



**SUBMISSION OF THE ANNUAL REPORT AND REVIEW OF
THE CAPITAL MARKETS OPERATIONS FOR THE PERIOD
ENDED DECEMBER 31, 2001 BY THE CHIEF EXECUTIVE
TO THE MINISTER FOR FINANCE**

Honourable Minister for Finance
Ministry of Finance and Planning
The Treasury
Nairobi

Dear Honourable Minister

I have the honour on behalf of the Authority to present to you the Capital Markets Authority's Annual Report for the period ended December 31, 2001, pursuant to the provisions and requirements of Section 36(3) of the Capital Markets Act, Cap 485A. The report reviews the capital markets operations and outlines continuing critical reforms and medium term action plan, under the theme of "Enhancing the Legal and Regulatory Framework and Creating a New Market Infrastructure".

Respectfully submitted

Paul K Melly
CHIEF EXECUTIVE



THE MISSION STATEMENT OF THE AUTHORITY

The mission of the Capital Markets Authority is to promote the development of orderly, fair, efficient, secure, transparent and dynamic capital markets in Kenya within a framework which facilitates innovation through an effective but flexible system of regulation for the maintenance of investor confidence and safeguards the interest of all market participants.



CHAIRMAN'S STATEMENT

It is my great pleasure to present the Capital Markets Authority's Annual Report for the period ended December 31, 2001.

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First, I wish to note that in the year 2001, the Authority continued to implement measures aimed at building an efficient capital market by consolidating critical reform pillars in order to ensure that the capital market plays an increasingly important role in support of national economic growth, needs and aspirations. In this regard, the Authority continued in its reform path under the theme of ***"Enhancing the Legal and Regulatory Framework and Creating a New Market Infrastructure"***. A number of achievements were recorded in the reform strategy for the capital markets in Kenya, including the following:

1. legal and regulatory reforms, which saw new and revised regulations on public offers, licensing, collective investment schemes and corporate governance, being put in place. These are in the process of being gazetted.
2. capital markets policy and operating environment, including new fiscal incentives.
3. progress in the implementation of the Central Depository and Automated Trading Systems.
4. enhancing the protection of investor interests.
5. investor education and awareness program.



On investor education, I wish to state that this is one of the key mandates of the Authority. One of the ways of protecting the investors is to empower them through information and awareness programs. Consequently, the Authority has identified investor education as a crucial area when dealing with investor protection issues. Indeed, the importance of educated and well-informed investors in forging a stable capital market is now almost universally recognized, especially by members of the International Organization of Securities Commissions (IOSCO).

The Authority is committed to ensuring that the investing public is an informed community that makes investment decisions based on fundamentals and the right information, not on rumours and hearsay.

An informed public will also act as frontline watchdogs in detecting malpractices in the marketplace.

Second, on the regional initiatives, I wish to note that the Authority continues to be at the forefront of the integration efforts for the East African capital markets. In the course of the year, the Authority played its due role in facilitating the creation of the Capital Markets Development Committee (CMDC) within the framework of the East African Community Treaty. The CMDC will carry on the work started by the East African Securities Regulatory Authorities Forum (EASRAF) on the integration and harmonization of the various aspects of capital markets development within the region. EASRAF will still be operational as a consultative forum.



The Chief Executive continues to be active in both regional and international organizations of the securities regulators as a Chairman of EASRAF as well as a member of both the Executive Committee and the Emerging Markets Advisory Board of the International Organization of Securities Commissions (IOSCO).

Lastly, as my term of office as Chairman of Capital Markets Authority comes to an end during the first half of 2002, I will be retiring in compliance with the provisions of the new Capital Markets Act, which limit the term of office for the Chairman to two terms. During my nearly six years as Chairman of the Authority, I have enjoyed the support of many friends and colleagues from both public and private sectors – which has enabled us, with the able team in the Authority – both on the Board and Management, to achieve tremendous success in realizing our mission of developing and regulating the capital markets in Kenya.

I wish to thank all those who have enabled me to perform my role as Chairman. I particularly wish to thank my colleagues on the board and the management headed by the able Chief Executive, Mr. Paul Melly, for their commitment, professionalism, friendship and support. I will continue being active in our mutual efforts in contributing to Kenya's economy in my other capacity.

Thank you.

Denis D Afande, CBS
Chairman



CHIEF EXECUTIVE'S REPORT

Introduction

As the year 2001 comes to an end, it is with great pleasure that I review the operations and performance of Kenya's capital markets and to highlight our continuing reform agenda, this being my seventh report as Chief Executive and ten years of service to the Authority.

First, I wish to thank the Chairman Mr. Denis D Afande and all Members of the Board for continued guidance and resolute support during the last nearly six years of the current mandated Board, which ends in July 2002. During this period we have collectively, as a Board and all staff of the Authority, made inexorable effort and indelible contributions towards re-shaping Kenya's capital markets.

Last year I outlined our reform vision and agenda under the theme "**Building an Efficient Capital Market for All by Consolidating Our Critical Pillars**". I am happy to report that we have made tremendous progress in the issues outlined, and we are still on course towards achieving our development objectives in the medium term, as outlined in the subsequent pages of this report.

This year's annual report is under the theme "**Enhancing the Legal and Regulatory Framework and Creating a New Market Infrastructure**".

This entails:

- ◆ *A legal and regulatory framework that is enabling, facilitative and conforms to the best international standards and practices*



- ◆ *An infrastructure that is efficient and state-of-the-art*
- ◆ *A supportive macro-economic environment with strong economic fundamentals, predictable and consistent framework;*
- ◆ *A strong domestic savings capacity supported by a strong fund management industry in order to mobilize savings in financial assets at household and corporate levels*

An Overview of the Global Economic Trends

The World Development Report from the World Bank indicates that during the year 2000, the world economy continued its remarkable recovery from the 1997-98 financial crises, but momentum faded as the year progressed. GDP growth rate of developing countries averaged 5% in 2000, a shade above the previous year. The fastest growing region was East Asia and Pacific at 7.5%, while Sub-Saharan Africa continued to under-perform with a 2.7% growth.

The weak economic performance during the last two years is largely due to resurgent conflicts, political upheavals in a few countries and a depressed market demand. In addition, higher oil prices in 2000 continued to adversely affect growth prospects for some countries, while markets for other primary products were depressed.

HIV/Aids remains one of the largest challenges to human development in many emerging economies leading to reversed gains in life expectancy.



Africa has also experienced falling levels of overseas assistance, down to \$ 19 per capita from \$32 in 1990, underscoring the need for Africa to build a domestic source of sustaining economic development.

The global GDP is now expected to grow in 2001 by 2.2%, well below its initial estimated potential of 3.3% and a sharp drop from last year's 4% growth rate. The growth in the industrial countries is projected to fall from its robust 3.6% pace in 2000 to 1.6% in 2001, while GDP in developing countries is projected to fall to 4% in 2001 from 5% recorded in 2000. The slower growth in world demand and trade will affect most countries for the worse, although lower inflation and interest rates among the industrial countries will be a common favourable factor.

As the year 2001 comes to an end, pressure is mounting on Argentinean economy due to high level of external debts of over 140 billion US dollars and difficulties of sustaining servicing of the debt with limited international financial support. The possibility of debt payment default and currency devaluation is highly likely during 2002 with potential social and political disruption feared.

The United States of America (US) GDP growth was anticipated to grow at 1.2% in 2001 but following the September 11, 2001 despicable terrorist attack in New York and Washington, the economic impact is likely to significantly undermine the growth during the first half of 2002 in the US and the rest of the world.



The recovery of the Japanese economy has also been slow and is expected to grow at 0.6% in 2001, as its overall pace of growth will hinge on success in the reform of its corporate and financial system as well as export performance.

The European union is faced with interest rates hikes and adverse terms of trade shock stemming from the combination of higher oil prices and weaker Euro. The leading indicators and industrial production reflect the downshift in activity. The growth estimates for 2001 stand at 2.5% as 12 countries of the European Union brace for monetary union when they will adopt the Euro as the domestic currency in January 2002.

In the course of 2001, noted efforts were made by the US Federal Reserve the European Central Bank and the Bank of England in cutting their key interest rates as part of the stimulus packages aimed at addressing the recessionary trends.

Africa

The economic activity in the region appears to have been stronger than expected during 2000, mainly because of developments in South Africa, where upward data revisions together with strong performance in the second half of the year boosted growth to 3.1%. During the second half of 2001 however, the South African economy faced accelerated depreciation of its currency.



The region as a whole is now estimated to have grown by 2.7% in 2000 and output should accelerate over the next few years to 3% in 2001 and 3.4% to 3.6% in 2002-03. Despite the expected easing of oil prices, growth in the oil exporting countries will continue to outpace that in the region as a whole because of strong investment demand.

Non-oil exporters should also see a pickup in growth as the terms of trade improve or at least stabilize with modest gains in non-oil export commodity prices and softening of oil prices.

Poverty remains a global problem of huge proportions. Nearly half of the world's 6 billion people live on less than \$2 a day, and about a fifth live on less than \$ 1 a day. It is estimated that 55% of the world's poor live in Africa and India.

Africa's success and commitment to fighting poverty remains elusive due to resource constraints and other non poverty alleviation priorities or misallocation of resources. There is, however, renewed effort to address conflict, governance, HIV/Aids and establishment of regional economic co-operation.

The World Development Report 2000/2001, states that countries that have been most successful in attacking poverty have encouraged a pattern of growth that makes efficient use of labour and have invested in the human capital of the poor. This strategy provides the poor with opportunities to use their most abundant asset – labour, and also improves their immediate well-



being and increases their capacity to take advantage of the newly created possibilities.

Overview of the Domestic Economy

Economic Growth

Kenya's economy has witnessed a downward trend in real Gross Domestic Product (GDP) growth from 1995 through 2000. Whilst the GDP grew by 4.8% in 1995, it contracted to a negative 0.3% in 2000. This decline has been reflected in almost all the sectors of the economy. The agricultural and manufacturing sectors production, which account for about a third of the GDP, were hard hit following a persistent drought, which in 1999 saw disruption in power supply and rationing.

However, in the year 2001 the economy showed signs of recovery especially following the improved weather conditions resulting in improved agricultural output and normalization of the power supply. The economy is estimated to grow at 1% in 2001 and a projected 1.5% for 2002. The delay in disbursement of support by the International Monetary Fund (IMF) due to constraints in complying with the disbursement conditionalities, coupled with the deteriorating infrastructure and decline in investor confidence, continue to have a negative impact on the Government budget, as well as on the economic growth prospects.

Liquidity, Interest Rates and Exchange Rates



The increased liquidity in the financial system arising from uncertainties in the banking sector following legislation empowering the Central Bank to control interest rates has ironically contributed to low interest rates.

The banks have instituted legal proceedings challenging the constitutionality of a provision requiring the application of the effective date of the new legislation on a retrospective basis as well as other ambiguities. The banks have also scaled down their lending to the productive sector due to the continued uncertainties in the new legislation and have also become risk averse on account of non performing debt portfolios. The increased liquidity and new investments guidelines for the retirement benefits sector have helped to stabilize the interest rates and supported the Treasury and Central Bank effort to restructure and shift domestic debt to long term tenor.

During the year 2001, investments in Government securities by the banking sector stood at Kshs 93 billion, up from Kshs 76.5 billion in 2000 (22% increase). Loans and advances, on the other hand, dropped from Kshs 230.4 billion in 2000 to Kshs 211.3 billion (a drop of 8%). Increasing investment in Government securities by the banking sector exacerbates the downturn in the economy as lending to the productive sectors continues to suffer. This scenario is also likely to result in earnings from the non-traditional banking activities overtaking the earnings from traditional banking activities, e.g. loans and advances.

Continuing efforts to restructure the domestic debt are aimed at reducing the proportion of short-term debt (91-day treasury bills) in favour of the longer dated treasury bonds. The interest rate on the 91-day bills has somehow



stabilized for almost a year at between 10.5% and 12.9% compared to 12.9% in the year 2000 and 20% at end of 1999.

The stock of Government debt stood at Kshs 226.7 billion as at end of 2001, compared to Kshs 193 billion at the end of 2000 out of which Treasury bills account for 50.2% down from 57.5% in the year 2000.

Commercial banks hold 50% of the Treasury bills and 39% of the Treasury Bonds and the balance by insurance companies, and other non bank financial institutions including retirement benefit funds.

The Kenya shilling exchange rate remained reasonably stable throughout 2001, exchanging broadly at the same level as last year between Kshs 78 and Kshs 79.

The continuing major budgetary challenge remains the withholding of donor support by Kenya's development partners. The failure to release financial assistance that had already been provided for in the budget of 2001/2002 means that the Government has to look for alternative means to bridge the gap which could see increased level of domestic debt and possibly a rise in the interest rates by the second half of 2002. The use of Government securities particularly Treasury Bonds to settle pending bills due and continued budgetary strains will also inevitably lead to build up in the domestic debt level. The situation has been worsened further following the September 11, 2001 terrorist attack in the US, which could impact negatively on our economy through reduced tourism and depressed commodities market prices. The full impact of continued global economic slow-down is more likely to be felt during the first half of 2002.



