CAPITAL
MARKETS AUTHORITY

2014
Annual Report

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the Year ended

June 30, 2014

VISION

A proactive regulator of a competitive and robust capital market

MISSION

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

CORE VALUES

Responsiveness - We are sensitive to and will deal with issues and situations affecting all our stakeholders in a proactive and timely manner, using flexible decision making processes;

Innovation and Continuous learning - We are committed to facilitating continuous learning and innovation;

Integrity - We are committed to acting at all times with honesty, fairness, accountability, transparency, ethically and above board in all our operations;

Collaboration and Teamwork - We are committed to teamwork within the Authority and collaboration with our partners in the provision of our services;

Commitment - We shall perform our duties with the highest level of professionalism and dedication with a view to exceeding the expectations of our clients and stakeholders.

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LETTER OF TRANSMITTAL

The Cabinet Secretary
The National Treasury
NAIROBI

Dear Hon. Secretary,

I have the honour of submitting the Annual Report of Capital Markets Authority for the fiscal year ended June 30, 2014. The report has been prepared in accordance with the provisions and requirements of Section 36(3) of the Capital Markets Act, Cap 485A.

Respectfully yours;

Paul B.M. Ngugi, MBS
ACTING CHAIRMAN

AUTHORITY INFORMATION

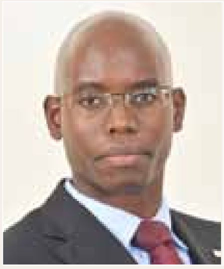
Background information

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

Principal activities

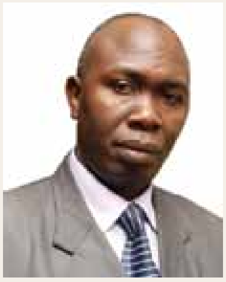
The Authority promotes and facilitates the development of an orderly, fair and efficient capital markets in Kenya.

Key management



Paul Murithi Muthaura

Position	:	Acting Chief Executive
Date joined the Authority	:	September 15, 2005
Profession	:	Advocate of the High Court of Kenya
Key qualification	:	MPhil, LLM, LLB, Dip Law, Dip in Financial Management, DBA (Candidate)



Wyckliffe Shamiah

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

Rose Lumumba

Position	:	Director, Corporation Secretary and Communications
Date joined the Authority	:	June 2, 2008
Profession	:	Advocate of the High Court of Kenya
Key qualification	:	MBA, LLB, PhD (Candidate) CPS (K)

Edwin Nyaga Njamura

Position	:	Director, Corporate Services
Date joined the Authority	:	July 17, 2012
Profession	:	Accountant
Key qualification	:	MBA,BCOM,CPA(K),BSP

Luke Ezekiel Ombara

Position	:	Acting Director, Regulatory Policy and Strategy
Date joined the Authority	:	February 15, 1995
Profession	:	Economist
Key qualification	:	MA,BA, BSP

Esther Maiyo

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

Johnstone Kaila Oltetia

Position	:	Manager, Market Supervision
Date joined the Authority	:	May 20, 1997
Profession	:	Financial Analyst
Key qualification	:	MBA, BCOM, CFE

Samuel Kamunyu Njoroge

Position	:	Manager, Investor Education
Date joined the Authority	:	January 3, 2005
Profession	:	Economist
Key qualification	:	MA, B.A

John Njoroge

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

Richard Chirchir

Position	:	Manager, Information Communications & Technology
Date joined the Authority	:	June 22, 2009
Profession	:	Computer Science Engineer
Key qualification	:	Pg Dip- Computer Science, BSC

Andrew Muthabuku

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

KEY

DBA	Doctor of Business Administration
PhD	Doctor of Philosophy
MBA	Master of Business Administration
MA	Master of Arts
LLM	Master of Law
BCOM	Bachelor of Commerce
LLB	Bachelor of Law
BSC	Bachelor of Science
BA	Bachelor of Arts
CPA	Certified Public Accountant
CPS	Certified Public Secretary
HRM	Human Resource Management
CISA	Certified Information Systems Auditor
CFE	Certified Fraud Examiner
Pg Dip	Post Graduate Diploma
H. Dip	Higher National Diploma
Dip	Diploma
BSP	Balanced Scorecard Professional

Board Members of the Authority

Mr. Kung'u Gatabaki	Chairman (Term ended 31st May 2014)
Mr. Paul Ngugi, MBS	Member and Acting Chairman
Mr. Paul M. Muthaura	Acting Chief Executive
Dr. Kamau Thugge, EBS	Principal Secretary to the National Treasury
Dr. Geoffrey Mwau	Alternate to the Permanent Secretary to the Treasury
Hon. Prof. Githu Muigai, MP	Attorney General
Ms. Jane Joram	Alternate to the Attorney General
Prof. Njuguna Ndung'u, CBS	Governor Central Bank of Kenya
Ms. Rose Detho	Alternate to the Governor Central Bank of Kenya
Ms. Judy Thuo	Member
Ms. Nafisa Abass	Member
Mr. Humphrey Muga	Member (Term ended on 31st March,2014)
Mr. Mahmood Manji, OGW	Member (Term ended on 31st March,2014)
Mrs. Anne Schofield	Member (Resigned on 30th June 2014)

Registered office	3rd Floor, Embankment Plaza Longonot Road, Upper Hill P.O. Box 74800 - 00200 Nairobi
Authority contacts	Telephone: (254) 2221910/ 2264900/ 2221869/ 2226225 E-mail: corporate@cma.or.ke Website: www.cma.or.ke
Principal bankers	Commercial Bank of Africa Limited Mara & Ragati Road Junction, Upper Hill P.O. Box 30437 - 00100 Nairobi
	Housing Finance Company of Kenya Limited Rehani House, Kenyatta Avenue & Koinange Street Junction P.O. Box 30088 - 00100 Nairobi
	KCB Mortgage Centre, Salama House Mama Ngina Street P.O. Box 45129 - 00100 Nairobi
Authorized independent auditor	RSM Ashvir Certified Public Accountants 1st Floor, Reliance Centre, Woodvale Grove, Westlands P.O. Box 349 - 00606 Nairobi
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 Office of the Attorney General & Department of Justice Harambee Avenue P.O. Box 40112 - 00200 Nairobi
	Archer & Wilcock Advocates Marakwet Close, Kilimani P.O. Box 10201 - 00400 Nairobi
	Hamilton Harrison & Mathews (Incorporating Oraro & Co. Advocates) ICEA Building Kenyatta Avenue P.O. Box 30333 - 00100 Nairobi
	Waweru Gatonye & Co. Advocates Timau Plaza, 4th Floor, Argwings Kodhek Timau Road Junction P.O. Box 55207 - 00200 Nairobi
	Muriu Mungai & Co. Advocates MMC Arches, Spring Valley Crescent, Off Peponi Rd, Westlands P.O. Box 75362 - 00200 Nairobi

CHAIRMAN'S STATEMENT

"I am pleased to present the Authority's Annual Report for the year ended 30 June 2014."

INTRODUCTION

During the year, the country's Gross Domestic Product (GDP) was estimated to have expanded by 4.1 percent in the first quarter of 2014 compared to 5.2 percent during the same quarter in 2013. The slowdown in GDP growth was attributable to the Agriculture sector that grew 2.7 percent year on year compared to 6.8 percent during a similar period in 2013 on account of erratic weather that suppressed vegetable and tea production coupled with lower international coffee and tea prices. Additionally, the hotels and restaurants sector contracted, driven by a decline in bed occupancy in coastal beach hotels attributable to security concerns. The growth was mainly impelled by expansion in transport and communication, manufacturing, wholesale and retail trade, mining and quarrying and electricity industries.

The World Bank's latest economic analysis for Kenya forecasts a growth rate of 4.7 percent in 2014, and says the economy has the potential to achieve a higher growth rate of 5 percent in the next two years. The report indicates that a higher growth rate will depend on macroeconomic stability and credible policies, which have underpinned Kenya's growth in the past and will be powered by aggregate demand, fuelled by strong consumption and investment.

In the most recent Global Competitiveness survey, Kenya edged up six slots in the rankings. We were easily the most improved African country: Our key improvement areas were: *"legal rights"*; 30th; *"financing through the local equity market"*; 33rd for "ease of access to loans" and 44th for *"regulation of securities exchanges"*. To build on that growth, and the promising performance of our financial sector, the Authority, through the Capital Markets Master Plan Steering Committee, and in consultation with stakeholders, developed the Capital Markets Master Plan 2014-2023 to guide the development of the capital markets sector in achieving our great nation's aspirations as well as consolidate Kenya's position as the '*Heart of Africa's Capital Markets"* and the Financial gateway to East and Middle Africa.

STRATEGIC DIRECTION

The Authority developed a new strategic plan during the year to cover the period 2013-17. The thrust of the new strategic direction is to ensure that the country's capital markets becomes more efficient, competitive, financially sound and dynamic to promote innovation and attract investments. That called for deliberate focus in ensuring the country's capital markets provide access to differentiated products and services with high degree of novelty. During the year under review the Authority undertook a number of initiatives which are anchored on the following strategic objectives:

CHAIRMAN'S STATEMENT (*Continued*)

1. To establish a robust, facilitative policy, legal and regulatory framework for capital market development;
2. To develop and deepen the capital market products and services;
3. To promote investor education, awareness and interest in the capital markets;
4. To enhance the efficiency and integrity of the capital market infrastructure and institutional arrangements; and
5. To strengthen the institutional capacity of the Authority to effectively and efficiently deliver on its mandate.

MARKET REFORMS

In line with above strategic objectives, the Authority continued with the implementation of various activities as outlined in its strategic direction's reform agenda. The underlying principle in the reform agenda is facilitation of new products into the market to diversify and deepen the capital market in line with its critical role of mobilizing resources to meet the Vision 2030 objectives.

Demutualization of the Nairobi Securities Exchange (NSE)

The Authority approved the Demutualization of the Nairobi Securities Exchange in June 2014, making it the second exchange in Africa to be demutualized. This reform will significantly address NSE's corporate governance, ownership and operational structures in line with global trends. This is expected to increase its competiveness through adoption of a profit business model supported by the introduction of clear separation of ownership from management, the institutionalization of an independent board, the removal of perceived barriers to competitive access to providing securities trading business as well as laying the ground for further work to support its recognition as a Self Regulatory Organization (SRO).

The NSE plans to self-list in the first quarter of 2014/2015 financial year through an Initial Public Offering (IPO), which is expected to bring in new investors thereby further diversifying its ownership structure, in addition to allowing it to raise capital from the public markets to support infrastructure development and new business lines.

Capital Market Master Plan

During the period under review, the Authority has under the guidance of the Capital Market Master Plan Steering Committee (CMMSC), finalized the developed a Master Plan that is expected to provide the direction for the Kenyan capital market over the next ten years. The Master Plan envisions that by 2023, Kenya will be transformed into the choice market for domestic, regional and international issuers and investors looking to invest in and realize their investments in Kenya, within East Africa and across Middle Africa. This key Vision 2030 Flagship project, under the second Medium Term Plan (MTP II), has not only harnessed creativity and innovation from industry players, but also leveraged consensus on the vision, key pillars, building blocks, and execution plan necessary for capital markets to be transformative. Following its publication, key recommendations were endorsed by the Government of Kenya through policy pronouncements by the Cabinet Secretary to The National Treasury.

Capital Markets Corporate Governance Code

The Authority through the Capital Markets Corporate Governance Steering Committee (CGC) whose members represent key market stakeholders, overhauled the corporate governance framework for listed companies in line with global trends to facilitate increased transparency and accountability to promote increased investment and domestic and international fund flows.

The CGC provided oversight to the delivery of a robust revised corporate governance legal framework that included a Blueprint, which is a high-level summary of proposed action plans and a Code of Corporate Governance Practices for issuers of securities to the public. The committee further reviewed the draft Companies Bill 2012 to ensure alignment with global trends in company law and submitted detailed recommendations to the Attorney General.

Derivatives Market

The Authority subjected the Derivatives Regulations relating to licensing of market intermediaries and business of futures contract to peer review.

CHAIRMAN'S STATEMENT (*Continued*)

Positive feedback was received from regulators such as the Malaysia Securities Commission, Securities and Exchange Board of India (SEBI), Dubai Financial Services Authority (DFSA) and the China Securities Regulatory Commission. These were submitted to the Cabinet Secretary, The National Treasury on June 30, 2014. A consortium of firms has recently expressed interest in setting up a Derivatives Exchange in Kenya and is currently engaging with the Authority's technical team.

Other developments during the period under review include; the development of a guide on Central Counter Party (CCP) Clearing Infrastructure for the Derivatives Market to address risk management (this was adopted); twelve technical staff completed a two-month Futures Certification Program; development of comprehensive manuals on: policies and check-lists to assist the Authority in reviewing applications, market supervision, risk management, surveillance and enforcement in Derivatives Market; development of a derivatives accounting framework; and the approval of the Futures Unit organizational structure by the Authority's Board with clear job descriptions and competencies to ensure the regulator has dedicated resources for the supervision of derivative products.

In the coming year the Authority will be addressing tax issues in relation to derivatives markets focusing on treatment of unrealized gains and losses from hedging as well as capital gains and losses by market makers in derivatives transaction.

State Agency Reforms

In July, 2013, His Excellency, The President appointed a Taskforce on Parastatal Reforms which was charged with the responsibility of interrogating the policies on management and governance of parastatals with the aim of determining how best they would contribute to the pursuit of national development aspirations. In doing so, the taskforce recommended the merger of several state agencies including those in the financial services sector. In this regard, the Capital Markets Authority, Insurance Regulatory Authority, Retirement Benefits Authority, and the Sacco Societies Regulatory Authority have been in frequent consultation with the Taskforce through a committee, on how best to transition smoothly into this model of financial supervision.

CO-OPERATION

The Authority continues to actively participate in engagements in the local, regional, and international arena to ensure that robust mutual arrangements and cooperation are promoted to assist our efforts in advancing market development. We continued working closely with organizations such as International Organization of Securities Commissions (IOSCO) and East African Securities Regulatory Authorities (EASRA) in sharing experience, knowledge and expertise. The establishment of an integrated East African market presents important opportunities for the capital markets. The integration offers opportunities for expanding the range of financial products and services and mobilization of capital from a larger market.

The Authority has been at the forefront in fast-tracking the development of Nairobi as an International Financial Centre. To this end, we are drawing close to the finalization of a Memorandum of Understanding between Kenya and the City of London, to tap into the latter's private sector funds in excess of £ 90 billion looking for investment opportunities globally; and will continue our engagement with the Qatar International Centre to enhance the current Nairobi International Financial Centre (NIFC) model, through technical support and international benchmarking. Further, the Authority will be seconding its staff to the Nairobi International Financial Centre Authority in the near future to enhance its capacity.

In conclusion, the significant progress registered in our capital market during the year was made possible by the wise counsel and dedication of my fellow board members. I wish also to extend my gratitude to the staff of the Authority, for their dedication, commitment and continuing contribution to our reform agenda and look forward to their support in the coming years to turn our vision into reality.

Paul Ngugi
Ag. Chairman

BOARD MEMBERS OF THE AUTHORITY

Mr. Kung'u Gatabaki
Chairman

Mr. Paul Ngugi
Acting Chairman

Mr. Paul Muthaura
Ag. Chief Executive

Dr. Kamau Thugge
PS National Treasury

Prof. Njuguna Ndung'u
Governor, CBK

Hon Prof Githu Muigai
Attorney General

Ms Nafisa Abass
Member

Dr. Geoffrey Mwau
Alt to PS, National Treasury

Ms Rose Detho
Alt to Governor, CBK

Ms Jane Joram
Alt to the Attorney General

Mrs. Judy Thuo
Member

Mr Mahmood Manji
Member

Mr. Humphrey Muga
Member

Mrs Anne Schofield
Member

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.

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 management.
iii) During the period under review, the Board met twelve times.

COMPOSITION OF THE BOARD

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

1. Mr. Kung'u Gatabaki

Mr. Gatabaki, the Chairman of the Board is an Economist and holds a Bachelor of Science Degree in Economics from Legon University, Ghana and a Diploma in Project Planning and Management from the Bradford University, UK. He has acquired wide experience in project finance, portfolio management and corporate board business. He started his working career with Firestone Africa (1969) Limited in 1972, briefly moving to Nation Media Group, where he served as Marketing Assistant before joining CDC Group, Plc (formerly Commonwealth Development Corporation) in 1974 where he worked until 2004. He currently serves as the Chairman of Micro-Africa Limited (Micro Kenya/Micro Africa). He is also a Non-executive Director of Development Bank of Kenya, Grain Bulk Handlers Limited, Jacaranda Hotels, Kenya Safari Lodges & Hotels, Uganda Micro Finance, among others. He previously served as a Director of Housing Finance Company of Kenya Limited and Shelter Afrique Limited.

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

Dr. Kamau 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 Treasury, he worked at the International Monetary Fund from 1985 to 2004.

3. Alternate to Principal Secretary, The National Treasury: Dr. Geoffrey Mwau (Economic Secretary at 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: Ms. Jane Joram

Ms. Jane Joram is an Advocate of the High Court of Kenya, holder of a Bachelors of Laws Degree from the University of Nairobi and currently undertaking a Master's Degree in International Studies at the University of Nairobi.

She is a Senior Deputy Registrar in the Department of the Registrar General, Attorney General's Chambers. She is the head of the Companies Registry and spearheaded major reforms that have taken place in the Registry, including modernization of the Registry and computerization.

6. Prof. Njuguna S. Ndung'u (Governor, Central Bank of Kenya)

An Economist by profession, Prof. Ndung'u holds a PhD in Economics from the University of Gothenburg, Sweden, and Masters and Bachelor's degrees in Economics from the University of Nairobi. He's an

CORPORATE GOVERNANCE STATEMENT (*Continued*)

Associate Professor of Economics at the University of Nairobi, and has worked in various capacities with the International Development Research Centre (IDRC) Canada, and the Kenya Institute of Public Policy Research and Analysis (KIPPRA), among other Institutions.

7. Alternate to Governor, Central Bank of Kenya: Ms. Rose Detho

Ms. Detho holds Master of Business Administration and Bachelor of Commerce degrees from the University of Nairobi. She is the Director of the Deposit Protection Fund Board. Ms Detho joined Central Bank of Kenya on August 10, 1988 and has served the bank in various capacities. She has served on several occasions as Statutory Manager, appointed by the Bank, to manage financially distressed institutions.

8. Mr. Mahmood Manji

Mr. Manji is a Non-Executive Director of TPS Eastern Africa (Serena) Limited. He is also a fellow of the Institute of Chartered Accountants in England and Wales and the Kenya Institute of Bankers. He is the Chairman of Air Uganda Limited and the Property Development and Management Group of Companies amongst others. Mr. Manji is a member of the International Who's Who of professionals and previously served as the Chairman of Diamond Trust Bank (East Africa).

9. Mr. Humphrey Muga

Mr. Muga holds a Masters of Arts in Economics degree from the McGill University, Canada and has previously worked in various capacities at the Central Bank of Kenya.

10. Ms. Nafisa Abass

Ms. Abass holds a Bachelor of Business Administration degree from the American University in Cairo, and an MBA from the United States International University Nairobi. She has diverse experience in the business sector where she holds directorship roles, and has some non-executive responsibilities in non-profit organizations.

11. Mrs. Judy Thuo

Mrs. Judy Thuo holds a Bachelor of Arts Communications (major) Community Development (minor) from Daystar University College (Messiah University). She is currently a director in City Hopper Limited and Kwani Trust. She has extensive experience in Transport Sector, IT and Telecommunications, Leading Advertising Agency, Integrated Communications Agency among other sectors.

12. Mrs. Anne Schofield

Mrs. Anne Schofield holds a Bachelor degree in Law (LLB Hons Degree) from the University of Nairobi. She has extensive legal professional experience in Kenya, the Caribbean, the Mediterranean and the United Kingdom particularly in the Banking and Trust sector in the Cayman Islands.

13. Mr. Paul Ngugi

Mr. Paul 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). He has served as Alternate Director to Permanent Secretary, Ministry of Finance and also in various boards of state corporations including Kenya Roads Board, Housing Finance, Kenya Meat Commission, National Oil Corporation, among others. He also served as Director in Kenya Dairy Board.

