press releases and placed nine opinion editorials in Business Daily on topical capital market issues. The department further supported investor education efforts aimed at enhancing awareness and interest in the capital markets.

INVESTOR EDUCATION AND PUBLIC AWARENESS

One of the Authority's core mandate is to implement effective investor education initiatives targeting the various constituents to promote the development of Kenya's capital market to be an investment destination of choice through facilitative regulation and innovation. The Authority believes that investor education and public awareness is key in enhancing financial literacy and investor confidence in Kenya. The Investor Education and Public Awareness Department undertook several initiatives during the 2016/2017 Financial Year. Key to the strategy was continued segmentation and targeted initiatives in partnership with its stakeholders such county governments, licensed market intermediaries and various Chapters of Kenya National Chamber of Commerce and Industry and many other under-represented investor classes who may not be fully utilizing the opportunities provided for by the capital markets industry.

During the financial year, 77 engagements were undertaken. These included seminars/workshops and exhibitions. Through these engagements various mediums of outreach and campaigns were used such as print and electronic media such as Television by airing documentaries and infomercials, social media through Facebook & Twitter and vernacular radio targeting different regions such as KASS FM, Muuga FM, Radio Kaya, Mulembe FM, Inooro FM, Mayian FM and Musyi FM among others. The Department was able to reach all the 47 counties through all the initiatives thereby increasing the awareness of the capital markets products and services at both national and county levels.

ORGANIZATIONAL UPDATES (Continued)

The youth remained a very important target group cognizant of their projected role in driving Kenya's Vision 2030 economy. It is in this regard that 18 youth forums within Nairobi County and its environs were held during the reporting period representing 23 percent of the total number of forums for the period.

In collaboration with several capital markets resource persons, the Authority held a total of 42 forums in 19 counties during the financial year, representing 55 percent of the total number of forums held. The forums targeted the various constituents of the Authority's investor education program such as women and youth, business, professionals and County Governments as well as Community Based Organizations (CBOs). Some of these events presented an opportunity for current and potential investors and issuers to meet face to face with the various capital market intermediaries to synergize their thoughts to better understand and access information that assist them to make informed decisions with the ultimate goal being wealth creation. The Counties included Taita Taveta, Kiambu, Murang'a, Bungoma, Mombasa, Kwale, Kajiado, Nyeri, Kilifi, Kirinyaga, Kakamega, Kitui, Narok and Nairobi respectively amongst others. This was inclusive of one open day at Nairobi, three Road Shows held in Laikipia, Bungoma and Kwale Counties respectively.

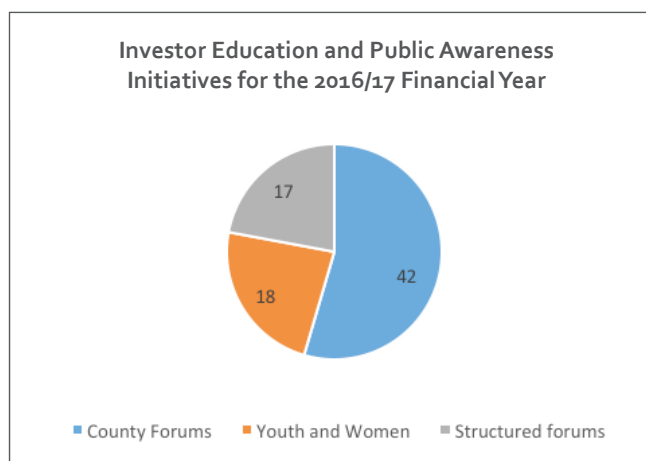
The Authority committed to increasing its investor education initiatives with a view of reaching various constituents in the Counties. This is geared towards enhancing financial literacy and in particular ensuring that Kenyans at the County level appreciate the various investment opportunities, and the risks and rewards associated with investment in the capital markets. The Huduma Centre initiative is complementary of the Capital Market Master Plan under the initiative to enhance consumer education and literacy as well as address devolution financing needs. Forums were conducted in Narok, Kakamega and Kitui huduma centres respectively. The objective of the sessions was to create awareness and educate the general public on the importance of investing in capital markets. In addition, the session was meant to provide face-to-face interactions between the Authority and potential investors and enhance their understanding of the various capital market investment opportunities available.

Structured forums have proved to be more efficient, economical and effective. It is in this regard that the Authority held 17 structured forums within Nairobi County during the reporting period targeting market intermediaries, youth, stakeholders, potential investors and policy makers representing 22 percent of the total number of forums held.

The Authority in partnership with industry players held a "Business Incubator and Accelerator on the Listing Experience" event from 30-31 March 2017 at the Hilton Hotel. This was aimed at presenting interested companies, with potential to list at the Nairobi Securities Exchange, an opportunity to participate in a stage by stage, one on one, engagement with relevant intermediaries in the listing process to assist in demystifying the requirements and processes of going public and to allow successful candidates to chart their own listing roadmap. The event attracted 84 participants as follows: 31 potential issuers scheduled in daily intervals to ensure effective discussions, 21 incubation firms who had a longer horizon towards listing required assistance with a view to list at a later date. This two set of groups were served by 22 intermediary service providers involved in the listing process and 10 incubation service providers.

In partnership with capital markets industry stakeholders, the Authority held the Capital Market Week from 2-6 May, 2017 culminating in the 5th Capital Market Open Day held at the Kenyatta International Convention Center (KICC), Tsavo Ballroom from 4-6 May, 2017. The objective of the open day was to create an environment where current and potential investors and issuers interact with the various capital market intermediaries and stakeholders to understand the opportunities in the capital markets and receive pertinent information that will assist them to make informed decisions while participating in the capital market industry.

Below is a pie chart representing the 77 forums held during the financial year capturing the Youth, County and structured forums.



ORGANIZATIONAL UPDATES (Continued)

As part of investor education capacity building, it is worth to note that the certification program in Kenya is at full capacity with 482 individuals in Kenya having sat and passed the International Introduction to Securities and Investments Kenya (IISII-K) exams. The Authority facilitated 81 professionals from the market to undertake the exams on 14 December, 2016 at the CMA Conference Room which included 7 members taking the (Islamic Finance Qualification) IFQ exam. Prior to this, select staff from the Authority Management conducted an in-house training for 25 CMA staff members who sat for the exam on 6 December, 2016. This includes 21 CMA staff members who took the IISI Kenya exam on 7 April, 2017. The pass rate for Authority staff members has been over 90 percent. So far over 55 staff members have done and passed stage one while an additional 12 staff members have done and passed level two.

Cognizant of the role information technology continue to play in information service delivery, the Authority launched an Online Resource Centre Portal that employs modern information communication technologies to facilitate online access to the rich information held by the Resource Centre and public released information within the Authority. The Portal has enjoyed good reception and visibility since the Portal went online in August 2016. During the period under review, the Portal received over 10,000 visitors and likes on the Authority social media Facebook platform.

Key to note is that the Authority has procured a consultant to conduct an Investor Education Impact and Opportunities Assessment Study that drills down more on the investment habits, challenges and opportunities of the identifiable sub-segments within each main target group. In addition, the study will also inform the development of a White Paper on a consumer financial education framework pertaining to the capital markets as a step towards the development of a National Consumer Financial Education strategy as well as development of an impact assessment measurement index that the Authority can use to gauge the impact of its investor education program going forward.

To further enhance the Capital Markets Resource Persons program, the department undertook a two day residential retreat with the capital markets resource persons at the Kenya School of Monetary Studies on January 27th and 28th, 2017. The main objective of the retreat was to review and adjust the various presentations and brochures where applicable with a view to create more effective and robust materials that are simple to understand as well as

discuss the outsourcing initiative with the resource persons, with a view to understand the key challenges and opportunities to be used as a roadmap moving forward.

DERIVATIVES UNIT

The Authority is currently finalizing preparations for the Derivatives Exchange in Kenya, a pilot test is expected to commence in Quarter 2 2017/2018 Financial Year prior to consideration of an official launch of the market. The Nairobi Securities Exchange was issued with a licence to operate a derivatives exchange, all the requisite systems have been deployed across all market participants and are currently undergoing continuous testing. Two products for the derivatives markets have been developed namely:- Single Stock Futures and Equity Index Futures which will serve as pioneer products, other products will follow as the derivatives market develops. The legal, regulatory and rules framework for the derivatives exchange has also been finalized.

Additionally, the Authority and the Exchange have undertaken extensive stakeholder engagements to build capacity of market players.

Mr. David White has been contracted as an expert resident consultant to guide in operationalization of the market.

Finally, the Authority constituted a new Committee namely the Derivatives Market Technical Advisory Committee (DTAC) in order provide market expertise and technical advice to the Institutional Heads of the Capital Markets Authority, the Central Bank of Kenya, and the Nairobi Securities Exchange. The Derivatives Oversight Committee, Product Advisory Committee and the Risk Management Committees were constituted in 2015 by the NSE in order to provide oversight to the derivatives exchange's governance and development processes.

ORGANIZATIONAL UPDATES (Continued)

CAPITAL MARKETS FRAUD AND INVESTIGATIONS UNIT

| Year | P.B.C | P.U.I | P.A.KA | ENFORCEMENT | FINALISED | TOTAL |
|------|-------|-------|--------|-------------|-----------|-------|
| 2014 | 5 | 10 | 3 | 1 | 3 | 22 |
| 2015 | 6 | 22 | 4 | - | 4 | 36 |
| 2016 | 6 | 10 | 2 | 1 | 5 | 25 |
| 2017 | 4 | 13 | 2 | 2 | 0 | 21 |

Pending Before Court (PBC): Pending Under Investigation (PUI): Pending Arrest of Known Accused (PAKA)

CAPITAL MARKETS FRAUD INVESTIGATIONS UNIT

The Unit is currently under the command of Chief Inspector (C.I) Josephine K.Mokaya. The Unit has seven other officers and one secretary. The Authority executed a Memorandum of Understanding (MOU) with the Directorate of Criminal Investigation to second the officer in-charge.

The Unit has in its circles of Investigation noted with concern that most of the crimes committed to clients are due to lack of knowledge of what one should do in case one intends to transact her/his share account. During the Investor Education awareness sessions, the public is encouraged to give information of any suspicious character to the CMA's Fraud Investigation Unit for action. This has restored a lot of confidence to Investors in the market. The aggressive efforts by the Unit to combat the same has greatly reduced crime within the Capital Markets fields.

During the 2016/17 Financial year, the Unit has investigated a total of Eighteen (19) cases ranging from forgery and fraud among others. The same is illustrated by the table above.

MARKET DEVELOPMENT

A. RESEARCHES CONDUCTED:

In the 2016/17 Financial Year the Authority conducted various studies and also provided inputs to the joint financial sector publications;

i) County Financing

Since the inception of county governments, it is evident that they require support in sourcing for funds to augment transfers from the national government and own source revenues collected. The Authority conducted a study to among other things;

- i. Discuss the possible capital markets financial instruments that county governments can use to mobilize funds.
- ii. Highlight the legal and regulatory framework needed to support county borrowing.
- iii. Determine the risks that result from sub-national borrowing.
- iv. Develop a template that could be used as a checklist before county governments can gain access to funds through the capital markets.

ii) Fintech and Regulatory Sandbox

Advances in financial technology (Fintech) have led to the introduction of new business models and solutions. This has contributed to enhancement of value, customer experience and financial institutions' efficiency and risk management. As a result, the Authority conducted a study to examine the potential of fintech and determine how it could be leveraged in Kenya's capital markets.

Based on findings, the Study would propose a review and/or

ORGANIZATIONAL UPDATES (Continued)

adoption of regulatory requirements or procedures that would unintentionally inhibit innovation or render it non-viable.

iii) Blockchain Technology and Virtual Currencies

Blockchain technology and virtual currencies have in the recent past, attracted attention from business leaders, financial institutions globally, central banks and other regulators. The Authority conducted research in this area to examine the issues, benefits and risks regarding blockchain technology and virtual currencies. The aim of the Study was to assess their potential use and impact in the Kenya's capital markets to guide policy response and its regulation.

iv) Block Trading

The Authority developed a research paper to provide an overview of the structural and operational aspects of block trading, the risks associated with it as well as highlighting some issues for regulatory consideration.

v) Green Bond Financing

Under the Economic pillar of Vision 2030 one way to deepen the market in addition to proper regulation and oversight is through introduction of new products into the market that provide diversity to investors. Green Bonds would not only provide a new line of product in the Bonds market but also encourage green projects that are in line with the Sustainable Development Goals. A study was conducted to explore the feasibility of rolling out Green Bonds in Kenya and developing regulatory frameworks that will facilitate operationalization. This is in line with the aspirations of the Capital Market Master Plan 2014-2023.

vi) Islamic Finance

The Authority developed a White Paper on Islamic Finance and Islamic Capital Markets.

Islamic Capital Markets (ICMs) refer to capital market activities that are carried out in ways that comply with Islamic law. ICM activities include the issuance and trading of Shariah compliant securities, stocks and funds. The growing awareness of and demand for investing in accordance with Islamic principles on a global scale has created a flourishing Islamic capital market. This is mainly due to increasing wealth in the hands of Muslims and non-Muslims keen

on participatory finance who are actively involved in corporate and business activities worldwide. Islamic Capital markets is aimed at enhancing financial inclusion of the Islam population within the financial services industry.

vii) Kenya Financial Sector Stability Report

The Authority provided capital markets relevant input to the Kenya Financial Sector Stability Report 2016. This is a joint annual publication prepared by the Financial Sector Regulators Forum, which brings together the Central Bank of Kenya, Capital Markets Authority, Insurance Regulatory Authority, Retirement Benefits Authority and Sacco Societies Regulatory Authority under a Memorandum of Understanding (MOU) for collaboration in several areas of mutual interests.

The publication provides an assessment of key developments in Kenya's macro-financial conditions. It highlights key developments, risks and vulnerabilities, and growth opportunities resulting from global, regional and domestic factors.

B. RESEARCH OPERATIONALIZATION, NEW PRODUCTS AND INNOVATION

During the year the Authority actively pursued operationalization of researches and studies as part of the market development initiatives within the 10-year Capital Markets Master Plan. These include;

a) Exchange Traded Funds

In line with its strategic objective to widen financial products in the Kenyan market, the Authority approved the secondary listing of the first Exchange Traded Fund (ETF) in Kenya in February 2017. The listing of 400,000 gold bullion debentures by New Gold Issuer (RF) Limited on the Main Investment Market Segment of the Nairobi Securities Exchange, commenced trading at the NSE on 27th March, 2017. The ETF is expected to open the doors to local investors wishing to indirectly participate in the gold market, where they have previously had to either trade in the commodity in its physical form (bullion) or do so through offshore markets. It is also expected to provide diversification benefits from a portfolio perspective.