Overview of the Stock Market Performance

Over the last five years, the share prices of most of the listed companies have continued to decline. This trend can be attributed to the following reasons, among others:

- In 1997, the so-called “tiger economies” of South East Asia suffered an economic meltdown with far reaching economic consequences which in turn jolted the investor confidence, especially among the foreign investors leading to capital flight from many emerging markets.
- Kenya did not escape unscathed, as the few foreign portfolio investors in our market also joined in the trend of “flight to safety”, thereby contributing to declining share prices and the trend has not reversed to date as investor confidence in the emerging markets remains undermined.
- Listed companies operate within the general economic environment of the country and Kenya’s economy has not been performing well in the last five years, as alluded to earlier, hence contributing to low corporate earnings or losses by listed companies.
- Low corporate earnings or losses lead to lower or no dividend payout, thereby dampening the investor expectations and confidence in stock market as well as less demand for shares, resulting in depressed prices.
- The downturn in the economy has also lead to investors shifting their investments from equity (shares) to the more secure high yielding



fixed income Government securities, as a measure of diversification and preservation of wealth.

- The absence of an IMF programme has also contributed to the loss of investor confidence, especially from the foreign investors, as they consider the country's agreements with the IMF as a measure of confidence in the country's economy.
- The NSE index as a measure of price movement has also continued to decline in tandem with the declining prices of securities. From a high of nearly 5000 points in 1994, the index has steadily dropped to the current level of around 1400 (in December 2001).

Opportunities and Risks

Investment in the stock market normally comes with both opportunities for returns as well as risks, as the share prices could go up or down. Hence, it is likely that in the last several years, a few investors have suffered portfolio losses when liquidating their positions while others have made significant gains depending on entry and exit level. However, the current low level of most prices also offers an opportunity for medium and long-term investments at a cheaper cost for new investors.

Secondary Market Performance in 2001

At the end of 2001, the total volume of shares traded was 109.19 million against 141.1 million recorded in 2000 (a decline of 22.8%). The value of shares traded (turnover) was KShs 3.12 billion compared to KShs 3.63 billion (a decline of 14.05%) in 2000. The NSE 20 share index declined from 1913 to



1355 (a decline of 29.2%) during the year while the market capitalization (total market worth of all listed companies) declined by 15.1% to close the year at KShs 86.1 billion compared to KShs 101.4 billion in 2000.

Trading in bonds improved by 46% in 2001, with the gross turnover rising from KShs 6.47 billion to KShs 9.46 billion.

On the foreign investors counter, gross turnover decreased by 44% from KShs 700 in million in the year 2000 to KShs 390 million in 2001. The foreign investors participation in the market has declined from a level of 36% of the total market turnover in 1997 to a level of 12.5% during 2001. The net foreign investors inflow improved from a negative KShs 490 million in 2000 to a positive KShs 3 million in 2001.

Primary Market Performance

Equity Market

After a considerable number of years, the year 2001 saw two companies make primary issue of shares to the public. Mumias Sugar Company had an offer for sale of 300,000,000 shares as part of the Government privatization/divestiture programme. The issue price was KShs 6.25. The total proceeds of the sale amounted to KShs 1.12 billion being a subscription rate of 60%. ICDC Investments also had on offer to the public of 13,908,908 shares at an issue price of KShs 37. It recorded a 64% level of subscription translating to KShs 331 million as amount raised.



The two offers were under-subscribed due to depressed market and declining individual disposable incomes as a result of the downturn in economic activities, coupled with an investment mood, which now favours secure, high yielding Government securities.

Bond Market

The debt securities primary market continues to show remarkable growth in terms of the number and amounts issued during the year 2001 by both Government and corporate issuers.

During the year, a total of KShs 64.87 billion face value of treasury bonds were processed and approved by the Authority for listing, out of which the Government raised KShs 47.1 billion from the market, compared to the KShs 37.9 billion issued and KShs 28.7 billion raised during the year 2000. This was a 71.2% increase in the issued amount, and a 64.1% increase in the amount raised. This demonstrates the emerging success of the primary bond market as a source of financing in the economy as well as a commendable effort of the Treasury and Central Bank in restructuring national debt tenor.

In order to enhance trading and improve liquidity on the Fixed Income Securities Market Segment, the Authority will seek to license Authorized Securities Dealers during 2002. The new requirements for the licensing of Authorized Securities Dealers have been developed and issued for exposure.

There were also three issues of medium term notes, namely Shelter Afrique KShs 350 million, Safaricom KShs 4.0 billion and East African Development



Bank (EADB) KShs 2.0 billion, bringing the total corporate bonds issues to Kshs 6.35 billion.

The commercial paper (CP) programme has continued to provide a major source of short term financing mainly for working capital through the capital markets by eligible corporate issuers. The industrial sector companies account for about 84% of the total issue and have dominated the usage of CP. The commercial sector companies account for the remaining 16%.

As at the end of the year 2001, a total of KShs 8.95 billion was in issue and outstanding, of which less than 10% of the total was attributed to new issues, the rest being renewals. In comparison, in the year 2000, the outstanding amount was KShs 8.2 billion.

Enhancing the Legal and Regulatory Framework and Creating a New Market Infrastructure

The Authority continues to implement measures aimed at building an efficient capital market by consolidating the critical reform pillars:

- ◆ a legal and regulatory framework that is enabling, facilitative and conforms to the best international standards and practices; and
- ◆ an infrastructure that is scalable, efficient and state-of-the-art.

These critical pillars are further supplemented by need for:



- ◆ a supportive macro environment with strong economic fundamentals coupled with a predictable and consistent policy framework;
- ◆ a strong domestic savings capacity supported by a thriving fund management industry in order to mobilize savings in financial assets at household and corporate level.

In order to meet these desired objectives, the Authority continues to identify and address the structural deficiencies and impediments in the operating environment. These efforts are not only essential, but also critical in order to ensure that the capital market plays an increasingly important role in support of national economic growth needs and aspirations.

A Seven-Prong Reform Agenda for the Capital Markets

In the last year's annual report, I outlined a seven-prong reform agenda to guide the revitalization of the capital markets during the next two to three years. This agenda entailed the following:

- a fundamental reorganization of the stock market into independent market segments in order to address the diverse needs of the various issuers and investors;
- implementation of a robust, world-class and scalable market infrastructure;
- implementation of a robust legal and regulatory framework;
- a framework for institutional development, including collective investment schemes;
- a supportive capital markets policy and operating environment;



- an investor education programme; and
- efforts towards the building of an integrated East African capital market.

During the year 2001 significant progress has been made towards addressing these reform measures mainly in the re-organization of the market and reshaping the legal and regulatory framework. The following is the progress made in each of the seven-prong reform agenda:

Firstly, Fundamental re-organization of the Kenya's stock market into independent market segments.

The reform strategy paper released in May 2000, outlining the proposed fundamental re-organization of Kenya's capital markets into independent market segments, was implemented in full beginning January 2001.

The listed companies were categorized into 40 companies in the Main Investment Market Segment (MIMS) and 10 companies in the Alternative Investments Market Segment (AIMS).

The Fixed Income Securities Market Segment (FISMS) is also now fully in operation with Government securities mainly the Treasury bonds issues and a few corporate bonds. During the year 2002 additional measure aimed at improving trading and liquidity in the Fixed Income Securities Market Segment, including licensing of Authorized Securities Dealers will be considered.



Secondly, **Legal and Regulatory Reforms**

Following the amendment of the Capital Markets Authority Act and, its extended scope and renaming as the Capital Markets Act, the Authority has since redrafted the relevant regulations, issued them for exposure and is the process of gazetting them.

The following sets of comprehensive regulations and guidelines have been developed and are in the process of gazettment:

- **Collective Investment Schemes Regulations**

The Collective Investment Schemes Regulations are aimed at facilitating specialized mutual funds, unit trusts, investment trusts or special form of collective investment schemes for the purpose of mobilizing savings in financial assets and enhancing access to capital markets by small investors.

The collective investment schemes will offer a unique opportunity to investors in terms of professional management, economies of scale and diversification of portfolio and risk. The regulations cover requirements for registration, management (including obligations of fund managers, trustees, custodians), pricing, valuation and redemption, among others. The regulations also provide for requirements for employee share ownership schemes and special interest collective investment schemes.



- **Public Offer of Securities, Listings and Disclosure Regulations**

These are comprehensive regulations to govern public offers, disclosure requirements and listings of securities. The regulations prescribe the approval process for 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.

The regulations also prescribe the fees to be charged by the securities exchange for listing of securities.

- **Licensing Requirements and General Regulations**

Licensing requirements and general regulations represent a set of comprehensive regulations that prescribe requirements for licensing and approval of capital markets institutions including a securities exchange, stockbrokers, dealers, investment advisers, fund managers, investment banks, authorized securities dealers, authorized depositories, credit rating agencies and registered venture capital funds. These regulations prescribe detailed financial requirements for these institutions, functions, code of conduct and reporting obligations, among others.

- **Corporate Governance Guidelines**

The corporate governance guidelines prescribe requirements for corporate governance for public listed companies and issuers of



securities in the capital markets. The guidelines are consistent with the Authority's efforts to bring the legal corporate governance to international standards. The guidelines highlight identified foundation and virtues of good corporate governance including requirements for audit committees.

- **Guidelines on Rating Agencies**

Guidelines on rating agencies prescribe requirements for registration, accreditation and approval of rating agencies for the purpose of rating issuers of debt securities through the capital markets.

The Authority is currently working on the Takeover and Mergers Regulations. These will be issued for exposure by the second quarter of 2002. New regulations for Central Depository environment shall also be issued during 2002.

Thirdly, **A Robust, World Class and Scalable Market Infrastructure: Central Depository and Electronic Trading Project**

Over the last several years, the Capital Markets Authority in collaboration with the Nairobi Stock Exchange and other market stakeholders, have been in the process of implementing an electronic infrastructure for the market. This infrastructure will incorporate the trading, clearing, settlement and depository services.

The key objectives of the project is to, among others:



- Improve and enhance the trading, delivery, registration, settlement and depository system of the market;
- Enhance the liquidity of the market, thus increasing the turnover of securities in the market;
- Improve the transparency of transactions in the market, thereby minimizing instances of fraud as well as reducing the systemic risks;
- Increase the market efficiency, thereby lowering the transaction and operational costs, which should make the market more attractive to investors and issuers;
- Improve the timeliness of communication and information flows in the market, especially between issuers and investors
- Position the Kenyan market competitively in line with international practices and trends as well as enhance regional financial markets integration.

A number of milestones have been achieved in this project, including:

- Passage and assent of the Central Depositories Act 2000;
- Incorporation of the Central Depository and Settlement Corporation in March 2000;
- Start of the procurement process for the systems
- Selection of technology solution provider through a competitive bidding process.

The selection process during the year 2001 also benefited from the advice of two international experts from Citibank and from the National Securities Depository of India, which was facilitated by the Authority.



The Authority has further considered with other stakeholders the shareholding structure of the CDS with a view to freeing it from any potential situation of vested interests that could undermine the project's success.

The new shareholding will continue to be institutional based and the promotion of a Capital Markets Challenge Fund as shareholder has been proposed by the Authority.

The implementation target date has become elusive during the last two years. It is now expected that the implementation of the Central Depository and Automated Trading Systems will be completed by the fourth quarter of 2002. The new shareholding for the project and contract with the technology provider will be completed during the first quarter of 2002.

Fourthly, **Institutional development**

Following the enabling regulations and the new requirements, the Authority will seek during the second quarter of 2002 to achieve the following:

- ◆ Invite applications for approval for licensing of collective investments schemes;
- ◆ Licensing of investment banks;
- ◆ Licensing of authorized securities dealers.

Fifthly, **Capital Markets policy and operating environment**



The Authority continues to consult with Ministry of Finance and other stakeholders on policy matters needed to deepen the capital market. In the budget speech for the financial year 2001/2002, the Government continued to demonstrate its commitment and support to the development of the capital markets by providing additional incentives to capital markets investments as follows:

- ◆ To encourage more listings on the Nairobi Stock Exchange, newly listed companies approved under the Capital Markets Act will be taxed at a reduced corporation tax rate of 27% as compared to the standard rate of 30%. This will be for a period of three years following the date of listing. However, such companies should offer at least 20% of their share capital to the public; and
- ◆ The companies that apply and are listed shall get a tax amnesty on their past omitted profits subject to them making a full disclosure of their incomes and their assets and liabilities during the year of income commencing at the date of listing and undertaking to, henceforth, pay their due taxes in full.

Sixth, **Investors Education Programme**

As with other emerging markets, stock market investment is not a deeply entrenched culture in Kenya. Investment and trading in shares is still seen more as a speculative venture or preserve of sophisticated investors, rather than as a long-term investment and savings in financial assets.



The challenge for the Authority and all stakeholders, including the Nairobi Stock Exchange, is to raise the level of awareness among the general public, as well as among the potential issuers of securities in order to promote the use of the capital markets.

The Authority has, therefore, developed an *investor education and awareness programme* to sensitize the public on the opportunities and risks involved in capital markets investments. The programme will be launched during the second quarter of 2002.

An enhanced level of public education on capital markets operations should lead to an increased level of participation in the capital markets.

Seventh, **Regional Integration Efforts**

Under the East African Community (EAC) Treaty, the integration of the capital markets of the three Partner States is recognized in a significant way. Hence, over the last several years, and even before the Treaty was signed, the capital markets regulators and stock exchanges from the three countries have been forging close working ties with the objective of harmonizing the various aspects of their markets.

These efforts started with the formation of the East African Member States Securities Regulatory Authorities Forum (EASRAF) in 1997. EASRAF brought together the capital markets regulators of the three states together with the Nairobi Stock Exchange, which was the only stock exchange in existence then.



The objectives of EASRAF include, among others, the harmonization of:

- The legal and regulatory frameworks of the three markets;
- The fiscal and monetary policies;
- The trading and operational environment
- The public offer, disclosure and listing requirements

The process of harmonization is progressing well.