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

Mr. Muthaura is the Acting 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 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) and as a senior commercial associate with the law firm of Daly and Figgis Advocates.

CORPORATE GOVERNANCE STATEMENT (*Continued*)

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, a Masters in Philosophy from the Maastricht School of Management and is currently undertaking a Doctorate in Business Administration at the Maastricht School of Management.

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:

Finance and Planning Committee

This committee consists of five 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 four times during the period.

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 Mr. Mahmood Manji, until the expiry of his term and thereafter by Dr. Geoffrey Mwau. 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. Its is also charged with reviewing the risk management and corporate governance practices of licensees and listed companies. The committee met five times in the period.

Human Resource and Communication Committee

This committee consists of five members all whom are non-executive members of the Board. The committee was chaired by Mrs Judy Thuo. It is responsible for human resource matters such as recruitment and management succession. It also oversees corporate communication policies. The committee met eleven times during the year.

Technical and Policy Committee

The committee consists of six members all whom are non-executive members of the Board. The committee was chaired by Mr Humphrey Muga until the expiry of his term and thereafter by Ms. Rose Dethi. 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

During the financial year, two ad-hoc committees of the board were as follows:

- Capital Markets Master Plan Steering Committee- launched in October 2012 to spearhead the development of a capital markets master plan.
- Capital Markets Corporate Governance Steering Committee - constituted in December 2012, to review the corporate governance guidelines.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Authority participated in three Corporate Social Responsibility activities that included a tree planting activity in collaboration with financial sector regulators at Ngong Forest's Kuwinda Grounds; donation of books to five secondary schools in Mombasa together with the financial sector regulators; and donation of books to Wema Centre in Mombasa in collaboration with the Central Depository and Settlement Corporation and the Nairobi Securities Exchange.

The Authority will continue to endeavour to improve the welfare of the less fortunate in the society, as well as corporate communications functions within the Authority with a strategic focus to enhancing media relations.

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 30th June 2014, 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 30th June 2014 are set out on page 24.

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 1.

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.

RSM Ashvir Certified Public Accountants were nominated by the Auditor General to carry out the audit of the Authority for the year ended 30th June 2014.

By order of the board

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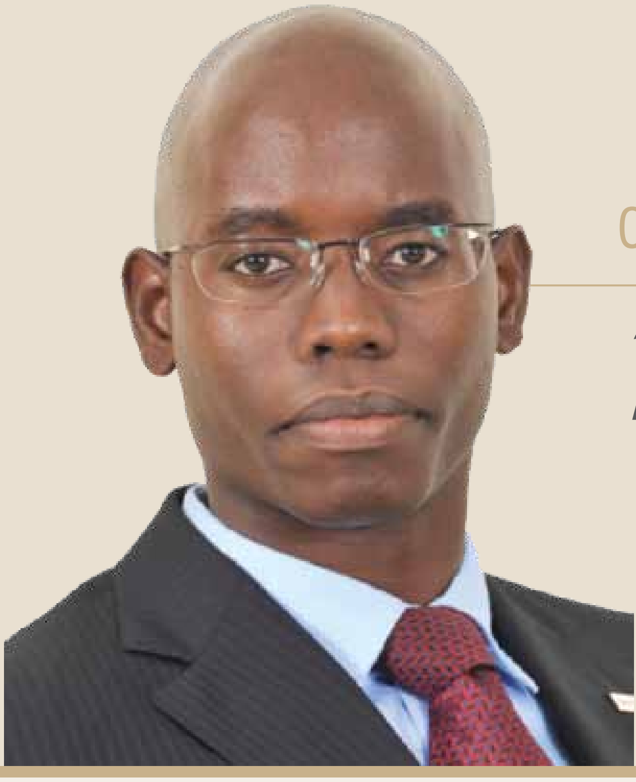
Ag. Chief Executive
Nairobi, 25th September 2014



CHIEF EXECUTIVE'S STATEMENT

"The Vision of the Capital Markets Master Plan; "The heart of African Capital Markets"; envisions that the Kenyan capital markets will become sufficiently deep and dynamic to stimulate domestic development..."

MARKET PERFORMANCE

The NSE 20 Share Index closed the year at 4,885 points gaining six percent from its opening level in July 2013 reflecting the increase in share prices and gains made by investors in our market. Market capitalization also increased by KES489 billion during the year to close at KES2.1 trillion, (a 30 percent increase). In December 2013, the index, became the highest gainer among stock exchanges in Africa, and the fourth globally with a 43.58 percent return. Bulgaria was the best performing market with a 91.55 percent return, followed by UAE (79.02 percent), Argentina (68.97 percent). Pakistan was fifth with a 27.76 per cent return. Market activity during the review period was characterised by increased trading and active investor demand as the half year earnings season gathered pace. Equity turnover rose by 47 percent compared to a similar comparable period the previous year. In addition, there was strong foreign investor activity who accounted, on average, for 50 percent of total traded equity value.

In the period under review, one company, Home Africa Ltd, listed on the Growth Enterprise Market Segment (GEMS) of the Nairobi Securities Exchange. The firm, became the first publicly-traded property developer to be listed on the Nairobi Bourse as well as in the newly introduced segment. In June 2014, the Nairobi Securities Exchange (NSE) received formal approval from the Capital Markets Authority (CMA) to operate as a demutualized entity. On the same day, the CMA approved the application of the NSE to offer its shares to the public through an Initial Public Offer (IPO) and subsequently Self-list its shares on the Main Investment Market Segment (MIMS) of the NSE. Also, the Authority approved a rights issue for Diamond Trust Bank shareholders targeting to raise KES3.6 billion. Finally, there were 2 corporate bonds issued under the review period namely I&M Bank holdings and Shelter Afrique which managed to raise KES3.7 billion and KES5 billion respectively. Both the issues were oversubscribed. In the same vein, the Authority, in June 2014, approved the issue of a Ksh5 billion Medium Term Note Programme by British American Investment Company (Britam) to be used to fund strategic business initiatives.

CAPITAL MARKET MASTER PLAN

The Capital Market Master Plan (CMMP) seeks to chart the strategic positioning and future direction of the Kenyan capital market over the next 10 years. It aims to provide market participants with strategic clarity on the vision and objectives of the capital market. It is also intended to ensure that the capital market is well positioned to play its part in supporting national growth needs and aspirations as envisioned under Vision 2030, while meeting relevant challenges such as a growing domestic marketplace, regionalization and increasing globalization of financial services.

CHIEF EXECUTIVE'S STATEMENT (*Continued*)

The **Vision of the Capital Market Master Plan**; ***"The heart of African Capital Markets"***; envisions that the Kenyan capital markets will become sufficiently deep and dynamic to stimulate domestic development, while simultaneously providing a gateway to Middle Africa for regional and international capital flows. By 2023, it is expected that Kenya will have been transformed into the choice market for domestic, regional and international issuers and investors looking to invest in and realize their investments in Kenya, within East Africa and across Middle Africa. The market will be the centre of excellence for the real sectors of the economy in which Kenya already has significant capacity and potential including: agriculture, infrastructure (including real estate), and technology, while also leveraging the strength of Kenya's financial sector to develop innovative products and services, including derivatives, asset management and Islamic finance.

Consequently, the Plan sets out the route to realize this aspiration and to ensure these critical success factors are met. The Master Plan is anchored on three key pillars that form the foundation of the transformation, from which nine core building blocks are derived as strategic imperatives of the Plan, with specific initiatives and action steps identified to ensure achievement of the envisaged outcomes:

i. The first three building blocks focus on the role of capital markets in supporting developmental and economic transformation in the country. This support is grounded in enhancing the knowledge of domestic users of capital markets, leveraging existing strengths and developing new specialist areas of expertise.
ii. The second three building blocks focus on developing a solid core for the market; through promoting depth and liquidity in the market, creating international standard market infrastructure, and building capacity among market participants.
iii. The final three building blocks focus on strengthening the regulatory and legal environment that supports the capital markets, including enhancing the capacity of the regulator and on creating an open and competitive environment that enables innovation to flourish in the market.

The Government, in its FY 2014-2015 budget speech, adopted the CMMP as a masterpiece that if well implemented will be a crucial guide in the country's journey to realize the capital markets vision to become "The Heart of African Markets".

REVIEW OF THE POLICY FRAMEWORK

The Authority has continued enhancing its efforts in supporting the government to develop a vibrant and globally competitive financial services sector. Promotion of high-levels of savings and financing for Kenya's investment needs remains high on our agenda. It is noted that the main financial sector flagship project under the Second Medium Plan (MTP II) is the establishment of the Nairobi International Financial Centre. International experience has proved that one of the vital prerequisite for establishing successful financial markets is to have a critical mass of financial institutions operating in a conducive business environment.

Consequently, the Authority in consultation with the industry stakeholders initiated a number of policy and regulatory measures aimed at developing the country's securities markets. Outlined below are key highlights from the CMMP as well as policy and regulatory proposals adopted by the Government.

CHIEF EXECUTIVE'S STATEMENT (*Continued*)

No	Proposal	Reference	Expected Impact
1	Provisions that strengthen the Authority's supervision, investigation, intervention and licensing powers to ensure investor protection in conjunction with market growth and expansion.	The Capital Markets (Amendment) Act No. 48 of 2013,	This will boost investors' confidence by ensuring clarity and certainty in interpretation of the Capital Markets Act and the subsidiary legislation made there under. Additionally, attractiveness to a market is a function of confidence which is derived from capacity for oversight, supervision and enforcement to ensure investor protection.
2.	Introduction of requisite anchoring provisions that introduces opportunities and products for hedging of risks, infrastructure funding, transparency and efficiency in access to capital.	The Capital Markets (Amendment) Act No. 48 of 2013,	Paves way for securitization to support the increasing budgetary demands to finance Government's developmental agenda through Public Private Partnerships (PPPs) as substitute to Government borrowing. The issuance of securitized products, such as the asset-backed securities, is expected to become even more important in the context of capital raising by County Governments and ease the pressure on sourcing for finances to support devolution. The projects that could use the securitization framework to raise the huge outlay of capital required include the LAPSSET Corridor Project, Ports, Crude Oil Pipelines, Oil Refineries, Resort and Technology Cities, Railways and Road Networks. Once private capital is availed for capital intensive development projects, the Government can channel tax revenues to fund social services. The products proposed under the Act will help meet the 70percent private sector funding for Vision 2030 projects.
3.	Establishment of futures/ derivatives markets in Kenya	The Capital Markets (Amendment) Act No. 48 of 2013.	The amendments relating to futures markets in the Amendment Act provide the necessary provisions in the primary legislation particularly in relation to the powers of the Authority to regulate futures markets in order to ensure their integrity, orderliness and investor protection as well as anchoring provisions for the licensing futures exchanges, futures brokers and business conduct in futures markets. The operational detail will be provided for in subsidiary legislation.
4.	Provide a clear guidance on the introduction of new capital markets products and services on an accelerated basis	The Capital Markets (Amendment) Act No. 48 of 2013,	Public offers of securities has been classified into general public offers targeting the wider investing public and restricted public offers tailored for sophisticated investors. The provisions seeks to protect investors from fraudulent persons making offers to the public and creates an offence of criminal liability for defective prospectuses as well as providing the right for investors to seek compensation as a result of subscribing to fraudulent offers.
5.	Removal of ambiguity in the provisions relating to prohibition of insider trading and other market abuses.	The Capital Markets (Amendment) Act No. 48 of 2013,	Due to previous challenges in the prosecution of insider trading and market manipulation the relevant sections have been amended to counter the interpretation challenges especially as the market continues to evolve new products such as derivatives, SMEs trading and asset backed securities. This shall guide the courts and the investing public on the nature of these offences as well as the penalties as a result of breach.
6.	Implementation of the East Africa Common Market Protocol:	The Capital Markets (Amendment) Act No. 48 of 2013,	To give full effect to the requirements of the East Africa Common Market Protocol and the attainment of free movement of capital and services with the EAC capital markets. The amendments facilitate the harmonization of the capital markets legal and regulatory framework by the EAC capital markets regulators which will effectively provide enterprises access to a larger market to raise more capital for growth and expansion.
7.	Introduction of principle based regulation to accelerate introduction of new products and services.	Sec 12 A of The Capital Markets (Amendment) Act No. 48 of 2013	Provides that the Authority may issue such guidelines and notices as the Authority considers necessary for the better carrying out the functions of the Authority for the regulation of capital markets activities and products subject to the assessment of the extent to which they appropriately cater for efficient, orderly and fair operation of the segment, product or intermediaries; adequate provisions for risk management and controls on market misfeasance; the proper protection of investor interests and appropriate level of disclosure; and a facilitative environment for transparent operations.

CHIEF EXECUTIVE'S STATEMENT (*Continued*)

8.	Operationalize the Nairobi International Financial Centre	Budget Speech 2014	Implementation of recommendations of master plan supporting establishment of an International Financial Center to be expedited.
9.	Tabling of the Financial Services Authority Bill and other financial sector regulatory Bills	Budget Speech 2014	Foundations for full consolidation of the Financial services regulators set. Next steps to be determined through engagements with the Parastatal Reforms Implementation Committee.
10.	Amendment to Capital Market (Demutualization of the Nairobi Securities Regulations) 2012 to set the minimum shareholding for Government and ICF at 5 percent.	Reg 4 (2)d Capital Market (Demutualization of the Nairobi Securities Regulations) 2012.	This will significantly address governance challenges and enhance the NSE business model (to traduce commercial and SRO role) through accelerated approval as a Demutualized Exchange and subsequent ceding of stakes by existing shareholders.
11.	Enhance Depository and Settlement infrastructure through integration of the Securities Depositories for Government Securities and Corporate Securities	CMMP	Greater economies of scale and simplify linkages with other CSDs in the region.

In the year 2012-2013 it was reported that a Capital Markets (Amendment) Bill had been submitted to the National Treasury for consideration. The Bill was enacted by the National Assembly and subsequently received Presidential Assent in December 2013. *The Capital Markets (Amendment) Act No. 48 of 2013,* has introduced reforms which include;

a) Investment climate

The Act includes provisions that strengthen the Authority's supervision, investigation, intervention and licensing powers to ensure investor protection in conjunction with market growth and expansion. This has been done through introduction of requisite anchoring provisions that introduces opportunities and products for hedging of risks, infrastructure funding, transparency and efficiency in access to capital. Overall, the amendments are geared towards ensuring that the global competitiveness of the Kenyan capital markets is considered in line with Vision 2030. The impact is that the Act will boost investors' confidence by ensuring clarity and certainty in interpretation of the Capital Markets Act and the subsidiary legislation made there under. Additionally, attractiveness to a market is a function of confidence which is derived from capacity for oversight, supervision and enforcement to ensure investor protection.

b) Securitization

With the increasingly budgetary demands to finance Government's developmental agenda, Public Private Partnerships (PPPs) in financing huge infrastructural projects offers an appropriate substitute to Government borrowing. The issuance of securitized products, such as the asset-backed securities, is expected to become even more important in the context of capital raising by County Governments and ease the pressure on sourcing for finances to support devolution. The amendments anchor the securitization regulatory framework in the primary legislation. Securitization refers to the process of structuring and converting income-producing assets to support repayments following the issuance of financial instruments that can be readily bought and sold in financial markets and also allows for the conversion of assets that are tied to long term receivables into current revenues available for immediate reinvestment. Additionally, there are critical lessons learnt from the Global Financial Crisis and the anchoring provisions provide the requisite regulatory regime with the necessary legal reinforcements. The projects that could use the securitization framework to raise the huge outlay of capital required include the LAPSSET Corridor Project, Ports, Crude Oil Pipelines, Oil Refineries, Resort and Technology Cities, Railways and Road

CHIEF EXECUTIVE'S STATEMENT (*Continued*)

Networks. Once private capital is availed for capital intensive development projects, the Government can channel tax revenues to fund social services. The products proposed under the Bill will help meet the 70% private sector funding for Vision 2030 projects.

c) Establishment of futures/derivatives markets in Kenya

Futures and derivatives markets differ substantially with stock markets. In the futures market, more than any other form of investment, price changes are highly leveraged, meaning a small change in a futures price can translate into a huge gain or loss. The amendments relating to futures markets in the Amendment Act provide the necessary provisions in the primary legislation particularly in relation to the powers of the Authority to regulate futures markets in order to ensure their integrity, orderliness and investor protection as well as anchoring provisions for the licensing futures exchanges, futures brokers and business conduct in futures markets. The operational detail will be provided for in subsidiary legislation.

d) Provide a clear guidance on the introduction of new capital markets products and services on an accelerated basis

Public offers of securities has been classified into general public offers targeting the wider investing public and restricted public offers tailored for sophisticated investors. Sophisticated investors are those persons and institutions deemed to appreciate the risks inherent in higher risk profile capital markets products and services. Sophisticated investors include persons licensed to operate in the financial sector; companies and high net worth individuals. Additionally, the provisions seeks to protect investors from fraudulent persons making offers to the public and creates an offence of criminal liability for defective prospectuses as well as providing the right for investors to seek compensation as a result of subscribing to fraudulent offers.

e) Removal of ambiguity in the provisions relating to prohibition of insider trading and other market abuses

Due to previous challenges in the prosecution of insider trading and market manipulation the relevant sections have been amended to counter the interpretation challenges especially as the market continues to evolve new products such as derivatives, SMEs trading and asset backed securities. In this regard, the offence of insider trading has been redefined as an offence of strict liability as well as identification of a range of the most common market manipulation offences to guide the courts and the investing public on the nature of these offences as well as the penalties as a result of breach.

f) Implementation of the East Africa Common Market Protocol

To give full effect to the requirements of the East Africa Common Market Protocol and the attainment of free movement of capital and services with the EAC capital markets. The amendments facilitate the harmonization of the capital markets legal and regulatory framework by the EAC capital markets regulators which will effectively provide enterprises access to a larger market to raise more capital for growth and expansion.

REGIONAL INTEGRATION AND INTERNATIONAL COOPERATION

East Africa

The Authority continued to participate in the East African Community securities markets integration agenda. In this regard, and in accordance with the EAC Common Markets Protocol, the Authority has been a key participant in the harmonization of the securities legal and regulatory framework in the region. The regulatory framework is being developed in form of Council Directives which are harmonized standards binding on all the Partner States. Council Directives are considered to be the most feasible option given the different levels of development of the regional

CHIEF EXECUTIVE'S STATEMENT (*Continued*)

capital markets. In the course of the year, Seven Council Directives were finalized and considered by the EAC Sectoral Council of Finance and Economic Affairs (SCFEA) and thereafter issued by the EAC Council of Ministers on 28th April 2014. Once gazette the seven Council Directives will be transposed into National Laws of each Partner State. The following are the Council Directives that have been issued;

a. EAC Council Directive on Public Offers for Equity Securities;

b. EAC Council Directive on Public Offers for Debt Securities;

c. EAC Council Directive on Public Offers for Asset Backed Securities (ABS);

d. EAC Council Directive on Collective Investment Schemes (CIS);

e. EAC Council Directive on Corporate Governance for Securities Market Intermediaries;

f. EAC Council Directive on Regional Listings in the Securities Market; and

g. EAC Council Directive on Admission to a Secondary Exchange.

The East African Securities Regulators Association (EASRA) has also developed a Strategic Plan covering 2014 to 2018 drawing from EASRA's Memorandum of Understanding (MoU), the provisions of the EAC Treaty, the Common Market and East African Community Monetary Union protocols. The objectives of the Strategic Plan include:

a. Development of the institutional capacity of EASRA which will be achieved by increasing the visibility of EASRA as well as enhancing its operational efficiency;

b. Enhancement of the harmonization of the capital markets laws and market development Initiatives which will be achieved by new products, infrastructure development, increased regional intermediaries and supervision among others;

c. Enhancement of public education and financial literacy in the EAC Capital markets;

d. Building the capacity of EASRA members and market intermediaries by developing capacity building programs;

e. Building Strategic Alliances to further the regional integration agenda.

Finally, EASRA is continuing with its efforts to harmonize licensing and listing requirements within the EAC securities markets. In this regard, a Risk Based Supervision consultant was engaged to undertake a study on the appropriate supervision model and how the same can be implemented in the different member countries. The recommendation of the consultant on the adoption of Risk based supervision model across the East African countries was adopted and implementation is currently ongoing. The regions is also at advanced stages of harmonizing the Risk Based Capital Adequacy requirements for regional players.