To deepen the knowledge on ETFs and how they are traded, the

ORGANIZATIONAL UPDATES (Continued)

Nairobi Securities Exchange in collaboration with the Authority organized an ETF stakeholder workshop at Radisson Blu on 12th April, 2017.

b) M-Akiba Bond issuance

Kenya's National Treasury launched the mobile phone-based retail bond M-Akiba during the year targeting low and medium earners and savers in Kenya. The M-Akiba bond is intended to democratize participation of the Kenya public in government financing by enabling Kenyans to buy treasury bonds on mobile money (Airtel Money and M-Pesa) or via the inter-bank transfer platform Pesalink¹.

In March, 2017, the Government of Kenya made a limited offer of KShs150 million that preceded the second offer in June to test the systems. The first phase of the M-Akiba bond received 100 percent subscription. The second phase of the M-Akiba bond issue worth KShs1 billion was floated to the public on Friday 30th June, 2017 open for sale between 30th June, 2017 and 21st July, 2017. With the issuing and paying agent as the Central Depository and Settlement Corporation (CDSC) and stockbrokers and investment banks as the trading participants.

Phase I bond had a daily transaction limit of KShs140, 000. However, in the second phase, Kenyans have the option to use Pesalink which has raised the maximum amount that investors can put in to KShs999, 999 per day. Investors will be paid interest every six months, beginning January next year, at a rate of 10 per cent.



Features of Kenya's Mobile phone-based KShs1 billion bond offered in June, 2017.

| | Characteristic | Description |
|---|-----------------------------------|---|
| 1 | Issue No. | MAB2/2017/3 |
| 2 | Total Value | KShs1 Billion (with a green shoe option of KShs3.85 Billion) |
| 3 | Tenor | Three Year |
| 4 | Application Method | Mobile phone by dialing *889# |
| 5 | Minimum amount of investment | KShs3, 000 (primary market) and thereafter multiples of KShs500 (secondary market). |
| 6 | Maximum Amount MNO Pesalink | Max amount of KShs140,000 per investor per day Max initial amount of KShs999,999 per transaction with subsequent amounts in multiples of KShs500 with no limits on the number of transactions per day. |
| 7 | Coupon Rate | Ten percent per year |
| 8 | Interest payment dates | Every six months (each year) on the following dates; 22/01/2018; 23/07/2018, 21/01/2019, 22/07/2019, 20/01/2020 and 20/07/2020. |

Source: CMA/National Treasury

¹ Pesalink – this is a mobile payment system platform; an innovation of the Kenya Bankers Association (Kenya's banking industry umbrella body) that enables real-time 24/7 peer-to-peer (P2P) digital money transfer.

ORGANIZATIONAL UPDATES (Continued)

c) Islamic Finance

The Authority continued to make efforts towards operationalization of Islamic Finance in Kenya. CMA Kenya was admitted to the Islamic Financial Services Board (IFSB) as an Associate Member in December 2016 and was officially welcomed in an annual meeting in Malaysia in April, 2017. The PMO team held discussions with the Budget team of the National Treasury on tax neutrality for Islamic products and engaged the Central Bank of Kenya to bring them up to speed with other Financial Sector regulators on Islamic Finance issues. The Islamic Finance PMO also partnered with GBS Africa on a conference held on 10th and 11th of April, 2017 to update stakeholders on Developments in Islamic Finance Economy in East Africa.

Further, PMO is currently working on Terms of Reference (TORs) for the proposed Kenya Islamic Finance Council, which will guide the operations of the Council in its advisory role, once established. In the 2017/2018 Budget reading amendments to the public finance act and tax statutes were recommended. Amendment of Public Finance Management Act will pave way for issuance of Sukuks as an alternative source of financing for government to finance development projects while amendment of tax statutes on the other hand will improve attractiveness of the Islamic products by providing for equivalent tax treatment of Islamic financial products with the conventional financial products.

d) County Governments Financing

The Capital Markets Master Plan targets to have 20 percent of county financing achieved through the capital markets by 2020. It further envisions the need to identify capital markets products through which infrastructural projects in the country can be financed. As a result, and with the support of FSSP, a World Bank project, the National Treasury awarded and signed a consultancy contract to conduct a funding gap analysis. An inception report has since been submitted to the Authority for review with a need to address matters that require the Authority's attention and to determine the next steps of engagement. The County policy paper was circulated to CMMP-NSC for comments and a letter sent to the Attorney General to seek interpretation of the relevant provisions of the Constitution and all other relevant laws in respect to County financing and borrowing through non-recourse securitization structures to enable the Authority provide clear guidance to County Governments.

e) Commodities Exchange Consultancy

The Authority's Capital Markets Masterplan Working Group 2 held the initial consultative meeting with the Commodities Exchange consultant- Shrikaam Fincom Consultants PVT Ltd on Friday May 12th, 2017. The consultancy will be a buildup on the initial feasibility study that revealed the existence of an appropriate business for the establishment of a commodities exchange in Kenya.

The consultancy is working in conjunction with the Authority to execute the following among others;

- a. Develop project implementation plan;
- b. Develop and propose the policy, legal and regulatory framework for establishment and operationalization of commodities Exchange in Kenya;
- c. Develop commodity Exchange trading/clearing and settlement operation guidelines and specifications; and
- d. Develop a funding model for the establishment and sustainability of the commodity exchange ecosystem.

The establishment of a Commodities Exchange is key towards creating an appropriate tool for providing farmers and traders with much needed credit opportunities; reducing farmer vulnerability by allowing farmers to sell produce at a time when prices are attractive; reducing post-harvest losses attributed to poor commodity storage practices; and provide employment opportunities along the exchange ecosystem.

f) Derivatives exchange

The Derivatives Unit on-boarded a Resident consultant in May 2017 to provide technical assistance ahead of the Derivatives market Launch. The consultant has been on-boarded under The Financial Sector Support Project (FSSP) development Program. The objective of the consultancy is to enhance technical and other resource capacity in the Authority's derivatives unit, mentor staff and prepare them to take leadership of the existing departments within the Derivatives Unit, Oversee the post 'go-live' operation of any licensed exchange(s) and nurture the development of both the spot commodities and derivatives market in Kenya.

Additionally, as part of the tail-end preparations the Authority and the Exchange have undertaken extensive stakeholder engagements to build capacity of market players.

ORGANIZATIONAL UPDATES (Continued)

g) Securities Lending and Borrowing

The Authority partnered with the Financial Services Volunteer Corps (FSVC) in a Technical Assistance (TA) program aimed at identifying operational gaps in the oversight of CIS's, operationalization of the draft Securities Lending and Borrowing policy and building capacity on market indices & yield curves. The mission took place from 6th to 10th March, 2017.

The mission was facilitated by from US SEC, Bloomberg, and FSVC. The discussions covered market indices & yield curves, CIS's and SLB.

The draft regulations on Securities Lending and Borrowing were approved by CMA board and forwarded to the National Treasury for ratification. Through SLB, the Authority believes that Kenya's overall market liquidity will improve and hence increase market trading activity.

h) GDRs/GDNs

The Board of Capital Markets Authority (CMA) approved a Policy Guidance Note (PGN) for the listing and trading of global depositary receipts and notes. A global depositary receipt or note (GDR/N) is a negotiable certificate issued, listed and traded on a securities exchange. The GDR/N certificate represents securities issued in another country. Where the certificate represents ownership of bonds instead of shares, it is referred to as a global depositary note (GDN). The approval of the PGN is instrumental in the implementation of the Authority's Strategic Plan 2013-2017 which is now in its final year of implementation and the 10-year Capital Market Master Plan. The PGN underpins industry's efforts to develop and deepen capital markets products and services and provide a facilitative environment for cross border investments'.

i) FinTech and Regulatory Sandbox

The Authority continues to engage FinTech stakeholders to understand their varied perspectives and analyze the same for consideration.

During the 2017/18 Financial Year the Authority developed a consultative paper on the proposed framework for Regulatory Sandbox to support financial technology innovation in Kenya's capital markets. The paper discussed the key ingredients of such a regulatory regime and sought to inform stakeholders on benefits, rationale, practices in other jurisdictions. A consultative forum was then held

on 30th June, 2017 with industry players to discuss and refine the draft consultative paper. The forum attracted various players from other regulators such as the Kenya's Central Bank, the insurance and pension industry, private companies with interest in fintech innovations, law firms and other development institutions such as the Financial Sector Deepening Kenya (FSDK). Through the forum, the Authority obtained substantive recommendations that will guide the process of coming up with appropriate regulation to guide operations of the regulatory sandbox in the country.

OPERATING ENVIRONMENT

GLOBAL ECONOMY

According to the Global Economic Prospects, June, 2017 publication the global economy is expected to strengthen to 2.7 percent in 2017, supported by a pickup in manufacturing and trade, rising confidence, favorable global financing conditions and stabilizing commodity prices. Growth in advanced economies is expected to accelerate to 1.9 percent in 2017, while that in emerging markets and developing economies will recover too, registering a 4.1 percent growth this year, as obstacles to activity diminish in commodity-exporting countries. Global economic activity was generally in an upward trend during the financial year, with Europe's renewed momentum and China's steady growth compensating for challenges in some emerging markets. The year witnessed two key global events: Brexit and the US elections. The UK Government invoked Article 50 of the Treaty on European Union in March, 2017, putting it on a course to leave the EU by March 2019.

Further, Donald Trump was voted in as President of the US raising uncertainty over the likely direction of foreign policies targeted towards developing nations and the rise of protectionism, a key concern for Kenya, as with many African nations. These uncertainties resulted in volatility in financial markets affecting economies of both emerging and frontier markets as capital flow from the Diaspora, foreign aid and debt have over the years played a significant role in shaping the economic landscape of these countries. Oil prices also remained low during the financial year suppressing further economic growth in oil dependent countries. The price of oil fell dramatically three years ago, and has stayed low since, thanks to a significant global oversupply. From a high of \$112 per barrel in 2014, oil tumbled to just \$30 a barrel in February 2016. Since then, despite efforts by OPEC nations and Russia to limit production, prices have fluctuated around \$45-\$50 per barrel mark to date, thanks in part to US production which has increased to fill the gap.

ORGANIZATIONAL UPDATES (Continued)

SUB-SAHARAN AFRICA

Africa's Pulse Report by the World Bank forecasts economic growth in sub-Saharan Africa to rise between 2017 and 2019, supported by better commodity prices and improved global conditions. According to the Report, SSA economies will expand by 2.6 percent in 2017, 3.2 percent in 2018 and a further 3.5 percent in 2019. The region's growth was estimated at 1.3 percent in 2016. In the Report, the Bank observes that the 2016 growth was the worst for the region in more than two decades, adversely affected by poor economic performance in Nigeria, South Africa and Angola. Some of the challenges faced by economies in the region include;

i. Low Commodity price and high price volatility

SSA countries depend mainly on primary commodities (Agricultural commodities, Oil and Metals) for export foreign exchange. These countries have been severely affected by the significant drop in commodity prices since the end of the super cycle, adversely affecting economic growth over the past few years. Low-income countries have especially been vulnerable to commodity price volatility.

ii. Low Export diversification

Most African countries fall into one of four broad clusters: diversified economies, oil exporters, transition economies, or pretransition economies. Although the countries within each segment differ in many ways, their economic structures share broad similarities. Further Africa's oil and gas exporters have the continent's highest GDP per capita but also the least diversified economies. This group comprises of Algeria, Angola, Chad, Congo, Equatorial Guinea, Gabon, Libya, and Nigeria.

The continent's four most advanced economies—Egypt, Morocco, South Africa, and Tunisia are already broadly diversified. Manufacturing and services together accounts for 83 percent of their combined GDP. The main risks that most transition (Cameroon, Ghana, Kenya, Mozambique, Senegal, Tanzania, Uganda, and Zambia) and pretransition (Democratic Republic of the Congo, Mali, and Sierra Leone) countries face include the fact that they have unit labor costs that are higher than those in China and India thus making them less competitive, while for oil exporters, economic growth in them remains closely linked to oil and gas prices.

iii. Protectionism

African countries have been focusing more on national considerations to the detriment of trade between them. In 2014, intra-African trade accounted for only 16 per cent, yet trade within Asia averaged 61 per cent; within Europe, it stood at 69 per cent, and 56 per cent within North America. Despite instruments like the Tripartite Free Trade Area (TFTA) and the proposed Continental Free Trade Area these are yet to yield tangible results.

iv. High Debt Levels

Improved access to international financial markets by SSA (excluding South Africa) has led to a rise in the volume of indebtedness from US\$ 1.5 billion in 2011, with the volume of international sovereign bond issuance having increased nearly five-fold, to US\$ 7 billion in 2014 and 2015. In non-resource rich-intensive countries, such as Côte d'Ivoire, Kenya, and Senegal, fiscal deficits have remained high for a number of years, as Governments sought to address social and infrastructure gaps. While growth remains robust, vulnerabilities are starting to emerge—public debt is on the rise even as borrowing costs rise.

EAST AFRICA

According to the African Economic Outlook 2017, East Africa continued to lead the pack in terms of growth with estimated growth of 5.3 percent in 2016, down from 6.5 percent in 2015. North Africa recorded the second-best growth performance in 2016 at 3.0 percent, buoyed by recovery in Egypt of 4.3 percent and Algeria of 3.5 percent. Persistent political uncertainties and reduced oil production in Libya, however, continue to drag down growth in North Africa. Southern Africa recorded the third-best performance regionally with growth of 1.1 percent, down from 1.9 percent in 2015. Central and West Africa, on the other hand, recorded the worst growth performance at 0.8 percent and 0.4 percent, respectively. Central African growth was slowed by the deficient performance of Equatorial Guinea (estimated at -8.2 percent in 2016 and -8.3 percent in 2015), the Republic of the Congo (which declined to 2.5 percent in 2016, down from 6.9 percent in 2015) and Chad (estimated at -3.4 percent in 2016, down from 1.8 percent in 2015). West Africa, on the other hand, was dragged down by the economic recession in Nigeria, with economic growth contracting to -1.5 percent in 2016, down from 2.8 percent in 2015.