Through the efforts of EASRAF, both Uganda and Tanzania have managed to realize their objectives of setting their own stock exchanges, with the ultimate objective of linking up the three stock exchanges on a virtual basis as part of East African capital markets integration program.

During the year 2001, the objectives of EASRAF were further enhanced by the formation of a full sectoral committee under the EAC. This Capital Markets Development Committee is charged with the task of furthering the work started by EASRAF, which should culminate in full integration of the capital markets (see a more detailed brief elsewhere in this report).

The integration of the capital markets of East Africa will have the following advantages, among others:

- ◆ It will enable for sharing of information, expertise and experiences;



- ◆ It will also enable investors to freely access each others markets, hereby widening the pool of investment opportunities;
- ◆ The electronic infrastructure being implemented will facilitate linkage of all the three stock exchanges on a virtual basis which should enable investors from the three markets to have access to each other's markets without the need for physical movement of securities or cash;
- ◆ It will enhance the attractiveness of East Africa as an investment destination among foreign investors.

Manpower Development

The Authority continues to invest in its most valuable asset, the human resource in terms of training and skills development. Currently a number of staff members have been sponsored to pursue undergraduate and post-graduate programmes in local universities and other institutions. It is envisaged that by end of the year 2002, over 85% of all the technical staff will have attained a post-graduate qualification, mainly in economics, finance and law.

In the course of the year a number of staff members were also sent to various short-term courses abroad as part of a strategy to gain exposure and keep abreast with international developments in capital markets. The Authority will continue to review the terms and conditions of service of its staff as part of continuing efforts to attract and retain the best qualified staff and enhance their performance.



In December 2001, Mrs. Catherine Kola, who has been the Head of Enforcement, took early retirement from the services of the Authority to pursue other interests, after a dedicated ten-year service to the Authority. Mrs. Shamira Hussein, who was the Deputy Head of Enforcement, has been promoted to be Head of Enforcement and Legal Affairs.

Information Technology and Management Information Systems

In the course of the year 2002, the Authority shall commission a review of its IT and MIS infrastructure with the aim of ensuring that it is state-of-the-art and can meet our growing information needs in the Information Age.

Capital Markets Annual Review Forum Luncheon

The Authority hosted its third Capital Markets Review Forum Luncheon on November 21, 2001. The forum brings together capital markets stakeholders at senior level to deliberate on a range of issues that are critical in the development of our market.

The forum serves as an important dialogue for the Authority and participants on policy and reform measures for the capital markets.

Compliance and Enforcement Actions

The Authority's regulatory structure entails the building of an effective system of market oversight including a mechanism for monitoring compliance with specific regulatory requirements. It also includes a strong enforcement



programme, all of which are aimed at safeguarding the integrity of the market. The regulatory framework also entails an annual review for all market practitioners in order to ensure they continue to comply with oversight regulations.

The Authority's surveillance and compliance measures have been strengthened through regular off-site and on-site inspections and in-depth investigations of market operators whenever it is considered necessary. The Authority has now developed an effective compliance and enforcement capability, which is essential for enhancing investor confidence and maintenance of the integrity of the markets.

A certificate of compliance will be issued to all the licensed market operators who fulfill compliance requirements with effect from January 1, 2002.

The Authority has also developed checklists based on the new regulations. These include checklists on licensing requirements, initial public offerings, continuous reporting obligations, collective investment schemes and requirements for private transactions among others.

Oversight measures that ensure improved continuous reporting obligations have also been enhanced. Emphasis will be placed on ensuring that listed companies and all the Authority's licensees publish and submit their annual and interim reports and announce any price sensitive material information within the stipulated timeframe. The Authority has also required the Nairobi Stock Exchange to enforce its mandate on continuing reporting obligations by listed companies to the exchange.



During the year under review, the Authority directed the Nairobi Stock Exchange to de-list or suspend from trading companies, which had failed to meet the new listing requirements or continuous reporting obligations.

Suspended companies for non-compliance with continuing reporting obligation:

- Hutchings Biemer

De-listed companies for non-compliance with listing requirements:

- Pearl Dry Cleaners
- Lornho Motors
- Theta Group
- Regent Undervalued Assets

Fixed Income Securities De-listed for non compliance with minimum listing requirements:

- Kenya Hotels
- Chancery Investments
- Marshalls
- Standards Newspapers
- Hutchings Biemer

The Authority will continue to institute and implement compliance and enforcement measures including financial penalties as part of necessary measures to create a robust, efficient and orderly market, and to maintain investor confidence in capital markets environment.



The Authority's Financial Position

The Authority's financial position is provided in the audited statement for the period ended June 30, 2001 and the interim statements for the first half of the financial year ending 31 December 2001. The Authority adopts a "zero-based" budgetary approach, which requires the expenditure and revenue levels to be justified afresh regardless of the actual position of the previous years.

The Authority has, over the past seven years been moving towards self-sustenance in terms of revenues without imposing significant overhead costs in fees on the market and minimizing direct support from the Exchequer.

The attainment of 100% revenue self-sustainability has, however, been hampered by the continued downturn in the general economic performance and specifically the performance of the equities market in terms of market turnover which in 2001 was 50% lower than the 1997 level and few new public or rights issues.

The impact of the poor performance of the equity market on the Authority's revenue generating capacity has been minimized by the better performance of the fixed income securities market, mainly through issuance of commercial papers, corporate bonds and long-tenor Treasury Bonds. The Authority is, therefore, close to 90% self-sustaining with expected support from the Exchequer falling to about 10% by 2002.



The following are the main highlights of the accounts for the year ended 30th June 2001:

- ◆ The Authority's total income from services during 2001 was Kshs 75.9 million compared to Kshs. 46.3 million during 2000.
- ◆ The Government grant declined by nearly 50% to Kshs. 18 million from the previous year's level of Kshs. 30 million.
- ◆ The Authority's efforts to cut down on operational costs continue to bear fruits as the total expenditure (including depreciation) dropped to Kshs. 81.7million from Kshs. 85.2 million during 2000 in spite increases in costs and prices.
- ◆ As a result the Authority recorded a surplus of Kshs. 13.99 million, compared to a deficit of Kshs. 7.3 million experienced in the previous year.

During the current financial year, the Authority has carried out an office reorganization exercise aimed at not only retrenchment operational costs but modernizing the office in line with the current trend towards open-office space. This is expected to improve on the staff productivity, teamwork and service delivery.

As a consequence of the reorganization of office facilities exercise, the Authority has retrenched more than a third of its office space. The measures



will result in a further recurrent annual saving on reduced office space rent of Kshs.3.2 million at current rates.

Details of the financial position for the year under review and the condensed interim financial statements for the six months to December 31, 2001 as well as a five-year financial review are provided in subsequent pages of this report.



Conclusion

In conclusion, I wish to note that the rigorous legal and regulatory reform process is almost complete. Henceforth the Authority shall start focusing its attention and resources on enforcement and market development. In this connection, therefore, the Authority will seek to strengthen and invigorate its surveillance, compliance and enforcement capacity as well as the research and corporate affairs function.

As part of the efforts to encourage compliance by the listed companies and other market participants, the Authority shall in due course, start publishing reports on the levels of compliance. For instance, in our future Annual Reports, we shall publish the progress made by the listed companies in complying with the new corporate governance framework.

Thank you.

Paul K Melly
CHIEF EXECUTIVE



CAPITAL MARKETS POLICY ENVIRONMENT AND INCENTIVES

The Government, on the advice of the Authority, has provided the following incentives to support the development of capital markets.

Taxation Measures

- ❖ Newly listed companies to be taxed at a lower rate of 27% as compared to the standard rate of 30% for a period of three years following the date of listing. This is also dependent on such companies offering at least 20% of their share capital to the public.
- ❖ Companies that apply and are listed shall get a tax amnesty on their past omitted income, provided they make a full disclosure of their assets and liabilities and undertake to pay all their future due taxes.
- ❖ Withholding tax on dividend income has been reduced from a high of 15% to 7.5% (for foreign investors) and 5% (for local investors) and made a final tax.
- ❖ Expenses of companies issuing shares to the public are fully tax deductible.
- ❖ New and expanded share capital for companies approved for listing or already listed are exempted from stamp duty charges.
- ❖ Transfer of assets to a special purpose vehicle for the purposes of issuing asset-backed securities are also exempted from stamp duty.



- ❖ Expenses incurred by companies in having their financial instruments rated by an independent rating agency are also tax deductible.
- ❖ Registered and approved venture capital funds now enjoy a 10-year tax holiday.
- ❖ Income accruing to registered collective investment schemes is also tax-free.
- ❖ Licensed dealers also enjoy tax benefits, as long as they turn their portfolios within 24 months and according to laid down regulations.
- ❖ Transfer of listed securities is exempt from stamp duty and VAT.

Other Policy Measures

- ❖ Foreign investors are allowed since January 1995 to acquire shares of listed companies subject to a ceiling of 5% for an individual investor and 40% aggregate in any company. This policy framework is currently being reviewed, with a view of further liberalizing the market.
- ❖ In order to encourage the transfer of technology and skills, foreign investors are now allowed to acquire up to 49% of local brokerage companies; and up to 70% of local fund management companies.



THE EAST AFRICAN COMMUNITY (EAC) CAPITAL MARKETS MATTERS – THE CAPITAL MARKETS DEVELOPMENT COMMITTEE

Following a decision of the Ministers responsible for Finance during their Post-Budget Meeting held on August 11, 2000, the EAC Secretariat formally convened the first meeting of the new Capital Markets Development Committee in Dar es Salaam, Tanzania in April 2001.

At the meeting, the following issues were deliberated and agreed upon.

i. Composition and Membership of the CMDC

It was agreed that the composition of the Committee will include the following:

- the Chief Executives of the capital markets regulatory authorities in the three states, one of whom will chair the Committee on a rotational basis according to the chairmanship of the EAC Council of Ministers;
- the Chief Executives of the stock exchanges in the three states;
- the Chairpersons of the Associations of Stockbrokers in three states (where such associations exist); and
- any other members co-opted as and when necessary to represent special interests such as listed companies, shareholders/investors, business councils, etc.



ii. *Mandate of the Committee*

The mandate of the CMDC shall include the following:

- to facilitate the implementation of the articles of the EAC Treaty relevant to capital and financial markets development, and especially Articles 85, 86 and 87;
- to facilitate the pursuant and realization of the objectives of EASRAF, as contained in the EASRAF Memorandum of Understanding;
- any other mandate as may be assigned by the EAC Council of Ministers.

iii. *Working Relationship with other EAC Committees*

The CMDC will work closely with two other EAC Committees, i.e. the Monetary Affairs Committee and the Fiscal Affairs Committee.

Together, the three Committees shall be meeting jointly at least two times a year during the pre-budget and post-budget consultations by the Ministers responsible for Finance.

iv. *Status of EASRAF*

EASRAF shall continue to exist as a consultative forum, especially to deal with matters that do not require policy decisions by the three Governments.



THE THIRD CAPITAL MARKETS ANNUAL REVIEW FORUM LUCHEON

The Capital Markets Authority held its third Capital Markets Annual Review Forum on November 21, 2001, attended by several stakeholders comprising chief executives of listed companies and senior executives drawn from the financial markets and financial services industry.

The forum was attended by the Chairmen and Chief Executives of the Capital Markets Authority and Nairobi Stock Exchange. In delivering his opening statement, the Chairman of the Capital Markets Authority, Ambassador Denis Afande, underscored the role of public education in the operation of the capital markets. He announced that the Capital Markets Authority will early next year embark on a public education awareness campaign aimed at sensitizing the general public on opportunities available in the capital markets and inherent risks.

KEY NOTE ADDRESS BY MR PAUL K MELLY

CMA Continues to Implement Measures Aimed at Building Efficient Capital Markets by Consolidating the Critical Reform Pillars

In his key address the Chief Executive of the Capital Markets Authority, Mr. Paul Melly, outlined the capital markets reform vision. He stated, "CMA continues to implement measures aimed at building efficient capital markets by consolidating the critical reform pillars".



Mr. Melly further stated, “Kenya’s capital markets reform vision represents a comprehensive medium and long term strategic plan aimed at building fair, efficient, liquid and transparent capital markets”. At the core of the reform vision, he emphasized, was the Authority’s effort to build a legal and regulatory framework that is enabling, facilitative and conforms to the best international standards and practices.

This effort, he said, included the need for an infrastructure that is efficient and state-of-the-art. Mr. Melly further identified the following as key reform pillars:

- a supportive macro environment with strong economic fundamentals, predictable and consistent framework;
- a robust legal and regulatory framework consistent with international best practice benchmark;
- a world-class and scalable financial market infrastructure supported by an efficient electronic system for payment, depository, clearing and registration;
- a strong domestic savings capacity supported by a thriving fund management industry in order to mobilize savings in financial assets at household and corporate level.

In order to achieve its reform vision, Mr. Melly outlined a 7-prong reform agenda as guiding its efforts. He further underscored the continued role of the Capital Markets Authority in identifying and addressing structural deficiencies and impediments in the operating environment as critical. This, he added, was critical in order to enhance the role of the capital markets in support of national economic growth needs and aspirations.



Review of Market Performance

Mr. Melly further reviewed the market performance over the last 5 years and attributed the low turnover and the declining price index to sustained economic downturn. He highlighted the fact that the corporate sector has witnessed declining corporate earnings, losses in some cases and less or no dividend payout in others. This, he said, had dampened investor expectation and undermined confidence in the capital markets in favour of Fixed Income Securities in the money markets.