International Organization of Securities Commissions (IOSCO)

An assessment of the Central Depository and Settlement Corporation (CDSC) and the Central Bank of Kenya's Central Depository System (CDS) was conducted to establish their compliance with the clearing and settlement standards in line with the international practices' Committee on Payment and Settlement Systems (CPSS)-IOSCO principles for financial market infrastructures). IOSCO is the international standard setter for all the securities regulatory Authorities in the world. An independent assessment to establish the country's compliance with IOSCO's 9 new principles during the year was also conducted. The new principle focuses on establishing the robustness of the country's systems to address any emerging systemic risks. The assessment also focused on audit oversight standards and independence.

CHIEF EXECUTIVE'S STATEMENT (*Continued*)

RISK BASED SUPERVISION

In August 2013, the Authority organized a three and a half-day workshop for all intermediaries to sensitize them on the changes in licensing requirements and the new financial resources provisions as well as the reporting obligations as automated through the Risk Based Supervision System (RBSS). Subsequently, the new RBSS which seeks to enhance efficiency in the Authority's Approval, licensing and reporting, risk assessment as well as supervision processes was publicly launched on September 26, 2013. The Authority has consequently ensured that all listed companies and intermediaries are registered and using the system which facilitates submission of all statutory returns and applications online, making internal processes more efficient and effective in the delivery of our mandate.

MARKET DEVELOPMENT

During the year, the Authority completed the following research studies to inform the market development process;

a) Concept Paper on Global Depository Receipts (GDRs) and Global Depository Notes (GDNs) and the possible establishment of a market for these products in Kenya – As one of the initiatives to deepen Kenya's capital markets, CMA initiated a seminal study on these financial instruments and the measures that will have to be put in place to have markets for the instruments established in Kenya.

b) Linkage of Warehousing Receipt System With Futures Market In Kenya – This study sought to establish the existing state of Warehousing Receipt System in Kenya, review linkage between Warehousing Receipt System and Futures market in some jurisdiction and make research recommendations on the steps that Kenya needs to take to ensure a successful linkage and robust commodities futures markets in Kenya.

The Authority also operationalized research recommendations with regards to the following;

a) Exchange Traded Funds (ETFs) – CMA, together with other key stakeholders has been holding consultations on using a principle-based approach to establish ETF products in Kenya, pending a comprehensive review of the regulatory framework to usher in fully collateralized ETF products in the Kenyan market. In this regard, a policy and institutional framework have been developed.

b) Capital Markets Industry Fees and Commissions in Kenya – After a study, the Authority engaged an independent consultant to review the various fees, levies and commissions charged in the market with the aim of informing the policy framework to determine an appropriate fee structure that is consistent with the overall objective of deepening and broadening Kenya's capital markets. The consultant held comprehensive consultations with key stakeholders in the capital markets industry and published its recommended fees and commissions' structure for the Kenyan capital markets. A reviewed fee structure has been submitted to the National Treasury and is awaiting gazettement.

c) Islamic Capital Markets - Kenya has ambitions of becoming the Islamic finance hub of East Africa and has the first mover advantage. The Islamic capital market in Kenya albeit currently at a very nascent stage of development, has evolved tremendously, mainly in breadth rather than depth, and exhibits a broad array of Islamic financial services including banking, insurance and investment services. Consequently, the Authority has continued to engage with various stakeholders on the development of this segment. In this regard, the Authority, in partnership with Financial Sector Deepening (FSD) Africa, commissioned the Islamic Finance Council of the United Kingdom to undertake an Islamic Finance Scoping Mission in Kenya in June 2014 to inform on the development of the market segment going forward.

CHIEF EXECUTIVE'S STATEMENT (*Continued*)

FINANCIAL HIGHLIGHTS

The Authority's financial position will be presented in detail in the audited financial statements for the financial year ended 30 June 2014.

The Authority experienced an increase of 31% in total revenue in the year to Shs 881 million from Shs 672 million last year. The increase is largely attributed to the improved market activities experienced in the year, caused by improved investor confidence, increase in investor education activities and stable macroeconomic environment. Fee income went up by 30% to Shs 766 million this year from Shs 588 million in 2013.

A surplus of Shs 153.6 million after tax is reported compared to a surplus of Shs 116.1 million realized last year.

The total expenditure incurred is Shs 660.6 million which is higher than the previous year's amount by Shs 141.9 million.

Income & Expenditure summary:	2014 Shs'000	2013 Shs'000
Income		
Government bonds and capitalization fees	285,486	246,756
NSE transaction fees	452,242	316,169
Others	99,131	84,735
Total operating income	836,859	647,660
Donor funding	44,102	24,659
Total income	**880,961**	**672,319**
Expenditure		
Salaries and staff costs	294,195	280,934
Rent and maintenance	43,885	27,592
Trainings and conferences	38,160	27,134
Investor education	27,464	18,538
Authority members' allowances	23,614	22,015
Professional and market development	86,333	52,424
Depreciation on property, plant and equipment	32,022	24,037
Others	114,936	66,064
Total expenditure	**660,609**	**518,738**

CHIEF EXECUTIVE'S STATEMENT (*Continued*)

3. RESULTS

	2014 Shs'000	2013 Shs'000
The results for the year are summarised below;		
Total income for the year	880,961	672,319
Total operating expenditure for the year	(660,609)	(518,738)
Surplus for the year before tax and transfer	220,352	153,581
Tax expense	(66,690)	(37,450)
Surplus after tax	153,662	116,131

FUTURE OUTLOOK

The capital market in Kenya has evolved as a viable and critical component of the financial system, complementing the conventional money markets as a driver for economic growth and development. We must therefore position ourselves to take advantage of the opportunities the market presents. In this regard, while a great deal has been achieved, I believe that the years ahead call for much more work and cooperative effort. We must continue to be proactive in further developing our market. We must strive to look and act beyond our frontier. With Kenya assuming an increasingly prominent role as a regional financial hub, the capital market is poised to play an increasingly important role in supporting national socio-economic goals and aspirations.

In conclusion, I want to thank the Board for their guidance and unfailing support throughout the year. The considerable achievements the capital market has witnessed in recent years is due in no small measure to their outstanding contribution, commitment and selfless service to the ideal of developing a world class capital market in Kenya. My appreciation also goes to the management and staff who have put in tremendous efforts and showed great commitment, enthusiasm and high standards in carrying out their work in fulfillment of the responsibility entrusted to us. I'm confident that with everyone's continued support and teamwork the capital market in Kenya is poised to scale even greater heights in the years ahead.

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Mr. Paul Muthaura
Ag. Chief Executive

STATEMENT OF BOARD MEMBERS OF THE AUTHORITY'S' RESPONSIBILITIES

Section 68 of the Public Finance Management Act, No. 18 of 2012, requires the board members to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year and the operating results of the Authority for that year. The board members are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The board members are also responsible for safeguarding the assets of 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 30th June 2014. 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.

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 PFM 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 30th June 2014, 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 25th September 2014 and signed on its behalf by:

....

Chairman

....

Ag. Chief Executive

REPORT OF THE AUDITOR GENERAL

REPUBLIC OF KENYA

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NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Capital Markets Authority set out on pages 25 to 50 which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by RSM Ashvir, auditors appointed under Section 39 of the Public Audit Act, 2003. 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.

Management's Responsibility 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 (Accruals Basis) and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on the financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accruals Basis) and comply with the Capital Markets Authority Act, Cap 485A of the Laws of Kenya.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 December 2014

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2014

	Note	2014 Shs'000	2013 Shs'000
Revenue from non-exchange transactions			
Capitalization, rights and new issue fees	5	809,848	612,667
		809,848	612,667
Revenue from exchange transactions			
Other income	6	70,955	58,633
Total revenue		880,803	671,300
Expenses			
Operating expenditure	30	(660,609)	(518,738)
Total expenses		**(660,609)**	**(518,738)**
Other gains/ (losses)			
Gain on disposal of property, plant and equipment	8	158	1,019
Surplus before tax	**9**	**220,352**	**153,581**
Tax expense	10	(66,690)	(37,450)
Surplus for the year		**153,662**	**116,131**

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2014

ASSETS	**Note**	**2014 Shs'000**	**2013 Shs'000**
Current assets			
Inventories	11	1,573	1,133
Trade and other receivables from non exchange transactions	12(a)	75,853	69,445
Trade and other receivables from exchange transactions	12(b)	15,631	17,573
Staff loans and advances/guarantee fund	13	26,132	20,382
Held-to-maturity investments	14	295,386	266,168
Staff benevolent fund	15	7,882	7,231
Cash at bank and in hand	16	125,193	94,085
Investors' Compensation Fund	17	518,140	281,049
		1,065,790	757,066
Non-current assets			
Property, plant and equipment	18	101,341	117,573
Intangible assets	19	85,788	126,828
Staff loans and advances/guarantee fund	13	200,408	146,624
Held-to-maturity investments	14	245,045	245,096
Investors' Compensation Fund's investments	17	358,532	446,705
Deferred tax asset	20	28,619	17,154
		1,019,733	1,099,980
Total Assets		**2,085,523**	**1,857,046**
Liabilities			
Current liabilities			
Staff benevolent fund	15	7,882	7,231
Trade and other payables	21	138,778	118,615
Provision for liabilities and charges	22	46,483	43,555
Current tax payable	23	25,325	47,821
Deferred income	24	83,513	126,862
Investors' Compensation Fund	17	518,140	281,049
		820,121	625,133
Non-current liabilities			
Investors' Compensation Fund liabilities	17	358,532	446,705
Total liabilities		**1,178,653**	**1,071,838**
Net assets		906,870	785,208
Capital fund	25	27,886	27,886
General fund	26	878,984	757,322
Total net assets and liabilities		**2,085,523**	**1,857,046**

The financial statements set out on pages 29 to 53 were approved for issue by the board members of the Authority on 25th September 2014 and were signed on its behalf by:

....

Ag. Chief Executive | Ag. Chairman of the board

Date: 25th September 2014 | Date: 25th September 2014

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2014

	Note	Capital fund Shs'000	General fund Shs'000	Total Shs'000
At 1st July 2012		**27,886**	**641,191**	**669,077**
Surplus for the year		-	116,131	116,131
At 30th June 2013		**27,886**	**757,322**	**785,208**
At 1st July 2013		**27,886**	**757,322**	**785,208**
Surplus for the year		-	153,662	153,662
Dividend paid to National Treasury		-	(32,000)	(32,000)
At 30th June 2014		**27,886**	**878,984**	**906,870**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2014

	Note	2014 Shs'000	2013 Shs'000
Cash flows from operating activities			
Surplus/(deficit) for the year		**153,662**	**116,131**
Adjustments for:			
Tax expense	10	66,690	37,450
Depreciation of property, plant and equipment	18	32,022	24,037
Amortisation of intangible assets	19	49,411	12,245
Deferred donor funded income		(43,349)	119,000
Gain on disposal of property, plant and equipment	7	(158)	(1,019)
Interest income	6	(62,645)	(57,939)
Operating profit before working capital changes		**195,633**	**249,905**
Decrease/(increase) in:			
Inventories	11	(440)	866
Trade and other receivables	12	(4,466)	(45,574)
Staff loans and advances	13	(59,534)	(86,926)
Increase/(decrease) in:			
Trade and other payables	21	20,163	(12,948)
Provision for liabilities and charges	22	2,928	1,855
Investors' Compensation Fund	17	148,918	305,435
Staff benevolent fund	15	651	1,138
Cash generated from operations		**303,854**	**413,751**
Interest received	6	62,645	57,939
Income tax paid		(100,650)	(9,862)
Net cash generated from operating activities		**265,849**	**461,828**
Cash flows from investing activities			
Purchase of property, plant and equipment	19	(16,059)	(53,018)
Purchase of intangible assets	20	(8,371)	(113,698)
Proceeds from disposal of property, plant and equipment		427	3,275
Purchase of treasury bonds from the Investors' Compensation Fund		(117,000)	(256,500)
(Purchase)/sale of treasury bills from the Investors' Compensation Fund		(11,145)	(115,487)
(Purchase)/sale of treasury bonds		35,000	70,000
(Purchase)/sale of treasury bills		(64,168)	(113,744)
Purchase of treasury bills from the Benevolent fund		(75)	(654)
Surplus payment to National Treasury	26	(32,000)	-
Net cash (used in) from investing activities		**(213,391)**	**(579,826)**
Net increase/(decrease) in cash and cash equivalents		**52,458**	**(117,998)**
Cash and cash equivalents at start of the year		**151,538**	**269,536**
Cash and cash equivalents at end of the year	**16**	**203,996**	**151,538**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget 2013-2014 Shs'000	Adjustments 2013-2014 Shs'000	Final budget 2013-2014 Shs'000	Actual on comparable basis 2013-2014 Shs'000	Performance difference 2013-2014 Shs'000	
Revenue						
Fee income from NSE	264,361	68,054	332,415	452,242	119,827	a)
Licenses and permits	14,195	(79)	14,116	16,645	2,529	b)
Market development Fees	11,045	404	11,449	11,373	(76)	c)
Capitalisation and bond approvals	237,750	110,828	348,578	285,487	(63,091)	d)
Donor Funding- gifts and services-in-kind	30,000	17,587	47,587	44,101	(3,486)	e)
Finance income- external investments	28,980	29,647	58,627	62,644	4,017	f)
Gains on disposal, rental income and agency fees	1,000	-	1,000	1,000	-	
Other income	-	7,000	7,000	7,469	469	
Total income	**587,331**	**233,441**	**820,772**	**880,961**	**60,189**	
Expenses						
Personnel cost	298,262	11,930	310,192	294,194	15,998	g)
Rent and maintenance	29,400	14,198	43,598	43,885	(287)	h)
Equipment maintenance and stationery	14,864	-	14,864	13,383	1,481	i)
Telephone, postage and utilities	15,335	4,227	19,562	14,780	4,782	j)
Entertainment and public relations	10,561	5,000	15,561	11,060	4,501	k)
Medical scheme and insurance expenses	16,477	1,618	18,095	17,548	547	l)
Training and conferences	25,771	14,229	40,000	38,158	1,842	m)
Motor vehicle running expenses	9,000	475	9,475	6,612	2,863	n)
Subscriptions and IOSCO membership	4,380	-	4,380	4,211	169	
Authority board members' emoluments and allowances	35,030	2,075	37,105	23,614	13,491	o)
Professional and market development services	103,541	4,550	108,091	82,800	25,291	p)
Depreciation of property, plant and equipment	27,907	6,101	34,008	32,022	1,986	q)
Amortisation of intangible assets	43,057	9,418	52,475	49,411	3,064	r)
Auditor's remuneration	539	-	539	539	-	
Investors' education and awareness programme	71,550	(23,050)	48,500	27,464	21,036	s)
Tribunal expenses	5,502	(1,522)	3,980	720	3,260	t)
Increase in provision for doubtful debts	-	-	-	208	(208)	u)
Total expenditure	**711,176**	**49,249**	**760,425**	**660,609**	**99,816**	
Surplus for the period	**(123,845)**	**184,192**	**60,347**	**220,352**	**160,005**	

NOTES ON THE SIGNIFICANT VARIANCES

a) The vibrant market activities in the year resulted in the positive performance.

b) Licences of new market products like REITS resulting in a higher income.

c) This revenue source was within the budgeted level.

d) The performance on this fee is below the budgeted level in the year, attributed to low uptakes of capital raising vehicles by the market. The "appetite" was lower than budgeted level.

e) The budget level was not achieved due to minimal donor funding in the year.

f) The income level was slightly above budget as the Authority continued investing excess cash in the government securities.

g) The Authority's staff complement was not filled due to the ongoing financial sector regulators merger process.

h) To a minimal level, this cost is above budget due to increased service charges in the year.

i) Cost control strategies improvised by management contributed to the low costs.

j) Cost control strategies improvised by management contributed to the low costs.

k) Activities were completed in line with anticipated targets, as others stretched to the following financial year.

l) The medical costs were well within the budget allocation.

m) Some of the programmes were scheduled for the first month of the new financial year.

n) Cost control strategies improvised (e.g. use of fuel cards, negotiated transport rates) by management contributed to the low costs.

o) The Authority undertook its activities as per annual time table, but with controlled costs. Coupled with reduced number of board members, the cost was kept to a minimum.

p) Activities were completed in line with anticipated targets, as others stretched to the following financial year.

q) The depreciation charge was within the budget level but lower due to the low capital expenditure following the ongoing merger process.

r) The amortisation charge was within the budget leve but lower due to the low capital expenditure following the ongoing merger process.

s) Activities were completed in line with anticipated targets, as others stretched to the following financial year.

t) Minimal meetings were undertaken as the Tribunal was not fully constituted for the best part of the year.

u) Two licensees showed unwillingness to continue trading, and the Authority withdrew their licenses as per the law. They had not paid renewal fees for past years, resulting in the bad debts being written off.

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). In absence of an IPSAS that specifically applies to a transaction, other event or condition, the IFRS has been applied in selecting the accounting policy for that specific transaction, event or circumstance. 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 direct method. The financial statements are prepared on accrual basis.

2. 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.

Government grants
Government grants are recognised at fair value when there is reasonable assurance that the Authority will comply with the conditions attaching to them and the grants will be received. Grants 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 using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

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.

NOTES *(Continued)*

c) Taxes

Current income tax

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Authority operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit.

Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

d) Property, plant and equipment

All property, plant 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, plant 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.

NOTES *(Continued)*

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, plant 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, 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.

NOTES *(Continued)*

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 a 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.

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.

NOTES *(Continued)*

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 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 the Central Bank of Kenya and at various commercial banks at the end of the financial year.

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.

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.

NOTES *(Continued)*

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.

3. 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:

i) 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

Assumptions made by the actuary in determining the present value of retirement benefit obligations. The carrying amount of the provision and the key assumptions made in estimating the provision are set out in Note 9.

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.

4. 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.

NOTES *(Continued)*

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 institution.

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting 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.

The maximum exposure of the Authority to credit risk as at the balance sheet date is as follows:

30th June 2014	Fully performing Shs'000	Past due but not impaired Shs'000	Past due and impaired Shs'000	Total Shs'000
Held-to-maturity investments	540,431	-	-	540,431
Staff loans and advances/ fund	222,361	2,257	-	224,618
Trade receivables	58,572	-	-	58,572
Other receivables	32,912	-	-	32,912
Cash at bank	125,193	-	-	125,193
Gross financial assets	979,469	2,257	-	981,726

30th June 2013	Fully performing Shs'000	Past due but not impaired Shs'000	Past due and impaired Shs'000	Total Shs'000
Held-to-maturity investments	511,264	-	-	511,264
Staff loans and advances/ fund	164,749	2,257	-	167,006
Trade receivables	39,580	5,635	-	45,215
Other receivables	33,762	8,041	-	41,803
Cash at bank	94,085	-	-	94,085
Gross financial assets	843,440	15,933	-	859,373

NOTES *(Continued)*

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

	2014 Shs'000	2013 Shs'000
Over 6 months	2,257	15,933
	2,257	15,933

The past due debtors are not impaired and continue to be paid. An impairment provision of Shs 59,954, 000 (2013: Shs 60,412,000) 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.

ii) Liquidity risk

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 2014					
Trade and other payables	19,692	1,326	792	584	22,394
Accruals	51,619	2,252	10,122	52,391	116,384
Provision for liabilities and charges	2,928	-	-	43,555	46,483
	74,239	3,578	10,914	96,530	185,261

	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 2013					
Trade and other payables	14,630	1,092	597	-	16,319
Accruals	51,849	11,320	21,640	17,487	102,296
Provision for liabilities and charges	1,855	-	-	41,700	43,555
	68,334	12,412	22,237	59,187	162,170

NOTES *(Continued)*

5. Revenue from non - exchange transactions

	2014 Shs'000	2013 Shs'000
Fees income		
Capitalization, rights and new issue fees	285,486	246,756
NSE- transaction fees	452,242	316,169
Application and licensing fees	16,645	14,116
Market development fees	11,373	10,967
Donor fund income	44,102	24,659
	809,848	612,667

The Authority charges fees on the following basis :

Capitalization / rights issues at a rate of 0.25% of the value of the issue.

Approval for listing of Government securities is charged at a rate of 0.075% of the amount raised.