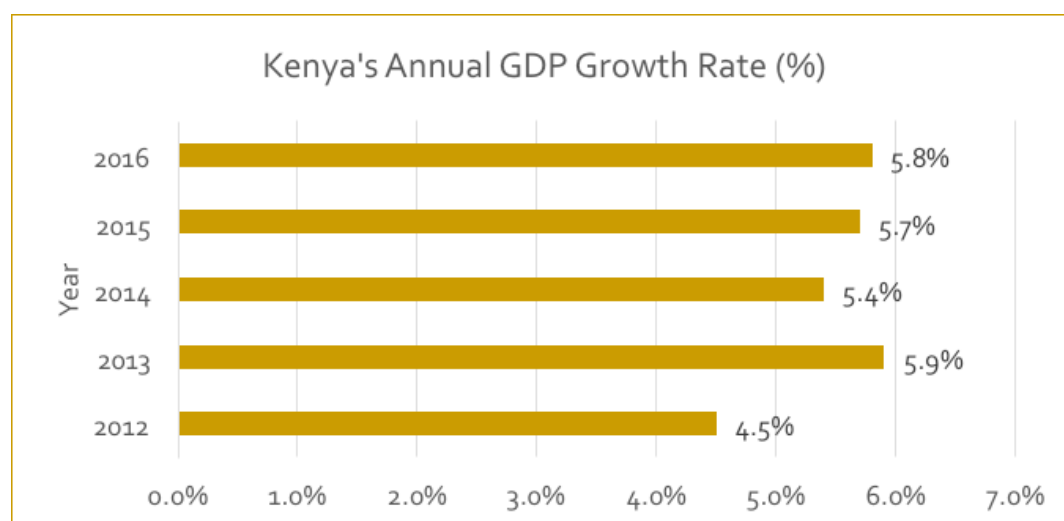
ORGANIZATIONAL UPDATES (Continued)

DOMESTIC ECONOMIC ENVIRONMENT

GDP growth in Kenya is projected to decelerate to 5.5 percent, a 0.5 percentage point mark down from the 2016 forecast, according to the World Bank's Kenya Economic Update (KEU) April, 2017 edition. The dimmed outlook is attributed to drought which has led to crop failure, dying herds of livestock, and increased food insecurity. Further, with hydropower being the cheapest source of energy in Kenya, poor rains increased energy costs, their effects spilling over to other sectors. Kenya also faced a marked slowdown in credit growth to the private sector, weighing on private investment and household consumption. As a net oil importer, the rise in global oil prices compared to the lows of 2016 had a dampening effect on economic activity. However, in the medium term, economic growth is projected to rebound to 5.8 percent in 2018 and 6.1 percent in 2019, consistent with Kenya's underlying growth potential.

According to the Kenya National Bureau's Economic Survey 2017, the country's real Gross Domestic Product (GDP) is estimated to have maintained growth momentum for the third consecutive year to expand at 5.8 per cent in 2016 compared to a revised growth of 5.7 per cent in 2015. The growth was generally well spread and robust in most sectors but subdued in a few with accommodation and food services registering the most improved growth of 13.3 per cent in 2016 from a contraction of 1.3 per cent in 2015. Other remarkable improvements in economic activities were realized in the information and communication sector; real estate; and transport and storage. On the other hand, construction; mining and quarrying; and financial and insurance activities registered the most notable slowdown in growths.

Kenya's Annual GDP Growth Rate- (2012-2016)

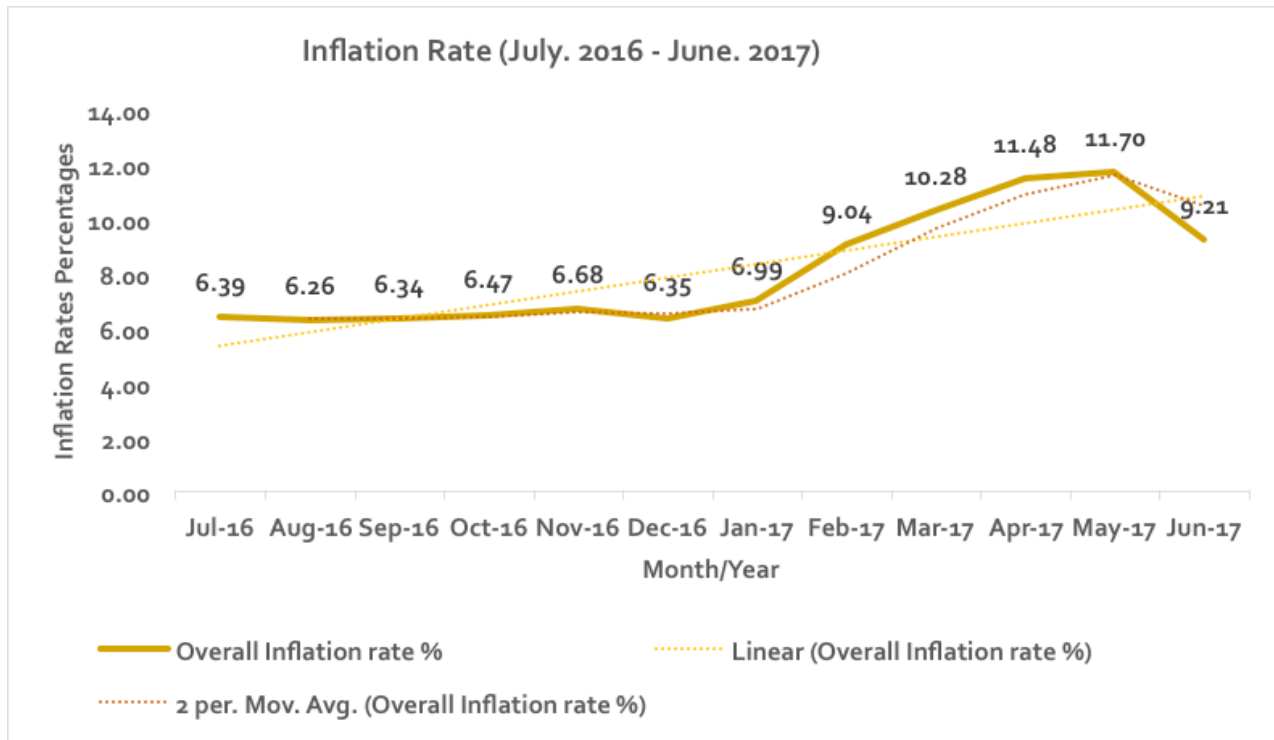


Source: Kenya National Bureau of Statistics

Overall inflation rates rose to a high of 11.70 percent in May 2017 on the back of rising food and energy costs driven by a multiplicity of factors

ORGANIZATIONAL UPDATES (Continued)

Trend of Inflation Rate in 2016/2017 (July 2016- June 2017)



Source: Kenya National Bureau of Statistics

MARKET PERFORMANCE

PRIMARY EQUITY MARKETS

Listing by Introduction

Deacons Kenya also listed 123,558,228 shares by introduction on 2 August, 2016 at the NSE's Alternative Investment Market Segment (AIMS). The offer was 87.5 percent subscribed raising Kshs700 million.

Following approval for secondary listing of the First Exchange Traded Funds (ETF) in Kenya in February 2017, the ETF commenced trading on the NSE on 27 March, 2017 with 400,000 gold bullion debentures by New Gold Issuer (RF) Limited being listed on the Main Investment Market Segment of the Nairobi Securities Exchange.

ORGANIZATIONAL UPDATES (Continued)

Table 1: Listings by Introduction 2000 – 2017

| Company | Shares on Issue | Year of Issue | Offer Price |
|---------------------------|----------------------|---------------|-------------|
| Equity Bank | 90,500,000 | 2006 | 90.00 |
| CFC Insurance Holdings | 515,270,364 | 2011 | 6.15 |
| Trans century Limited | 267,038,090 | 2011 | 50.00 |
| Longhorn Publishers | 58,500,000 | 2012 | 14.00 |
| CIC Insurance | 2,179,615,440 | 2012 | 3.50 |
| Umeme | 1,623,878,005 | 2012 | 8.80 |
| Home Afrika Ltd. | 405,300,000 | 2013 | 12.00 |
| Flame Tree | 24,287,500 | 2014 | 8.00 |
| Kurwitu Ventures | 102,272 | 2014 | 1,250.00 |
| Nairobi Business Ventures | 23,600,000 | 2016 | 5.00 |
| Deacons Kenya | 123,558,228 | 2016 | 15 |
| Barclays New Gold ETF | 400,000 | 2017 | 1,205.16 |
| TOTAL | 5,312,049,899 | | |

Source: Capital Markets Authority

Treasury Bonds

During the review period, twenty (20) Treasury bonds (i.e. eleven re-opening, 7 new issues and 2 M-Akiba bond issuances) were issued as the Government sought to raise KShs361.15 billion. KShs443.88 billion worth of bond applications were received, with the Government accepting KShs298.43 billion.

Out of the 20, there were two (2) new infrastructure bonds issued in October 2016 and February 2017 both seeking to raise KShs60 billion. KShs70.12 billion worth of bond applications were received with the Government accepting KShs36.57 billion.

In 2015/2016 Financial Year, seventeen (17) Treasury bonds (i.e. eleven new issues and six re-opening) were issued as the Government sought to raise KShs305 billion. KShs427 billion worth of bond applications were received, with the Government accepting KShs278.64 billion. Out of the 17, there were two (2) new infrastructure bonds were issued in December 2015 and May 2016 both seeking to raise KShs65 billion. KShs57.09 billion worth of bond applications were received with the Government accepting KShs18.69 billion.

This indicates a KShs19.79 billion increase in amounts raised in the year under review when compared to the 2015/16 Financial Year. Amounts raised from infrastructure bonds also rose by KShs17.88 billion.

PRIMARY BOND MARKETS

Issued and reopened Treasury Bonds 2016/2017 Financial Year

| Bond Issue | Tenor | Due Date | Offered (KShs Bn) | Bids (KShs Bn) | Accepted (KShs Bn) | Performance Rate (%) | Coupon Rate | Average Yield |
|--|-----------|------------|-------------------|----------------|--------------------|----------------------|-------------|---------------|
| Q1. 2016/17 | | | | | | | | |
| Jul-16 FXD 2/2016/5 (New Issue) | 5 – year | 7/19/2021 | 30 | 26.15 | 24.4 | 136.26% | 14.07% | 14.07% |
| FXD 1/2008/20 (Re-open) | 20 – year | 6/5/2028 | | 14.72 | 9.1 | | 13.75% | 14.84% |
| Aug-16 FXD 1/2016/10 (New Issue) | 10- year | 8/17/2026 | 25 | 26.31 | 18.31 | 105.22% | 14.33% | 14.58% |
| Sept. 2016 FXD 3/2016/5 (New Issue) | 5 – year | 9/20/2021 | 25 | 38.65 | 23.05 | 225.81% | 13.11% | 13.37% |
| FXD 1/2016/20 (New Issue) | 20 – year | 9/1/2036 | | 17.8 | 12.29 | | 14.00% | 14.79% |
| Q2. 2016/17 | | | | | | | | |
| Oct-2016 IFB 1/2016/15 (New Issue) | 15- year | 10/6/2031 | 30 | 35.09 | 30.57 | 116.96% | 12.00% | 13.28% |
| Nov-2016 FXD 3/2007/15 (Re-open) | 15 – year | 9/20/2021 | 30 | 14.49 | 14.29 | 76.29% | 12.50% | 13.59% |
| FXD 1/2008/20 (Re-open) | 20 – year | | | 8.4 | 7.88 | | 13.75% | 14.35% |
| Dec-2016 FXD 3/2016/2 (New Issue) | 2 year | 12/17/2018 | 30 | 35.54 | 10.54 | 118.47% | 12.51% | 13.07% |

PRIMARY BOND MARKETS (Continued)

Issued and reopened Treasury Bonds 2016/2017 Financial Year

| Bond Issue | Tenor | Due Date | Offered (KShs Bn) | Bids (KShs Bn) | Accepted (KShs Bn) | Performance Rate (%) | Coupon Rate | Average Yield |
|--------------------------------|---------|------------|-------------------|----------------|--------------------|----------------------|-------------|---------------|
| Q3.2016/17 | | | | | | | | |
| Jan-17 FXD 2/2007/15 | 15-year | 6/6/2022 | 30 | - | - | - | - | - |
| (Re-open) | | | | | | | | |
| Feb-17 IFB 1/2017/12 | 12-year | 2/12/2029 | 30 | 35.03 | 6 | 116.78% | 12.50% | 13.05% |
| (New Issue) | | | | | | | | |
| Mar-17 FXD 2/2014/5 | 5-year | 6/17/2019 | 30 | 31.33 | 12.96 | 214.16% | 11.93% | 12.72% |
| (Re-open) | | | | | | | | |
| Tap sale | - | - | | - | 7.65 | | | 12.40% |
| FXD 3/2013/5 | 5-year | 11/19/2018 | | 32.92 | 11.9 | | 11.95% | 12.23% |
| (Re-open) | | | | | | | | |
| Tap Sale | - | - | | - | 7.83 | | | 11.82% |
| MAB 1/2017/3 | 3-year | 4/6/2020 | 0.15 | 0.15 | 0.15 | 100.00% | 10.00% | - |
| (M-Akiba Bond) | | | | | | | | |
| Q4.2016/17 | | | | | | | | |
| Apr-17 FXD3/2008/10 | 10-year | 10/15/2018 | 30 | 21.76 | 14.62 | 164.63% | 10.75% | 11.52% |
| (Re-open) | | | | | | | | |
| Tap sale | - | - | | - | 3.25 | | | 11.33% |
| FXD1/2009/10 | 10-year | 4/15/2019 | | 27.63 | 18.15 | | 10.75% | 11.33% |
| (Re-open) | | | | | | | | |
| Tap Sale | - | - | | - | 3.93 | | | 11.97% |
| May-17 FXD2/2010/10 | 10-year | 10/19/2020 | 40 | 14.49 | 8.53 | 97.10% | 9.31% | 12.60% |
| (Re-open) | | | | | | | | |
| Tap Sale | - | - | | - | 4.75 | | | 12.47% |
| FXD1/2009/15 | 15-year | 10/7/2024 | | 24.35 | 11.46 | | 12.50% | 13.35% |
| (Re-open) | | | | | | | | |
| Tap Sale | - | - | | - | 10.41 | | | 13.14% |
| Jun-17 FXD2/2007/15 | 15-year | | 30 | 39.07 | 26.41 | 130.23% | 13.50% | 12.65% |
| (Re-open) | | | | | | | | |
| MAB2/2017/3 | 3-year | 7/20/2020 | 1 | - | - | - | 10.00% | - |
| (M-Akiba Bond) | | | | | | | | |