Mr. Melly, however, was very optimistic on the opportunities and future prospects of the capital markets and the Kenyan economy in general. He noted with satisfaction the growth of the Fixed Income Securities Market Segment, in particular the Government Bond market. He further commended both the Treasury and Central Bank on their effort to restructure national debt profile, which has facilitated the deepening of the Bond market. He however hastened to add that a renewed economic growth could only emerge in an environment of sustained economic reforms and continued political stability.

He said that the Capital Markets Authority was playing its part by embracing necessary reforms in the capital markets in order to position the capital markets efficiently in support of national economic development.

On market turnover, he said the market will drop from last year's position of Kshs. 3.6 billion by nearly 15% to about Kshs. 3 billion for the year ending December 2001.



Fund Managers Caution

Mr. Melly stated that in view of the current low prices investors should seek professional advice and invest for medium and long term. He however cautioned fund managers, particularly those managing retirement benefits, some of whom have been advising trustees to divest from the capital markets and invest in fixed income securities ostensibly using the Retirement Benefits Act as an excuse for such divestiture.

The sale of shares in a depressed market by some of the fund managers have had a negative impact of further depressing the market and more importantly, negative consequences on the funding of such schemes which may invariably incur losses. This, he said, will result in the under-funding of the pension schemes and undermine the retirement benefits of the employees as well as place unnecessary further funding obligations to the sponsors of such schemes. He was categorical that there was nothing in the Retirement Benefits Act that requires such divestiture but fund managers were expected to comply with investments guidelines that have been issued by the Retirement Benefits Authority in regards to new investments to satisfy portfolio diversification objectives.

Reshaping the Regulatory Framework for the Capital Markets

Mr. Melly further reviewed progress on the strategic reform initiatives that underpin the Authority's reform agenda and focus mainly on the new regulatory framework and efforts to build a new infrastructure for the capital markets.



On the legal and regulatory framework, the Chief Executive highlighted the comprehensive review of the Capital Markets Act which was passed in August 2000 as well as new regulations that have been developed and issued as exposure drafts and are in the process of being gazetted.

Mr. Melly said new regulations on collective investment schemes will facilitate a new framework for mobilizing savings and enabling small and institutional investors to participate efficiently in the capital markets.

He announced that the Authority would shortly be gazetting the following regulations and guidelines:

- (i) Collective Investment Schemes regulations;
- (ii) Regulations and Disclosure requirements for public offers and listing of securities;
- (iii) Corporate Governance guidelines;
- (iv) Guidelines on Rating Agencies;
- (v) Licensing requirements and general regulations.

He further underscored that the new disclosure framework and public offers regulations and listing will provide for stringent requirements and obligations for companies seeking to raise capital through the capital markets as well as for listed companies. He also stated that the directors of companies seeking to raise capital will be required to make disclosures and undertakings on any



plans to change management during a period of 24 months following listing. Under the new regulations, the Authority will have powers to re-open, extend the time frame or cancel any public offers by any company or require additional disclosure during the offer period but before the allotment of shares where such action is deemed to be in the interest of investors.

On Corporate Governance

Mr. Melly stated that all shareholders of public companies have a right to participate in the management of the affairs of their companies regardless of their level of shareholding. He underscored the need for majority shareholders to recognize the role of the minority shareholders and collaborate with them in promoting the company's affairs. In regard to the participation of minority shareholders in the election of the directors, Mr. Melly advised them to organize themselves into Shareholders Association so as to actively participate in the election of directors as many of the minority shareholders in most cases do not assign their proxies when they are unable to attend annual general meetings of their companies.

He said the Capital Markets Authority was reviewing the possibility of use of electronic means or mail post to facilitate voting by shareholders during annual general meetings as a means of further empowering the minority shareholders.

He further said the appointment of directors by the Government as a shareholder is also subject to election at annual general meetings and not through the State Corporations Act. He stated that the Government as a shareholder has a right to exercise its role in the election of directors. He



further stated that there was need to increase the level of women directors in public companies and emphasized all directors must have demonstrated expertise in their field regardless of their gender status.

Mr. Melly also cautioned against a situation where individuals are directors or chairmen of several public listed companies, a situation that could undermine not only corporate governance but also their ability to fully participate in the management of such companies.

He therefore advised all shareholders to exercise their rights diligently and ensure that they participate in annual general meetings so as to promote good corporate governance practices and at the same time to act in the best interest of their companies and other shareholders even in the most pressing circumstances.

Central Depository Project on Course

On the capital markets infrastructure project, Mr. Melly stated that the passage of the Central Depository Act 2000 has created enabling legislation and that the project was now on course. He however stated that it has become necessary to revisit the shareholding structure with a view to ensuring institutional partnership and minimize any vested interests that could undermine the project's success. He disclosed that the project will be capitalized at KShs.100 million and the Stock Exchange and stockbrokers will hold a combined shareholding of 48% while the majority of 52% will represent investment by other institutional stakeholders who have been invited to participate through what will be established as a Capital Markets Infrastructure Challenge Fund. The challenge fund will be incorporated as a



perpetual trust. He further said that a technology solution provider has been identified through a competitive bidding process and that contract negotiations with the selected provider had commenced.

Mr. Melly also outlined a new timetable that will see the implementation of Central Depository System by end of 2002.

The CMA Chief Executive further reported that the Stock Exchange will be implementing an Automated Trading System during the same period. He further stated that the CDS and ATS project have the support of all the capital markets stakeholders and that efforts during the next year will be focused on sensitizing investors on the emerging trading and operating infrastructure.



APPENDIXES

Audited Financial Statements and Accounts for the Year 1999/2000

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

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MEMBERS OF THE AUTHORITY AND ADVISORS

MEMBERS OF THE AUTHORITY

The present members of the Authority are:

Mr. Denis D Afande	-	Chairman
Mr. Isaac Awuondo		
Mr. Desterio Oyatsi		
Mr. James Boyd McFie		
Mr. Kimanathi Mutua		
Mr. Leonard Njagi		
Mwaghazi Mwachofi	-	Permanent Secretary to the Treasury
Mr. Nahashon Nyaga	-	Governor, Central Bank of Kenya
Hon Amos Wako	-	Attorney General
Mrs. Esther Koimett	-	(Alternate to the Permanent Secretary, Treasury)
Dr Edward Sambili	-	(Alternate to Governor, Central Bank of Kenya)
Mr. Dan Ameyo	-	(Alternate to Attorney General)
Mr. Paul K Melly	-	Chief Executive

CHIEF EXECUTIVE

Mr. Paul K Melly
P O Box 74800
Nairobi

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e-mail: corporate@cma.or.ke
Website: www.cma.or.ke

BANKERS

Commercial Bank of Africa Limited
Mama Ngina Street
P O Box 45136
Nairobi

Savings and Loans Kenya Limited
Mama Ngina Street
P O Box 49129
Nairobi

AUDITORS

Deloitte & Touche
"Kirungii", Ring Road, Westlands
P O Box 40092
Nairobi



REPORT OF THE MEMBERS OF THE AUTHORITY

The members of the Authority have pleasure in presenting their report and audited financial statements for the year ended 30 June 2001.

INCORPORATION

Capital Markets Authority is a body corporate established under the Capital Markets Authority Act, Cap 485A, 1989, which became operational on 15 December 1989. The Act was amended in 2000 and renamed Capital Markets Act.

ACTIVITIES

The Authority promotes and facilitates the development of an orderly, fair and efficient capital market in Kenya. It licenses, regulates and supervises the operators in the capital market.

RESULTS

	2001 Sh
Total income from services for the year	77,230,896
Total expenditure for the year	(81,681,762)
Gross deficit from services	<u>(4,450,866)</u>
Government grants	18,000,000
Finance income	438,085
Surplus for the year transferred to the general fund	<u><u>13,987,219</u></u>

AUTHORITY MEMBERS

The present members of the Authority are shown on page 57.

AUDITORS

The auditors, Deloitte & Touche, have expressed their willingness to continue in office.

BY ORDER OF THE BOARD

Chief Executive
Nairobi
September 19, 2001



STATEMENT OF AUTHORITY MEMBERS' RESPONSIBILITIES

The Capital Markets Act requires the Authority members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of its income and expenditure for that period. In preparing those financial statements, the Authority members are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Authority will continue with its operations.

The Authority members are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Authority and to enable them to ensure that the financial statements comply with the Capital Markets Act . They are also responsible for safeguarding the assets of the Authority and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



REPORT OF THE AUDITORS TO THE MEMBERS OF CAPITAL MARKETS AUTHORITY

We have audited the financial statements on pages 61-71 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of Authority members and auditors

As described on page 52, the Authority members are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the members, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept by the Authority and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Authority at 30 June 2001 and of its income and expenditure and cash flows for the year then ended in accordance with International Accounting Standards.

Deloitte & Touche

1 October, 2001



**INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2001**

	Note	2001 Sh	2000 (Restated) Sh
FEE INCOME	2	75,878,598	45,013,407
OTHER INCOME		1,352,298	1,268,868
TOTAL INCOME FROM SERVICES		77,230,896	46,282,275
EXPENDITURE	3	(81,681,762)	(85,240,149)
GROSS DEFICIT FROM SERVICES		(4,450,866)	(38,957,874)
GOVERNMENT GRANTS		18,000,000	30,000,000
FINANCE INCOME	4	438,085	1,662,005
SURPLUS/(DEFICIT) FOR THE YEAR	9	13,987,219	(7,295,869)

**BALANCE SHEET - 30 JUNE 2001**

	Note	2001 Sh	2000 (Restated) Sh
ASSETS			
Non-current assets			
Property and equipment	6	8,413,377	9,403,425
Staff car loans - long term		4,106,621	4,298,546
Staff house loans – long term		2,763,511	-
		<hr/>	<hr/>
		15,283,509	13,701,971
Current assets			
Receivables	7	12,558,163	12,140,756
Investors' Compensation Fund bank balance		21,977,650	17,819,601
Staff Housing Loan Fund bank balance		-	8,890,468
Staff Benevolent Fund bank balance		1,344,820	1,191,072
Millennium Staff Savings Scheme		2,676,693	2,201,543
Treasury bills		14,771,251	-
Fixed deposits		-	3,500,000
Bank and cash balances		8,401,312	3,003,082
		<hr/>	<hr/>
		61,729,889	48,746,522
		<hr/>	<hr/>
Total assets		77,013,398	62,448,493
FUNDS AND LIABILITIES			
Funds			
Capital fund	8	27,885,508	28,855,508
General fund	9	13,734,348	(1,222,871)
		<hr/>	<hr/>
		41,619,856	27,632,637
Current liabilities			
Payables	10	9,394,379	12,449,469
Investors' Compensation Fund	11	21,977,650	19,152,817
Staff Benevolent Fund		1,344,820	1,012,027
Millennium Staff Savings Scheme		2,676,693	2,201,543
		<hr/>	<hr/>
		35,393,542	34,815,856
		<hr/>	<hr/>
Total funds and liabilities		77,013,398	62,448,493

The financial statements on pages 61 to 71 were approved by the members of the authority on September 19, 2001 and were signed on their behalf by:

) CHAIRMAN
)
) CHIEF EXECUTIVE



**STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED 30 JUNE 2001**

	Capital Fund Sh	General Fund Sh	Total Sh
At 1 July 1999			
As previously reported	29,884,508	16,911,885	46,796,393
Prior year adjustment	-	(11,867,887)	(11,867,887)
	<hr/>	<hr/>	<hr/>
As restated	29,884,508	5,043,998	34,928,506
Revaluation surplus transferred to general fund on disposal of revalued property and equipment	(1,029,000)	1,029,000	-
Deficit for the year	-	(7,295,869)	(7,295,869)
	<hr/>	<hr/>	<hr/>
At 30 June 2000	28,855,508	(1,222,871)	27,632,637
Surplus for the year	-	13,987,219	13,987,219
Revaluation surplus transferred on reversal of revaluation of motor vehicles	(970,000)	970,000	-
	<hr/>	<hr/>	<hr/>
At 30 June 2001	27,885,508	13,734,348	41,619,856
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The prior year adjustment represents provision for staff gratuity and long service compensation in respect of services accruing in previous years.



**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2001**

	Note	2001 Sh	2000 Sh
NET CASH GENERATED FROM/(USED IN) OPERATIONS	13(a)	13,527,282	(1,751,484)
Interest received		626,763	1,648,641
Net cash generated from/(used in) operating activities		14,154,045	(102,843)
CASH USED IN INVESTING ACTIVITIES			
Purchase of property and equipment		(1,606,585)	(6,642,412)
Proceeds of disposal of property and equipment		18,500	685,000
Net cash outflow from investing activities		(1,588,085)	(5,957,412)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		12,565,960	(6,060,255)
CASH AND CASH EQUIVALENTS			
AT 1 JULY		36,605,766	42,666,021
AT 30 JUNE	13(b)	49,171,726	36,605,766



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2001**

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting Standards. The principal accounting policies remain unchanged from the previous years and are set out below:

(a) Basis of accounting

The financial statements are prepared under the historical cost convention.

(b) Government grants

Government grants are accounted for when received.

(c) Fees, interest and other income

Fees, interest and other income are accounted for on the accruals basis.

(d) Property and equipment

All property and equipment are stated at cost less depreciation. This represents a change in accounting policy with regard to motor vehicles as in previous years, motor vehicles were stated at cost or valuation less depreciation. The effect of this change on these financial statements is disclosed in Note 6.

(e) Depreciation

Depreciation is calculated on the straight line basis to write off the cost of property and equipment over their estimated useful lives at the following rates:

Furniture and fittings	12.5%
Equipment	20%
Motor vehicles	25%

(f) Retirement benefit obligations

The Authority's obligations to staff retirement benefit obligations to both schemes are charged to the income and expenditure statement as they fall due.