New issues / IPOs at a rate of 0.15% of the value of the issue.

NSE Transaction fees at a rate of 0.12% of the value of the equities traded and 0.0015% of the value of bonds traded.

Application for license at Kshs 2,500 while annual licensing fees are up to a maximum of Shs 250,000.

Market development fees are charged to listed companies at a rate of 0.01% subject to a minimum of Shs 50,000 and a maximum of Shs 100,000 per annum.

6. Revenue from exchange transactions - other income

	2014 Shs'000	2013 Shs'000
Interest income	62,645	57,939
Miscellaneous income	8,310	694
	70,955	58,633

7. Gain on disposal on property, plant and equipment

Gain on disposal on property, plant and equipment	158	1,019

8. Donor funding

From the total income, the Authority received support worth Shs 0.75 million (2013: Shs 180.371 million) in the year. Of the total donor funding, income worth Shs 83.5 million (2012: Shs 126.862 million) has been deferred in line with the Authority's accounting policy.

NOTES *(Continued)*

9. Net surplus for the year

	2014 Shs'000	2013 Shs'000
(a) Items charged		
The following items have been charged in arriving at net surplus/(deficit) for the year		
Depreciation of property, plant and equipment	32,022	24,037
Amortisation of intangible assets	49,411	12,245
Authority board members' emoluments, allowances and other Board related expenses	23,614	22,015
Post employment benefits expense (Note 8(b))	19,176	18,034
Provision for impairment of financial assets		
Trade and other receivables	208	1,534

(b) Employee benefits expense

	2014 Shs'000	2013 Shs'000
The following items are included in employee benefits expense:		
Retirement benefit costs		
Defined contribution scheme	18,953	17,836
National Social Security Fund	223	198

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.

The scheme is subjected to triennial valuations by independent actuaries to fulfill the statutory requirements under the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Rules 2000. The latest actuarial valuation was carried out as at 31 December 2011. The actuarial valuation method adopted, 'Attained Age Method', entailed the comparison of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members. The deficit was paid for in July 2012.

The principal actuarial assumptions applied in the valuation are:

Investment returns	9% per annum
Rates of salary escalation	7% per annum
Rate of pension increases	3%per annum

Based on the actuarial report, the actuaries estimated that the present value of past service actuarial liabilities amounted to Shs 149,616,000 at 31 December 2011, and that the value of scheme's liabilities exceeded the assets by Shs 18,400,000 at that date. The deficit was provided for in the year ended 30th June 2012 and paid in July 2012.

NOTES *(Continued)*

10. Tax expense

	2014	2013
	Shs'000	**Shs'000**
Current income tax	78,154	47,871
Deferred income tax (Note 20)	(11,464)	(17,154)
Prior year tax arrears	-	6,733
Income tax expense	66,690	37,450

The tax on the Authority's surplus before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

Surplus before income tax	**220,352**	**153,581**
Tax calculated at the statutory tax rate of 30%		
Tax effect of:	66,105	46,074
Deferred tax recognised	-	(16,183)
Income not subject to tax	(4,761)	(4,749)
Expenses not deductible for tax purposes	5,346	5,575
Prior year tax arrears	-	6,733
Income tax expense	66,690	37,450

NOTES *(Continued)*

11.Inventories	2014 Shs'000	2013 Shs'000
Consumables	1,573	1,133

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

12a. Trade and other receivables from non exchange transactions	2014 Shs'000	2013 Shs'000
Trade receivables	58,783	54,419
Statutory management expenses receivable	49,286	49,286
Less: Provision for impairment losses	(57,616)	(58,490)
Net trade receivables	50,453	45,215
Other receivables	25,400	24,230
Trade and other receivables from non exchange transactions	75,853	69,445

12b. Trade and other receivables from exchange transactions

Trade receivables	8,327	16,202
Less: Provision for impairment losses	(208)	-
Net trade receivables	8,119	16,202
Prepayments	7,512	1,371
Trade and other receivables from exchange transactions	15,631	17,573
Total trade and other receivables from non exchange and exchange transactions	91,484	87,018

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

At 1st July	58,490	56,956
Less: Provision utilised as debts written off	(200)	1,534
Less: Provision reversed on debt collection	(674)	-
At 30th June	57,616	58,490

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

At 1st July	-	-
Add: Additional provision	208	-
At 30th June	208	-

NOTES *(Continued)*

13. Staff loans and advances	Current 2014 Shs'000	Current 2013 Shs'000	Non- current 2014 Shs'000	Non- current 2013 Shs'000	Total 2014 Shs'000	Total 2013 Shs'000
Car loans	6,490	3,644	16,261	13,324	22,751	16,968
Other loans and advances	305	2,473	69	155	374	2,628
Provision for impairment losses	-	-	(1,922)	(1,922)	(1,922)	(1,922)
Miscellaneous advances	-	-	4,179	4,179	4,179	4,179
House loans/staff mortgage guarantee fund	19,337	14,265	181,821	130,888	201,158	145,153
	26,132	20,382	200,408	146,624	226,540	167,006

14. Held-to-maturity investments - government securities

	2014 Shs'000	2013 Shs'000
Non-current		
Treasury bonds		
Maturing after four years	165,000	145,000
Unamortised premium	45	-
	165,045	145,000
Treasury bonds		
Maturing after one year	80,000	100,000
Unamortised premium/(discount)	-	96
	80,000	100,096
	245,045	245,096
Current		
Treasury bonds		
Maturing within one year	100,000	135,000
Unamortised premium	45	(228)
	100,045	134,772
Treasury bills	203,300	139,500
Unamortised discount	(7,959)	(8,104)
	195,341	131,396
	295,386	266,168
	540,431	511,264

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

Non- current	
Held-to-maturity investments	240,223
Current	
Held-to-maturity investments	98,591

NOTES *(Continued)*

15. Staff benevolent funds	2014 Shs'000	2013 Shs'000
Investment in government securities	7,200	7,000
Unamortised discount on T-bills	(100)	(46)
Contributions receivable	713	159
Cash and cash equivalents (Note 16)	69	118
	7,882	**7,231**

16. Cash in hand and bank	2014 Shs'000	2013 Shs'000
Cash in hand and cash at bank	37,071	70,303
Short term deposits	88,122	23,782
	125,193	94,085

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

Cash and current account balances		
Short-term bank deposits	88,122	23,782
Cash at bank and in hand	37,071	70,303
Benevolent bank balance (Note 15)	69	118
Investors Compensation Fund bank balance (Note 17)	78,734	57,335
	203,996	151,538

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% of the consideration from sale and purchase of shares through the Nairobi Securities Exchange.
iii) 0.004% 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.

NOTES *(Continued)*

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

	2014 Shs'000	2013 Shs'000
At beginning of the year	727,753	422,318
Nairobi Securities Exchange transactions fees	70,271	74,377
Interest on investments	82,633	58,142
Unamortised discounts on investments	-	1,356
Financial penalties	6,028	446
Management fees	(500)	(500)
Public issue fees	-	238,486
Compensation to Discount Securities/Nyaga Stockbrokers Ltd investors	(9,523)	(66,872)
At end of the year	876,662	727,753

Included in the Investor Compensation Fund is Shs 4,044,268 (2013: Shs 4,169,674) worth of claims payable. The amount relates to claims by investors of Nyaga Stock Brokers (Under Statutory Management) which are due for payment.

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

	2014	2013
Non-current	**Shs'000**	**Shs'000**
Equity investment in the Central Depository and Settlement	7,000	7,000
Treasury bonds		
Maturing after five years	275,150	182,150
Unamortised discount	2,316	4,334
	277,466	186,484
Maturing after one year	74,000	250,000
Unamortised discount	66	3,220
	74,066	253,220
	351,532	439,705
	358,532	446,705
Current		
Treasury bonds	250,000	16,300
Unamortised discount	965	(10)
	250,965	16,290
Treasury bills	177,300	200,900
Unamortised discount	(7,015)	(8,901)
	170,285	191,999
Fees receivable	18,155	10,988
Bank balance	1,711	1,721
Call account	77,024	55,614
Interest income receivable	-	4,437
	96,890	72,760
	518,140	281,049
	876,672	727,754

The Authority is mandated to manage the assets of the Investor Compensation Fund until such a time that the latter will have a functional independent Board. The assets of ICF of Shs 877 million (2013: Shs 728 million) are invested in both long term and short term investments. The matching liabilities have been stated to reflect appropriate portions in current and noncurrent liabilities.

The fair value of Investor Compensation Fund in nature of treasury bonds at the balance sheet date were Shs 595 million.

18. Property, plant and equipment	**Motor vehicles Shs'000**	**copiers & faxes Shs'000**	**Office equipment Shs'000**	**Furniture & fittings Shs'000**	**work-in-progress Shs'000**	**Total Shs'000**
At 1st July 2012						
Cost	17,876	48,010	16,383	67,492	13,334	163,095
Accumulated depreciation	(12,516)	(28,035)	(9,046)	(10,923)	-	(60,520)
Net carrying amount	5,360	19,975	7,337	56,569	13,334	102,575
Year ended 30th June 2013						
Opening carrying amount	5,360	19,975	7,337	56,569	13,334	102,575
Additions	4,145	47,806	802	265	-	53,018
Reclassified to intangible assets	-	-	-	-	(11,547)	(11,547)
Reclassified to expenses	-	-	-	-	(180)	(180)
Work-in-progress capitalised	-	-	-	472	(472)	-
Disposals	(6,013)	(2,201)	(461)	(3,258)	-	(11,933)
Accumulated depreciation reversed on disposal	4,510	1,897	390	2,880	-	9,677
Depreciation charge	(2,730)	(10,905)	(2,382)	(8,020)	-	(24,037)
Closing carrying amount	5,272	56,572	5,686	48,908	1,135	117,573
At 30th June 2013						
Cost	16,008	93,615	16,724	64,971	1,135	192,453
Accumulated depreciation	(10,736)	(37,043)	(11,038)	(16,063)	-	(74,880)
Net carrying amount	5,272	56,572	5,686	48,908	1,135	117,573
Year ended 30th June 2014						
Opening carrying amount	5,272	56,572	5,686	48,908	1,135	117,573
Additions	10,380	4,768	130	35	746	16,059
Disposals	-	(449)	-	(69)	-	(518)
Accumulated depreciation reversed on disposal	-	197	-	52	-	249
Depreciation charge	(3,826)	(18,098)	(2,266)	(7,832)	-	(32,022)
Closing carrying amount	11,826	42,990	3,550	41,094	1,881	101,341
At 30th June 2014						
Cost	26,388	97,934	16,854	64,937	1,881	207,994
Accumulated depreciation	(14,562)	(54,944)	(13,304)	(23,843)	-	(106,653)
Net carrying amount	11,826	42,990	3,550	41,094	1,881	101,341

Work in progress balance relate to the relocations works at the Authority offices at Embankment Plaza.

NOTES *(Continued)*

19. Intangible assets	Intangible assets Shs'000	Work in progress Shs'000	Total Shs'000
Software costs			
Cost			
At 1st July 2012	25,852	238	26,090
Reclassification from work-in-progress	238	(238)	-
Additions	113,698	-	113,698
Reclassification from property, plant and equipment	11,547	-	11,547
At 30th June 2013	151,335	-	151,335
Amortisation			
At 1st July 2012	12,262	-	12,262
Amortisation	12,245	-	12,245
At 30th June 2013	24,507	-	24,507
Net book value			
At 30th June 2013	126,828	-	126,828
Cost			
At 1st July 2013	151,335	-	151,335
Additions	8,371	-	8,371
At 30th June 2014	159,706	-	159,706
Amortisation			
At 1st July 2013	24,507	-	24,507
Amortisation	49,411	-	49,411
At 30th June 2014	73,918	-	73,918
Net book value			
At 30th June 2014	85,788	-	85,788

NOTES *(Continued)*

20. Deferred income tax

Deferred tax assets and liabilities, and the deferred tax charge/(credit) in the profit and loss account and in other comprehensive income are attributable to the following items:

Year ended 30th June 2014	At 1st July 2013 Shs'000	Credited/(charged) to profit or loss Shs'000	At 30th June 2014 Shs'000
Deferred income tax asset			
Accrued leave	3,178	(313)	2,865
Provision for pending law suits	13,067	878	13,945
Staff gratuity provision	3,250	2,227	5,477
Provision for bonus- staff and board members	5,574	1,599	7,173
Provision for impairment losses	459	(397)	62
Provision for investor education	332	(332)	-
	25,860	3,662	29,522
Deferred income tax liability			
Property, plant and equipment	(3,895)	2,081	(1,814)
Intangible assets	(4,811)	5,722	911
	(8,706)	7,803	(903)
Net deferred tax asset	**17,154**	**11,465**	**28,619**

21. Trade and other payables	2014 Shs'000	2013 Shs'000
Trade payables	22,394	16,319
Accruals	116,384	102,296
	138,778	118,615

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

	Leave benefits Shs'000	Performance bonus Shs'000	Consultancies Shs'000	Other provisions Shs'000	Total Shs'000
At 1 July 2013	10,781	18,581	5,244	67,690	102,296
Additional provisions raised	9,550	23,910	14,248	68,676	116,384
Provision utilized/reversed	(10,781)	(18,581)	(5,244)	(67,690)	(102,296)
At 30 June 2014	9,550	23,910	14,248	68,676	116,384

22. Provision for liabilities and charges

At 1st July	43,555	41,700
Add: Additional provision	5,133	1,855
Less: Provision written back	(2,205)	-
At 30th June	46,483	43,555

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 its provisions periodically against case developments and related legal costs.

NOTES *(Continued)*

23. Current tax payable	**2014 Shs'000**	**2013 Shs'000**
Current year tax	25,325	47,821

24. Deferred income

In line with the Authority's accounting policy, Shs 83,513,463 of the donor funded income has been deferred for future periods as follows:

Within one year	27,838	47,587
Within two years	55,675	79,275
Total	83,513	126,862

25. Capital fund

At 1st July 2013 and at 30th June 2014	27,886	27,886

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

26. General fund	**2014 Shs'000**	**2013 Shs'000**
At 1 July	757,322	641,191
Surplus for the year	153,662	116,131
Dividend paid to National Treasury	(32,000)	-
At 30 June	878,984	757,322

General fund represents accumulated surpluses over the years.

27. Related party transactions

i) Board members of the Authority' remuneration

Authority Board members remuneration and allowances	23,614	22,015

ii) Key management compensation

Salaries and other employment benefits	91,790	89,100

28. Commitments

Contracted for but not recognised

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

Capital expenditure contracted for	28,000	28,000

The Authority embarked on the partitioning and refurbishment of the 5th floor. The structural plan has been drawn and the actual work will be accomplished in the following financial year at a cost of Shs 28 million.

NOTES *(Continued)*

28. Commitments (continued)

Operating lease commitments

Operating lease commitments represent rentals payable by the Authority for rented office space. Rental expenses during the year amounted to Shs 43,884,833 (2013: Shs 27,592,204).

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

	2014	2013
	Shs'000	**Shs'000**
Not later than 1 year	42,074	27,592
Later than 1 year and not later than 5 years	77,491	119,072
	119,565	146,664

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

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 Shs 16 million and the Authority has counterclaimed for a sum of Shs 42 Million. Based on professional advice, the Authority has estimated liability of Shs 6 million. The estimated liability has been recognised in these financial statements (Note 22). Based on the advice of the internal legal counsel, the Authority is of the opinion that no material liability is expected to arise to have an impact on these financial statements.

b) In the normal course of operation, Kenya Revenue Authority had completed a tax audit for the period 2007 to 2012 and had issued an assessment notice. The Authority is currently in process of addressing and concluding the issues raised. Principal tax arrears amounting to Shs 12 million were paid in the previous year and the Authority had applied for set-off of tax paid in error in previous years amounting to Shs 14.8 million. The Authority had also applied for waiver of interest and penalties amounting to Shs 19 million providing mitigating grounds in support of the waiver. Based on the professional advice received and the mitigating ground 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 expenditures	2014 Kshs'000	2013 Kshs'000
30.1 Employment expense		
Consolidated pay, leave pay and passages	261,639	251,535
Staff uniform expenses	223	297
Staff welfare and other costs	5,447	3,676
Staff retirement benefits	19,180	25,960
Staff gratuity	7,482	(863)
Benevolent fund contributions	-	131
National Social Security Fund (NSSF)	223	198
	294,194	**280,934**

30.2 Other administrative expenses

Rent and maintenance	43,885	27,592
Equipment maintenance and stationery	13,383	8,009
Telephone, postage and utilities	14,780	9,454
Entertainment and public relations	11,060	8,638
Medical scheme and insurance expenses	17,548	13,882
Training and conferences	38,158	27,134
Motor vehicle running expenses	6,612	5,641
Subscriptions and IOSCO membership	4,211	2,897
Authority board members' emoluments and allowances	23,614	22,015
Professional and market development services	82,800	52,424
Depreciation of property, plant and equipment	32,022	24,037
Amortisation of intangible assets	49,411	12,245
Auditor's remuneration	539	539
Investors' education and awareness programme	27,464	18,538
Tribunal expenses	720	3,225
Provision for impairment losses	208	1,534
	366,415	237,804
Total expenditure	**660,609**	**518,738**

ORGANIZATIONAL UPDATES

MARKET SUPERVISION DEVELOPMENTS

Surveillance

Market surveillance is a proactive tool and plays a significant role in anticipating the potential vulnerabilities to a capital market. It is a pre-emptive measure aimed at detecting and deterring potential market abuses and avoiding disruptions to the market from irregular trading activity, including market and price manipulation, insider trading and front running.

In order to enhance efficiency and effectiveness of market surveillance the Authority developed a surveillance manual to ensure that policies and procedures undertaken to conduct market surveillance are standardized. The manual is expected to strengthen the Authority's ability to conduct market surveillance on a timely basis, carry out post-trade analysis and reconstruct trade events as well as access information about particular trades or any other information needed for effective market surveillance.

The manual was prepared in line with international best practice as outlined in the IOSCO principles which stipulate the need for regulators to have comprehensive surveillance powers and use the same effectively. The principles further highlight the need for ongoing regulatory supervision of exchanges and trading systems aimed at ensuring integrity of trading is maintained.

Inspections

The Authority has continued to play its oversight role to ensure that the market is operating in accordance with the capital markets laws and regulations. The Authority carries out oversight of market intermediaries on a risk-based approach. In this regard, the Authority conducts on-site and off-site inspection of intermediaries based on their risk profile. Risk assessment of all intermediaries is undertaken once a year with a mid-year review to determine any changes in status in which case adjustments are made on the on-site examination programs. During the year 2013/2014 the Authority conducted on-site inspection of 54 intermediaries which included all investment banks, stockbrokers, and some of the fund managers and investment advisers. It is noteworthy that since the Authority fully embraced Risk Based Supervision, the efficiency of its oversight role is no longer based on numbers but ensuring that all high risk intermediaries are monitored on a continuous basis. This approach is also aimed at ensuring intermediaries are proactively managing their own risks and ensure that on a continuous basis internal controls are enhanced. With the introduction of the on-line reporting through RBSS, the Authority has continued to engage the market to ensure that all reporting obligations are met on timely basis.

Anti-Money Laundering/Counter Terrorism Financing

The Authority has been participating in various legal and regulatory initiatives aimed at protecting the capital markets industry from money laundering and financing of terrorism (ML/TF) risks and encourage enhanced compliance with the Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) standards set by the Financial Action Task Force (FATF). The FATF is the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT). Kenya's Anti-Money Laundering legal framework is largely contained in The Proceeds of Crime and Anti-Money Laundering Act, 2009 (POCAMLA) and POCAMLA Regulations 2013 whilst countering financing of terrorism is contained in The Prevention of Terrorism Act, 2012 (POTA) and The Prevention of Terrorism (Implementation of the United Nations Security Council Resolutions on Suppression of Terrorism) Regulations, 2013. The revised guidelines on prevention of money laundering and combating financing of terrorism in the capital markets are expected to be submitted to The National Treasury early in the first quarter of 2014/15 for consideration and onward transmission to the Attorney General for gazettement in accordance with Section 11 of the Statutory Instruments Act.