Source: CBK/CMA

CORPORATE BOND MARKETS

Corporate Bond issues as at June 2017

ISSUED CORPORATE BONDS AND COMMERCIAL PAPER AS AT JUNE 30, 2017

| ISSUER | APPROVED AMOUNT | ISSUED AMOUNT | APPROV-AL DATE | ISSUE DATE | MATURITY DATE | OUTSTANDING AMOUNT AS AT JUNE 2017 Kshs |
|--|-------------------|-------------------|----------------|------------|---------------|---|
| Centum Bond Senior Unsecured Fixed Rate and Equity Linked notes | | | | | | |
| CTNB.BD.18.09.17/13.50 (Senior unsecured fixed rate notes) | 5,000,000,000.00 | 2,897,100,000.00 | Dec-06-2012 | 26-Sep-12 | 18-Sep-17 | 2,897,100,000.00 |
| CTNB.BD.18.09.17/12.75 (Senior unsecured equity linked notes) | | 1,270,800,000.00 | Dec-06-2012 | 26-Sep-12 | 18-Sep-17 | 1,270,800,000.00 |
| CTNB.BD.08.06.20/13 | 6,000,000,000.00 | 3,899,226,700.00 | May-15-2015 | 15-Jun-15 | 8-Jun-20 | 3,899,226,700.00 |
| CTNB.BD.08.06.20/12.5 | | 2,100,773,300.00 | May-15-2015 | 15-Jun-15 | 8-Jun-20 | 2,100,773,300.00 |
| Consolidated Bank of Kenya Ltd Medium Term Note Programme | 4,000,000,000.00 | | | | | |
| CON.BD-FXD(SN)/2012/7Yr | 1,481,600,000.00 | 1,480,600,000.00 | 21-Jun-12 | 30-Jul-12 | 24-Jul-19 | 1,480,600,000.00 |
| CON.BD-FXD(SBN)/2012/7Yr | | 196,500,000.00 | 21-Jun-12 | 30-Jul-12 | 22-Jul-19 | 117,900,000.00 |
| CON.BD-FR(SN)/2012/7Yr | | 1,000,000.00 | 21-Jun-12 | 30-Jul-12 | 22-Jul-19 | 1,000,000.00 |
| Shelter Afrique Medium Term Notes | | | | | | |
| FXD 1/13/05Yr | 5,000,000,000.00 | 4,239,700,000.00 | 3-Sep-13 | 30-Sep-13 | 24-Sep-18 | 2,115,610,300.00 |
| FR 1/13/05Yr | | 760,300,000.00 | 3-Sep-13 | 30-Sep-13 | 24-Sep-18 | 379,389,700.00 |
| Kengen Public Infrastructure Bond Offer 2019 | | | | | | |
| FXIB 1/2009/10Yr | 25,000,000,000.00 | 14,062,000,000.00 | 27-Aug-09 | 2-Nov-09 | 31-Oct-19 | 7,812,500,099.00 |
| Housing Finance Medium Term Note | | | | | | |
| FXD (HFCK) 02/2012/7Yr 2nd Tranche | | 2,969,100,000.00 | 16-Oct-12 | 22-Oct-12 | 14-Oct-19 | 2,969,100,000.00 |
| FR (HFCK) 2010/7Yr | 10,000,000,000.00 | 1,165,500,000.00 | 26-Aug-10 | 26-Oct-10 | 2-Oct-17 | 1,165,500,000.00 |
| FXD (HFCK) 2010/7Yr | | 5,865,400,000.00 | 26-Aug-10 | 26-Oct-10 | 2-Oct-17 | 5,865,400,000.00 |
| I&M Medium Term Note | | | | | | |
| FXD I&M-01/13/5.25 | 10,000,000,000.00 | 3,429,000,000.00 | 14-Nov-13 | 13-Dec-13 | 8-Mar-19 | 3,429,000,000.00 |
| FRN I&M-01/13/5.25 | | 226,000,000.00 | 14-Nov-13 | 13-Dec-13 | 9-Mar-19 | 226,000,000.00 |

CORPORATE BOND MARKETS (Continued)

Corporate Bond issues as at June 2017

ISSUED CORPORATE BONDS AND COMMERCIAL PAPER AS AT JUNE 30, 2017

| ISSUER | APPROVED AMOUNT | ISSUED AMOUNT | APPROVAL DATE | ISSUE DATE | MATURITY DATE | OUTSTANDING AMOUNT AS AT JUNE 2017 Kshs |
|--|-------------------|------------------|---------------|------------|---------------|---|
| BRITAM Medium Term Note | 6,000,000,000.00 | 6,000,000,000.00 | 6-Jun-14 | 22-Jul-14 | 8-Mar-19 | 6,000,000,000.00 |
| UAP HOLDINGS MEDIUM TERM NOTE | 2,000,000,000.00 | 2,000,000,000.00 | 24-Jun-14 | 28-Jul-14 | 22-Jul-19 | 2,000,000,000.00 |
| NIC MEDIUM TERM NOTE | 8,000,000,000.00 | 5,517,600,000.00 | 8-Aug-14 | 8-Sep-14 | 9-Sep-19 | 5,517,600,000.00 |
| CIC INSURANCE GROUP LTD MEDIUM TERM NOTE | 5,000,000,000.00 | 5,000,000,000.00 | 10-Sep-14 | 8-Oct-14 | 2-Oct-19 | 5,000,000,000.00 |
| STANBIC MULTICURRENCY MEDIUM TERM NOTE | 5,000,000,000.00 | 5,080,000,000.00 | 3-Nov-14 | 15-Dec-14 | 8-Dec-21 | 4,000,000,000.00 |
| CBA FIXED MEDIUM TERM NOTE | 8,000,000,000.00 | 7,000,000,000.00 | 21-Nov-14 | 22-Dec-14 | 14-Dec-20 | 7,000,000,000.00 |
| EABL FIXED MEDIUM TERM NOTE-First Tranche | 5,000,000,000.00 | 5,000,000,000.00 | 23-Feb-15 | 23-Mar-15 | 19-Mar-18 | 5,000,000,000.00 |
| Second Tranche | 6,000,000,000.00 | 6,000,000,000.00 | | 3-Apr-17 | 28-Mar-22 | 6,000,000,000.00 |
| REAL PEOPLE MEDIUM TERM NOTE | | | | | | |
| RPBD.BD.19/04/21-0049-13.75 | 5,000,000,000.00 | 267,600,000.00 | 25-Jun-15 | 10-Aug-15 | 6-Aug-18 | 267,600,000.00 |
| RPBD.BD.03/08/20-0047-13.65 | | 1,363,900,000.00 | | 10-Aug-15 | 3-Aug-20 | 1,363,900,000.00 |
| FAMILY BANK MEDIUM TERM NOTE | 10,000,000,000.00 | 2,018,800,000.00 | 22-Sep-15 | 26-Oct-15 | 19-Apr-21 | |
| FAMILY-FLT | | 600,800,000.00 | | | | 600,800,000.00 |
| FAMILY-MXD | | 120,400,000.00 | | | | 120,400,000.00 |
| FAMILY- FXD | | 1,297,600,000.00 | | | | 1,297,600,000.00 |
| IMPERIAL BANK MULTICURRENCY MEDIUM TERM NOTE PROGRAMME | 2,000,000,000.00 | | 12-Aug-15 | | | |
| CHASE BANK FIXED MEDIUM TERM NOTE | 10,000,000,000.00 | 4,822,400,000.00 | 19-May-15 | 10-Jun-15 | 2-Jun-22 | 4,822,400,000.00 |
| Total Outstanding Amount | | | | | | 84,720,200,099 |

Source: Capital Markets Authority

RIGHTS ISSUES

Rights Issues 2007-2017

During the 2016/17 Financial Year there were no right issues.

| Company | Shares on Issue | Date of Issue | Offer Price | Sum Raised | Subscription level |
|--------------------|----------------------|---------------|---------------------------|-------------------|--------------------|
| Olympia Capital | 30,000,000 | 2007 | 14.00 | 428,400,000.00 | 102% |
| DTB | 23,291,015 | 2007 | 70.00 | 2,902,060,469.00 | 178% |
| NIC Bank | 16,482,910 | 2007 | 70.00 | 1,719,167,513.00 | 149% |
| HFCK | 115,000,000 | 2008 | 20.00 | 2,369,000,000.00 | 103% |
| KCB | 221,777,777 | 2008 | 25.00 | 8,122,024,075.00 | 146.0% |
| KCB | 887,111,110 | 2010 | 17.00 | 12,500,000,000.00 | 82.5% |
| TPS East Africa | 24,701,774 | 2010 | 48.00 | 1,185,685,152.00 | 135.0% |
| Standard Chartered | 15,109,323 | 2010 | 165.45 | 2,499,837,490.00 | 161.0% |
| KPLC | 488,630,245 | 2010 | 19.50 | 9,830,340,000.00 | 103.0% |
| KQ | 1,477,169,549 | 2012 | 14.00 | 14,487,949,714.00 | 70.1% |
| DTB | 24,455,566 | 2012 | 74.00 | 3,369,522,734 | 186.2% |
| NIC | 98,724,391 | 2012 | 21.00 | 7,007,457,273.00 | 338.0% |
| CFC Stanbic | 121,637,427 | 2012 | 33.00 | 4,495,719,302.00 | 112.0% |
| SCB | 22,080,000 | 2012 | 145.00 | 8,272,934,400.00 | 258.0% |
| Diamond Trust Bank | 22,010,009 | 2014 | 165.00 | 3,631,651,485.00 | 440.3% |
| NIC Bank | 42,663,040 | 2014 | 49.25 | 1,904,030,511.50 | 221.0% |
| Uchumi supermarket | 99,500,000 | 2014 | 9.00 | 579,116,043.00 | 183.6% |
| HFCK | 116,666,667 | 2015 | 30.00 | 9,011,836,920.00 | 257.0% |
| LONGHORN | 126,190,476 | 2016 | 4.20 | 533,000,000.00 | 101% |
| KenGen | 4,396,722,912 | 2016 | 6.55 | 28,798,535,073.60 | 92.01% |
| TOTAL | 8,567,451,534 | | 130,717,803,591.10 | | |

Source: Capital Markets Authority

BONUS ISSUES

Bonus Issues 2012-2017

During the period under review there were four (4) bonus issues.

| Company | Date (Month/Year) | Bonus Issue Ratio |
|--|-------------------|-------------------|
| NIC Bank | Feb-12 | 1:10 |
| Cooperative Bank | Mar-12 | 1:5 |
| Access Kenya | Mar-12 | 1:20 |
| Jubilee | Mar-12 | 1:10 |
| Standard Group | Apr-12 | 1:10 |
| Kenya Re | Apr-12 | 1:6 |
| Eaagads | Jul-12 | 1:1 |
| Nation Media Group | Mar-13 | 1:5 |
| Carbacid Investments | Oct-13 | 1:2 |
| CIC insurance | July-14 | 1:5 |
| Longhorn Kenya | Sep-2014 | 3:2 |
| Panafric | Feb -2015 | 1:2 |
| National Bank | March- 2015 | 1:10 |
| Jubilee | March- 2015 | 1:10 |
| Crown Paints | May -2015 | 2:1 |
| WTK | June-2015 | 1:1 |
| Kapchorua | June -2015 | 1:1 |
| Diamond Trust Bank | March-2016 | 1:10 |
| NSE | March-2016 | 1:3 |
| Jubilee Holdings Limited- Uganda Listing | March- 2017 | 1:10 |
| Cooperative Bank (K) Ltd | March- 2017 | 1:5 |
| National Bank of Kenya | April- 2017 | 1:10 |
| Flame Tree Group | April- 2017 | 1:10 |

Source: Capital Markets Authority

STOCK SPLITS

Stock Splits (2007 – 2017)

| Company | Date (Month/Year) | Share Split Ratio |
|----------------------|-------------------|-------------------|
| CMC Holdings | Jan-07 | 10:1 |
| KCB | Mar-07 | 10:1 |
| Nation Media Group | Mar-08 | 2:1 |
| Equity Bank | Feb-09 | 1:10 |
| KenolKobil | May-10 | 10:1 |
| KPLC | Oct-10 | 1:8 |
| ARM | May-12 | 5:1 |
| City Trust | Jan-13 | 5:1 |
| Carbacid Investments | Oct-13 | 1:5 |
| Limuru Tea | May-15 | 1:2 |

Source: Capital Markets Authority

SECONDARY MARKETS

The period under witnessed mixed market performance, relative to the 2015/16 Financial Year, with equity turnover and the NSE 20 share index decreasing by 11.85 and 0.92 per cent to KShs155.55 billion and 3,607.18 points respectively. Other performance indicators, the volume of shares traded, market capitalization and bond turnover recorded increases of 13.30, 11.13 and 7.92 per cent respectively.

Market Statistics 2016/2017

| Year | Month | Equity Turnover (KSHS Bn) | Share Volume (Mn) | NSE 20 Share Index | Market Capitalization (KSHS Bn) | Bond Turnover |
|---------------------------|----------------|---------------------------|-------------------|--------------------|---------------------------------|---------------|
| 2016 | July | 13.61 | 543.56 | 3,488.67 | 2,048.88 | 21.22 |
| | August | 17.66 | 708.07 | 3,178.83 | 1,943.20 | 26.79 |
| | September | 16.87 | 746.89 | 3,243.21 | 1,969.30 | 26.79 |
| | October | 7.85 | 351.71 | 3,251.46 | 1,987.65 | 35.30 |
| | November | 10.44 | 461.71 | 3,247.19 | 1,979.26 | 35.09 |
| | December | 7.11 | 289.00 | 3,186.21 | 1,961.92 | 23.97 |
| 2017 | January | 12.05 | 572.99 | 2,794.27 | 1,770.30 | 31.24 |
| | February | 12.60 | 651.15 | 2,962.00 | 1,810.39 | 20.43 |
| | March | 12.46 | 636.67 | 3,112.52 | 1,894.34 | 53.60 |
| | April | 11.41 | 446.64 | 3,157.58 | 1,935.28 | 29.45 |
| | May | 16.35 | 697.06 | 3,441.05 | 2,155.36 | 56.65 |
| | June | 17.14 | 749.91 | 3,607.18 | 2,221.29 | 48.53 |
| Total FY 2016/2017 | 155.55 | 6,855.36 | 3,607.18 | 2,221.29 | 409.06 | |
| Total FY 2015/2016 | 176.46 | 6,050.84 | 3,640.61 | 1,998.75 | 379.05 | |
| Percentage Change | 11.85 % | 13.30% | 0.92 % | 11.13% | 7.92% | |

Source: Capital Markets Authority

Market Outlook

The market is expected to remain buoyant in the face of prolonged election period and despite the shocks to the market from recent political activities including nullification of the presidential elections. It is also expected that the market will rebound post the re-run elections as the uncertainties relating to elections continue to resolve.

SECONDARY MARKETS (Continued)

TRENDS IN FOREIGN INVESTORS PORTFOLIO ACTIVITY

The Fiscal year 2016/17 witnessed a net portfolio inflow amounting to KSh6,689 million compared to a net inflow of KSh5,407 million in 2015/16 Financial Year a 23.71% increase. The positive foreign investor participation is an indication of foreign investor confidence in Kenya's securities markets.