(g) Foreign currency translation

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at rates ruling at the dates of the transactions. Exchange gains and losses are dealt with in the income and expenditure statement.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2001 Sh	2000 Sh
2	FEE INCOME	
	59,269,627	28,977,585
	11,249,614	11,253,322
	5,359,357	4,782,500
	<u>75,878,598</u>	<u>45,013,407</u>
3	EXPENDITURE	
	43,768,137	40,422,217
	10,715,882	13,966,211
	7,266,610	9,597,215
	2,596,633	2,986,747
	1,683,359	2,580,081
	2,186,315	2,847,596
	2,218,122	1,571,194
	2,205,109	1,972,014
	1,122,386	1,303,853
	1,088,125	1,313,969
	1,233,033	1,145,986
	1,324,306	1,444,054
	991,728	1,530,771
	(18,500)	(388,500)
	1,741,653	2,279,218
	253,856	292,470
	290,000	270,000
	1,015,008	105,053
	<u>81,681,762</u>	<u>85,240,149</u>
4	FINANCE INCOME	
	438,085	1,662,005
5	PERSONNEL COSTS	
	38,242,330	32,317,977
	3,308,848	5,999,634
	2,021,839	1,915,726
	154,800	147,600
	40,320	41,280
	<u>43,768,137</u>	<u>40,422,217</u>
	42	43

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

6 PROPERTY AND EQUIPMENT

	Motor vehicles Sh	Office equipment Sh	Furniture and fittings Sh	Total Sh
COST				
At 1 July 2000	8,339,062	8,588,804	15,267,846	32,195,712
Additions	-	1,113,896	492,689	1,606,585
Disposals	-	(58,000)	-	(58,000)
Reversal of revaluation surplus	230,000	-	-	230,000
At 30 June 2001	8,569,062	9,644,700	15,760,535	33,974,297
DEPRECIATION				
At 1 July 2000	5,784,798	4,611,351	12,396,138	22,792,287
Charge for the year	735,081	1,215,529	646,023	2,596,633
Eliminated on disposals	-	(58,000)	-	(58,000)
Reversal of revaluation surplus	230,000	-	-	230,000
At 30 June 2001	6,749,879	5,768,880	13,042,161	25,560,920
NET BOOK VALUE				
At 30 June 2001	1,819,183	3,875,820	2,718,374	8,413,377
At 30 June 2000	2,554,264	3,977,453	2,871,708	9,403,425

The reversal of revaluation surplus arises from a change in accounting policy on motor vehicles. Previously, motor vehicles were stated at cost or valuation less depreciation but are now stated at cost less depreciation. The effect of this change has been recognized in the current year's financial statements as it is not material to warrant a prior year adjustment.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2001 Sh	2000 Sh
7 RECEIVABLES		
Staff advances	7,624,068	6,285,179
Transaction fees receivable	788,698	957,001
Other fees receivable	375,000	146,891
Sundry debtors	948,173	3,492,946
Staff car loans - short term	1,558,284	1,070,061
Staff house loans – short term	1,164,546	-
Interest receivable	-	188,678
Staff Benevolent Fund	99,394	-
	<u>12,558,163</u>	<u>12,140,756</u>
8 CAPITAL FUND		
At 1 July	28,855,508	29,884,508
Revaluation surplus transferred to general fund on disposal of revalued property and equipment	-	(1,029,000)
Revaluation in surplus transferred to general fund on reversal of revaluation surplus on motor vehicles (see Note 6)	(970,000)	-
At 30 June	<u>27,885,508</u>	<u>28,855,508</u>
9 GENERAL FUND		
At 1 July – as previously stated	8,398,271	16,911,885
- prior year adjustment	(9,621,142)	(11,867,887)
- as restated	(1,222,871)	5,043,998
Surplus/(deficit) for the year	13,987,219	(7,295,869)
Revaluation surplus transferred from capital fund on disposal of revalued property and equipment	-	1,029,000
Revaluation surplus transferred from capital fund on reversal of revaluation surplus on motor vehicles (see Note 6)	970,000	-
At 30 June	<u>13,734,348</u>	<u>(1,222,871)</u>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

10	PAYABLES	2001	2000
		Sh	Sh
	Sundry creditors	3,484,791	1,866,529
	Statutory deductions	31,511	643,198
	Audit fees	342,200	318,600
	Staff gratuity	5,491,372	9,621,142
	Investors' Compensation Fund	44,505	-
		9,394,379	12,449,469
		9,394,379	12,449,469

11 INVESTORS' COMPENSATION FUND

Under Section 18 of Capital Markets Authority Act, Cap 485A, the Authority is required to maintain a Fund to be known as the Investor 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 of the refunds.
- (ii) 0.01% of the consideration from sale and purchase of shares through the Nairobi Stock Exchange.
- (iii) Interest earned from investment of the funds
- (iv) Financial penalties imposed for non-compliance with CMA Rules and Regulations.

The Authority charges management fees to the Fund. The fees are charged at the rate of 3% of the Fund balance at the end of each financial year subject to a minimum of Sh 200,000 and a maximum of Sh 500,000 per year.

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

	2001	2000
	Sh	Sh
At 1 July	19,152,817	17,655,032
Nairobi Stock Exchange transactions fees	710,191	771,198
Interest on investments	2,199,172	1,226,587
Management fees	(500,000)	(500,000)
Financial penalties	415,470	-
	21,977,650	19,152,817
At 30 June	21,977,650	19,152,817



NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 RETIREMENT BENEFIT OBLIGATIONS

The Authority operates a defined benefits scheme for its staff. The investment of the scheme's assets is managed by a fund manager, KCB Trustee and Investment Services Ltd, on behalf of the Trustees.

The Scheme had one pensioner in receipt of pension and no deferred pensioners with entitlement to a deferred pension at the valuation date. The scheme is subjected to a triennial valuation by independent Actuaries to fulfil the statutory requirements under the Income Tax (Retirement Benefits) rules 1994 and the Retirement Benefits Act 1997. The last actuarial valuation was carried out as at 31 May 1998. The actuarial valuation method adopted 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 key actuarial assumptions applied in the valuation are:

- Investment returns 10% per annum
- Rates of salary escalation 8% per annum
- Rate of pension increases 3% per annum

This actuarial valuation revealed that the market value of the assets of the scheme was Sh 12,586,000 and this actuarial value indicated that the guaranteed minimum retirement benefits (defined benefit) are fully covered by the existing scheme assets and future contributions at the current rates. Therefore, no additional contributions were required in order to support the minimum benefits promised.

The Authority's contributions to this scheme for the year to 30 June 2001 amounted to Sh 2,021,839 (2000 – Sh 1,915,726).

An actuarial valuation of the scheme is in progress at the time of signing these financial statements. The results of this valuation are not yet known but, in the opinion of members of the Authority, the Scheme is adequately funded.

The Authority also contributes to the statutory defined contribution pension scheme, the National Social Security Fund. Contributions to the statutory scheme are determined by local statute and are currently limited to the 80 per employee per month. Contributions to this scheme during the year amounted to Sh 40,320 (2000 – Sh 41,280).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2001 Sh	2000 Sh
13		
NOTES TO THE CASH FLOW STATEMENT		
(a)		
Reconciliation of deficit from services net cash inflow/(outflow) from operating activities		
Gross deficit from services	(4,450,866)	(38,957,874)
Depreciation	2,596,633	2,986,747
Government grants	18,000,000	30,000,000
Gain on disposal of property and equipment	(18,500)	(388,500)
	<hr/>	<hr/>
Cash generated from/(used in) operations	16,127,267	(6,359,627)
Decrease in receivables	1,046,684	4,802,198
Decrease in payables	(3,055,090)	(4,008,058)
Increase in investors compensation fund	2,824,833	1,497,785
Increase in staff benevolent fund	332,793	273,830
Increase in millennium staff savings scheme	475,150	2,201,543
Increase in staff car loans	(296,298)	(159,155)
Increase in staff house loans	(3,928,057)	-
	<hr/>	<hr/>
Net cash generated from/(used in) operations	13,527,282	(1,751,484)
	<hr/> <hr/>	<hr/> <hr/>
(b)		
Analysis of cash and cash equivalents		
Bank and cash balances	8,401,312	3,003,082
Staff house loan fund bank balances	-	8,890,468
Staff benevolent fund bank balance	1,344,820	1,191,072
Investors compensation fund bank balance	21,977,650	17,819,601
Millennium Staff Savings Scheme	2,676,693	2,201,543
Fixed deposits	-	3,500,000
Treasury bills	14,771,251	-
	<hr/>	<hr/>
	49,171,726	36,605,766
	<hr/> <hr/>	<hr/> <hr/>



**CONDENSED INTERIM FINANCIAL STATEMENTS FOR
SIX MONTHS TO DECEMBER 31, 2001**

(a) INCOME AND EXPENDITURE ACCOUNT

		2001 Sh	2000 Sh
FEE INCOME	1	54,540,143	30,188,489
OTHER INCOME		366,985	781,588
TOTAL INCOME FROM SERVICES		54,907,128	30,970,077
EXPENDITURE	2	(42,093,007)	(41,998,570)
GROSS DEFICIT FROM SERVICES		12,814,121	(11,028,493)
GOVERNMENT GRANTS		9,000,000	9,000,000
FINANCE INCOME	3	504,284	1,559,324
(DEFICIT)/SURPLUS FOR THE YEAR		<u><u>22,318,405</u></u>	<u><u>(469,169)</u></u>

(b) BALANCE SHEET



	2001 Sh	2000 Sh
ASSETS		
Non-current assets		
Property and equipment	13,538,235	11,147,389
Staff car loans - long term	4,659,988	7,705,920
Staff House Loan balances	2,699,731	6,064,166
	<u>20,897,954</u>	<u>24,917,475</u>
Current assets		
Receivables	13,360,287	13,407,093
Investors Compensation Fund bank balance	21,977,650	17,819,601
Staff Benevolent Fund bank balance	1,344,820	1,191,072
Fixed deposits/Government securities	29,289,315	7,800,071
Bank and cash balances	<u>2,972,934</u>	<u>2,046,911</u>
	<u>68,945,006</u>	<u>42,264,748</u>
Total assets	89,842,960	67,182,223
FUNDS AND LIABILITIES		
Funds		
Capital fund	27,855,508	32,190,508
General fund	36,052,753	7,929,102
	<u>63,908,261</u>	<u>40,119,610</u>
Current liabilities		
Payables	2,600,229	6,905,269
Investors' Compensation Fund	21,977,650	19,152,817
Staff Benevolent Fund	1,356,820	1,004,527
	<u>25,934,699</u>	<u>27,062,613</u>
Total funds and liabilities	89,842,960	67,182,223

NOTES

2001 Sh	2000 Sh
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1	FEE INCOME		
	Capitalization, rights and new issues fees	47,713,853	20,873,441
	NSE - Transaction fees	3,078,790	5,317,548
	Application and licensing fees	3,747,500	3,997,500
		<hr/>	<hr/>
		54,540,143	30,188,489
		<hr/> <hr/>	<hr/> <hr/>
2	EXPENDITURE		
	Personnel costs	23,324,652	24,493,468
	Rent, rates and maintenance	5,686,825	5,317,184
	Public Education, Training and conferences	1,265,241	1,416,446
	Medical Scheme and Insurance expenses	2,662,132	1,843,104
	Entertainment expenses	1,433,312	1,548,282
	Telephone and postage and utilities	1,651,203	1,001,133
	Office equipment operating and stationery expenses	1,968,652	1,883,524
	Motor vehicle running expenses	631,186	536,472
	IOSCO membership and other Subscriptions	319,403	269,866
	Authority members allowances	519,970	595,080
	Professional and Market Development Services	804,237	860,417
	Depreciation expense	1,497,996	2,009,382
	Staff uniforms and Miscellaneous expenses	297,814	192,922
	Audit fees	30,384	31,290
		<hr/>	<hr/>
		42,093,007	41,998,570
		<hr/> <hr/>	<hr/> <hr/>
3	FINANCE INCOME		
	Interest on bank deposits	504,284	1,559,324
		<hr/> <hr/>	<hr/> <hr/>
4	PERSONNEL COSTS		
	Consolidated Pay, leave pay and passages	22,080,498	22,646,925
	Pension, gratuity and long service compensation	1,118,154	1,714,543
	Benevolent Fund Contributions	126,000	132,000
		<hr/>	<hr/>
	Number of employees	42	44
		<hr/> <hr/>	<hr/> <hr/>

FIVE-YEAR FINANCIAL REVIEW

INCOME AND EXPENDITURE ACCOUNT (AS AT JUNE 30)



	2001	2000	1999	1998	1997
	Kshs	Kshs	Kshs	Kshs	Kshs
Fees Income	75,878,598	45,013,407	57,306,033	40,678,184	34,678,550
Other Incomes	1,352,298	1,268,868	802,049	2,356,456	1,219,359
Total Income from Services	77,230,896	46,282,275	58,108,082	43,034,640	35,897,909
Total Expenditure	(81,681,762)	(85,240,149)	(72,734,949)	(76,557,967)	(57,971,431)
Gross (deficit)/surplus from Services	(4,450,866)	(38,957,874)	(14,626,867)	(33,523,327)	(22,073,522)
Government Grants	18,000,000	30,000,000	18,644,500	21,328,700	25,853,980
Finance Income	438,085	1,662,005	3,398,764	3,957,452	5,773,175
Surplus/(Deficit) for the Year	13,987,219	(7,295,869)	7,416,397	(8,237,175)	9,553,633