In view of the positive developments including completion of the implementation of the strategic plan, the FATF removed Kenya from the FATF's monitoring process under its on-going global AML/

ORGANIZATIONAL UPDATES *(Continued)*

CFT compliance process. Kenya is now classified as "jurisdictions no longer subject to monitoring". This means that Kenya is no longer subject to FATF's monitoring process under its on-going global AML/CFT compliance process. Initially, Kenya was classified under high-risk and non-cooperative jurisdictions before graduating to improving jurisdictions subject to FATF's AML/CFT monitoring compliance process.

LICENSING AND APPROVALS

New Licenses

During the 2013/2014 financial year, the Authority issued new licenses to the following:-

a) Fusion Investment Management Limited – REIT Manager;
b) CIC Asset Management Limited - REIT Manager;
c) Stanlib Kenya Limited- REIT Manager;
d) Co-operative Bank of Kenya Limited - REIT Trustee;
e) Housing Finance Company (K) Limited – REIT Trustee;
f) Genghis Capital Limited- Investment Bank;
g) KCB Capital Limited- Investment Bank;
h) EBI Investment Corporation Kenya Limited – Investment Bank;
i) Alpha Africa Asset Mangers Limited – Fund Manager;
j) Natbank Trustee and Investment Services Limited – Fund Manager;
k) UAP Investments Limited – Fund Manager;
l) Burbidge Capital Limited - Investment Adviser;
m) Orchid Capital Limited- Investment Adviser;
n) MTC Capital Advisor Limited – Investment Adviser.

New Collective Investment Schemes

During the year under review, the Authority granted approval to the following Collective Investment Schemes:

a) UAP Investments Collective Investment Scheme;
b) Pan Africa Asset Managers Unit Trust Scheme – granted consent to register as a Collective Investment Scheme.

Perpetual Licenses

Following the amendment of the governing legal framework to do away with annual renewal of licenses, the Authority issued Eighty Two (82) perpetual licenses as follows:-

a) One Securities Exchange;
b) One Central Depository;
c) Two Credit Rating Agencies;
d) One Venture Capital Company;
e) Twelve Investment Banks;
f) Ten Stockbrokers;
g) Twenty Three Fund Managers;
h) Sixteen Investment Advisers;
i) Fourteen Authorized Depositories;
j) Two REIT Managers.

Voluntary Withdrawal of License

The following licenses were withdrawn by the Authority following the licensees' election not to continue providing the regulated business:

a) Franklin Management Consultants Limited - Investment Adviser;
b) Executive & Corporate Advisory Services (K) Limited- Investment Adviser;
c) Tsavo Securities Limited- Investment Adviser
d) Equatorial Commercial Bank Limited – Authorised Depository.

ORGANIZATIONAL UPDATES *(Continued)*

ENFORCEMENT ACTIONS FOR THE PERIOD 2013 2014

	Licensee/Listed company	Nature of breach	Sanction imposed
1.	Kapchorua Tea Co. Ltd	Late submission of shareholder returns for July 2013 contrary to Regulation 4(2) of the Capital Markets (Foreign Investors) Regulations.	Authority issued a Cautionary enforcement notice on 15 November 2013.
2.	Kenya Power and Lighting Ltd	Late submission of shareholder returns for July 2013 contrary to Regulation 4(2) of the Capital Markets (Foreign Investors) Regulations.	Authority issued a Cautionary enforcement notice on 15 November 2013.
3.	Citidell Company Ltd	Late submission of the quarterly accounts for the period ending September 30, 2013 and of the half year accounts for the period ending June 30, 2013	Authority issued a reprimand and financial penalty of Kshs. 159,999.84 on January 7, 2014.
4.	Francis Drummond	Failure to execute Client instructions despite receipt of funds for purchase of securities and application of client deposits for the benefit of a stranger contrary to the requirements of Regulation 22 (b) & (d) and Regulation 22A of the Capital Markets (Licensing requirements) (General) Regulations	Pursuant to Sections 11(3)(cc) and 25 A of the Capital markets Act, the Authority imposes the following sanctions against Francis Drummond Company Limited • A public reprimand • An enforcement directive for reinstatement of the principal deposited by the client on December 2, 2013.
5.	African Alliance Investment Bank	Failure to execute Client instructions despite receipt of funds for purchase of securities and application of client deposits for the benefit of a stranger contrary to the requirements of Regulation 22 (b) & (d) and Regulation 22A of the Capital Markets (Licensing requirements) (General) Regulations	Pursuant to Sections 11(3)(cc) and 25 A of the Capital markets Act, the Authority imposes the following sanctions against African Alliance Company Limited • A reprimand to the Firm, limited the scope of the firm's business to investment advisory activities and directed the company to ensure compliance with the regulatory framework on 20 August 2013.
6.	Tsavo Securities	The Firm participated in fraudulent bond transactions contrary to the requirements of Section 31 (5) of the Capital Markets Act	Pursuant to Sections 11(3) and 25 A of the Capital markets Act, the Authority imposes the following sanctions against Tsavo Securities Limited • A reprimand to the Firm, directed the firm to submit it's detailed internal control procedures showing steps taken to prevent recurrence, directed the Firm to take disciplinary action against officers found to have been personally involved in the fraudulent transactions and directed the company to ensure compliance with the regulatory framework on 20 August 2013.

ORGANIZATIONAL UPDATES *(Continued)*

	Licensee/Listed company	Nature of breach	Sanction imposed
7.	Apex Africa Investment Bank	The Firm participated in fraudulent bond transactions contrary to the requirements of Section 31 (5) of the Capital Markets Act	Pursuant to Sections 11(3) and 25 A of the Capital markets Act, the Authority imposes the following sanctions against Apex Africa Limited • A reprimand to the Firm, directed the firm to submit it's detailed internal control procedures showing steps taken to prevent recurrence, directed the Firm to take disciplinary action against officers found to have been personally involved in the fraudulent transactions and directed the company to ensure compliance with the regulatory framework on 20 August 2013.
8.	Iroko Securities(K) Limited	Late submission of half year accounts for the period ending June 30, 2013 contrary to the requirements of Regulation 32(1)(b) of the Capital Markets (Licensing requirements) (General) Regulations	Pursuant to Sections 11(3)(cc) and 25 A and 34A of the Capital markets Act, the Authority imposes the following sanctions against FCB Capital • A financial penalty of Kshs. 51,111.06 against the Firm on December 2, 2013.
9.	FCB Capital	Late submission of half year accounts for the period ending June 30, 2013 contrary to the requirements of Regulation 32(1)(b) of the Capital Markets (Licensing requirements) (General) Regulations	Pursuant to Sections 11(3)(cc) and 25 A and 34A of the Capital markets Act, the Authority imposes the following sanctions against FCB Capital • A financial penalty of Kshs. 51,111.06 against the Firm on December 2, 2013.
10.	Dyer & Blair Investment Bank Ltd	Board constituted contrary to the requirements of Regulation 3 of the Capital Markets (Corporate governance)(Market intermediaries) Regulations The Firm had a liquid capital deficit contrary to the requirements of Regulation 44(4) of the Capital Markets (Licensing requirements) (General) Regulations	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against Dyer & Blair Investment Bank Ltd • Dyer & Blair Investment Bank Ltd ensures that the contraventions are fully redressed not later than 30 May 2014 • Dyer & Blair Investment Bank Ltd submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014
11.	Zimele Asset Management Limited	The Firm had a liquid capital deficit contrary to the requirements of Regulation 30 (4) of the Capital Markets (Licensing requirements) (General) Regulations The firm had not changed its external auditors contrary to the requirements of Regulation 42(4) of the Capital Markets (Conduct of business)(Market intermediaries) Regulations Failure to appoint a risk management officer contrary to the requirements of Regulation 24 (6) of the Capital Markets (Corporate governance) (Market intermediaries) Regulations.	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against Zimele Asset Management Limited • Zimele Asset Management Limited ensures that the contraventions are fully redressed not later than 30 May 2014 • Zimele Asset Management Limited submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014

ORGANIZATIONAL UPDATES *(Continued)*

	Licensee/Listed company	Nature of breach	Sanction imposed
12.	Regnum Consultants Ltd	The Firm had a liquid capital deficit contrary to the requirements of Regulation 30 (4) of the Capital Markets (Licensing requirements) (General) Regulations	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against Regnum Consultants Ltd • Regnum Consultants Ltd ensures that the contraventions are fully redressed not later than 30 May 2014 • Regnum Consultants Ltd submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014
13.	Suntra Investments Ltd	The Firm had a liquid capital deficit contrary to the requirements of Regulation 16 (3) of the Capital Markets (Licensing requirements) (General) Regulation Failure to regularly reconcile client records contrary Regulation 20 of the Capital Markets (Licensing requirements)(General) Regulations. Failure to prepare accurate and proper records, and to provide for major litigation cases and to segregate client funds properly contrary to Regulation 29, 30, 32, 33 & 35 of the Capital Markets (Conduct of business)(Market intermediaries) Regulations	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against Suntra Investments Ltd • Suntra Investments Ltd ensures that the contraventions are fully redressed not later than 30 May 2014 • Suntra Investments Ltd submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014
14.	Citidell Company Ltd	Liquid capital deficit contrary to the requirements of Regulation 30 (4) of the Capital Markets (Licensing requirements)(General) Regulations Shareholders' funds lower than the required minimum contrary to the requirements of Regulation 30 (1) of the Capital Markets (Licensing requirements)(General) Regulations Failure to appoint an internal auditor contrary to the requirements of Regulation 23 of the Capital Markets (Corporate governance)(Market Intermediaries) Regulations 2011 Failure to appoint an internal auditor contrary to the requirements of Regulation 24(6) of the Capital Markets (Corporate governance)(Market Intermediaries) Regulations 2011 Failure to establish an Audit committee contrary to the requirements of Regulation 13(1) of the Capital Markets (Corporate governance)(Market Intermediaries) Regulations 2011	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against Citidell Company Limited • Citidell Company Limited ensures that the contraventions are fully redressed not later than 30 May 2014 • Citidell Company Limited submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014

ORGANIZATIONAL UPDATES *(Continued)*

	Licensee/Listed company	Nature of breach	Sanction imposed
15.	ABC Capital Ltd	Liquid capital deficit contrary to the requirements of Regulation 16 (3) of the Capital Markets (Licensing requirements)(General) Regulations	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against ABC Capital Limited • ABC Capital Limited ensures that the contraventions are fully redressed not later than 30 May 2014 • ABC Capital Limited submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014
16.	African Alliance Kenya Investment Bank	Failure to appoint a risk management officer contrary to regulation 24(6) of the Capital Markets (Corporate governance)(Market Intermediaries) Regulations 2011 Failure to appoint a compliance officer contrary to regulation 30 of the Capital Markets (Corporate governance)(Market Intermediaries) Regulations 2011 Liquid capital deficit contrary to the requirements of Regulation 44(4) of the Capital Markets (Licensing requirements)(General) Regulations	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against AA • AA ensures that the contraventions are fully redressed not later than 30 May 2014 • AA submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014.
17.	NIC Capital Limited	Liquid capital deficit contrary to the requirements of Regulation 44(4) of the Capital Markets (Licensing requirements)(General) Regulations	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against NIC Capital • NIC Capital ensures that the contraventions are fully redressed not later than 30 May 2014 • NIC Capit submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March, 30 April and 30 May 2014.
18.	FCB Capital	Liquid capital deficit contrary to the requirements of Regulation 30(4) of the Capital Markets (Licensing requirements)(General) Regulations	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against FCB Capital • FCB Capital ensures that the contraventions are fully redressed not later than 30 May 2014 • FCB Capital submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014

ORGANIZATIONAL UPDATES *(Continued)*

	Licensee/Listed company	Nature of breach	Sanction imposed
19.	Equity Investment Bank Limited	Non-compliance with corporate governance requirements contrary to regulation 3 of the Capital Markets (Corporate governance)(Market Intermediaries) Regulations 2011	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against Equity Investment Bank Limited • Equity Investment Bank Limited ensures that the contraventions are fully redressed not later than 30 May 2014 • Equity Investment Bank Limited submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014.
20.	Amana Capital Limited	Liquid capital deficit contrary to the requirements of Regulation 30(4) of the Capital Markets (Licensing requirements)(General) Regulations	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against Amana Capital Limited • Amana Capital Limited ensures that the contraventions are fully redressed not later than 30 May 2014 • Amana Capital Limited submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014.
21.	Genghis Capital Limited	Failure to appoint a risk management officer contrary to regulation 24(6) of the Capital Markets (Corporate governance)(Market Intermediaries) Regulations 2011 Failure to appoint a compliance officer contrary to regulation 30 of the Capital Markets (Corporate governance)(Market Intermediaries) Regulations 2011	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against Amana Capital Limited • Genghis Capital Limited ensures that the contraventions are fully redressed not later than 30 May 2014 • Genghis Capital Limited submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014.
22.	JW Seagon	Liquid capital deficit contrary to the requirements of Regulation 30(4) of the Capital Markets (Licensing requirements)(General) Regulations Non-compliance with corporate governance requirements contrary to regulation 3(1)(b) of the Capital Markets (Corporate governance) (Market Intermediaries) Regulations 2011	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against JW Seagon • JW Seagon ensures that the contraventions are fully redressed not later than 30 May 2014 • JW Seagon submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014

ORGANIZATIONAL UPDATES *(Continued)*

	Licensee/Listed company	Nature of breach	Sanction imposed
23.	Price Waterhouse Coopers Associated Limited	Non-compliance with corporate governance requirements contrary to regulation 3(1)(b) of the Capital Markets (Corporate governance) (Market Intermediaries) Regulations 2011 Liquid capital deficit contrary to the requirements of Regulation 30(4) of the Capital Markets (Licensing requirements)(General) Regulations	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against PWCAL • PWCAL ensures that the contraventions are fully redressed not later than 30 May 2014 • PWCAL submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014
24.	Renaissance Capital Kenya Limited	Non-compliance with corporate governance requirements contrary to the requirements of Regulation 16(3) of the Capital Markets (Licensing requirements)(General) Regulations	Pursuant to Sections 11(3)(i) of the Capital markets Act, the Authority issued the following directives against Renaissance Capital Kenya Limited • Renaissance Capital Kenya Limited ensures that the contraventions are fully redressed not later than 30 May 2014 • Renaissance Capital Kenya Limited submits to the Authority 3 monthly reports providing a clear update of the actions taken and the actual progress to be submitted on 31 March,30 April and 30 May 2014
25.	Dyer and Blair Investment Bank	Unauthorized sale of shares belonging to Naftali Kairu Ngure contrary to the requirements of Regulation 23(b) of the Capital Markets (Licensing requirements)(General) Regulations	Pursuant to Sections 11(3)(cc) and 25 A of the Capital markets Act, the Authority imposed the following sanctions against DBIB • A public reprimand • An enforcement directive to deposit the balance of Kshs.121,475.00 in the client account not later than the close of business of 20 May 2014
26.	Dyer and Blair Investment Bank	Unauthorized sale of shares belonging to Emiliana Chemutai contrary to the requirements of Regulation 23(a) and 22(b) and(d) of the Capital Markets (Licensing requirements) (General) Regulations	Pursuant to Sections 11(3)(cc) and 25 A of the Capital markets Act, the Authority imposed the following sanctions against DBIB
27.	Fusion Investment Management	Notice of changes of key personnel without prior confirmation of the Authority contrary to the requirements of Regulation 53B(1) of the Capital Markets (Licensing requirements)(General) Regulations	Pursuant to Sections 11(3)(cc) and 25 A of the Capital markets Act, the Authority imposed the following sanction against Fusion Investment Management • A public reprimand
28.	TPS EA Limited	Delay in notifying the Authority of a Director's appointment contrary to regulation 19(1) of the Capital Markets(Securities)(Public Offers, Listing and Disclosures)Regulations 2002	Pursuant to Sections 25 A(1)(a)(i) of the Capital markets Act, the Authority imposed the following sanction against TPS EA Limited • A public reprimand

ORGANIZATIONAL UPDATES *(Continued)*

	Licensee/Listed company	Nature of breach	Sanction imposed
29.	Bora Capital	Failure to publish annual financial statements for the year ended 31 December 2013 contrary to the requirements of Regulation 32(1)(d) of the Capital Markets (Licensing requirements) (General) Regulations	Pursuant to Sections 11(3)(cc), 25 A and 34 A of the Capital markets Act, the Authority imposed the following sanction against Bora Capital Company Limited • A reprimand • A financial penalty of Kshs. 62,222.16/-
30.	Express Kenya Limited	Failing to publicize information on the profit warning within 24 hours after the reduction of profits beyond the specified limits required for the issuance of a profit warning contrary to regulation 19(3) of the Capital Markets(Securities)(Public Offers, Listing and Disclosures)Regulations 2002	Pursuant to Sections 25 A(1)(a)(i) of the Capital markets Act, the Authority imposed the following sanction against Express Kenya Limited • A public reprimand

HUMAN CAPITAL AND ADMINISTRATION

Capacity Building

The Authority has continued to undertake competency development for staff at all levels as reflected by competency index of 72 percent. During the year, members of staff attended local and overseas training. Local training included individual and group training aimed at enhancing technical and behavioral competencies. Team building sessions were held to promote synergy and commitment to achievement of organizational goals. Staff were exposed through workshops and study tours in various overseas countries such as Spain, U.S, Malaysia, U.K. and Mauritius.

The Authority filled vacant positions during the year increasing the total number of staff from 74 in June 2013 to 83 by December 2013. During the last 6 months of the year, the Authority's recruitment plans were affected by freeze on employment imposed on entities earmarked for merger process.

ISO 9001:2008

The Authority has continued to maintain and continually improve its Quality Management System as evidenced by continued certification granted to the Authority upon successful surveillance audits undertaken in September 2013.

Performance Management

The Balanced Score Card performance management system implemented by the Authority was enhanced through implementation of 360 degrees feedback system. One of the most notable outcomes of the 360 degrees feedback system is the coaching programme. Members of Authority management have acquired coaching skills through an Executive Coaching Certificate Programme and peer coaching is already being implemented. Plans are underway to extend the coaching programme to the other levels.

ORGANIZATIONAL UPDATES *(Continued)*

INVESTOR EDUCATION AND PUBLIC AWARENESS

The Authority continued to implement aggressive high impact investor education activities that have proven to be more effective in reaching out to its various constituents. Capital markets awareness continued to be a priority of the Authority as witnessed by the various initiatives during the year. As key examples and similar to the previous financial year, the Authority undertook various targeted initiatives in collaboration with stakeholders including; Counties, investment groups, members of the National Assembly, key government institutions, licensed intermediaries, listed companies, as well as potential issuers (equities and debt), including corporate entities, the youth (through forums and a University Challenge) and the Diaspora. The Authority continued to use various outreach mediums such as print and electronic media, forums, workshops, exhibitions, regional road shows and open days. Below are some of the key initiatives undertaken during the year;

- Given that the youth are the future leaders who will be driving the Vision 2030 economy, the Authority continued to implement several initiatives during the year. The Authority hosted students from Nairobi University, Strathmore University, Kenyatta University and Baraton University. In addition to the several workshops held at the CMA offices mentioned above, the Authority held a Kabarak University Capital Markets Challenge from May to June 2014. The Kabarak University Capital Markets Challenge comprised of the First stage (multiple choice) administered to 100 students. This was then followed by the second stage (panel questions) administered to 25 students giving way to the final stage that was completed in June, 2014 where the 10 finalists battled out for the top prizes of funds to invest in companies listed at the Nairobi Securities Exchange. The Kabarak University Challenge was a prelude to upcoming County and National University Challenges.

- According to industry statistics from the Kenya Association of Investment Groups, there are over 300,000 groups with an asset base of over Sh300 billion. Informal investment groups, popularly known as chamas, have morphed into financial machines that have initiated multi-billion-shilling projects in various sectors of the economy. Chamas and SACCOs control an estimated Kshs. 100 Billion in bank deposits. In this regard, the Authority held forums for the Kenya Association of Investment Groups (KAIG), League of Young Professionals (LYP), and Association of Women Accountants of Kenya (AWAK) as examples. In addition to associations, the Authority held several structured forums for various stakeholders on various capital markets issues. The stakeholders included Intermediaries, listed companies, Privatization Commission and the Finance, Planning and Trade Committee of the National Assembly.