Foreign Investor Net Cash Flow Activity (KShMillions) 2011-2017

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------------|------------|---------------|---------------|--------------|------------|--------------|--------------|
| January | 1,987 | (812) | 2,133 | (876) | (273) | (533) | 1,608 |
| February | 622 | 795 | (3,927) | (1,505) | 201 | 281 | 435 |
| March | 1,552 | 2,651 | 1,810 | (399) | (3,085) | (1,334) | (55) |
| April | (3,024) | 1,771 | 3,026 | 1,409 | (67) | 80 | 433 |
| May | (3,334) | 1,099 | 3,475 | (2,578) | (2,030) | 196 | (1,888) |
| June | (1,597) | 1,639 | 2,602 | 2,586 | (447) | 100 | (813) |
| July | 1,173 | 828 | 1,625 | 142 | (1,127) | 974 | |
| August | 621 | 1,048 | 9,839 | 3253 | 1,183 | 3,703 | |
| September | 535 | 3,286 | 2,063 | (850) | 6,500 | 1,343 | |
| October | 719 | 2,965 | 2,723 | (1,208) | 889 | (125) | |
| November | 31 | 4,335 | 884 | 2,535 | (829) | 459 | |
| December | 935 | 2,129 | (690) | 1,021 | 1 | 615 | |
| NET CASH FLOW | 220 | 21,734 | 25,563 | 3,530 | 916 | 5,759 | (280) |

Source: Capital Markets Authority

CORPORATE ACTION

| Security | Date | Corporate Action | Amount(KES)/Ratio |
|------------------------|------------|--------------------|-------------------|
| EABL | 29-7-2016 | Final Div. | 5.50 |
| KENOL | 4-8-2016 | Interim Div. | 0.15 |
| CFC | 11-8-2016 | Interim Div. | 1.77 |
| NIC | 18-8-2016 | Interim Div. | 0.25 |
| STANCHART | 18-8-2016 | Interim Div. | 6.00 |
| LONGHORN | 19-8-2016 | Final Div. | 0.35 |
| BARCLAYS | 29-8-2016 | Interim Div. | 0.20 |
| NMG | 30-8-2016 | Interim Div. | 2.50 |
| JUBILEE-Uganda Listing | 31-8-2016 | Interim Div. | 0.20 |
| UMEME | 5-9-2016 | Interim Div. | 11.00 |
| Unga Group | 30-9-2016 | Final Div. | 1.00 |
| Carbacid Investments | 28-10-2016 | Final Div. | 0.70 |
| Kenya Power & Lighting | 31-10-2016 | Final Div. | 0.30 |
| Sasini | 16-12-2016 | Interim Div. | 1.25 |
| EABL | 27-01-2017 | Interim Div. | 2.00 |
| Barclays Bank | 22-02-2017 | Final Div. | 0.80 |
| BAT | 22-02-2017 | Final Div. | 39.50 |
| Longhorn | 24-02-2017 | Final Div. | 0.09 |
| Stanbic | 24-02-2017 | Final Div. | 3.48 |
| NIC Bank | 08-03-2017 | Final Div. | 1.00 |
| KenolKobil | 08-03-2017 | Final Div. | 0.30 |
| KCB Group | 09-03-2017 | Final Div. | 3.00 |
| Bamburi Cement | 10-03-2017 | First & Final Div. | 6.00 |
| CIC Insurance | 10-03-2017 | First & Final Div. | 0.105 |
| Equity Group | 15-03-2017 | First & Final Div. | 2.00 |
| Co-operative Bank | 17-03-2017 | Bonus issue | 1:5 |
| | 17-03-2017 | First & Final Div. | 0.80 |
| DTB Bank | 22-03-2017 | First & Final Div. | 2.60 |
| Standard Chartered | 23-03-2017 | Final Div. | 14.00 |
| FAHARI I-REIT | 24-03-2017 | First & Final Div. | 0.50 |
| NSE Limited | 24-03-2017 | First & Final Div. | 0.27 |
| Britam | 24-03-2017 | First & Final Div. | 0.30 |
| Jubilee Holdings | 27-03-2017 | Bonus issue | 1:10 |

CORPORATE ACTION (Continued)

| Security | Date | Corporate Action | Amount(KES)/Ratio |
|------------------------|------------|--------------------|-------------------|
| Britam | 24-03-2017 | First & Final Div. | 0.30 |
| Jubilee Holdings | 27-03-2017 | Bonus issue | 1:10 |
| | 27-03-2017 | Final Div. | 7.50 |
| HFCK | 28-03-2017 | Final Div. | 0.50 |
| I&M Holdings | 28-03-2017 | Final Div. | 3.50 |
| Kakuzi | 29-03-2017 | First & Final Div. | 6.00 |
| Total Kenya | 29-03-2017 | First & Final Div. | 1.06 |
| BOC Kenya | 31-03-2017 | Final Div. | 3.00 |
| Kenya-Re | 31-03-2017 | First & Final Div. | 0.80 |
| Umeme | 03-04-2017 | Final Div. | 7.80 |
| Nation Media Group | 05-04-2017 | Final Div. | 7.50 |
| National Bank of Kenya | 27-04-2017 | Bonus | 1:10 |
| TPS Eastern Africa | 27-04-2017 | Final Div. | 0.35 |
| Eveready | 28-04-2017 | Special dividend | 1.00 |
| Scangroup | 28-04-2017 | First & Final Div. | 0.50 |
| Flame Tree Group | 28-04-2017 | Bonus | 1:10 |
| Crown Paints | 05-05-2017 | First & Final Div. | 0.60 |
| Safaricom | 10-05-2017 | Final Div. | 0.97 |
| Centum Investment | 13-06-2017 | Final Div. | 1.20 |

Source: NSE

PICTORIALS



National Treasury Cabinet Secretary, Henry Rotich (second left) cuts a ribbon to mark the official opening of the Capital Markets Open Day held from 4 – 6 May 2017. Looking on are CMA Chairman James Ndegwa (extreme right), CMA Board Director Paul Ngugi (second from right), Central Bank of Kenya Deputy Governor Sheila M'Mbijiwe (centre) and CMA Board Director Christine Okoth (extreme left)



CMA Director Market Operations, Mr. Wycliffe Shamiah(left) receives a trophy on behalf of the Board and Management of the CMA from the Secretary General, Dubai Economic Council, His Excellency Hani R. Al Hamli (right) during the International Finance Magazine Award ceremony held in Dubai on 26 January, 2017. CMA was recognized as "The Most Innovative Capital Markets Regulator Africa 2016".



Warren Vardin, Financial Services Commission Mauritius (left), Luke Ombara, CMA Director Regulatory, Policy and Strategy (centre) and Konrad Afande, CMA Assistant Manager Investor Education and Public Awareness review a book demystifying online foreign exchange trading. The Authority held a stakeholder engagement workshop to review draft Online Foreign Trading Regulations in February 2017. The Regulations have since been gazetted



From left: Capital Markets Authority Chief Executive Paul Muthaura, Financial Services Volunteer Corps President and CEO Andrew Spindler and Bloomberg LP Senior Director and Counsel Michelle Bond, address press during a technical assistance mission to CMA in March 2017. The representatives from FSVC, Bloomberg LP and US Securities and Exchange Commission convened with capital market industry stakeholders to help address regulatory and market-based impediments to liquidity, and advise on the development of new products and services to improve market access

PICTORIALS



Capital Markets Authority Director Regulatory, Policy and Strategy Luke Ombara (left) and Chief Executive Paul Muthaura review the Capital Markets Soundness Report. In January, 2017, the Authority launched its premier report which communicates to the public on matters relating to key capital market stability issues. It also highlights steps that stakeholders are taking to resolve the issues.



CMA Director for Regulatory, Policy, and Strategy, Mr Luke Ombara (left) and Mr. Alex Mswaka, The Association of Chartered Certified Accountants (ACCA) Head of Marketing for Sub-Sahara Africa, Markets shake hands during the signing of a Memorandum of Understanding (MoU). The Authority and ACCA signed a further MOU on 20 June, 2017 to undertake joint financial literacy initiatives for an additional period of two years.

CAPITAL MARKET MASTER PLAN (CMMP)

Kenya remains intent on delivering its vision of Kenya being 'the heart of capital markets in Africa' and an International Financial Centre as envisioned in the 10-year Capital Markets Master Plan and Kenya's Vision 2030. The following are the key achievements under the CMMP during the period under review:

- i. The Financial Sector Regulators partnered with Kenya Institute of Curriculum development (KICD) in December 2016 to infuse financial literacy in the curriculum design. The new curriculum is being piloted in the 47 counties. In addition, a community service learning programme was developed in March, 2017 that will incorporate more aspects of financial literacy and entrepreneurship.
- ii. To promote innovation, the Authority continued implementation of principle-based approval approach and has through this mechanism rolled out operational frameworks in the form of policy guidance notes (PGN) to allow for the issuance of Exchange Traded Funds (ETF), Asset Backed Securities (ABS) and Global Depository Receipts/Notes (GDR/N). On this basis the Authority approved the secondary listing of the first Exchange Traded Fund (ETF) in Kenya in February, 2017. The listing was of 400,000 gold bullion debentures by New Gold Issuer (RF) Limited on the Main Investment Market Segment of the Nairobi Securities Exchange, commencing trading on the NSE on 27th March, 2017. The ETF is expected to open the doors to local investors (includes East Africans) wishing to indirectly participate in the gold market, where they have previously had to either trade in the commodity in its physical form (bullion) or do so through offshore markets. It is also expected to provide diversification benefits from a portfolio perspective.
- iii. The country recently enacted Finance Act 2017, which contains a raft of targeted measures designed to support the growth of Islamic Finance in Kenya. The measures include; amendment to the Capital Markets Act to facilitate Shariah-complaint capital market products; amendment of the Income Tax Act to provide for equivalent tax treatment of Shariah-compliant products with conventional financial products; exemption from payment of Stamp Duty on transfer of title relating to Sukuk (the Shariah-compliant equivalent of conventional bonds) arrangement to support Asset-Backed Securities transactions; and amendment to the Public Finance Management Act to allow for Government investment in Sukuk. In addition, the 29th IFSB Council meeting held in Cairo, Egypt on December 14, 2016 admitted CMA Kenya as an Associate member of the Islamic Financial Services Board (IFSB) a key step towards the development of Kenya as an Islamic finance hub in the East African region, which is a critical component in the establishment of Nairobi as an International Financial Center.
- iv. During the period under review the Authority entered into the following cooperation agreements:
 - The Abu Dhabi Global Market (ADGM) Financial Services Regulatory Authority (FSRA) (2017) - The purpose of this cooperation agreement is to provide a framework for cooperation and referrals between the innovation functions of each Authority. The framework centres on a referral mechanism which will enable the Authorities to refer innovation businesses to their respective innovation functions. It also sets out how the Authorities plan to share and use information on innovation in their respective markets;
 - v. Draft regional framework (Code of Conduct and Guidelines) for Government Securities Market Makers (GSMMs) developed in March, 2017 by the Regional Technical Working Group for consideration by the Monetary Affairs Committee (MAC) in August 2017.
 - vi. The gazettelement of a stewardship code on 23rd June 2017 and the introduction of a robust reporting template to ensure comparability of the quality of governance in different issuers as well as to inform the publication of corporate governance scorecards to empower investor decision making.
 - vii. To unlock the potential for local business to leverage the capital markets domestically, in partnership with industry players the Authority has been convening Business Incubator and Accelerator on the Listing Experience events which have provided an opportunity for 70 potential issuers to participate in structured engagements with the Transaction Advisors, the Nairobi Securities Exchange, Nominated Advisors, Lawyers, Auditors, Stockbrokers and Investment Banks, among other service providers including the CMA, to discuss their readiness for listing.

Cumulatively the achievements account for more than 30 percent of full implementation of the CMMP.

POLICY PROPOSALS IN THE 2017 BUDGET SPEECH

POLICY FRAMEWORK

Section 11 (1) of the Capital Markets Act, mandates the Capital Markets Authority (CMA) to develop all aspects of the capital markets with particular emphasis on the removal of impediments to, and the creation of incentives for longer term investments in productive enterprises. Section 11(3) (a) & (b) states that for carrying out its objectives the Authority may advise the Minister on all aspects of development and operation of capital markets as well as implement policies and programs of the Government with respect to capital markets.

During the period under review, the Authority in consultation with industry stakeholders at a roundtable meeting held on 26th October 2016 developed and submitted policy proposals to the Cabinet Secretary to the National Treasury for consideration in the Fiscal Budget. The main focus of these proposals was to create an enabling environment for capital market development to facilitate mobilizing of long-term financial resources for realization of the Vision 2030 objectives.