BALANCE SHEET (AS AT JUNE 30)

	2001	2000	1999	1998	1997
Non-current assets					
Property and Equipment	8,413,377	9,403,425	6,044,260	9,803,211	13,811,495
Staff Car Loans – Long term	4,106,621	4,298,546	4,139,391	3,226,403	3,949,921
Staff house Loans – long term	2,763,511	-	-	-	-
	15,283,509	13,701,971	10,183,651	13,029,614	17,761,416
Current Assets					
Receivables	12,558,163	12,140,756	16,929,590	9,242,133	6,179,136
Investors Compensation Fund bank balance	21,977,650	17,819,601	15,435,625	13,603,130	12,748,168
Staff Housing Loan Fund bank	-	8,890,468	12,850,000	12,850,000	7,850,000



balance					
Staff Benevolent Fund bank balance	1,344,820	1,191,072	805,199	531,552	344,352
Millennium Staff Savings Scheme	2,676,693	2,201,543	-	-	-
Treasury bills					
Fixed deposits	14,771,251	-	-	-	-
	-	3,500,000	12,540,721	12,000,000	20,533,555
Bank and cash balances	8,401,312	3,003,082	1,034,476	1,379,601	3,079,071
	61,729,889	48,746,522	59,595,611	49,606,416	50,734,282
Total assets	77,013,398	62,448,493	69,779,262	62,636,030	68,495,698
Funds and Liabilities					
Funds					
Capital Fund	27,885,508	28,855,508	29,884,508	29,884,508	29,509,508
General Fund	13,734,348	(1,222,871)	16,911,885	9,495,488	17,732,663
	41,619,856	27,632,637	46,796,393	39,379,996	47,242,171
Current Liabilities					
Payables	9,394,379	12,449,469	4,589,640	7,942,460	6,099,209
Investors' Compensation Fund	21,977,650	19,152,817	17,655,032	14,839,522	14,867,466
Staff Benevolent Fund	1,344,820	1,012,027	738,197	474,052	286,852
Millennium Staff Savings Scheme	2,676,693	2,201,543	-	-	-
	35,393,542	34,815,856	22,982,869	23,256,034	21,253,527
Total Funds and Liabilities	77,013,398	62,448,493	69,779,262	62,636,030	68,495,698

SUMMARY OF REVENUES AND EXPENDITURE (Kshs Million): 1996/97 – 2000/2001

	2000/2001	1999/2000	1998/99	1997/98	1996/98
Revenue from Services	77,230,896	46,282,275	58,108,082	43,034,640	35,897,909
Govt. Grants	18,000,000	30,000,000	18,644,500	21,328,700	25,853,980
Total Income	95,230,896	76,282,275	76,752,582	64,363,340	61,751,889
Total Expenditure	81,681,762	87,486,894	72,734,949	76,557,967	57,971,431



Market Statistics

Table 1 – Gross Market and Economic Statistics

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
Shares Volume (m)	14.8	27.3	42.76	62.1	113.6	143.47	111.11	157.49	141.42	109.19
Shares Turnover (Kshs b)	0.38	0.82	3.08	3.34	3.96	6.15	4.58	5.16	3.63	3.12
Market Cap. (Kshs b)	23	72	136.83	107.2	98.68	114.31	128.94	106.74	101.42	86.1
Index (Year Close)	1167	2514	4559	3469	3114	3115	2962	2303	1913	1355
T-Bill Rate (%)		43.54	18.70	21.67	21.60	26.40	12.60	20.00	11.20	11.50
Ave. Base Lending Rates (%)		38.55	30.93	33.14	34.58	30.30	28.80	24.80	19.90	19.60
Ave. Annual Inflation (Year Close, %)		45.60	6.70	1.60	9.00	11.20	6.60	3.50	6.20	6.80
GDP Growth Rate (%)		0.2	3.0	4.8	4.6	2.4	1.8	1.4	(0.3)	0.5
Mean Exchange Rate (Kshs/US\$, Year Close)	36.2	68.2	44.8	51.4	57.1	58.8	60.4	70.3	76.1	78.55

Note: *

Provisional/Projections

Sources: Central Bank of Kenya, Nairobi Stock Exchange, Central Bureau of Statistics, CMA Computations



Chart 1 – Volume of Shares Traded

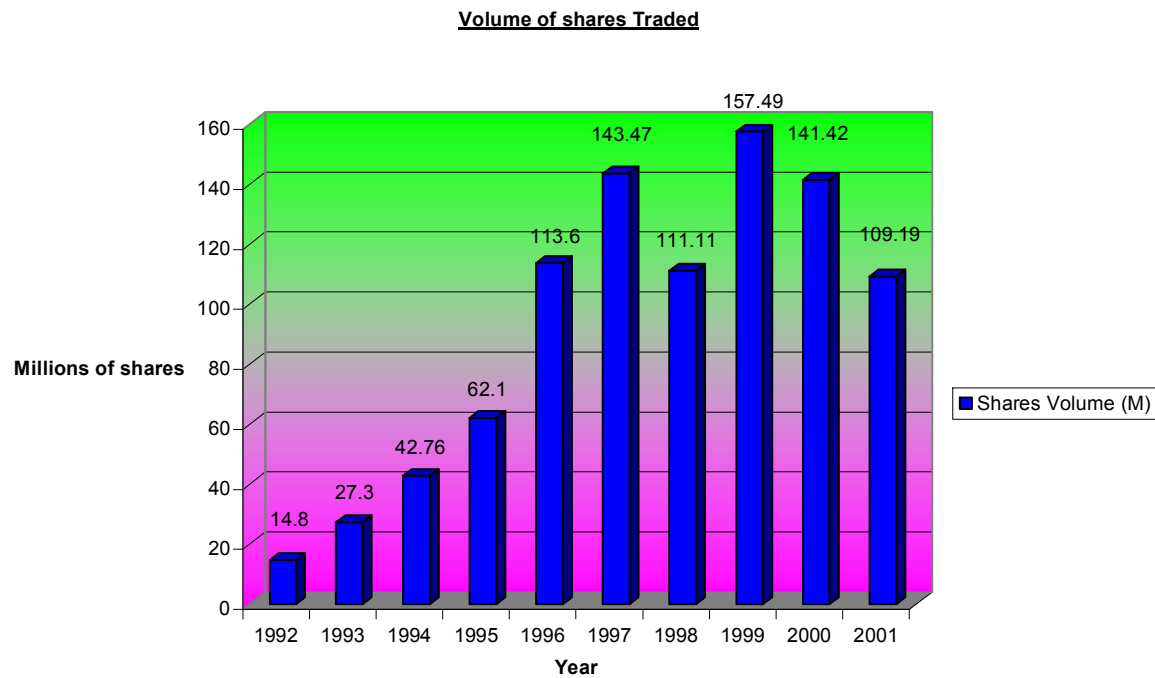




Chart 2 – Value of Shares Traded (Turnover)

Value of shares Traded (Turnover)

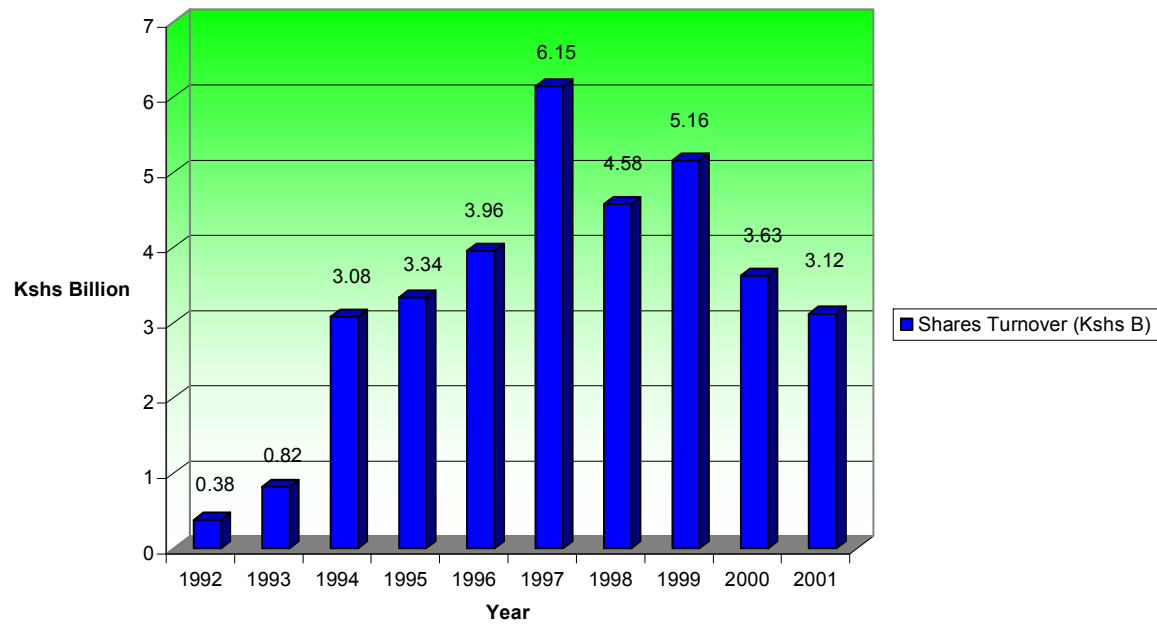




Chart 3 – Market Capitalization and NSE 20-Share Index

Market Capitalization and NSE 20-Share Index

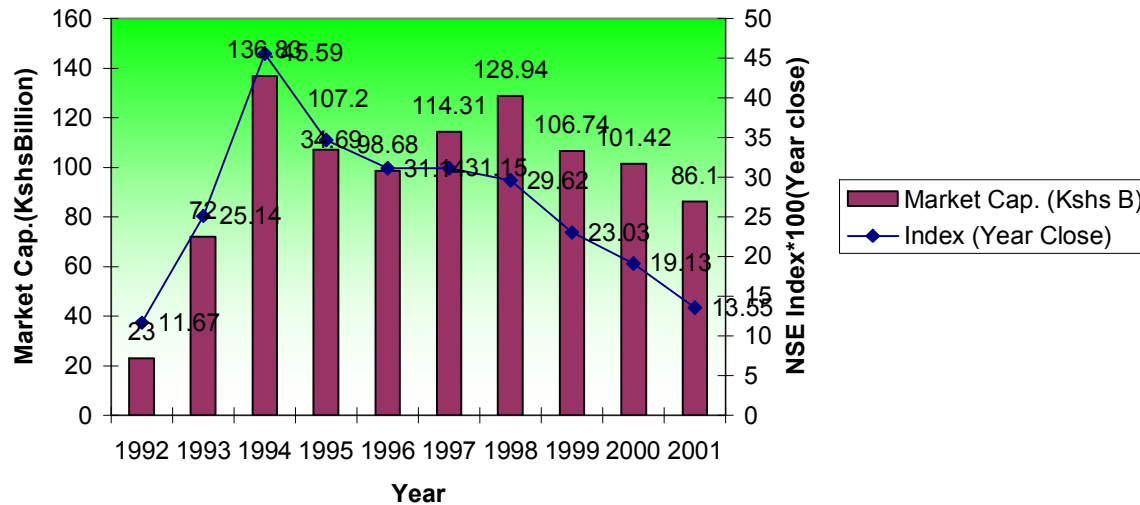




Table 2 – Shares Turnover by Sector (Kshs Billion)

	1995	1996	1997	1998	1999	2000	2001*
Agricultural	0.25	0.2	0.59	0.45	0.26	0.13	0.15
Commercial	0.5	0.83	0.97	0.65	1.09	0.95	0.52
Financial	1.53	1.75	2.5	1.87	1.63	1.3	1.33
Industrial	1.06	1.18	2.09	1.61	1.83	1.25	1.12

Note: * Provisional

Source: Nairobi Stock Exchange

Table 3 – Market Capitalization by Sector (Kshs Billion)

	1995	1996	1997	1998	1999	2000	2001*
Agricultural	14.5	13.62	11.74	14.88	10.5	9	7.24
Commercial	7.25	12.5	13.81	15.23	12.64	15.38	13.4
Financial	50.85	41.78	43.93	48.01	40.64	37.12	35.96
Industrial	34.61	30.8	44.83	50.82	42.93	39.89	29.5