- The Authority recognizes the importance of interacting with current and potential investors within the Nairobi County. It is in this regard that the Authority in partnership with capital markets industry stakeholders organized the Second Annual Capital Markets Open Day and Exhibition at the Kenyatta International Conference Center (KICC). The event presented an opportunity for current and potential investors and issuers to engage capital markets intermediaries to understand and access information that will assist them to make informed decisions with wealth creation, as the ultimate target. About 34 market intermediaries exhibited at the Open Day and a total of over 5,000 attendees were engaged.

- Counties remained a major target group for the Authority's investor education strategy given their potential to participate in the capital markets. The Authority conducted forums for various groups such as the youth, women as well as the business community in Yatta Constituency in Matuu, Katangi and also in Nyeri. Further, the Authority

ORGANIZATIONAL UPDATES *(Continued)*

hosted a conference in Nairobi for County Governments as well as participated at a forum in Nyeri targeting Corporation Secretaries in collaboration with the Institute of Certified Public Secretaries of Kenya (ICPSK). In addition to structured forums, the Authority continued to leverage media as an effective outreach medium by using vernacular radio covering the following eight regions: Nairobi, Western, Nyanza, Eastern, Central, Coast, Rift Valley and North Eastern.

- A Road Show held in Meru during the year proved effective in providing capital markets information to the community. The Authority also participated in ASK Shows in Kisumu and Mombasa jointly with capital markets intermediaries and other financial sector regulators (Insurance Regulatory Authority, Retirement Benefits Authority, Sacco Society Regulatory Authority and the Central Bank of Kenya). The Authority also collaborated with the Nairobi Securities Exchange in conducting an Open Day in Nyeri as well as with KenInvest through Open Days in Kisumu and Mombasa respectively. This included collaboration with ICPAK for an Open Day in Nairobi.

- The Authority's robust investor education programme was achieved through several strategic partnerships. As an example, the Authority held several initiatives in collaboration with stakeholders such as a joint CMA and Association of Chartered Certified Accountants (ACCA) forum for SMEs in Kenya that was informed by a collaboration MoU signed between the two institutions. The event provided a platform to discuss the opportunities for raising capital to finance long term infrastructure projects through the capital markets.

- Last but not least, the Authority continued to recognize the importance of investor education materials with regards to information dissemination. In this regard, the Authority developed brochures on Real Estate Investment Trusts (REITs), the Growth Enterprise Market Segment (GEMS) as well as a Key Terminologies of the Capital Markets.

INFORMATION, COMMUNICATION & TECHNOLOGY

ICT plays an increasingly critical role in regulation by enabling the delivery of better services, improving the efficiency of internal operations and supporting open engagement with stakeholders.

The Authority continues to use ICT to drive better service delivery, improve on operations, drive productivity, and to engage with stakeholders and the wider public.

During the year under review, the Authority continued a program it began last year to implement Information Systems to support its regulation activities. The Authority continued to enhance and roll out more features of the Risk Based Supervision System (RBSS); a comprehensive system that automates the Authority's Market Operations activities including licensing, approvals of public issues, inspections, online filing analysis of returns, investigations and enforcement.

In recognition of the importance of disaster recovery planning in today's world, the Authority installed a secure data centre to host critical systems and implemented a high availability offsite disaster recovery facility.

The Authority continued its engagement with stakeholders online through our website:
www.cma.or.ke. Through the website the Authority disseminated investor education material, market statistics, publications, news items as well as maintaining engagement with stakeholders and the public.

CAPITAL MARKETS FRAUD AND INVESTIGATION UNIT

The National Police Service through the Directorate of Criminal investigations attached officers to the Authority in the year 2009 to provide investigation

ORGANIZATIONAL UPDATES *(Continued)*

and enforcement support. This effort saw the reduction of the number of cases reported in the year under review as compared to the previous years. Efforts were ramped up to clear the back log of cases reported in the previous years and in particular the year of inception i.e. 2009. The unit has noted the increase in electronic fraud that involves the unauthorized access and theft of high net worth clients' accounts through identity fraud and the changing of client's information in the broker and CDSC database to facilitate identity fraud by staff as collaborators. Measures have however been put in place to proactively prevent the fraud by use of informers to stem out the vice.

Through this initiative, the Unit closely works with the market players and actively encourages them to give information of any suspicious activity that may lead to fraud risk with the overall aim of restoring investor confidence in the market.

The system has significantly aided in the tracking and arrest of suspects who have since left their previous employment stations thus reducing the number of cases that have been delaying the arrest of known suspects.

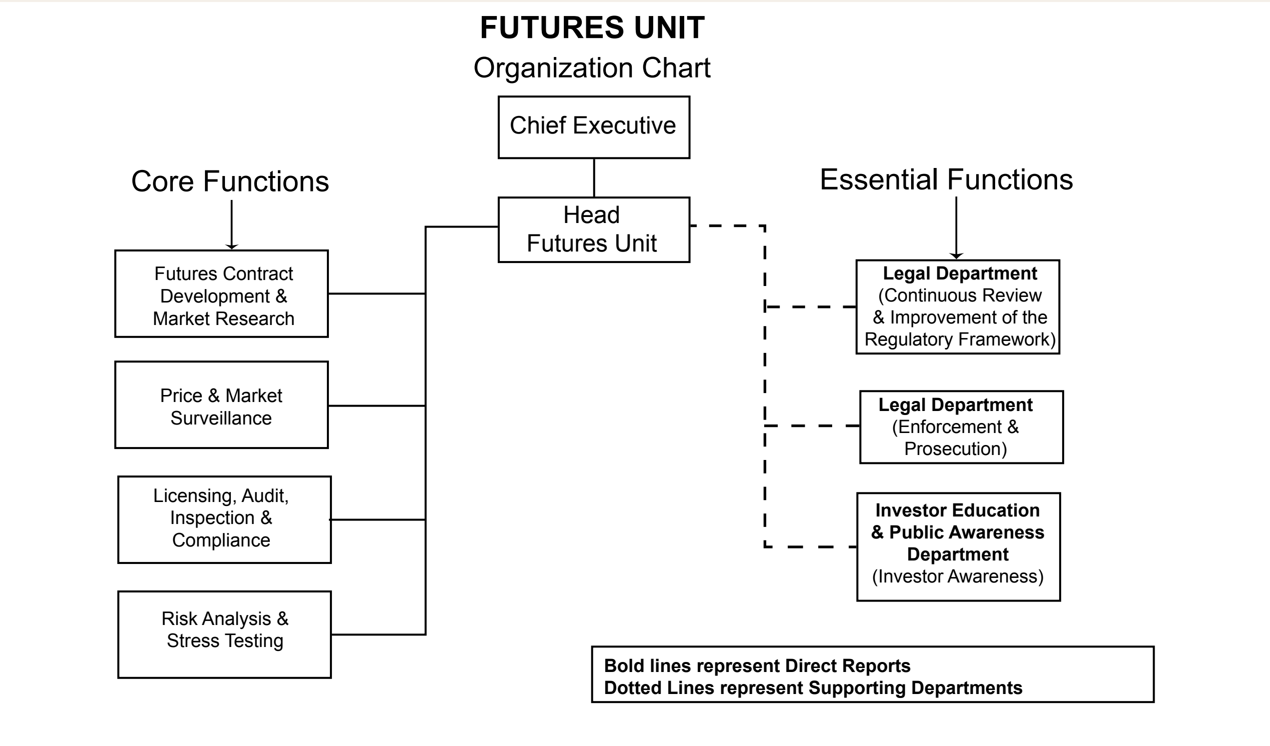
	2012	**2013**	**2014**
Position of Cases			
Pending Before Court	12	5	5
Pending Arrest of Known Accused	3	3	3
Pending Under Investigation	19	15	10
Recommendation for Enforcement actions	2	2	1
Forwarded to Director CID for further action	-	-	-
Withdrawal by Complainant after settlement	4	5	3
TOTAL	**40**	**30**	**22**

FUTURES UNIT

Following the gazettement of the Futures Markets (Licensing Regulations), 2013, in June, the Authority developed two additional draft regulations, namely the Capital Markets Futures and Derivatives Brokers Licensing Regulations and Capital Markets (Business of Futures Contracts) Regulations under public exposure in August 2013. Although the two sets of draft regulations were drafted using the comprehensive derivatives policy document which blended international best practices and the local environment in Kenya, Management deemed it fit to subject the two sets of regulations to review by peer regulators. Requests were subsequently made to several derivatives regulators across the world and detailed feedback received from developed markets like Dubai International Financial Centre, China, India and Malaysia. Overall, feedback obtained from the peer regulators found the regulations to have been comprehensively and effectively drafted. The two documents were consequently submitted to the Cabinet Secretary, National Treasury in June 2014. The two additional regulations complete the set of regulations necessary for a well-regulated derivatives market.

In August 2013, the Authority's Board approved the organization structure for the Futures Unit to enhance its operations. The functions of the Futures Unit will be broken down into core and essential functions. Core functions will be the key activities undertaken directly by the 'functional heads' of the 'Futures Unit' while essential functions refer to dependencies for completion of activities as depicted in the table on the next page.

ORGANIZATIONAL UPDATES *(Continued)*



Detailed key competencies and job descriptions for the core functions above were developed but recruitment was delayed following direction by Government to freeze any recruitments pending direction on consolidation of financial sector regulators.

In addition, technical staff of the Authority, drawn from surveillance, supervision, licensing, enforcement policy, investor education and legal framework functions completed a comprehensive two- month futures training and certification programme running from October 18 to November 17, 2013, facilitated by a long-term futures consultant contracted by the Authority during the period under review. The training which covered areas such as trading, clearing and settlement of futures contracts; contract creation; stress testing; capital adequacy requirements; corporate governance; market manipulations and other risk management methodologies was targeted at preparing the Authority to provide effective oversight over this industry.

The Authority further provided comprehensive comments to the Kenya Warehouse Receipt System Bill, 2013, prior to its tabling in Parliament, following its approval by Cabinet. The Bill, once enacted, will provide a facilitating framework for the development of a robust Warehousing Receipt System (WRS), which will be key in linking up the spot commodities market with the derivatives market.

The long-term futures consultant finalized work on other areas crucial for an effective futures and derivatives market including accounting framework, operation manuals, standard operating procedures and checklists for the Futures Unit's operations.

CORPORATE COMMUNICATIONS

During the period under review, the Corporate Communications Department drew its strategic direction from one of the Authority's five corporate objectives which was to; 'To promote investor education, awareness, and interest in the capital markets'. In order to achieve this specific objective, various strategies and initiatives were executed jointly with the Investor Education and Public Awareness Department, and other departments within the Authority. The Authority used three key strategies namely:

i. Enhance dissemination of investor education to various segments of the target market
ii. Increase avenues for the delivery of capital market education; and

ORGANIZATIONAL UPDATES *(Continued)*

iii. Enhance awareness of capital markets opportunities and developments.

The Authority also carried out several activities and initiatives including:

- Production and airing of three documentaries on KTN in June 2014;
- Strategic stakeholder engagement sessions aimed at sharing information on the Authority and enhancing understanding of capital markets products and services;
- Scheduled media engagement sessions between business journalists and the Acting Chief Executive;
- Production of quarterly newsletters, 'CMA Forum', which were distributed to stakeholders;
- Release of corporate information in a timely manner; and
- Participation in three Corporate Social Responsibility activities including a tree planting activity in collaboration with financial sector regulators at Ngong Forest's Kuwinda Grounds; donation of books to five secondary schools in Mombasa together with the financial sector regulators; and donation of books to Wema Centre in Mombasa in collaboration with the Central Depository and Settlement Corporation and the Nairobi Securities Exchange.

We continue to endeavor to improve the corporate communications functions within the Authority with a strategic focus to enhancing media relations.

OPERATING ENVIRONMENT

THE GLOBAL ECONOMY

The world economy reached only subdued growth of 3 percent in 2013. While most developed economies continued to grapple with the challenge of taking appropriate fiscal and monetary policy actions in the aftermath of the financial crisis, a number of emerging economies, which had already experienced a notable slowdown in the past two years, encountered new domestic and international headwinds during 2013. Some signs of improvement have emerged more recently. The euro area has finally come out of a protracted recession, with gross domestic product (GDP) for the region as a whole starting to grow again; the economy of the United States of America continues to recover; and a few large emerging economies, including China, seem to have at least stopped a further slowdown or will see accelerating growth. World Gross Product (WGP) is forecast to grow at a pace of 3.0 and 3.3 per cent in 2014 and 2015, respectively World Economic Situation Prospects (WESP) 2014. Looking ahead, global growth is projected to strengthen from 2 percent in 2013 to 3.6 percent in 2014 and 3.9 percent in 2015. The global recovery is still fragile despite improved prospects, and significant downside risks—both old and new—remain World Economic Outlook (WEO), April 2014.

MACROECONOMIC PROSPECTS FOR AFRICA

In 2013, Africa maintained an average growth rate of about 4 percent. This compares to 3 percent for the global economy and underscores again the continent´s resilience to global and regional headwinds. But growth performance varied widely across country classifications and regions. Growth in Sub-Saharan Africa was 5 percent in 2013 and is projected to be 5.8 percent in 2014. Excluding South Africa, the figures are 6.1 percent and 6.8 percent, respectively. East and West Africa recorded the fastest growth in 2013, above 6 percent. Furthermore, growth in low-income countries, at more than 6 percent, exceeded that of upper-middle-income countries in North and Southern Africa at below 3 percent.

Africa's medium term growth prospects look good. Africa´s average growth is projected to accelerate to close to 5 percent in 2014 and 5 percent-6 percent in 2015, thus to levels last seen before the onset of the 2009 global recession. This forecast is based on the premise of a gradual strengthening of the world economy and also on improvements in political and social stability in those African countries currently affected by conflicts. But if the global economy should remain weak, or if political and social tensions within Africa were to improve less than assumed, growth would be lower than projected. Inflationary pressures have eased in many countries as energy prices have

ORGANIZATIONAL UPDATES *(Continued)*

stopped rising and food prices have declined. These developments, together with prudent fiscal policies, have provided some scope for monetary policy to reduce interest rates. But in other countries where fiscal policy has been lax and where currencies have weakened, monetary policy has tightened to stem inflationary pressure - African Economic Outlook (AEO), 2014.

DOMESTIC ECONOMIC ENVIRONMENT

According to Kenya National Bureau of Statistics data, the country's Gross Domestic Product (GDP) expanded by 4.7 per cent in 2013 compared to 4.6 per cent in 2012. Kenya's Gross Domestic Product is estimated to have expanded by 4.1 per cent in the first quarter of 2014 compared to 5.2 per cent during the same quarter of 2013, and by 5.8 percent during the second quarter of 2014 compared to 7.2 per cent recorded during a similar quarter of 2013. The growth was mainly supported by robust growths in; construction (18.9 per cent), manufacturing (9.1 per cent) financial & insurance (8.3 per cent); information and communication (6.4 per cent); and wholesale and retail trade (6.8 per cent), while constrained by slurred growth in agriculture and forestry, and fishing and tourism sectors. Another factor that constrained economic growth during the quarter was the erratic weather pattern that resulted in depressed agricultural output. Quantities of exports of cut flowers and vegetables declined, while that of fruits rose significantly. Activities of other key crops, in particular cereals were negatively affected by the erratic rains during the quarter.

According to the Economic Survey 2014, the macroeconomic stability witnessed in 2013, continued in the first quarter of 2014 and is likely to be maintained to the rest of the year. The financial intermediation sector is also likely to maintain its momentum in 2014, mainly on account of enhanced performance and innovation in the sectors.

MARKET PERFORMANCE

PRIMARY EQUITY MARKETS

During the second quarter of year 2013, Home Afrika Ltd became the first publicly-traded property developer after listing 405.3 million shares on the Growth Enterprise Market Segment (GEMS) of the Nairobi Securities Exchange. The initial offering was priced at Kshs.12 per share. The company uses most of its capital to buy land.

On June 27, 2014, the Nairobi Securities Exchange (NSE) received formal approval from the Capital Markets Authority (CMA) to operate as a demutualized entity. On the same day, the CMA approved the application of the NSE to offer its shares to the public through an Initial Public Offer (IPO) and subsequently Self-list its shares on the Main Investment Market Segment (MIMS) of the NSE. The IPO is to be launched on July 23 and ran up to August 12, 2014 offering to the public 66 million shares at KES 9.50 per share.

Table 1: Initial Public Offers (IPOs) 2000-2014*

Company	Shares on Issue	Type of issue	Year of Issue	Issue Price	Sum Raised	Subscription level
	Ordinary Shares		Year/Month	Kshs	Kshs.	percent
African Lakes (Delisted in 2003)	4,000,000	IPO	2000 March	94.50	378,000,000.00	150%
Mumias Sugar Company	300,0000,000	IPO	2001 November	6.25	1,125,000,000	60%
Kengen	658,900,000	IPO	2006 April	11.90	7,840,910,000.00	333%
Scangroup	69,000,000	IPO	2006 June	10.45	721,050,000.00	620%
Eveready	63,000,000	IPO	2006 Aug	9.50	598,500,000.00	830%
Access Kenya	80,000,000	IPO	2007 March	10.00	800,000,000.00	363%
Kenya Re	240,000,000	IPO	2007 July	9.50	2,280,000,000.00	334%
Safaricom	10,000,000,000	IPO	2008 June	5.00	50,000,000,000.00	532%
Co-op Bank	701,000,000	IPO	2008 October	9.50	5,400,000,000.00	81%
British American	660,000,000	IPO	2011 September	9.00	3,515,103,000	60%
TOTAL	15,475,900,000.00				72,658,563,000.00	

*up to June; Source: Capital Markets Authority

ORGANIZATIONAL UPDATES *(Continued)*

Table 2: Additional Offers (AOs) and POs 2000-2014*

Company	Shares on Issue	Type of issue	Year of Issue	Offer Price	Sum Raised	Subscription level
	Ordinary Shares	OFS/Introd.	Year	Kshs	Kshs.	%
Pan African Insurance Holdings	24,000,000	AO	2000	21.50	516,000,000.00	100%
ICDC	8,948,725	AO	2001	37.00	211,905,808.00	64%
Mumias Sugar Company	91,999,220	AO	2006	49.50	4,320,000,000.00	95%
Deacons Kenya	12,800,000	PO	2010	62.50	700,990,000.00	87.5%
UAP	12,500,000	PO	2012	60.00	971,910,000	129.59%
SMEP DTM	145,454,546	PO	2012	11.00	266,658,887.00	16.67%

*up to June; Source: Capital Markets Authority

Table 3: Introductions 2000-2014*

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
Transcentury 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
TOTAL	**5,140,101,899.00**		

*up to June; Source: Capital Markets Authority: N/A – Not Applicable

PRIMARY BOND MARKETS

TREASURY BONDS

During the review period, Fourteen (14) Treasury bonds (i.e. thirteen new issues and one re-opening) were issued as the Government sought to raise KES 191 billion. KES.327 billion worth of bond applications were received, with the government accepting KES 204 billion.

In June 2014, Kenya issued its first ever sovereign bond. Kenya sought to raise USD 2 Billion (KES 174 billion) from international investors. This was hailed as the largest debut in the sovereign bond market for an African country. The bond yielded 2 notes; a $500m, five-year bond paying an interest rate of 5.875 per cent, and a $1.5bn 10-year note with a yield of 6.875 per cent. The bond was oversubscribed by 300%. Kenya's first sovereign bond is listed on the Irish Stock Exchange but there is a possibility that the notes will be listed on the local bond market.