Key Outcomes of the 2017 Budget Speech

| Issue | Policy Pronouncement | Implication |
|--------------------------|--|---|
| Islamic Financing | <ul style="list-style-type: none"> To propose amendments to the Capital Markets Act, the Cooperatives Societies Act and Sacco Societies Act to facilitate for Shariah compliant finance products. Amend the Public Finance Management Act to provide for issuance of Sukuk bond (Islamic bond) Amend the tax statutes to provide for equivalent tax treatment of these new financial products with the conventional financial products. Regulations to facilitate development of Takaful Retirement Benefits Schemes in Kenya. | <p>This is expected to provide a framework for introduction of Islamic products across the financial sector hence deepening the market by providing alternative investment opportunities for investors and also position Kenya as a regional hub for Islamic Finance and contribute to the Vision 2030 objective of making Nairobi an International Financial Centre</p> <p>Amendment of PFM Act paves way for issuance of Sukuks as an alternative source of financing for government to finance development projects.</p> <p>The amendment of tax statutes on the other hand will improve attractiveness of the Islamic products by providing for equivalent tax treatment of these new financial products with the conventional financial products</p> |

POLICY PROPOSALS IN THE 2017 BUDGET SPEECH

| Issue | Policy Pronouncement | Implication |
|---|---|---|
| Tax neutrality for REITs and ABS | Amend the VAT Act to exempt from VAT the transactions related to transfer of assets into Real Estate Investment Trusts (REITs) and Asset Backed Securities (ABS). | Increase and deepen the country's sources of infrastructure financing through support for effective uptake of infrastructure financing products as alternative measures for raising funds for such projects. |
| NIFC Bill | <ul style="list-style-type: none"> Nairobi International Financial Centre (NIFC) Bill was approved by the Cabinet in December 2016, and has been submitted to the National Assembly for approval | The enactment of this Bill will kick start the establishment of the Nairobi International Financial Centre to position Nairobi as an international financial hub |
| FSA Bill | <ul style="list-style-type: none"> Government to soon table the Financial Services Authority (FSA) Bill which proposes to merge all non-bank financial sector regulators. Bill is currently undergoing legal drafting | Financial sector consolidation process set in motion. |
| M-AKIBA | <ul style="list-style-type: none"> Government launched a special limited offer of the M-Akiba bond worth Ksh150 million with minimum investment of Ksh3000 and a maximum of Ksh140,000 per day based on a mobile platform. 68,399 Kenyans had registered with total buys of Ksh79.0 million as at today. The president will launch the main M-Akiba bond with an offer of Ksh 4.85 billion in June, 2017 | <p>The bond is aimed at promoting a savings culture by Kenyans hence contributing to the vision 2030 targets on savings and investment mobilization. This is also targeted at encouraging participation in the government bond market by the general public.</p> <p>This also positions Kenya once again as a leader in innovations since it is a first in the world. Signal to the Authority to expedite the regulatory framework to support asset securitization.</p> |
| Facilitation of affordable housing | <ul style="list-style-type: none"> On the supply side, Government to unveil a comprehensive housing package that will incentivize the private sector to invest in low cost housing | Signal to the Authority to expedite the regulatory framework to support asset securitization. |

REVIEW OF LEGAL AND REGULATORY FRAMEWORK

During the year, there were a number of amendments to the Capital Markets Legal and Regulatory Framework as well as introduction of new Regulations and Policy Guidance Notes as listed;

a) The Draft Capital Markets (Securities Lending and Borrowing and Short Selling) Regulations, 2017

These draft Regulations provide for securities lending and borrowing (SLB) and short selling in Kenya in order to promote liquidity and alternative investment in the market. The draft Regulations provide for the Authority to prescribe the eligible persons or group of persons who can engage in securities lending and borrowing and short selling and permitted securities for lending. The draft Regulations further set out reporting of SLB transactions, mode of engaging in the transaction and type and value of collateral to be provided by the borrower among other things.

b) The Stewardship Code for Institutional Investors, 2017

The Stewardship Code for Institutional Investors was gazetted on 23 June, 2017. The Code encourages the institutional investment community to take action to serve as responsible stewards for their beneficiaries and to help promote good corporate governance and the sustainable success of listed companies in the capital markets. The role of the Code is therefore to codify the key institutional investors' responsibilities into seven principles that come with ownership rights and to provide guidance on how institutional investors act as responsible stewards of public listed companies and to reinforce the implementation by the issuers of the Corporate Governance Code which came into force on 4, March 2017. The Stewardship Code applies to asset owners and asset managers investing in debt and equities of listed companies with primary focus being on investors domiciled in Kenya.

The Code adopts principle-based "apply or explain" approach which means that principles and best practices in the Stewardship Code shall be applied by institutional investors and explanation must be given for any departure or non-adherence.

c) Capital Markets (Securities) (Public Offers, Listing and Disclosure) (Amendment) Draft Regulations, 2017

These amendment draft Regulations provide for appointment of an auditor by an issuer of securities, the qualification for appointment as an auditor and approval by and reporting to the Authority, disqualification and responsibility of the Auditor in carrying out the Audit. The amendment also introduces Transition Board for each market segment for listing of issuers who fail to meet solvency

requirement for continued listing. The Amendment also requires disclosures of key audit matters by listed companies.

d) The Policy Guidance Note on the Asset Backed Securities, 2017

The Policy Guidance Note on Asset Backed Securities is provided to assist applicants seeking to structure or issue asset backed securities. The intention of the Guidance Note is to assist in allowing asset backed securities transactions to be brought forward for approval during an interim stage until the Act is amended and new regulations are introduced. Although reference is made to unrestricted issues in the Act and the Guidance Note, the Guidance Note shall at the initial stage, apply only to Restricted and Limited Restricted Offer classifications of Asset Backed Securities (ABS). The Guidance Note complements the provisions of the Act on Asset backed Securities and provides clarity where the Act is unclear.

e) Revocation of the Capital Markets (Asset Backed Securities) Regulations, 2007

Because of the irreconcilable differences between the provisions of the Capital Markets Act on Asset Backed Securities and the ABS Regulations 2007 and the paramountcy of the Capital Markets Act in the event of a conflict, the Capital Markets (Asset Backed Securities) Regulations, 2007 were revoked on 9th June 2017. The provisions of the Act and the Policy Guidance Note on ABS will thus be applicable to the issue and structuring of the ABS.

f) Policy Guidance Note on the Global Depository Receipts and Global Depository Notes, 2017

This Policy Guidance Note provides framework for the issuance, trading, settling and listing of global depository receipts and notes. The purpose is to allow foreign companies to list their securities in Kenya for trading as well as allow Kenyan companies to trade and list their securities in foreign jurisdiction instead of cross-listing. This promotes international outlook of Kenya's capital markets and enhances liquidity and investments in the market. The Guidance Note sets out the responsibility for structuring and offering depository receipts and notes in Kenya, the process of issuance, trading, settling and listing and disclosure and reporting requirements by the issuer to the Authority and the responsibilities of various parties involved in the issuance, trading and listing of out-bound or in-bound depository receipts or notes.

APPENDICES

ENABLING LEGISLATION:

a) Main Acts

i) The Capital Markets Act, Cap 485A

This Act establishes the Capital Markets Authority for the purpose of promoting, regulating and facilitating the development of an orderly, fair and efficient securities market as well as reduce systemic risk in the Kenyan capital markets and for connected purposes.

ii) The Central Depositories Act, No. 4 of 2000

This Act was operationalized in June 2003. The objective of the Act is to facilitate the establishment, operation and regulation of central depositories, to provide for the immobilization and eventual dematerialization of, and dealings in securities deposited therewith in Kenya, and for connected purposes.

b) Regulations

i) The Capital Markets (Collective Investment Schemes) Regulations, 2001

The Collective Investment Schemes Regulations are aimed at facilitating specialized mutual funds, unit trusts or special form of collective investment schemes and offer a unique opportunity to investors in terms of professional management, economies of scale and diversification of portfolio and risk.

ii) The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002

These Regulations primarily govern public offers, disclosure requirements and listings of securities. Broadly, the Regulations prescribe the approval process for the public offers of securities, requirements of information memoranda, eligibility requirements for public offers and listing of securities at securities exchanges. The Regulations also prescribe detailed disclosure requirements for each of the market segments as well as continuing reporting obligations for listed companies.

iii) The Capital Markets (Licensing Requirements) (General) Regulations, 2002

These Regulations provide the requirements for licensing and approvals as well as other general requirements and reporting obligations of capital markets intermediaries including securities exchanges.

iv) The Capital Markets (Takeovers & Mergers) Regulations, 2002

These Regulations govern the procedure and timelines of the takeovers and mergers of listed companies and set out the obligations of parties to the transactions.

v) The Capital Markets (Foreign Investors) Regulations, 2002

These Regulations govern foreign investor participation in the Kenyan Capital Markets.

vi) The Capital Markets Tribunal Rules, 2002

These Rules prescribe the procedures of Appeals made to the Capital Markets Tribunal by persons aggrieved by a decision made by the Authority.

vii) The Central Depositories (Regulation of Central Depositories) Rules, 2004

These Rules provide the detailed regulatory requirements for applicable to licensed Central depositories.

viii) The Capital Markets (Asset Backed Securities) Regulations, 2007

These Regulations apply to all offers of asset backed securities to the public or a section thereof in Kenya including issues by state corporations and other public bodies.

ix) The Capital Markets (Registered Venture Capital Companies) Regulations, 2007

These Regulations prescribe the requirements for a venture capital company to become registered for the purposes of the Income Tax (Venture Capital Company) Rules 1997, through which venture capital investors may seek a tax waiver on the income arising from their designated venture capital investments.

x) The Capital Markets (Conduct of Business)(Market Intermediaries) Regulations, 2011

The Regulations stipulate the minimum standards of business conduct to be observed by all market intermediaries, licensed under the Capital Markets Act, with the objective of streamlining their business activities.

xii) Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations Legal Notice No. 116 of 2013

The REITs regulatory framework seeks to promote the pooling of capital and channeling the investments into real estate assets through Real Estate Investment Trusts (REITs). The framework provides for investments in both income producing real estate and

APPENDICES

in development and construction projects. The benefits expected to accrue from investment through REITs include -

- enhanced mobilization of savings to the real estate sector of the economy to increase availability of housing which is a priority area championed under Vision 2030;
- introduction of additional capital markets instruments to both retail and institutional investors for investment and diversification of risk;
- make real estate investing easy and efficient, since REITs will be listed on securities exchanges and hence reduce the risk of illiquidity; and enable low cost exposure to real estate with professional investment management at a relatively low transaction and management cost.

c) Guidelines

i. The Capital Markets Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya

These Guidelines set out requirements for corporate governance for public listed companies and other issuers of securities in the capital markets and are both prescriptive (the principles) and non-prescriptive (best practices).

ii. The Capital Markets Guidelines on the Approval and Registration of Credit Rating Agencies

These Guidelines prescribe requirements for registration, accreditation and approval of rating agencies for the purpose of rating issuers of debt securities through the capital markets. Credit rating is an objective and independent opinion on the general credit worthiness of an issuer of a debt instrument and its ability to meet its obligations in a timely manner over the life of the financial instrument based on relevant risk factors including the ability of the issuer to generate cash in the future. Ratings rank the issue within

a consistent framework to compare risk among the different debt instruments in the market and assign a risk grade.

iii. Guidelines On Financial Resource Requirements for Market Intermediaries

These Guidelines set out the framework for the implementation of financial resource requirements for capital market intermediaries in order to enhance the implementation of Risk Based Supervision.

iv. Management Supervision Internal Control Guidelines May 2012

These are standards developed to ensure the proper conduct of a licensed or an approved business to ensure, on a continuous basis and on a timetable determined by CMA that licensed entities which are members of a Self-Regulatory Organization (SRO) (exchange or a clearing house) or other entities undertaking licensed activities, are complying with the applicable laws, rules and regulations.

d) Policy Guidance Notes

i. Policy Guidance Note for Exchange Traded Funds In Kenya

The Policy Guidance Note (PGN) is to be used in Kenya as a guide on the operational environment of ETFs, and to inform the ultimate design of a comprehensive legal and regulatory framework.

ii. Policy Guidance Note on Asset Backed Securities, 2017

This Policy Guidance Note is provided to assist applicants seeking to structure or issue Asset Backed Securities.

LICENSEES

As at 30 June 2017

| APPROVED INSTITUTIONS | |
|--|---|
| <p>SECURITIES EXCHANGE</p> <p>The Nairobi Securities Exchange The Exchange Building, 55 Westlands Road P.O. Box 43633-00100, Nairobi Tel: 254 20 2831000 Fax: 254 20 224200 Email: info@nse.co.ke Website: www.nse.co.ke</p> | <p>DEPOSITORY AND SETTLEMENT SYSTEM</p> <p>Central Depository and Settlement Corporation Ltd Nation Centre, Kimathi Street, 10th Floor P. O. Box 3464-00100, Nairobi Tel: +254 (20) 2912000, 2229407/08 Fax: +254 20 222 9405254 Email: helpdesk@cdskenya.com</p> |
| CREDIT RATING AGENCIES | |
| <p>Agusto & Company Limited 7th Floor Eden Square, Block 1, Chiromo Road, Westlands P.O. Box 856-00606, Nairobi Tel: 254 20 3673 763 Mob: 254 703 041 763 E-mail : info@agusto.com Website : www.agusto.com</p> | <p>Metropol Corporation Limited Hazina Towers, 13th Floor Monrovia Street P.O. Box 35331-00200 NAIROBI</p> |
| <p>Global Credit Rating Company 3rd Floor, Right Wing, 82 Grayston Drive, Sandton 2196 South Africa Telephone +27 11 784 - 1771 Fax +27 11 784 - 1770 Email: joffe@globalratings.net</p> | |

LICENSEES (Continued)

As at 30 June 2017

| INVESTMENT BANKS | |
|---|---|
| <p>African Alliance Kenya Investment Bank Ltd. 4th Floor, Kenya Re Towers, Upper Hill P.O. Box 27639 – 00506, Nairobi Tel : 254 20 2710978/2718720 Fax : 254 20 2710247 Email : enquiries@africanalliance.co.ke</p> | <p>Barclays Financial Services Limited The West End Building Waiyaki Way P.O. Box 30120-00100, Nairobi Tel : 254 20 332230 Fax : 254 20 213915 Email : barclays.kenya@barclays.com Website : www.barclays.com</p> |
| <p>Dyer & Blair Investment Bank Ltd Loita House, 10th Floor Loita Street P.O Box 45396 – 00100, Nairobi Tel: 020 3240000 Fax: 254 20 218633 E-mail: admin@dyer.africaonline.com Website: www.dyerandblair.com</p> | <p>Standard Investment Bank ICEA Building, 16th floor Kenyatta Avenue P. O Box 13714 – 00800, Nairobi Tel: +254 (020) 2220225, +254 (020) 2228963/7/9 Fax: 254 20 240297 Email: info@sib.co.ke Website: www.sib.co.ke</p> |
| <p>Renaissance Capital (K) Limited PurshottamPlace, 7th Floor Chiromo Road, Westlands P. O. Box 40560-00100, Nairobi Tel: 254 20 3673737 Fax: 254 20 3601100 Email: pmweheire@rencap.com</p> | <p>NIC Capital Limited NIC House, Masaba Road P. O. Box 44599-00100, Nairobi Tel: 254 20 2888000 Fax: 254 20 2888505 Email: service@nic-capital.com</p> |
| <p>Faida Investment Bank Limited Crawford Business Park, Ground Floor, State House Road Nairobi P.O. Box 45236-00100 Tel: +254 020 7606026-37 Mobile lines: 0701 346594,0735 188167 Fax: +254 20 2243814 Email: info@fib.co.ke</p> | <p>Equity Investment Bank Ltd Equity Centre, Ground Floor Hospital Road, Upper Hill P.O. Box 74454 - 00200 Tel : 254 20 2736620 Fax : 254 20 2737276 Website : www.equitybank.co.ke</p> |
| <p>Genghis Capital Limited Prudential Assurance Building, 6th Floor Wabera Street P. O. Box 9959-00100, Nairobi Tel: 254 20 2774195/199 Fax: 254 20 2246334 Email: info@genghiscapital.co.ke</p> | <p>SBG Securities Limited CFC Stanbic Center, Chiromo Road Westlands P.O. Box 47198 - 00100, Nairobi Tel. 254 20 3752900/1 Fax. 254 20 3752905/7 Email: enquiries@cfcbank.co.ke</p> |
| <p>KCB Capital Limited Kencom Hose, 6th Floor Moi Avenue P.O. Box 48400-00100 NAIROBI</p> | |