Note: * Provisional

Source: Nairobi Stock Exchange



Chart 4 – Shares Turnover by Sector

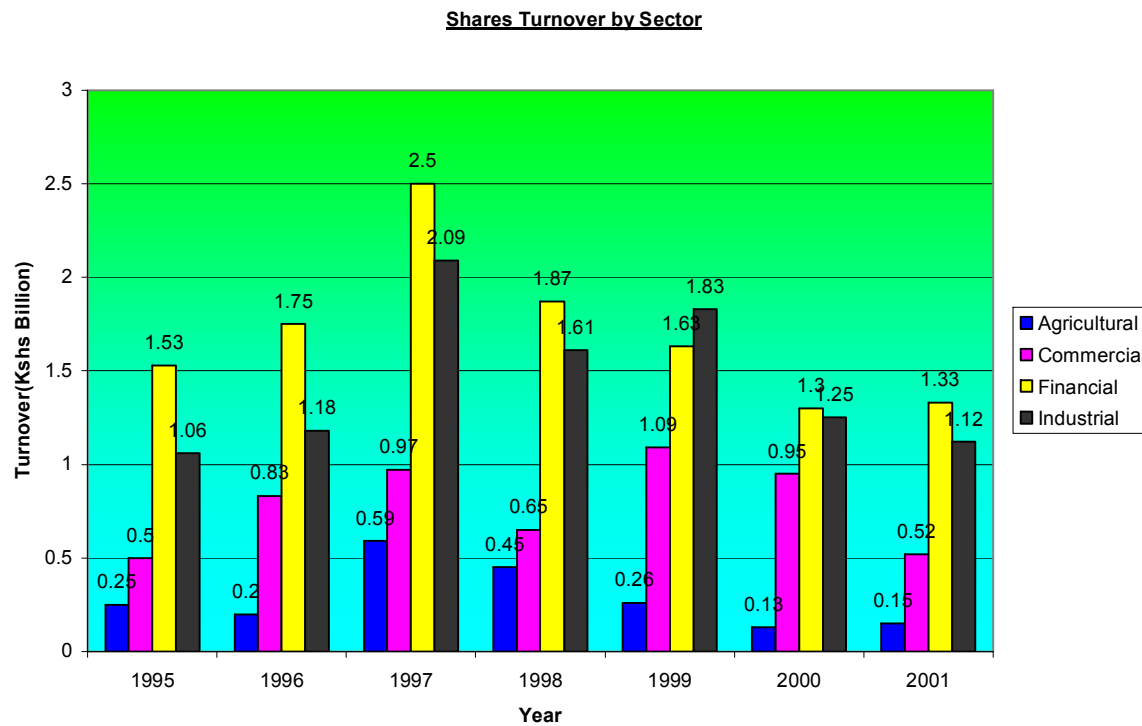




Chart 5 – Market Capitalization by Sector

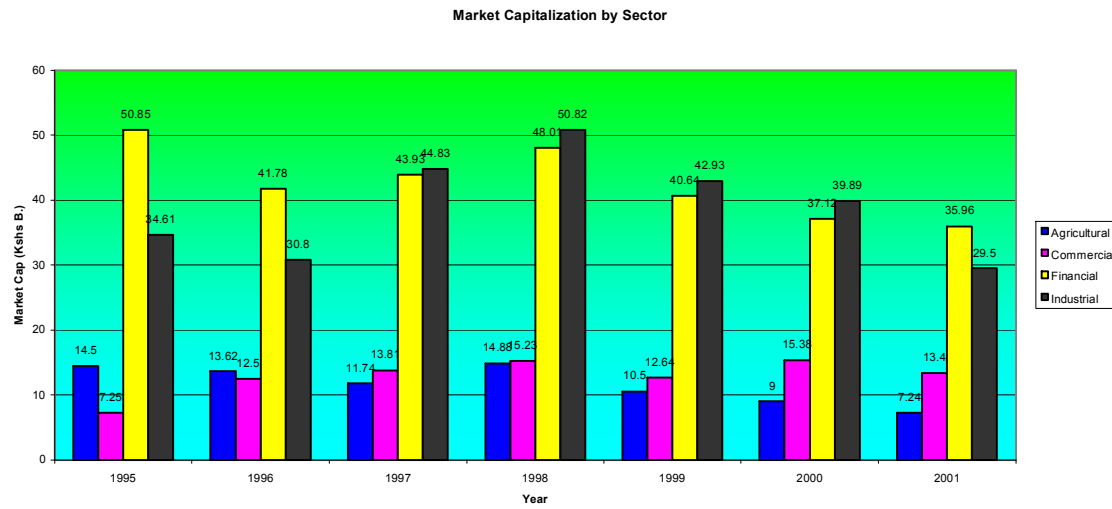




Table 4 – Foreign Investors Activity (Kshs Billion)

	1995	1996	1997	1998	1999	2000	2001*
Gross Turnover	0.22	0.99	2.23	1.16	1.13	0.7	0.39
Net Inflow	0.17	0.6	1.58	0.08	0.013	0.49	0.12

Note: * Provisional

Source: Nairobi Stock Exchange



Chart 6 – Foreign Investors Activity

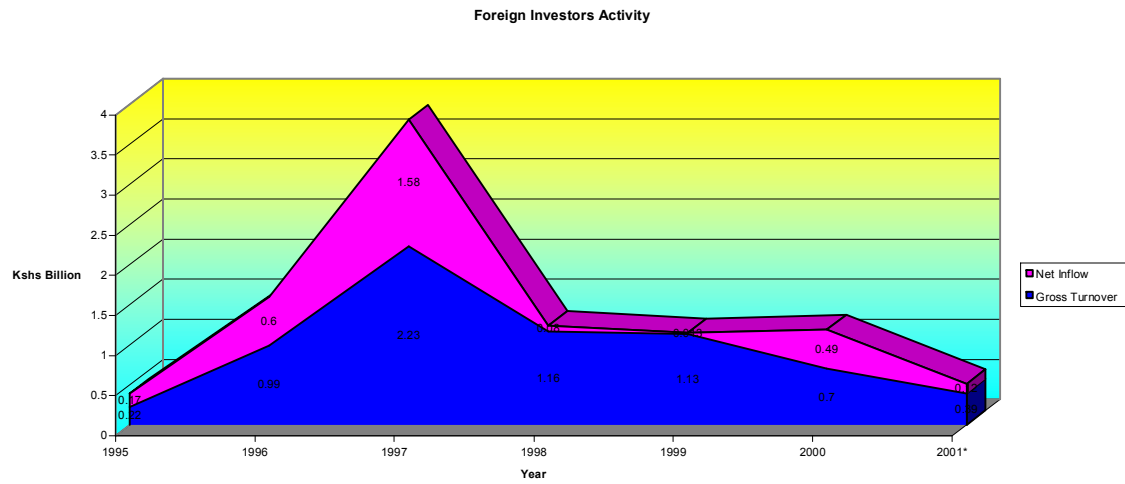




Table 5a – Bond Statistics (Kshs Billion)

	1997	1998	1999	2000	2001*
Gross Turnover	15.08	8.22	8.07	6.47	9.46

Note: * Provisional

Source: Nairobi Stock Exchange

Table 5b – Holdings of Government Securities: Treasury Bonds (Kshs billion)

	1999	2000	2001*
Commercial Banks	7.3	11.0	27.8
Non-Bank Financial Institutions	-	2.1	0.6
Others**	21.1	21.0	42.6
Total	28.4	34.1	71.0

Source: Central Bank of Kenya, Monthly Economic Surveys (various)

* November

** Includes parastatals, individuals and other corporate bodies



Table 5c – Holdings of Government Securities: Treasury Bills (Kshs billion)

	1999	2000	2001*
Central Bank	0.4	0.1	0.00
Commercial Banks	58.9	51.1	55.90
Non-Bank Financial Institutions	2.1	2.2	2.60
Insurance Companies	8.3	9.9	10.90
NSSF	0.4	1.0	0.20
Building Societies	0.2	1.8	2.10
Others**	41.4	44.6	42.30
Total	111.7	110.7	114.00

Source: Central Bank of Kenya, Monthly Economic Surveys (various)

* November

** Includes parastatals, individuals and other corporate bodies

Table 5d – Categorization of Government Domestic Debt (Kshs billion)

	1999	2000	2001*
Treasury Bills	111.7	110.7	114.00
Treasury Bonds	28.4	34.1	71.0
Long Term Stocks	3.0	1.9	1.5
Non-Interest Bearing Stocks	36.9	36.9	36.9
Others	10.2	9.1	3.0
Total	190.2	192.7	226.40

Source: Central Bank of Kenya, Monthly Economic Surveys (various)

* November



Table 5e – Banking Sector Assets and other Statistics (Kshs billion)

	2000*	2001*
Total Assets	434.4	422.9
Loans and Advances	230.4	211.3
Investments in Government Securities	76.5	93.0
Capital Reserves	53.1	55.0
Deposits	325.1	320.9
Non-Performing Loans	116.8	117.6

Source: Central Bank of Kenya, Monthly Economic Surveys (various)

* November

Table 6 – New Public Offerings, Rights and Scrip Issues

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Cum. Total
No. of New Issues	1	3	2	3	0	5	3	2	1	3	3	26
No. of New Shares (M)	3.2	42.63	3.6	98	0	366.9	63.89	37.42	26.58	22.61	404.97	1069.8
Value of New Shares (Kshs B)	0.04	0.5	0.06	2.8	0	4.93	1.94	2.1	0.37	0.45	2.4	15.59

Source: CMA Computations



Chart 7 – Number and Value of Shares from IPOs, Rights and Scrip Issues

Number and Value of Shares from IPOs, Rights and Scrip Issues

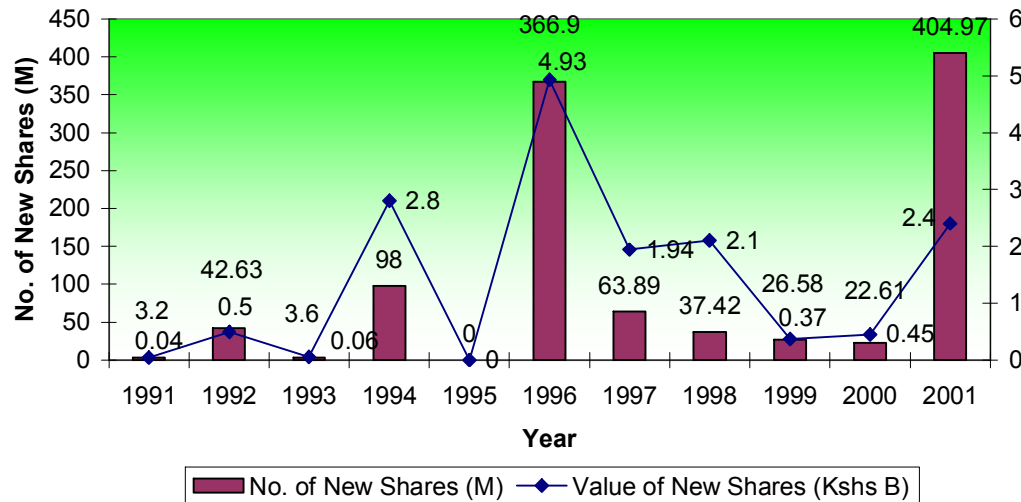




Table 7 – NSE 20-Share Index Companies (Market Capitalization, Kshs Billion)

	1995	1996	1997	1998	1999	2000	2001**
Bamburi Cement	5.73	4.72	13.16	13.07	9.53	12.25	6.04
Barclays Bank	16.82	12.79	14.79	20.06	15.89	13.98	13.42
BOC Gases	1.42	1.05	1.28	1.39	1.26	0.92	0.59
British American Tobacco	6.68	4.73	3.75	5.74	5.81	6.05	4.90
Brooke Bond	9.29	8.21	5.38	6.89	5.08	4.74	3.52
Diamond Trust	4.13	2.54	1.73	1.75	2.07	1.11	0.72
East African Breweries	3.52	3.31	3.18	6.27	6.55	7.26	8.07
East African Packaging	0.53	0.53	0.38	0.12	0.8	0.06	0.06
George Williamson	0.75	0.61	0.75	1.23	0.81	0.85	0.58
Kakuzi	1.84	1.91	1.88	2.76	1.71	1.08	0.71
Kenya Airways/CMC*	0.72	3.95	3.46	3.76	3.62	4.15	3.37
Kenya Commercial Bank	7.15	8.08	8.64	6.9	3.53	2.86	2.45
Kenya National Mills	1.03	0.91	1	1.14	0.64	0.47	0.45
Kenya Power & Lighting	3.08	2.48	9.5	9.89	6.56	3.17	1.51
Lonrho Motors***	2.34	2.74	2.49	1.4	0.85	0.82	0.82
Nation Media	1.16	1.3	2.34	4.88	3.57	2.46	1.50
Sasini	1.62	1.5	2.38	2.66	1.71	1.29	0.60
Standard Chartered Bank	8.74	7.99	7.58	8.32	9.31	12.24	11.62
Total Kenya	4.79	3.64	2.94	2.74	2.7	3.08	1.98
Uchumi Supermarkets	1.6	2.14	2.34	2.64	2.4	2.94	1.89
Total	82.94	75.13	88.95	103.61	84.4	81.78	64.80
As % of Total Market Cap.	77.37%	76.13%	77.81%	80.36%	79.07%	80.66%	75.26%
Total Market Cap.	107.2	98.68	114.31	128.94	106.7	101.39	86.1

* In 1995, CMC Holdings was a constituent company of the Index before being replaced by Kenya Airways in 1996 onwards.