ORGANIZATIONAL UPDATES *(Continued)*

Table 4: Issued and re-opened bonds FY 2013/2014

Date	Bond Issue	Tenor	Due Date	Offered (Kshs bn)	Bids (Kshs bn)	Accepted (Kshs bn)	Performance Rate (%)	Coupon Rate	Average Yield
July 2013	FXD 1/2013/15 (New Issue)	15 Year	07/02/2028	15.0	9.11	6.34	60.72%	11.25%	13.77
Aug 2013	FXD 1/2013/2 (New Issue)	2 Year	24/08/2015	20.0	22.25	17.93	159.82%	12.94%	12.94%
	FXD 1/2013/10 (New Issue)	10 Year	19/06/2023		9.72	0.53		12.37%	12.37%
Sep 2013	IFB 1/2013/12 (New Issue)	12 Year	15/09/2025	20.00	37.63	19.92	188.14%	11.00%	12.36%
Oct 2013	IFB 1/2013/12 (New Issue)	12 Year	15/09/2025	16.0	16.99	16.99	100%	11.00%	12.63%
Nov 2013	IFB 3/2013/5 (New Issue)	5 Year	19/11/2018	10.00	21.45	14.95	214.5%	11.95%	11.95%
Dec 2013	IFB 4/2013/2 (New Issue)	2 Year	21/12/2015	15.00	29.40	25.25	195.99%	11.55%	11.55%
Jan 2014	IFB 1/2014/10 (New Issue)	10 Year	15/01/2024	10.0	40.83	15.03	408.23%	12.180%	12.364%
Feb 2014	IFB 1/2013/15 (Re-opened)	15-year	07/02/2028	10.00	23.44	14.43	234.41%	11.250%	12.375%
Mar 2014	IFB 1/2014/2 (New Issue)	2-year	21/03/2016	15.00	48.78	20.00	326.07%	10.803%	10.803%
Apr 2014	FXD1/2014/5 (New Issue)	5-year	22/04/2019	15.00	30.27	17.51	202.67%	10.870%	10.870%
May 2014	FXD2/2014/2 (New Issue)	2-year	23/05/2016	15.00	12.51	12.27	83.38%	10.793%	10.793%
June 2014	FXD1/2014/5 (New Issue)	5-year	17/06/2019	30.00	15.27	14.29	80%	11.934%	11.934%
	FXD1/2012/20 (New Issue	20-year	01/11/2032		8.64	8.50		12.000%	13.357%
TOTAL (KES BN)				**191**	**326.9**	**203.94**	**187.83% (Av)**	**11.56% (Av)**	**12.15% (Av)**
TOTAL, 2013				**234**	**378.82**	**228.6**	**223.94% (Av)**	**12.16% (Av)**	**12.97% (Av)**
% Change				**(18%)**	**(14%)**	**(11%)**	**(16%)**	**(5%)**	**(6%)**

* Average yield has been taken to be equivalent to the market weighted average rate; Av- Average

Source: Central Bank of Kenya (CBK)

ORGANIZATIONAL UPDATES *(Continued)*

CORPORATE BONDS

Table 5: Corporate Bond Issues as at June 2014

Issuer	Approved Amount (Kshs mn)	Issued Amount (Kshs mn)	Date of approval	Maturity	Tenor	Outstanding (Kshsmn)	Yield (%)
PTA BANK							
PTA Bank (2007) FR (MTN)/2007/7YR	1,000	1,000	30-Oct-07	31-Oct-14	7yrs	700.0	FR: 1% above the most recent average 182-day T-bill rate.
BARCLAYS KENYA							
Barclays Bank K Ltd FR (MTN)/7YR	3,000	1,500	19-Nov-07	19-Nov-14	7yrs	1,500.0	0.6% above the most recent average 91 day T-bill rate.
Barclays Bank (FXD (MTN)/2008/7YR		1300	14-Jul-08	15-Jul-15	7yrs	1300.0	- Fixed rate of 0.75% above the spot 7-year Treasury yield rate, with an indicative fixed coupon rate of 11.5%.
Barclays Bank K Ltd FR (MTN)/7YR		700	14-Jul-08	15-Jul-15	7yrs	700.0	- Floating rate equivalent to the spot 182-day Treasury Bill yield rate plus a margin of 1%.
MABATI ROLLING MILLS							
Mabati Rolling Mills FR (MRM)/2008/8YR	2,000	1,378.50	27-Oct-08	17-Oct-16	8yrs	1,273.5	182 Day T-Bill rate + 1.75% re-priced semi-annually
Mabati Rolling Mills FR (MRM)/2008/8YR		621.50	1-Sep-08	1-Sep-16	8yrs	726.5	FXD 13.00%
SHELTER AFRIQUE							
Shelter Afrique 1st tranche FR 1/2011/3YR	2,500	1,416.79	11-Jul-11	22-Jul-14	3yrs	1,416.79	FR: 1.5% above the prevailing 182-day but capped at 13.5%.
Shelter Afrique 1st tranche FXD 1/2011/3YR		1,083.21	11-Jul-11	22-Jul-14	3yrs	1,083.21	FXD 12.5%
Shelter Afrique 2nd tranche FXD 2/2012/3YR	500	500	17-Dec-12	14-Dec-15	3yrs	500.0	FR: 1.5-2% above the prevailing 182-day but capped at 13.5%. FXD 12.75%
Shelter Afrique New FXD 1/13/05YR	5,000	4,239.70	30-Sep-13	24-Sep-13	5yrs	4,239.70	FXD 12.75%
Shelter Afrique New FR 1/13/05YR		760.30	30-Sep-13	24-Sep-13	5yrs	760.30	182 Day T-Bill rate + 1.50%
CFC STANBIC							
CFC Stanbic FR (CFC Stanbic) 2009/7YR	5,000	97.9	7-Jul-09	7-Jul-16	7yrs	97.91	FR: +1.75% above prevailing 182-day T-Bill rates
CFC Stanbic FXD (CFC Stanbic) 2009/7YR		2,402	7-Jul-09	7-Jul-16	7yrs	2,402.09	FXD: 12.5%
CFC Stanbic FXD 2 (CFC Stanbic)2010/4YR		2,500	17-Dec-10	17-Dec-14	4yrs	2,519.0	FXD 7.5%
SAFARICOM LTD.							

ORGANIZATIONAL UPDATES *(Continued)*

FR (Safaricom Ltd) 2009/5YR		463.40	2-Nov-09	3-Nov-14	5yrs	463.40	T.B (182) + 1.85%
FXD (Safaricom Ltd) 2009/5YR		7,049.60	2-Nov-09	3-Nov-14	5yrs	7,049.60	FXD: 12.25%
FXD 2 (Safaricom Ltd) 2009/5YR	12,000	5,000.00	2-Nov-09	3-Nov-14	5yrs	5,000	FXD-6.75%
HOUSING FINANCE							
FXD (HFCK) 02/2012/7YR		2,969.10	22-Oct-12	14-Oct-19	7yrs	2,969.0	FXD: 13%
FR (HFCK) 2010/7YR		1,166.50	26-Oct-10	2-Oct-17	7yrs	1,166.50	FR: 182 day + 3% with a floor of 5% and a cap of 9.5%
FXD (HFCK) 2010/7YR	10,000	5,864.40	26-Oct-10	2-Oct-17	7yrs	5,864.40	FXD: 8.5%
KENGEN							
FXIB 1/2009/10YR	25,000	25,000	2-Nov-10	31-Oct-19	10yrs	19,042.97	FXD: 12.5%
CONSOLIDATED BANK							
Consolidated Bank CON.BD-FR (SN)/2012/7YR		1.0	30-Jul-12	22-Jul-19	7yrs	1.0	Senior FR notes (182-day T-bill + 2%)
Consolidated Bank CON.BD-FXD (SBN)/2012/7YR		196.5	30-Jul-12	22-Jul-19	7yrs	196.5	Subordinated FXD notes (13.60%)
Consolidated Bank CON.BD-FXD (SN)/2012/7YR	2,000	1,480.6	30-Jul-12	22-Jul-19	7yrs	1,480.6	Senior FXD notes (13.25%)
CENTUM							
CENTUM CTNB. BD.18.09.17/13.50; Senior Unsecured FXD Rate Notes		2,917.1	26-Sep-12	18-Sep-17	5yrs	2,917.1	Senior unsecured FXD 13.5%
CENTUM CTNB. BD.18.09.17/12.75; Senior Unsecured Equity-Linked Notes	4,167.9	1,250.8	26-Sep-12	18-Sep-17	5yrs	1,250.8	FXD rate of 12.75 percent payable semi-annually and will participate in an equity upside linked to the growth of the Company's NAV subject to a maximum of 15% of the par value of the notes.
INVESTMENT & MORTGAGES							
1&M FXD I &M-01/13/5.25		3,429	13-Dec-13	8-Mar-13	5.25yrs	3,429	FXD: 12.5%
I & M FRN I &M-01/13/5.25	3,655	226	13-Dec-13	8-Mar-13	5.25yrs	226	FR: 182 day + 2%

Source: Capital Markets Authority

During the review period, two (2) corporate bond offers were issued. Housing and Urban Development financier Shelter Afrique issued the first Kshs3.5 billion tranche of a Kshs 8 billion medium term note issue. The bond received Kshs 5 billion in subscriptions. The issue which had a greenshoe option of up to Kshs1.5 billion was oversubscribed with Shelter Afrique accepting the whole amount received of Kshs5 billion. In addition, I&M

ORGANIZATIONAL UPDATES *(Continued)*

bank issued the first tranche of the CMA approved KShs10 billion bonds whose tenors range between 5 and 10 years. The first tranche of the bond which received bids amounting to Sh3.655 billion would be used to bolster the bank's capital.

In June 2014, the Authority approved the issue of a Ksh5 billion Medium Term Note Programme by British American Investment Company (Britam) to be used to fund strategic business initiatives. The bond will be issued in two tranches as follows; the first tranche will amount to Ksh3 billion and with the option to take up to an additional amount of up to Ksh1 billion in a green shoe option, while the second tranche will amount to Ksh2 billion.

Table 6: Corporate bonds holdings* by category of investors in (percent) as at June 2014

ISSUER	Banks	Ins.Com.	F/man.	Inv.Com. & Inst.	Individ.	Average Yield (%)
PTA Bank Ltd 2007	16.80%	4.00%	79.20%	-	-	11.49%
Barclays Bank of Kenya Ltd Tranche 1	4.50%	2.50%	87.30%	5.00%	0.70%	8.83%
Mabati Rolling Mills - Fixed	0.00%	25.18%	74.61%	0.00%	0.21%	11.11%
Mabati Rolling Mills - Floating	41.62%	1.96%	54.50%	0.00%	1.92%	12.24%
CFC Stanbic Bank Ltd Tranche 1 - Fixed	21.68%	16.44%	59.87%	0.00%	2.01%	12.50%
CFC Stanbic Bank Ltd Tranche 1 -Floating	0.00%	30.95%	67.97%	0.00%	1.08%	11.66%
CFC Stanbic Bank Ltd Tranche 2	20.00%	3.60%	76.39%	0.00%	0.01%	7.25%
Safaricom Ltd Tranche 1- Fixed	44.09%	3.70%	45.64%	0.00%	6.57%	12.25%
Safaricom Ltd Tranche 1- Floating	0.00%	0.00%	100.00%	0.00%	0.00%	12.34%
Shelter Afrique due 2015 - Fixed rate	-	17.17%	99.56%	0.44%	-	12.75%
Safaricom Ltd Tranche 2 - Fixed	44.09%	2.76%	52.99%		0.63%	7.75%
Safaricom Ltd Tranche 2 - Floating	0.00%	0.00%	100.00%	0.00%	0.00%	18.49%
HFCK Ltd Tranche 2 Fixed	22.16%	8.22%	67.58%	0.61%	1.43%	8.50%
HFCK Ltd Tranche 2 Floating	0.00%	0.00%	100.00%	0.00%	0.00%	9.50%
HFCK Ltd Tranche 3 Fixed	20.74%	5.14%	71.88%	0.31%	1.93%	13.00%
Kenya Electricity Generating Company Ltd	3.55%	3.21%	77.14%	3.67%	12.43%	12.00%
Centum-Snr Fixed	43.15%	3.45%	53.33%	0.00%	0.07%	13.50%
Centum-Equity Linked Notes	0.00%	0.00%	99.84%	0.00%	0.16%	12.75%

Source: Capital Markets Authority

RIGHTS ISSUES

In June, 2014, the Authority approved a rights issue for Diamond Trust Bank shareholders of up to 22,010,009 shares with a par value of Kshs.4 each at a ratio of one new ordinary share for every ten ordinary shares held. The period of acceptance of the Rights Issue opened on 30 June 30, 2014 and will close on July 25, 2014.

ORGANIZATIONAL UPDATES *(Continued)*

Table 8: Rights Issues 2004- 2014*

Company	Shares on Issue	Date of Issue	Offer Price	Sum Raised	Subscription level
KCB	50,000,000	2004	49.00	2,750,125,000.00	112%
Uchumi	120,000,000	2005	10.00	1,269,600,000.00	106%
CfC Bank	12,000,000	2005	62.00	744,000,000.00	100%
DTB	15,527,343	2006	50.00	2,305,810,436.00	297%
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%
KCB	887,111,110	July 2010	17.00	12,500,000,000.00	82.5%
TPS East Africa	24,701,774	September 2010	48.00	1,185,685,152.00	135%
Standard Chartered	15,109,323	October 2010	165.45	2,499,837,490.00	161%
KPLC	488,630,245	November 2010	19.50	9,830,340,000.00	103%
KQ	1,477,169,549	March 2012	14.00	14,487,949,714.00	70.06%
DTB	24,455,566	July 2012	74.00	3,369,522,734	186.2%
NIC	98,724,391	September 2012	21.00	7,007,457,273.00	338%
CFC Stanbic Holdings	121,637,427	October 2012	33.00	4,495,719,302.00	112%
Standard Chartered Bank	22,080,000	October 2012	145.00	8,272,934,400.00	258%
TOTAL	**3,763,698,430.00**			**84,699,822,708.00**	

Source: NSE/CMA
*As at June 2013

COLLECTIVE INVESTMENT SCHEMES

The total Net Asset Value of unit trusts in Kenya was Kshs 35 billion as at June 2014, 11 percent higher than the value registered in the preceding financial year. The increase in portfolio prices was mainly attributable an increase in bond and equity prices during the review period.

ORGANIZATIONAL UPDATES *(Continued)*

Table 9: Unit Trusts Portfolio Valuation as at June 2014

Asset Class	2013 (KES)	2014 (KES)	% of Total Portfolio	% Change (2013-2014)
Cash and Demand deposits	1,420,567,883.00	1,451,750,852.83	4%	2%
Treasury bills & bonds	5,468,064,257.00	6,587,809,665.56	19%	20%
Unquoted securities	-	-		-
Fixed Deposits	11,216,965,864.00	12,023,122,591.41	34%	7%
Corporate Bonds & Commercial Paper	3,529,523,584.00	3,616,900,300.54	10%	2%
other Unit Trusts/Mutual Funds	1,334,162,677.00	1,418,621,665.00	4%	6%
Local and Regional Equities	8,109,695,302.00	9,265,279,513.25	26%	14%
Offshore Investment	325,670,340.00	550,409,018.00	2%	69%
TOTAL	**31,404,649,907.00**	**34,989,962,029.59**		**11%**

Source: CMA Database

SECONDARY MARKETS

EQUITY MARKET

The review period witnessed a substantial rise in equity turnover to Ksh.183 billion, 47% higher than the corresponding period last year, mainly driven by foreign investor demand, following the Nairobi Securities Exchange increased profile as top five highest return markets in the world. The NSE closed the year as the top performing African market on the global MSCI Index, putting Kenya on the radar of international investors who have appetite for risk exposure in frontier markets. The MSCI Indices 2013 Performance Results ranked the NSE as the fourth best performing stock market in the world, with a 43.58 per cent return. Bulgaria was the best performing market with a 91.55 per cent return, followed by UAE (79.02 per cent), Argentina (68.97 per cent). Pakistan was fifth with a 27.76 per cent return. The equity market has experienced increased trading activity as investors remain bullish on the Kenyan market. The vibrant trading activity at the bourse is a result of the stabilization of the macroeconomic environment and positive 1H14 results being released by companies, resulting in reduced pressure on the trading multiples, hence creating share price upside on certain counters.

ORGANIZATIONAL UPDATES *(Continued)*

Table 10: Market Statistics 2013/2014

YEAR	MONTH	EQUITY TURNOVER (KSHS BILLION)	SHARE VOLUME (MN)	NSE 20 SHARE INDEX	MARKET CAPITALIZATION (KSHS BILLION)	BOND TURNOVER (KSHS BILLION)
2013	July	11.20	616	4,788	1,677	34.17
	August	20.80	670	4,698	1687	21.46
	September	10.06	489	4,793	1,791	29.30
	October	15.94	805	4,936	1,873	51.67
	November	13.12	645	5,101	1,975	26.93
	December	11.33	466	4,927	1,921	23.70
2014	January	15.97	638	4,856	1,897	42.54
	February	14.74	545	4,933	1,960	27.67
	March	12.58	519	4,972	2,000	30.49
	April	15.7	728	4,949	2,106	56.61
	May	23.0	854	4,882	2,092	37.61
	June	18.2	731	4,885	2,107	29.00
TOTAL FY 2013/2014		182.64	7,706	4,885	2,107	411.15
TOTAL FY 2012/2013		124.1	7,220.6	4,598	1,618	617.84
Percent Change		47%	7%	6%	30%	(33%)

Source: NSE

BOND MARKETS

Total bond turnover amounted to Kshs 411 Billion compared to Kshs 618 billion registered in a similar comparable period the previous year, a decrease of 33 percent. As interest rates decrease, prices at the bond market have also been on the rise, eating into yields hence the decrease in trading activity.

Market Outlook

The equity market experienced increased trading activity in the review period as investors remained bullish on the Kenyan market. The NSE-20 Index has however only edged up 6%, as the NSE-20 top gaining components' share price appreciation was offset by the index's top losers' share price depreciation. The vibrant trading activity at the bourse is a result of the stabilization of the macroeconomic environment and positive 1H14 results being released by companies, resulting in reduced pressure on the trading multiples, hence creating share price upside on certain counters.

Market liquidity has also increased year-on-year, with the cumulative trade volumes increasing by 7%. Foreign investors emerged as net sellers, accounting for 53.5% of market purchases, 54.9% of sales and 54.2% of market turnover in the 6 months to June 2014. Going forward, foreign investor participation will remain strong due to a stable shilling and strong growth in corporate earnings. There has been a low investor appetite witnessed on debt securities especially from private investors. This is attributable to tightening liquidity in the money market. Going forward we are likely to witness further downtrend in yields as the government's appetite in the domestic market is reduced as a result of an inflow of proceeds from the sovereign bond issued.

ORGANIZATIONAL UPDATES *(Continued)*

In sum, the outlook is positive, as market forces and a general rise in economic activity over the past 12 months have been a contributing factor to the price appreciation. In addition, over the past few months, we have witnessed an improvement in investor confidence in our capital markets going by the significant increase in new CDS accounts opened during the review period. However, we expect to see the 'Bull Run' cool off as the earnings season draws to a close.

TRENDS IN FOREIGN INVESTORS PORTFOLIO ACTIVITY

The review period witnessed a net portfolio outflow amounting to KES 1.4 billion, mainly as a result of increased profit taking by foreign investors.

Table 11: Foreign Investor Net Cash Inflow Activity (Kshs Millions)

	2010	2011	2012	2013	2014
January	2,517	1,987	(812)	2,133	(876)
February	489	622	795	(3,927)	(1,505)
March	1,998	1,552	2,651	1,810	(399)
April	151	(3,024)	1,771	3,026	1,409
May	(325)	(3,334)	1,099	3,475	(2,578)
June	1,601	(1,597)	1,639	2,602	2,586
July	1,159	1,173	828	1,625	
August	471	621	1,048	9,839	
September	1,206	535	3,286	2,063	
October	2,147	719	2,965	2,723	
November	2,526	31	4,335	884	
December	1,186	935	2,129	(690)	
NET CASH FLOW	15,126	220	21,734	25,563	(1,363)

*Up to June; Source: NSE

ORGANIZATIONAL UPDATES *(Continued)*

CORPORATE ACTIONS

Barclays	06-08-13	Interim	0.20
Bamburi	08-08-13	Interim	2.00
CFC Stanbic	12-08-13	Interim	0.63
BOC Gases	13-08-13	Interim	2.60
Jubilee Holdings	15-08-13	Interim	1.00
NIC Bank	22-08-13	Interim	0.25
EABL	23-08-13	Final	4.00
Unga Group	02-09-13	Interim	0.75
Uchumi Supermarkets	20-09-13	1st&Final	0.30
Longhorn Kenya	20-09-13	1st & Final	0.80
Nation Media Group	27-09-13	1st&Final	2.50
East African Cables	16-10-13	Interim	0.40
Carbacid Investments	23-10-13	Split	1:5
Carbacid Investments	23-10t-13	Bonus	1:2
Carbacid Investments	23-10-13	Final	3.00
EA Portland Cement	28-10-13	1st & final	0.75
KenGen	30-10-13	Final	0.60
Umeme	18-11-13	Interim	8.00 (Ushs)
Car & general	29-01-14	Bonus	1:5
Car & general	29-01-14	Final	0.80
Barclays Bank	06-02-14	Final	0.50
EA Breweries	14-02-14	Interim	1.50
HFCK	19-02-14	Final	1.00
KPLC	27-02-14	Interim	0.20
KCB	27-02-14	1st & Final	2.00
Equity Bank	28-02-14	1st & Final	1.50
BAT	28-02-14	Final	33.50
NIC	03-03-14	Final	0.75
CFC Stanbic	03-03-13	Final	1:52
PAN Africa Ins	04-03-14	1st & Final	4.50
Diamond Trust Bank	04-03-14	1st & Final	2.10
ARM	01-04-14	1st & Final	0.60
Total	03-04-14	1st & Final	0.60
Liberty	09-04-14	Scrip dividend	1.00
Crown Paints	30-04-14	Interim	1.75
Safaricom	13-05-14	Final	0.47
Bamburi	06-06-04	Interim	6.00
Williamson Tea	09-06-14	Final	7.00
Kapchorua Tea	09-06-14	Final	5.00
Longhorn	10-06-14	Interim	0.80
Diamond Trust Bank	19-06-14	Right issue	1:10
BAT	10-07-14	Interim	3.50
Housing Finance	17-07-14	Interim	0.75

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 Capital Markets in Kenya and for connected purposes.