LICENSEES (Continued)

As at 30 June 2017

| | |
|--|---|
| <p>CBA Capital Limited Mara & Ragati Roads, Upperhill P.O. Box 30437-00100, Nairobi Tel : +254 20 2884444 Fax: +254 20 2734616 Email: cbacapital@cba.co.ke Website: www.cba.co.ke</p> | <p>Kestrel Capital (East Africa) Limited ICEA Building, 5th Floor Kenyatta Avenue P. O. Box 40005 – 00100, NAIROBI Tel: +254 (0) 20 225 1758 Email: info@Kshstrelcapital.com Website: www.Kshstrelcapital.com</p> |
| STOCK BROKERS | |
| <p>AIB Capital Limited Finance House,9th Floor, Loita Street P. O. Box 11019-00100, Nairobi Tel: 254 20 2210178/2212989 Fax: 254 20 2210500 Email: info@afrikainvestmentbank.com</p> | <p>Old Mutual Securities Limited IPS Building, 6th Floor Kimathi Street P. O. Box 50338 – 00200, Nairobi Tel: +254 20 224 1379 Fax: 254 20 241392 E-mail: reliable@gt.co.ke Website: www.oldmutualkenya.com</p> |
| <p>ABC Capital Limited IPS Building, 5th Floor Kimathi Street P.O. Box 34137-00100, Nairobi Tel: 254 20 2241046 Fax: 254 20 316144 Email: headoffice@abccapital.co.ke</p> | <p>NIC Securities Limited NIC House, Masaba Road P. O. Box 44599-00200, Nairobi Tel: 254 20 2888000 Fax: 254 20 2888505 Email: info@nic-bank.com</p> |
| <p>Suntra Investments Limited 7th Floor Nation Centre, Kimathi Street P.O.Box 74016-00200, Nairobi Tel: +254 20 2870 000 Fax: 254 20 2224327 E-mail: info@suntra.co.ke Website: www.suntra.co.ke</p> | <p>Kingdom Securities Ltd Co-operative Bank House, 5th Floor Haile – Selassie Avenue P. O. Box 48231-00100, Nairobi Tel: 254 20 3276676/311898/310540 Fax: 254 20 2210279 Email: info@kingdomsecurities.co.ke</p> |
| <p>Apex Africa Capital Limited The Riverfront, 1st Floor Off Riverside Drive Riverside P.O. Box 43676-00100, Nairobi Tel : 254 20 422170 Fax : 254 20 215554 Email : hak@insightkenya.com</p> | <p>Francis Drummond and Company Limited Hughes Building, 2nd Floor P.O. Box 45465 – 00100, Nairobi Tel: 254 20 318686/318689 Fax: 254 20 223061 E-mail: info@francisdrummond.com Website: www.francisdrummond.com</p> |
| <p>Securities Africa Kenya Limited The Exchange Building, 2nd Floor 55 Westlands Road NAIROBI</p> | |

LICENSEES (Continued)

As at 30 June 2017

| AUTHORISED SECURITIES DEALER | |
|--|--|
| <p>Chase Bank Limited Delta Towers Waiyaki Way P. O. Box 28987-00200, Nairobi Tel: 254 20 2774000/4454803/4/6/8 Fax: 254 20 4454816 Email: info@chasebank.co.ke</p> | |
| FUND MANAGERS | |
| <p>Sanlam Investments (EA) Ltd Africa Re- Centre 5th Floor Hospital Road, Upperhill P.O Box 67262 – 00200, Nairobi Tel: 2733400/8 Fax: 2733410</p> | <p>Old Mutual Investment Group Limited Old Mutual building, Mara Road, Upper Hill P.O Box 11589 - 00400, Nairobi Tel: 2711309/2730466 Fax: 2711066 E-mail: omam@omamkenya.com Website: www.oldmutualkenya.com</p> |
| <p>Dry Associates Dry Associates House Brookside Grove/Matundu Lane P.O Box 684 Sarit Centre 00606, Nairobi Tel: 254 20 4450520/1/2/3/4, 4440546 Fax: 254 20 4441330 E-mail: dryassoc@wananchi.com Website: www.dryassociates.com</p> | <p>FCB Capital Limited Prudential Assurance Building, 1st Floor Wabera Street P. O. Box 56793 – 00300, Nairobi Tel: 254 20 3580866 Fax: 254 20 213582 Email: info@fcbtakafulagency.co.ke</p> |
| <p>Abraaj Kenya Advisers Limited Norfolk Towers, 1st Floor, Kijabe Street, P.O. Box 43233 – 00100, Nairobi Tel: 254 20 228870-/337828 Fax: 254 20 330120/219744 E-mail: mails@aureos.co.ke Website: www.aureous.com</p> | <p>Sanlam Investment Limited Sanlam House, 4th Floor Kenyatta Avenue P.O. Box 7848 - 00100 NAIROBI</p> |
| <p>Co-op Trust Investment Services Ltd. Co-operative House, 13th Floor Haile Selassie Avenue P.O. Box 48231 - 00100, Nairobi Tel: 254 20 3276100 Email: customerservice@co-opbank.co.ke</p> | <p>ICEA Lion Asset Management Ltd. ICEA Lion Centre Riverside Park, Chiromo Road P.O. Box 46143 – 00100, Nairobi Tel: 254 20 340365/6 Fax: 254 20 338089 E-mail: iisl@icea.co.ke</p> |

LICENSEES (Continued)

As at 30 June 2017

| FUND MANAGERS | |
|--|--|
| <p>Amana Capital Limited Saachi Plaza, Block C. Suite C5 Argwings Kodhek Road, Kilimani P.O. Box 9480 Nairobi 00100 Tel. (020) 235 1735 or (020) 235 1741/42 E-Mail. info@amanacapital.co.ke Website: amanacapital.co.ke</p> | <p>GenAfrica Asset Managers Ltd Arlington Block, 1st Floor 14 Riverside Business Park, Off Riverside Drive P.O. Box 79217 - 00200 Tel: +254 (20) 2323343/44 Fax: 254 20 250716 E-mail: support@genesis.co.ke</p> |
| <p>Zimele Asset Management Co. Ltd. Ecobank Towers, 7th Floor Muindi Mbingu Street P.O. Box 76528 – 00508, Nairobi Tel: +254-20-2246273 Fax: 254 20 2722953 E-mail: info@zimele.net</p> | <p>Britam Asset Managers (Kenya) Limited Britak Centre Mara/Ragati Road Junction Upperhill P.o Box 30375-00100, Nairobi Tel: 254 20 2710927 Fax: 254 20 2717626 E-mail: britak@britak.co.ke Website: www.britak.com</p> |
| <p>CIC Asset Management Ltd CIC Plaza, Mara Road P. O. Box 59485-00100, Nairobi Tel : 254 20 2823000 Email : cic@cic.co.ke</p> | <p>Standard Chartered Investment Services Limited Standard Chartered@chiromo 48 Westlands Road P. O. Box 30003-00100, Nairobi Tel : 254 20 3276100 Fax : 254 20 223380 Email : Talk.To-Us@standardchartered.com</p> |
| <p>Madison Asset Management Services Ltd Madison Insurance House, 2nd Floor Upper Hill P. O. Box 20092-00100, Nairobi Tel: 254 20 2721340 Fax: 254 20 2723344 Email: info@mams.co.ke</p> | <p>Old Mutual Investment Services (K) Ltd Old Mutual Building, 2nd Floor Corner of Mara & Hospital Road P. O. Box 30059-00100, Nairobi Tel: 254 20 2829333/2829000 Fax: 254 20 2722415</p> |
| <p>Apollo Asset Management Co. Ltd Apollo Centre, 3rd Floor Vale Close, Off Ring Road P. O. Box 30389-00100, Nairobi Tel: 254 20 3641010 Cell: 0722 276556/254/ 0733676556 Fax: 254 20 3641100 Email: assetmanagement@apollo.co.ke</p> | <p>Nabo Capital Limited International House, 5th Floor Mama Ngina Street P.O.Box 10518 – 00100, Nairobi</p> |

LICENSEES (Continued)

As at 30 June 2017

| FUND MANAGERS | |
|--|--|
| <p>Standard Chartered Investment Services Limited Standard Chartered@chiromo 48 Westlands Road P. O. Box 30003-00100, Nairobi Tel : 254 20 3276100 Fax : 254 20 223380 Email : Talk.To-Us@standardchartered.com</p> | <p>UAP Investments Limited I & M Bank House, 3rd floor 2nd Ngong Avenue P. O. Box 46143-00100 NAIROBI</p> |
| <p>Fusion Investment Management Limited ACK Garden House, Block A, Ground Floor 1st Ngong Avenue, off Bishops Road. P.O Box 47538 - 00100 NAIROBI</p> | <p>Stanlib Kenya Limited CFC House, 1st Floor Mamlaka Road P.O.Box 30550 - 00100 NAIROBI</p> |
| <p>Cannon Asset Managers Limited Gateway Park, Block D Mombasa Road P.O.Box 30216 - 00100 NAIROBI</p> | <p>Alpha Africa Asset Managers Limited 4th Floor, Crowford Business Park, State House Road P.O Box 34530-00100 NAIROBI</p> |
| <p>UAP Investments Limited I & M Bank House, 3rd floor 2nd Ngong Avenue NAIROBI</p> | <p>Natbank Trustee & Investment Services Ltd. National Bank Building Harambee Avenue P. O Box 72866-00200 NAIROBI</p> |
| <p>Seriani Asset Managers Limited Ojijo Plaza, 3rd Floor, Plums Lane P.O. Box 21986-00100 NAIROBI</p> | <p>Allan Gray (Kenya) Limited Eaton Place, 2nd Floor United Nations Crescent NAIROBI</p> |
| <p>Watu Capital Limited Avenue Plaza, 2nd Floor Office No. 3 Nyali MOMBASA</p> | |

LICENSEES (Continued)

As at 30 June 2017

| INVESTMENT ADVISERS | |
|--|---|
| <p>Price Waterhouse Coopers Associates Ltd PwC Towers Waiyaki Way P. O. Box 43963-00100, Nairobi Tel: 254 20 2855000 Fax: 254 20 2888505 Email: pwc.com/ke</p> | <p>VFS International (K) Limited Village Market P.O.Box 400621, Nairobi Tel: 254 20 7120361 Email : info@vfsint.com Website : www.vfsint.com</p> |
| <p>Cititrust (K) Limited Citibank House, P.O. Box 30711 – 00100, Nairobi Tel: 254 20 2711221/222248 Fax: 254 20 2714811 Website: www.citinri.com Email: nri.africa@citigroup.com</p> | <p>Lifestyle Management Limited 6th Floor, Delta Towers Chiromo Road, Westlands P. O. Box 1342-00606, Nairobi Tel: 254 20 8034246 Cell: 0735 821 336 Email: info@ilsmafrica.com</p> |
| <p>Bora Capital Limited Longonot Place 7th Floor Harry Thuku Road, Kijabe street P O Box 26718 - 00100 Nairobi Fax: +254 (0) 20 311724 Tel. +254 (0) 20 3599135 Mobile. 0722 407206</p> | <p>The ProFin Group (K) Limited 39 Longonot Place, P. O. Box 9980 – 00100, Nairobi Tel: 254 20 2043476/68 Fax: 254 20 2043461 Email: douglaswekhomba@theprifingroup.com</p> |
| <p>I & M Capital Limited I&M Bank Tower, Kenyatta Avenue, P.O. Box 30238 - 00100 Nairobi GPO, Kenya Tel: 254-20-3221001 Cell: 0719 088 001,0732 100001 Fax: 254-20-2212947,2216732 Email: invest@imbank.co.ke</p> | <p>Citidell Company Limited itidell Company Limited F7, Karen Professional Centre, Karen Road P.O. Box 185 - 00606 NAIROBI Tel: 254 20 2714728 Cell: 0735 380388/0728 625015 Email: Gregory.atoko@citidell.com</p> |
| <p>Deloitte Financial Advisory Ltd Deloitte & Touche Kirungii Road, Westlands P. O. Box 40092-00100, Nairobi Tel: 254 20 4441344/5-12 Fax: 254 20 4448966 Email: mcs@deloitte.co.ke</p> | <p>Liaison Financial Services Liaison House, State House Avenue, P.O. Box 58013, 00200 City Sq. Tel: +254703 071 000 Mail: info@liaisongroup.net</p> |
| <p>Cooperative Consultancy & Insurance Agency Ltd Co-operative House, 13th Floor Haile Selassie Avenue P.O. Box 48231 - 00100, Nairobi Tel: 020 277 6000/ 0703027000/ 0736 690101 Email: customerservice@co-opbank.co.ke</p> | <p>Regnum Consultants Limited Methodist Guest House & Conference Centre, 1st Floor, North Wing, Oloitoktok Rd P.O Box: 11431-00400 Tom Mboya St. Tel: +254-203862333 Fax: +254-203862335</p> |

LICENSEES (Continued)

As at 30 June 2017

| | |
|---|---|
| <p>Waugh McDonald Wealth Management Limited West End Towers Waiyaki Way Westlands NAIROBI</p> | |
| AUTHORISED DEPOSITORIES | |
| <p>Barclays Bank of Kenya Ltd The West End Building, Waiyaki way P.O. Box 30120, Nairobi Tel: 254 20 332230/313405/313364 Fax: 254 20 312392 Website: www.barclays.com</p> | <p>Stanbic Bank Ltd. CFC Stanbic Centre, Chiromo Road, Westlands P.O. Box 72833-00200, Nairobi Tel: 254 20 363800 Fax: 254 20 3752906/5/7 E-mail: cfcstanbic@stanbic.com Website: www.stanbicbank.co.ke</p> |
| <p>Kenya Commercial Bank Ltd. Kencom House, Moi Avenue P.O. Box 30664 - 00100, Nairobi Tel: 254 2 339441 Fax: 254 2 339415 Email: custody@kcb.co.ke Website: www.kcb.co.ke</p> | <p>National Bank of Kenya Ltd National Bank Building, Harambee Avenue P.O. Box 72866 - 00200, Nairobi Tel: 254 2 339690 Fax: 254 2 330784 E-mail: vicki@nationalbank.co.ke Website: www.nationalbank.co.ke</p> |
| <p>NIC Bank Ltd NIC Hse, 2nd Floor Masaba Road/Uhuru Highway P.O. Box 44599-00200, Nairobi Tel: 254 20 718200/229251 Email: info@nic.bank.com Website: www.nic-bank.com</p> | <p>Cooperative Bank of Kenya Co-operative House Haile Selassie Avenue P.O. Box 48231-00100, Nairobi. Tel: 254 20 32076000/32076100 Website : www.co-opbank.co.ke</p> |
| <p>African Banking Corporation Limited ABC Bank House, Mezzanine Floor, Westlands P.O. Box 46452-00100, Nairobi Tel : 254 20 2223922 Fax : 254 20 2222437 Email : headoffice@abcthebank.com Website : www.abcthebank.com</p> | <p>Equity Bank Limited Equity Centre, Hospital Road, Upperhill P. O. Box 75104-00200, Nairobi Tel : 254 20 2736620 Fax : 254 20 2737276 Website : www.equitybank.co.ke</p> |