** Provisional

*** Lonrho Motors was suspended from trading on July 26, 2000 after being put under receivership.

Source: Nairobi Stock Exchange



Chart 8 – Market Capitalization (Total vs NSE 20-Share Index Companies, Kshs Billion)

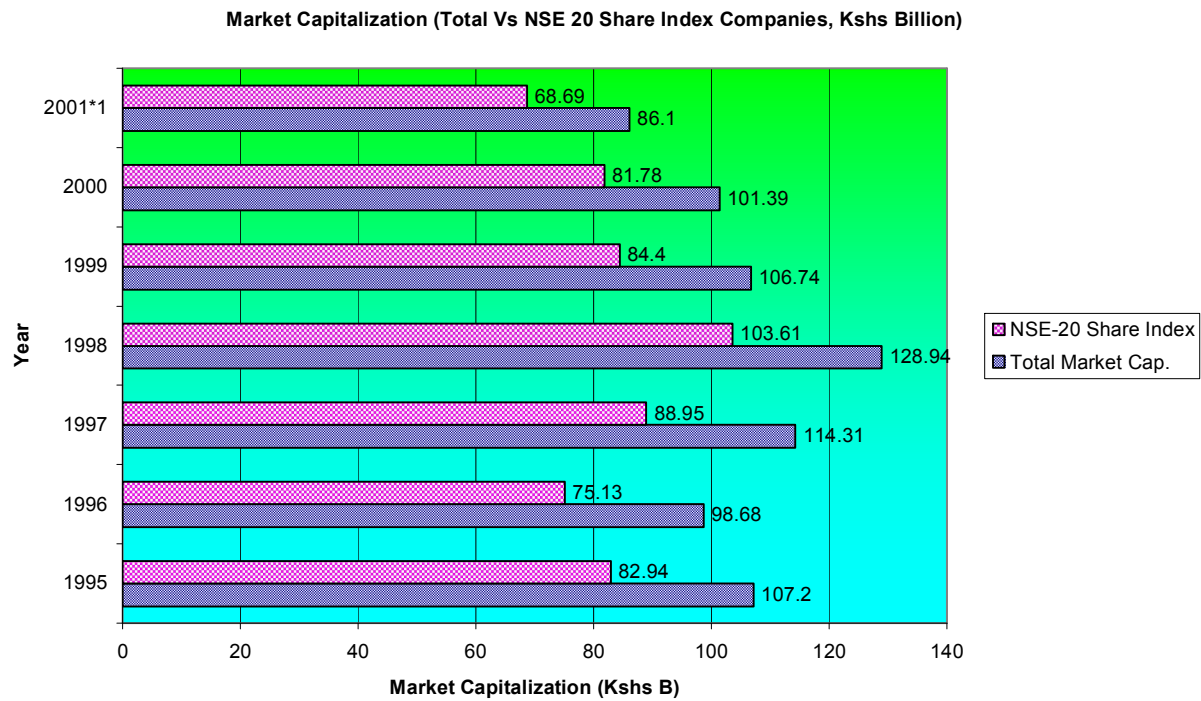




Table 8 – NSE Top Ten Companies by Market Capitalization (Kshs Billion)

	1995	1996	1997	1998	1999	2000	2001*
Barclays Bank	16.82	12.79	14.79	20.06	15.89	13.98	13.42
Brooke Bond	9.29	8.21	5.38	6.89	5.08	4.74	3.52
Standard Chartered Bank	8.74	7.99	7.58	8.32	9.31	12.24	11.62
Kenya Commercial Bank	7.15	8.08	8.64	6.9			2.45
British American Tobacco	6.68	4.73	3.75	5.74	5.81	6.05	4.90
Bamburi Cement	5.73	4.72	13.16	13.07	9.53	12.25	6.04
Mumias Sugar							3.24
National Bank	4.65						
Firestone	4.59	5.1	4.36	4.48	4.45	3.2	
Diamond Trust Bank	4.13						
Kenya Airways		3.95	3.46		3.62	4.15	3.37
East African Breweries		3.31	3.18	6.27	6.55	7.26	8.07
Kenya Power & Lighting			9.5	9.89	7.56	3.17	
Nation Media				4.88	3.56		
African Lakes						3.31	3.94
Total	72.53	62.52	73.8	86.5	71.36	70.35	57.33
As a % of Total Market Cap.	67.66%	63.36%	64.56%	67.09%	67.09%	69.39%	66.59%
Total Market Cap. (Kshs B)	107.2	98.68	114.31	128.9	106.7	101.39	86.1

* Provisional

Source: Nairobi Stock Exchange

Table 9 – Summary Profitability by the NSE Index Companies (Aggregate)

Year	Profit after Tax (Kshs billion)	Dividends Paid Out (Kshs billion)	% Dividends to Profit
1998	8.015	6.816	85%
1999	7.912	6.349	80%
2000	9.675	7.938	82%

Source: Various Company Annual Reports



Table 10a – Approved Commercial Paper Issues

Year	No. of New Issues Approved	Face Value (Kshs)
1997	1	500,000,000.00
1998	2	450,000,000.00
1999	19	10,650,000,000.00
2000	4	600,000,000.00
2001	2	800,000,000.00
Cumulative Total	28	13,000,000,000.00

Table 10b – Approved Medium Term Notes

Year	No. of New Issues Approved	Face Value (Kshs)
1997	0	0.00
1998	0	0.00
1999	1	1,200,000,000.00
2000	1	350,000,000.00
2001	2	6,000,000,000.00
Cumulative Total	4	7,550,000,000.00

Table 10c – Outstanding Commercial Paper Issues, As at December 31, 2001

Name of Issuer	Date of Approval / Renewal	Maximum Face Value (Kshs)	Renewal / New Program
Nation Media Group	Jan-01	500,000,000.00	R
Kenya Oil Company	Feb-01	500,000,000.00	NP
General motors	May-01	1,000,000,000.00	R
Caltex Kenya	Apr-01	1,800,000,000.00	R
Bidco Limited	May-01	200,000,000.00	NP
Shell Kenya	May-01	200,000,000.00	NP
Crown Berger	Jun-01	150,000,000.00	R
Panpaper Mills	Jul-01	350,000,000.00	R
Total Kenya	Jul-01	100,000,000.00	R
Mabati Rolling Mills	Sep-01	500,000,000.00	R
TPS Serena	Sep-01	50,000,000.00	NP
CMC Holdings	Sep-01	150,000,000.00	NP
Ecta Kenya	Oct-01	1,500,000,000.00	R
Kenya Hotel Properties	Oct-01	50,000,000.00	R
Unilever (K)	Nov-01	500,000,000.00	R
Cumulative Total		7,550,000,000.00	

Source: CMA Records

NP – New Program R – Renewal



Notable Occasions and Events in 2001

January

Start of implementation of market segmentation into the Main Investments Market Segment (MIMS), the Alternative Investments Market Segment (AIMS) and the Fixed Income Securities Market Segment (FISMS).

March

East African Breweries Ltd becomes the first company in East Africa to have its shares listed in two markets, when its secondary listing at the Uganda Securities Exchange (USE) starts.

April

The new EAC sectoral committee on capital markets (the Capital Markets Development Committee) is launched.

May

The East African Development Bank (EADB) launches a Kshs 2 billion medium term note priced at 75 basis points above the 91-day Treasury Bill rate.



June

Safaricom launches a Kshs 4 billion corporate bond, to be re-priced quarterly at 1% above the 91-day Treasury Bill rate.

September

Mumias Sugar Company launches its initial public offer of 300 million shares, priced at Kshs 6.25 per share.

October

ICDC Investments Company launches a secondary offer for 8.9 million shares at Kshs 37 per share.

November

Mumias Sugar company becomes the first sugar company to be listed at the NSE.

The Authority hosts its thirds Capital Markets Annual Review Forum Luncheon.

December

The additional shares of ICDCI get admitted to the official list of the NSE.



List of Capital Markets Authority Enabling Legislation,

Subsidiary Regulations and Guidelines

Main Acts:

1. The Capital Markets Authority Act, (Cap 485A, December 1989);
2. The Capital Markets Authority (Amendment) Act, 1994, (Kenya Gazette Supplement No 4 of January, 1995);
3. The Capital Markets Authority (Amendment) Act, 2000 (August 2000);
4. The Central Depositories Act, 2000 (August 2000);

Regulations (to be gazetted shortly):

1. Collective Investment Schemes Regulations
2. Public Offer of Securities, Listing and Disclosure Regulations
3. Licensing and General Regulations

Guidelines (to be gazetted shortly):

1. Guidelines on Corporate Governance Practices by Public Listed Companies
2. Guidelines on the Approval and Registration of Credit Rating Agencies



LIST OF COMPANIES CATEGORIZED INTO MIMS, AIMS AND FISMS

MAIN INVESTMENT MARKET SEGMENT

<u>Company</u>	<u>Market Cap. As at Dec. 31, 2001 (Kshs billion)</u>
1. African Lakes Corporation PLC Ord 5.00	3.94
2. Athi River Mining Ltd Ord 5.00	0.37
3. B.O.C. Kenya Ltd Ord 5.00	0.59
4. Bamburi Cement Ltd Ord 5.00	6.04
5. Barclays Bank Ltd Ord 10.00	13.42
6. British American Tobacco Kenya Ltd Ord 10.00	4.90
7. Brooke Bond Ltd Ord 10.00	3.52
8. Carbacid Investments Ltd Ord 5.00	0.39
9. C.F.C. Bank Ltd Ord 5.00	1.08
10. Car & General (Kenya) Ltd Ord 5.00	0.22
11. CMC Holdings Ltd Ord 5.00	0.22
12. Crown Berger Ltd Ord 5.00	0.13
13. Diamond Trust Bank(Kenya) Ltd Ord 4.00	0.72
14. Dunlop Kenya Ltd Ord 5.00	0.05
15. E.A. Cables Ltd Ord 5.00	0.19
16. E.A. Portland Cement Ltd Ord 5.00	1.14
17. East African Breweries Ltd Ord 10.00	8.07
18. Firestone(East Africa) Ltd Ord 5.00	1.95
19. Housing Finance Company Ltd Ord 5.00	0.46
20. I.C.D.C. Investments Ltd Ord 5.00	2.12

Company

Market Cap. As at

**Dec. 31, 2001****(Kshs billion)**

21.	Jubilee Insurance Company Ltd Ord 5.00	0.56
22.	Kakuzi Ltd Ord 5.00	0.71
23.	Kenya Airways Ltd Ord 5.00	3.37
24.	Kenya Commercial Bank Ltd Ord 10.00	2.45
25.	Kenya National Mills Ltd Ord 5.00	0.45
26.	Kenya Oil Company Ltd Ord 5.00	0.75
27.	Kenya Power & Lighting Ltd Ord 20.00	1.51
28.	Marshalls (East Africa) Ltd Ord 5.00	0.26
29.	Mumias Sugar Company Ltd Ord 2.00	3.24
30.	Nation Media Group Ltd Ord 5.00	1.54
31.	National Bank of Kenya Ltd Ord 5.00	0.58
32.	National Industrial Credit Ltd Ord 5.00	1.24
33.	Pan Africa Insurance Ltd Ord 5.00	0.52
34.	Rea Vipingo Plantations Ltd Ord 5.00	0.17
35.	Sasini Tea & Coffee Ltd Ord 5.00	0.60
36.	Standard Chartered Bank Ltd Ord 5.00	11.62
37.	Total (Kenya) Ltd Ord 5.00	1.98
38.	Tourism Promotion Services Ltd Ord 5.00	0.66
39.	Uchumi Supermarkets Ltd Ord 5.00	1.89
40.	Unga Group Ltd Ord 5.00	<u>0.36</u>
	Total	<u>84.81</u>

ALTERNATIVE INVESTMENT MARKET SEGMENT



<u>Company</u>	<u>Market Cap. As at</u> <u>Dec. 31, 2001</u> <u>(Kshs billion)</u>
1. A. Baumann & Company Ltd Ord 5.00	0.03
2. City Trust Ltd Ord 5.00	0.08
3. E A Packaging Ltd Ord 5.00	0.06
4. Egaads Ltd Ord 5.00	0.15
5. Express Ltd Ord 5.00	0.03
6. Kapchorua Tea Company Ltd Ord 5.00	0.54
7. Kenya Orchads Ltd Ord 5.00	0.04
8. Limuru Tea Company Ltd Ord 5.00	0.24
9. Standard Newspapers Ltd Ord 5.00	0.09
10. Williamson Tea (Kenya) Ltd Ord 5.00	<u>0.58</u>
Total	<u>1.26</u>



FIXED INCOME MARKET SEGMENT

<u>Security</u>	<u>Market Cap. As at</u> <u>Dec. 31, 2001</u> <u>(Kshs billion)</u>
1. Chancery Investments Ltd Pref 7 %	0.25
2. Chancery Investments Ltd Pref 8 %	0.14
3. Hutchings Biemer Pref 5%	0.37
4. Kenya Hotels Pref 5.5%	0.47
5. Kenya Orchards Ltd 5.5%	0.30
6. Kenya Power & Lighting Ltd Pref 4%	18.00
7. Kenya Power & Lighting Ltd Pref 7%	3.68
8. Lonrho Motors(EA)Ltd Pref 5% Non Cum	0.75
9. Lonrho Motors(EA)Ltd Pref 6% Non Cum	1.50
10. Marshalls (East Africa) Ltd Pref 7%	0.19
11. Pearl Drycleaners Ltd Pref 5%	0.11
12. Standard Newspapers Group Pref 5.00	0.29
13. Kenya Orchads Ltd 5.5%	<u>0.30</u>
Total	<u>26.04</u>



Capital Markets Disclosure and Standards Committee

- | | |
|--|---|
| 1. Daniel M Ndonge
Managing Partner
Deloitte & Touché
(Chairman) | 2. Charles Muchene
Country Leader
PricewaterhouseCoopers |
| 3. Robin Mason
Executive Director
Barclaytrust Investment
Services | 4. George Oraro
Senior Partner, Oraro and Company
Advocates |
| 5. Zulfiker Alibhai
Partner
Kaplan & Stratton
Advocates | 6. Gerald Mahinda
Finance Director
East African Breweries Limited |
| 7. Eric Chabanne
Finance Manager
Total Kenya Limited | 8. Sheila M'Mjibiwe
Finance Director
Standard Chartered Bank |
| 9. Jackson K Maingi
Asst. General Manager
British American
Insurance | 10. Chief Executive
Nairobi Stock Exchange |
| 11. Chief Executive
Institute of Certified
Public Accountants of
Kenya | 12. Chairman
Institute of Certified Public
Secretaries of Kenya |
| 13. Representative of the
Central Bank of Kenya | 14. Chief Executive
Capital Markets Authority |