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

It was operationalized in June 2003. This 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 in each of the market segments of the securities exchange. 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.

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

These Regulations govern the procedure and timing of the takeovers and mergers 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 deal with 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 deal with the regulation of the 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 (Corporate Governance) (Market Intermediaries) Regulations, 2011

The objective of these regulations is to enhance corporate governance practices by all capital markets intermediaries by way of prescribing the minimum standards. These Regulations were gazetted on October 14, 2011 and their effective date is October 14, 2012.

xi) 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. These Regulations were gazetted on October 14, 2011 and their effective date is October 14, 2012.

xii) The Capital Markets (Demutualization of the Nairobi Securities Exchange Limited) Regulations, 2012

The Capital Markets (Demutualization of the Nairobi Securities Exchange) Regulations, Legal Notice No. 87 of 2012, establishes the process of demutualization to be followed in law. The Regulations set out the application and approval process of the Nairobi Securities Exchange's (NSE's) demutualization. The Regulations also set out the terms and conditions for the re-licensing of the NSE in the context of the approval of demutualization. This is in line with IOSCO recommendations, which require legislation to be enacted to guide the demutualization of securities exchanges. The criterion for the approval includes overall fit and proper test for the exchange, its owners and directors to operate a public securities market, corporate governance, financial resources requirements, review of the NSE Rules, reliable secure and stressed tested IT system, fair and unbiased rules on membership access to the trading facilities, and listing for issuers and appropriate arrangements for clearing and settlement through an approved Central Security Depository.

xiv) Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 (Legal Notice No. 116 of 2013) (gazetted on 18th June 2013)

The REITs regulatory framework seeks to promote the pooling of investments in income producing real estate assets through Real Estate Investment Trusts (REITs). 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; and
- ✓ Introduction of additional capital markets instruments to both retail and institutional investors for investment and diversification of risk.

xv) Capital Markets (Futures Exchanges) (Licensing Requirements) Regulations, 2013 (Legal Notice No. 108 of 2013) (gazetted on 18th June 2013)

This regulatory instrument provides the framework for licensing of futures exchanges which are set to provide the trading facilities for futures and other derivatives. Regulated futures markets will provide, amongst others, the necessary financial instruments for hedging of currency and interest rate fluctuations as well as enhancing stability in the prices of commodities.

c) Guidelines

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

These regulations set out requirements for corporate governance for public listed companies and 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 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 has been 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.

LICENSEES AS AT 30 JUNE 2014

APPROVED INSTITUTIONS

Securities Exchange
Nairobi Securities Exchange Ltd.
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

Depository And Settlement System
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@cdsckenya.com

CREDIT RATING AGENCIES

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

Global Credit Rating Company
First Floor, Block A, Wierda Court
107 Johan Avenue
Wierda Valley
Sandton
Tel: +254 20 225- 0696 / +254 722 593- 137 [Cell]
Fax +254 20 318 – 368
E-mail: king@globalratings.net

REGISTERED VENTURE CAPITAL FUND

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Norfolk Towers, KijabeStreet 1st Floor
P.O. Box 43233, Nairobi
Tel: 254 20 228870
Fax: 254 20 330120
E-mail: general_manager@kcpafrica.com
Website: www.kcpafrica.com

INVESTMENT BANKS

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

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

CBA Capital Limited
Mara and Ragati Roads, Upper Hill, Nairobi
PO Box 30437 – 00100, Nairobi
Tel : +254 20 2884444
Fax: +254 20 2734616
Email: cbacapital@cba.co.ke
Website: www.cba.co.ke

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

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

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

Genghis Capital Limited
Prudential Assurance Building, 6th Floor
WaberaStreet
P. O. Box 9959-00100, Nairobi
Tel: 254 20 2774195/199
Fax: 254 20 2246334
Email: info@genghiscapital.co.ke

KCB Capital Limited
Kencom Hose, 6th Floor
Moi Avenue
P.O. Box 48400-00100
NAIROBI

NIC Capital Limited
NIC House, Masaba Road
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Tel: 254 20 2888000
Fax: 254 20 2888505
Email: service@nic-capital.com

Renaissance Capital (K) Limited
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Fax: 254 20 3601100
Email: pmweheire@rencap.com

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

Standard Investment Bank
ICEA Building, 16th Floor
P.O. Box 13714-00800, Nairobi
Tel: +254 (020) 2220225, 2228963/7/9
Fax: +254 (020) 240297
Email: info@sib.co.ke
Website: www.sib.co.ke

STOCK BROKERS

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

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

Apex Africa Capital Limited
Rehani House (HFCK), 4th Floor
Corner of Kenyatta Avenue and Koinange Street
P.O. Box 43676-00100, Nairobi
Tel : 254 20 422170
Fax : 254 20 215554
Email : hak@insightkenya.com

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

Kestrel Capital (EA) Limited
ICEA Building, 5th Floor
Kenyatta Avenue
P.O Box 40005 – 00100, Nairobi
Tel: 254 20 251758/251893
Fax: 254 20 243264
Email: info@Kshstrelcapital.com

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

NIC Securities Limited
NIC House, Masaba Road
P. O. Box 63046-00200, Nairobi
Tel: 254 20 2888000
Fax: 254 20 2888505
Email: info@nic-bank.com

Old Mutual Securities Limited
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Kimathi Street
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Tel: +254 20 224 1379
Fax: 254 20 241392
E-mail: reliable@gt.co.ke
Website: www.oldmutualkenya.com

Sterling Capital Ltd
Barclays Plaza, 11th Floor, Loita Street
P. O. Box 45080-00100, Nairobi
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Fax: 254 20 240297
Email: info@sib.co.ke

Suntra Investments Limited
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Kimathi Street
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Tel: +254 20 2870 000
Fax:254 20 2224327
E-mail:info@suntra.co.ke
Website: www.suntra.co.ke

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State House Road
P.O Box 34530-00100
NAIROBI

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

Apollo Asset Management Co. Ltd
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P.O. Box 43233 – 00100, Nairobi
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Fax: 254 20 330120/219744
E-mail: mails@aureos.co.ke
Website: www.aureous.com

British-American Asset Managers Limited
Britak Centre
Mara/Ragati Road Junction
Upperhill
P.0 Box 30375-00100l, Nairobi
Tel: 254 20 2710927
Fax: 254 20 2717626
E-mail: Britak@Britak.co.ke
Website: www.britak.com

Cannon Asset Managers Limited
Gateway Park, Block D
Mombasa Road
P.O.Box 30216- 00100
NAIROBI

Centum Asset Managers Limited
International House, 5th Floor
Mama Ngina Street
P.O.Box 10518 – 00100, Nairobi

CIC Asset Management Ltd
CIC Plaza, Mara Road
P. O. Box 59485-00100, Nairobi
Tel : 254 20 2823000
Email : cic@cic.co.ke

Co-op Trust Investment Services Ltd.
Co-operative House, 13th Floor
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Email: customerservice@co-opbank.co.ke

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

FCB Capital Limited
Prudential Assurance Building, 1st Floor
Wabera Street
P. O. Box 26219 – 00100,Nairobi
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Fax: 254 20 213582
Email: info@fcbtakafulagency.co.ke

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ACK Garden House, Block A, Ground Floor
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P.O Box 47538- 00100
NAIROBI

Genesis (K) Management Ltd
Arlington Block, 1st Floor
14 Riverside Business Park, Off Riverside Drive
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Tel: +254 (20) 2323343/44
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E-mail: support@genesis.co.ke

ICEA Lion Asset Management Ltd.
ICEA Lion Centre
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Tel: 254 20 340365/6
Fax: 254 20 338089
E-mail: iisl@icea.co.ke

Madison Asset Management Services Ltd
Madison Insurance House, 2nd Floor
Upper Hill
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Old Mutual building, Mara Road, Upper Hill
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Tel: 2711309/2730466
Fax: 2711066
E-mail: omam@omamkenya.com
Website: www.oldmutualkenya.com

Old Mutual Investment Services (K) Ltd
Old Mutual Building, 2nd Floor
Corner of Mara & Hospital Road
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Fax: 254 20 2722415

Pan African Asset Management (Kenya) Limited
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PineBridge Investment (EA) Ltd
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Fax: 2733410

Standard Chartered Investment Services Limited
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Cititrust (K) Limited
Citibank House,
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Fax: 254 20 2714811
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Email: nri.africa@citigroup.com

Cooperative Consultancy & Insurance Agency Ltd
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Fax : +254 20 2883304

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Ushindi House State House Road,
Opposite Gate B, State House
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Tel: +254 20 201 13 13
Email: info@emergingafricacapital.com

J. W. Seagon and Company Ltd
Mobil Plaza, 1st Floor
P. O. Box 16658 – 00620, Nairobi
Tel: 254 20 513600/6
Email: info@jwseagon.com
Website: www.jwseagon.com

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

MTC Capital Advisor Limited
Delta Riverside, Block 4, Ground Floor
Riverside Drive
Box 1071-00200
NAIROBI
E-mail: soundy@mtc-trust.com

Orchid Capital Limited
6th Floor Prudential Assurance Building,
Wabera Street
P.O. Box 607-00612
NAIROBI

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

Raya Limited
Fortis Tower, 8th Floor
Woodvale Grove
P.O.Box 40583- 00100
NAIROBI

The ProFin Group (K) Limited
39 Longonot Place,
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Email: douglaswekhomba@theprifingroup.com

VFS International (K) Limited
Village Market
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Email: info@vfsint.com
Website: www.vfsint.com

Winton Investment Services Ltd.
Prudential Assurance Building, 6th Floor
Wabera Street
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Fax: 254 20 7121742
Cell: 0722 509 269/ 0733 339047
E-mail: info@winton-investments.com

AUTHORIZED DEPOSITORIES

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P.O. Box 46452-00100, Nairobi
Tel : 254 20 2223922
Fax : 254 20 2222437
Email : headoffice@abcthebank,com
Website : www.abcthebank.com

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

Barclays Bank of Kenya Ltd
The West End Building, Waiyaki way
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Tel: 254 20 332230/313405/313364
Fax: 254 20 312392
Website: www.barclays.com

CFC Stanbic Bank Ltd.
CFC Stanbic Centre, ChiromoRoad, Westlands
P.O. Box 30550-00100,Nairobi
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Fax: 254 20 3752906/5/7
E-mail: cfcstanbic@stanbic.com
Website: www.stanbicbank.co.ke

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

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

Equity Bank Limited
Equity Centre, Hospital Road, Upperhill
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Tel : 254 20 2736620
Fax : 254 20 2737276
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I & M Bank Limited
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Fax : 254 20 2211160/2212947/2216732
Email: invest@imbank.co.ke
Website: www.imbank.com

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Fax: 254 2 339415
Email: custody@kcb.co.ke
Website: www.kcb.co.ke

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National Bank Building, Harambee Avenue
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Fax: 254 2 330784
E-mail: vicki@nationalbank.co.ke
Website: www.nationalbank.co.ke

National Industrial Credit (NIC) Bank Ltd
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Email: info@nic.bank.com
Website: www.nic-bank.com

Prime Bank Limited
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Email: headoffice@primebank.co.ke

Standard Chartered Bank Kenya Ltd
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Fax: 254 20 252225
Email: info@tnbl.co.ke

APPROVED COLLECTIVE INVESTMENT SCHEMES

1. African Alliance Kenya Unit Trust Scheme:
(i) African Alliance Kenya Shilling Fund
(ii) African Alliance Kenya Fixed Income Fund
(iii) African Alliance Kenya Managed Fund
(iv) African Alliance Kenya Equity Fund

2. Old Mutual Unit Trust Scheme:
(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

3. British American Unit Trust Scheme:
(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

4. Stanbic Unit Trust Scheme:
(i) Stanbic Money Market Fund.
(ii) Stanbic Flexible Income Fund.
(iii) Stanbic Managed Prudential Fund
(iv) Stanbic Equity Fund
(v) Stanbic Balanced Fund

5. Commercial Bank of Africa Unit Trust Scheme:
(i) Commercial Bank of Africa Money Market Fund.
(ii) Commercial Bank of Africa Equity Fund.

6. Zimele Unit Trust Scheme:
(i) Zimele Balanced Fund
(ii) Zimele Money Market Fund

7. Suntra Unit Trust.
(i)Suntra Money Market Fund
(ii)Suntra Equity Fund
(iii)Suntra Balanced Fund

8. ICEA Unit Trust Scheme.
(i) ICEA Money Market Fund
(ii) ICEA Equity Fund
(iii) ICEA Growth Fund
(iv) ICEA Bond Fund

9. Standard Investment Trust Funds:
i. Standard Investment Equity Growth Fund
ii. Standard Investment Fixed Income Fund
iii. Standard Investment Balanced Fund

10. Dyer and Blair Unit Trust Scheme:
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

11. Genghis Unit Trust Funds
i. Gencap Hazina Fund
ii. Gencap Eneza Fund
iii. Gencap Hela Fund
iv. Gencap Iman Fund
v. Gencap Hisa Fund

12. Amana Unit Trust Funds Scheme:
i. Amana Money Market Fund
ii. Amana Balanced Fund
iii. Amana Growth Fund

13. Diaspora Unit Trust Funds Scheme
i. Diaspora Money Market Fund
ii. Diaspora Equity Fund
iii. Diaspora Bond Fund

14. First Ethical Opportunities Fund

15. CIC Unit Trust Fund
(i) CIC Money Market Fund
(ii) CIC Balanced Fund
(iii) CIC Fixed Income Fund
(iv) CIC Equity Fund

16. **Madison Asset Unit Trust Fund**
(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

17. UAP Investments Collective Investment Scheme
i. UAP Money Market Fund
ii. UAP High Yield Bond Fund
iii. UAP Enhanced Income Fund
iv. UAP Dividend Maximizer Fund

18. Centum Unit Trust Umbrella Scheme
i. Africa Money Market Fund
ii. Africa Balanced Fund
iii. Africa Fixed Income Fund
iv. Africa Equity Fund

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 Ownership Plan
8. Housing Finance Employee Share Ownership Plan
9. Kenya Airways Employee Share Ownership Plan
10. I & M Bank Employee Share Ownership Plan

REIT TRUSTEES

1. Housing Finance Co. (K) Ltd.
Rehani House
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NAIROBI

2. Co-operative Bank of Kenya Ltd.
Co-operative House
Haile Selassie Avenue
P. O. Box 48231-00100
NAIROBI

REIT MANAGERS

1. UAP Investments Limited
Head Office
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NAIROBI

2. Fusion Investment Management Limited
ACK Garden House, Block A
1st Ngong Avenue
P.O. Box 47538 – 00100
NAIROBI

3. CIC Asset Management Limited
CIC PLAZA, Mara Road
Upper Hill.
P.O. Box 59485 – 00200
NAIROBI

4. Stanlib Kenya Limited
CFC House, 1st Floor
Mamlaka Road
P.O. Box 30550 – 00100
NAIROBI

5. Centum Asset Managers Limited
5th Floor, International House
Mama Ngina Street
P.O. Box 10518-0100
NAIROBI

3. NSE LISTED COMPANIES

AGRICULTURAL	**CONSTRUCTION & ALLIED**
Eaagads Ltd Ord 1.25 AIMS	ARM Cement Ltd Ord 1.00
Kakuzi Ltd Ord.5.00	Bamburi Cement Ltd Ord 5.00
Kapchorua Tea Co. Ltd Ord Ord 5.00 AIMS	Crown Paints Kenya Ltd Ord 5.00
The Limuru Tea Co. Ltd Ord 20.00 AIMS	E.A.Cables Ltd Ord 0.50
Rea Vipingo Plantations Ltd Ord 5.00 (Suspended)	E.A.Portland Cement Co. Ltd Ord 5.00
Sasini Ltd Ord 1.00	**ENERGY & PETROLEUM**
Williamson Tea Kenya Ltd Ord 5.00 AIMS	KenGen Co. Ltd Ord. 2.50
AUTOMOBILES & ACCESSORIES	KenolKobil Ltd Ord 0.05
Car & General (K) Ltd Ord 5.00	Kenya Power & Lighting Co Ltd Ord 2.50
CMC Holdings Ltd Ord 0.50	Kenya Power & Lighting Ltd 4% Pref 20.00
Marshalls (E.A.) Ltd Ord 5.00	Kenya Power & Lighting Ltd 7% Pref 20.00
Sameer Africa Ltd Ord 5.00	Total Kenya Ltd Ord 5.00
BANKING	Umeme Ltd Ord 0.50
Barclays Bank of Kenya Ltd Ord 0.50	**INSURANCE**
CFC Stanbic of Kenya Holdings Ltd ord.5.00	British-American Investments Co.(Kenya) Ltd Ord 0.10
Diamond Trust Bank Kenya Ltd Ord 4.00	CIC Insurance Group Ltd Ord.1.00
Equity Bank Ltd Ord 0.50	Jubilee Holdings Ltd Ord 5.00
Housing Finance Co.Kenya Ltd Ord 5.00	Kenya Re Insurance Corporation Ltd Ord 2.50
I&M Holdings Ltd Ord 1.00	Liberty Kenya Holdings Ltd Ord.1.00
Kenya Commercial Bank Ltd Ord 1.00	Pan Africa Insurance Holdings Ltd Ord 5.00
National Bank of Kenya Ltd Ord 5.00	**INVESTMENT**
NIC Bank Ltd Ord 5.00	Centum Investment Co Ltd Ord 0.50
Standard Chartered Bank Kenya Ltd Ord 5.00	Olympia Capital Holdings Ltd Ord 5.00
The Co-operative Bank of Kenya Ltd Ord 1.00	Trans-Century Ltd Ord 0.50 AIMS
COMMERCIAL AND SERVICES	**MANUFACTURING & ALLIED**
Express Kenya Ltd Ord 5.00 AIMS	A.Baumann & Co Ltd Ord 5.00 AIMS
Hutchings Biemer Ltd Ord 5.00	B.O.C Kenya Ltd Ord 5.00
Kenya Airways Ltd Ord 5.00	British American Tobacco Kenya Ltd Ord 10.00
Longhorn Kenya Ltd Ord 1.00 AIMS	Carbacid Investments Ltd Ord 1.00
Nation Media Group Ltd Ord. 2.50	East African Breweries Ltd Ord 2.00
Scangroup Ltd Ord 1.00	Eveready East Africa Ltd Ord.1.00
Standard Group Ltd Ord 5.00	Kenya Orchards Ltd Ord 5.00 AIMS
TPS Eastern Africa Ltd Ord 1.00	Mumias Sugar Co. Ltd Ord 2.00
Uchumi Supermarket Ltd Ord 5.00	Unga Group Ltd Ord 5.00
	TELECOMMUNICATION & TECHNOLOGY
	Safaricom Ltd Ord 0.05
	GROWTH ENTERPRISE MARKET SEGMENT (GEMS)
	Home Afrika Ltd Ord 1.00

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