LICENSEES (Continued)

As at 30 June 2017

| AUTHORISED DEPOSITORIES | |
|--|--|
| <p>Prime Bank Limited Riverside Drive P. O. Box 43825-00100, Nairobi Tel: 254 20 42300/4203116/4203148 Fax: 254 20 4451247 Email: headoffice@primebank.co.ke</p> | <p>I & M Bank Limited I & M Bank Tower, Kenyatta Avenue P. O. Box 30238-00100, Nairobi Tel : 254 20 3221200/246552 Fax : 254 20 2211160/2212947/2216732 Email : invest@imbank.co.ke Website : www.imbank.com</p> |
| <p>Bank of Africa (K) Ltd Head Office; Reinsurance Plaza, Taifa Road P.O Box 69562-00400 Nairobi, Kenya Tel: 020 327 5000 Email: customerservice@boakenya.com</p> | <p>Transnational Bank Limited Trans-National Building, 2nd Floor City Hall Way P. O. Box 34353-00100, Nairobi Tel: 254 20 2224235/6/252188/90/91 Fax: 254 20 252225 Email: info@tnbl.co.ke</p> |
| <p>Chase Bank Kenya Ltd Delta Towers Waiyaki Way P. O. Box 28987-00200, Nairobi Tel: 254 20 2774000/4454803/4/6/8 Fax: 254 20 4454816 Email: info@chasebank.co.ke</p> | <p>Standard Chartered Bank Kenya Ltd Standard Chartered Chiromo, 48 Westlands Road P. O. Box 30003-00100, Nairobi Tel: 254 20 2710821/2 Fax: 254 20 2711331 Email: Talk.To-Us@standardchartered.com</p> |

APPROVED COLLECTIVE INVESTMENT SCHEMES

| | |
|--|---|
| <p>1. African Alliance Kenya Unit Trust Scheme:</p> <ul style="list-style-type: none"> (i) African Alliance Kenya Shilling Fund. (ii) African Alliance Kenya Fixed Income Fund (iii) African Alliance Kenya Managed Fund (iv) African Alliance Kenya Equity | <p>2. Old Mutual Unit Trust Scheme:</p> <ul style="list-style-type: none"> (i) Old Mutual Equity Fund. (ii) Old Mutual Money Market Fund (iii) Old Mutual Balanced Fund (iv) Old Mutual East Africa Fund (v) Old Mutual Bond Fund |
| <p>3. British American Unit Trust Scheme:</p> <ul style="list-style-type: none"> (i) British American Money Market Fund. (ii) British American Income Fund. (iii) British American Balanced Fund. (iv) British American Managed Retirement Fund. (v) British American Equity Fund. | <p>4. Stanbic Unit Trust Scheme:</p> <ul style="list-style-type: none"> (i) Stanbic Money Market Fund. (ii) Stanbic Fixed Income Fund. (iii) Stanbic Managed Prudential Fund (iv) Stanbic Equity Fund (v) Stanbic Balanced Fund |
| <p>5. Commercial Bank of Africa Unit Trust Scheme:</p> <ul style="list-style-type: none"> (i) Commercial Bank of Africa Money Market Fund. (ii) Commercial Bank of Africa Equity Fund. | <p>6. Zimele Unit Trust Scheme:</p> <ul style="list-style-type: none"> (i) Zimele Balanced Fund (ii) Zimele Money Market Fund |
| <p>7. CIC Unit Trust Scheme</p> <ul style="list-style-type: none"> (i) CIC Money Market Fund (ii) CIC Balanced Fund (iii) CIC Fixed Income Fund (iv) CIC Equity Fund | <p>8. ICEA Unit Trust Scheme:</p> <ul style="list-style-type: none"> (i) ICEA Money Market Fund (ii) ICEA Equity Fund (iii) ICEA Growth Fund (iv) ICEA Bond Fund |
| <p>9. Standard Investment Trust Funds:</p> <ul style="list-style-type: none"> (i) Standard Investment Equity Growth Fund (ii) Standard Investment Fixed Income Fund (iii) Standard Investment Balanced Fund | <p>10. Dyer and Blair Unit Trust Scheme:</p> <ul style="list-style-type: none"> (i) Dyer and Blair Diversified Fund (ii) Dyer and Blair Bond Fund (iii) Dyer and Blair Money Market Fund (iv) Dyer and Blair Equity Fund |
| <p>11. Genghis Unit Trust Funds:</p> <ul style="list-style-type: none"> (i) Gencap Hazina Fund (ii) Eneza Fund (iii) Gencap Hela Fund (iv) Gencap Iman Fund (v) Gencap Hisa Fund | <p>12. Amana Unit Trust Funds Scheme:</p> <ul style="list-style-type: none"> (i) Amana Money Market Fund (ii) Amana Balanced Fund (iii) Amana Growth Fund |
| <p>13. Diaspora Unit Trust Scheme:</p> <ul style="list-style-type: none"> (i) Diaspora Money Market Fund (ii) Diaspora Equity Fund (iii) Diaspora Bond Fund | <p>14. First Ethical Opportunities Fund</p> |

APPROVED COLLECTIVE INVESTMENT SCHEMES (Continued)

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| <p>15. Sanlam Unit Trust Scheme, comprising:</p> <ul style="list-style-type: none"> (i) Sanlam Money Market Fund (Sanlam Pesa Plus Fund) (ii) Sanlam Dividend Plus Fund (Sanlam Faida Plus Fund) (iii) Sanlam Balanced Fund (Sanlam Chama Plus Fund) | <p>16. Madison Asset Unit Trust Fund</p> <ul style="list-style-type: none"> (i) Madison Asset Equity Fund (ii) Madison Asset Balanced Fund (iii) Madison Asset Money Market Fund (iv) Madison Asset Treasury Bill Fund (v) Madison Asset Bond Fund |
| <p>17. Equity Investment Bank Collective Investment Scheme:</p> <ul style="list-style-type: none"> i. Equity Investment Bank Money Market Fund ii. Equity Investment Balanced Fund | <p>18. Nabo Africa Funds, comprising:</p> <ul style="list-style-type: none"> (i) Nabo Africa Money Market Fund (ii) Nabo Africa Balanced Fund (iii) Nabo Africa Fixed Income Fund (iv) Nabo Africa Equity Fund |
| <p>19. Dry Associates Unit Trust Scheme:</p> <ul style="list-style-type: none"> i. Dry Associates Money Market Fund (Kenya Shillings) ii. Dry Associates Money Market Fund (US Dollars) iii. Dry Associates Balanced Fund (Kenya Shillings) | <p>20. Co-op Trust Fund:</p> <ul style="list-style-type: none"> i. Co-op Balanced Fund ii. Co-op Equity Fund iii. Co-op Bond Fund iv. Co-op Money Market Fund |
| <p>21. Apollo Unit Trust Scheme comprising:</p> <ul style="list-style-type: none"> i. Apollo Money Market Fund ii. Apollo Balanced Fund iii. Apollo Aggressive Growth Fund iv. Apollo Equity Fund v. Apollo East Africa Fund vi. Apollo Bond Fund | <p>22. Watu Money Market Fund</p> |
| REIT TRUSTEES | AUTHORISED REAL ESTATE INVESTMENT TRUSTS (REITS) |
| <p>1. Housing Finance Co. (K) Ltd Rehani House Kenyatta Avenue / Koinange Street P. O. Box 30088-00100 NAIROBI</p> | <p>1. Stanlib Fahari I-REIT P.O Box 30550-00100 NAIROBI</p> |
| <p>2. Co-operative Bank of Kenya Ltd Co-operative House Haile Selassie Avenue P. O. Box 48231-00100 NAIROBI</p> | |
| <p>3. Kenya Commercial Bank Limited Kencom Hse, P. O. Box 48400-00100 GPO, NAIROBI Phone: +254 710 306922</p> | |

| REIT TRUSTEES | | AUTHORISED REAL ESTATE INVESTMENT TRUSTS (REITS) | |
|--|---|---|--|
| 1. Fusion Investment Management Limited ACK Garden House, Block A 1st Ngong Avenue P.O. Box 47538 – 00100 NAIROBI | | 5. Sterling REIT Asset Management P.O BOX 45080-00100 NAIROBI | |
| 2. CIC Asset Management Limited CIC PLAZA, Mara Road Upper Hill. P.O. Box 59485 – 00200 NAIROBI | | 6. H.F. Development and Investment Limited P.O BOX 30088-00100 NAIROBI | |
| 3. Stanlib Kenya Limited CFC House, 1st Floor Mamlaka Road P.O. Box 30550 – 00100 NAIROBI | | 7. ICEA Lion Asset Management Limited P.O BOX 46143-00100 NAIROBI | |
| 4. Nabo Capital Limited P.O. Box 10518-00100, NAIROBI | | | |
| APPROVED EMPLOYEE SHARE OWNERSHIP PLANS (ESOPS) | | | |
| 1 | EABL Employee Share Ownership Plan | | |
| 2 | KENOL Employee Share Ownership Plan | | |
| 3 | ARM Employee Share Ownership Plan | | |
| 4 | Scangroup Employee Share Ownership Plan | | |
| 5 | Safaricom Employee Share Ownership Plan | | |
| 6 | Equity Employee Share Ownership Scheme | | |
| 7 | KCB Employee Share Option Plan | | |
| 8 | Housing Finance Employee Share Ownership Plan | | |
| 9 | Kenya Airways Employee Share Ownership Plan | | |
| 10 | I & M Bank Employee Share Ownership Plan | | |
| 11 | Car & General Employee Share Ownership Plan | | |
| 12 | Standard Group Employee Share Ownership Plan | | |
| 13 | Longhorn Publishers Limited Employee Share Ownership Plan | | |

LISTED COMPANIES

AGRICULTURAL

Eaagads Ltd Ord 1.25 AIMS
 Kakuzi Ltd Ord 5.00
 Kapchorua Tea Co. Ltd Ord 5.00 AIMS
 The Limuru Tea Co. Ltd Ord 20.00 AIMS
 Sasini Ltd Ord 1.00
 Williamson Tea Kenya Ltd Ord 5.00 AIMS

AUTOMOBILES & ACCESSORIES

Car & General (K) Ltd Ord 5.00
 Marshalls (E.A.) Ltd Ord 5.00
 Sameer Africa Ltd Ord 5.00

BANKING

Barclays Bank of Kenya Ltd Ord 0.50
 CFC Stanbic of Kenya Holdings Ltd ord 5.00
 Diamond Trust Bank Kenya Ltd Ord 4.00
 Equity Bank Ltd Ord 0.50
 Housing Finance Co. Kenya Ltd Ord 5.00
 I&M Holdings Ltd Ord 1.00
 Kenya Commercial Bank Ltd Ord 1.00
 National Bank of Kenya Ltd Ord 5.00
 NIC Bank Ltd Ord 5.00
 Standard Chartered Bank Kenya Ltd Ord 5.00
 The Co-operative Bank of Kenya Ltd Ord 1.00

COMMERCIAL AND SERVICES

Atlas African Industries Ltd
 Express Kenya Ltd Ord 5.00 AIMS
 Hutchings Biemer Ltd Ord 5.00 (Suspended)
 Kenya Airways Ltd Ord 5.00
 Longhorn Kenya Ltd Ord 1.00 AIMS
 Nairobi Business Ventures Ltd
 Nation Media Group Ltd Ord. 2.50
 Scangroup Ltd Ord 1.00
 Standard Group Ltd Ord 5.00
 TPS Eastern Africa Ltd Ord 1.00
 Uchumi Supermarket Ltd Ord 5.00

CONSTRUCTION & ALLIED

ARM Cement Ltd Ord 1.00
 Bamburi Cement Ltd Ord 5.00
 Crown Paints Kenya Ltd Ord 5.00
 E.A. Cables Ltd Ord 0.50
 E.A. Portland Cement Co. Ltd Ord 5.00

ENERGY & PETROLEUM

KenGen Co. Ltd Ord. 2.50
 KenolKobil Ltd Ord 0.05
 Kenya Power & Lighting Co Ltd Ord 2.50
 Kenya Power & Lighting Ltd 4 per cent Pref 20.00
 Kenya Power & Lighting Ltd 7 per cent Pref 20.00
 Total Kenya Ltd Ord 5.00
 Umeme Ltd Ord 0.50

INSURANCE

British-American Investments Co.(Kenya) Ltd Ord 0.10
 CIC Insurance Group Ltd Ord 1.00
 Jubilee Holdings Ltd Ord 5.00
 Kenya Re Insurance Corporation Ltd Ord 2.50
 Liberty Kenya Holdings Ltd Ord 1.00
 Pan Africa Insurance Holdings Ltd Ord 5.00

INVESTMENT

Centum Investment Co Ltd Ord 0.50
 Olympia Capital Holdings Ltd Ord 5.00
 Trans-Century Ltd Ord 0.50 AIMS
 Home Afrika Ltd Ord 1.00
 Kurwitu Ventures Ltd

INVESTMENT SERVICES

Nairobi Securities Exchange Ltd Ord 4.00

MANUFACTURING & ALLIED

A. Baumann & Co Ltd Ord 5.00 AIMS (Suspended)
 B.O.C Kenya Ltd Ord 5.00
 British American Tobacco Kenya Ltd Ord 10.00
 Carbacid Investments Ltd Ord 1.00
 East African Breweries Ltd Ord 2.00
 Eveready East Africa Ltd Ord 1.00
 Flame Tree Group
 Kenya Orchards Ltd Ord 5.00 AIMS
 Mumias Sugar Co. Ltd Ord 2.00
 Unga Group Ltd Ord 5.00

TELECOMMUNICATION & TECHNOLOGY

Safaricom Ltd Ord 0.05

REAL ESTATE INVESTMENT TRUST

Stanlib Fahari I-REIT Ord 20.00



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Tel: +254 20 2264900 / 2221910 / 2221869 / 2226225
Cell: +254 722 207767/ 734 651550
Email: corporate@cma.or.ke
Website: cma.or.ke