



Annual Report & Statement of Accounts

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Annual Report & Financial Statements

For the year ended June 30th 2010



VISION

To be a world-class regulator of a vibrant capital market.

MISSION

To promote market confidence, investor protection and access to financial services within capital markets in Kenya and the region through effective regulation and innovation.

MOTTO

Promoting Capital Markets Integrity

'Kuimarisha uadilifu wa soko la mitaji'

CORE VALUES

- Integrity
- Responsiveness
- Collaboration and Teamwork
- Fairness
- Commitment
- Innovation and Continuous learning

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LETTER OF TRANSMITTAL

Hon. Uhuru Kenyatta
The Honourable Deputy Prime Minister and Minister for Finance
Ministry of Finance
The Treasury
NAIROBI

Dear Sir,

I have the honour to submit the Annual Report of the Capital Markets Authority for the fiscal year ended June 30, 2010. The report has been prepared in accordance with the provisions and requirements of Section 36(3) of the Capital Markets Act, Cap 485A.

Yours sincerely,

Micah Cheserem
CHAIRMAN

CORPORATE INFORMATION

MEMBERS OF THE BOARD

Mr. Micah Cheserem	- Chairman
Mrs. Stella Kilonzo	- Chief Executive
Mr. Joseph Kinyua-CBS	- Permanent Secretary to the Treasury
Dr. Geoffrey Mwau	- Alternate to the Permanent Secretary to the Treasury
Hon. Amos Wako-EGH, EBS	- Attorney General
Mr. James Waweru	- Alternate to the Attorney General
Prof. Njuguna Ndung'u	- Governor Central Bank of Kenya
Ms. Rose Detho	- Alternate to the Governor Central Bank of Kenya
Dr. Gituro Wainaina	- Member
Ms. Nafisa Abass	- Member
Mr. Meshack Onyango	- Member
Hon. Jimmy M. Kitonga	- Member
Mrs. Priscilla Komora – CBS	- Member
Mr. Mohammed Nyaoga	- Member

REGISTERED OFFICE

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Taifa Road
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Cell: 254 722 207767/ 254 734 651550
E-mail: corporate@cma.or.ke
Website: www.cma.or.ke

BANKERS

Commercial Bank of Africa Limited
Mama Ngina Street
P O Box 30437 – 00100
Nairobi

Kenya Commercial Bank-Savings and Loans
Mama Ngina Street
P O Box 45129 - 00100
Nairobi

AUDITORS

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

LAWYERS

Archer & Wilcock Advocates
Marakwet Close
Off Elgeyo Marakwet Road
P.O. Box 10201-00400
Nairobi

CHAIRMAN'S STATEMENT



It is my great pleasure to present the Authority's Annual Report for the year ended 30 June 2010.

THE MARKET REFORM AGENDA

During the year, the Authority reviewed its strategic direction to align it to the national development agenda. The Authority remained focused on the country's aspirations as outlined in Vision 2030 and the Medium Term Plan (2008-2012). The economy showed signs of stabilization during the year with major macroeconomic indicators exhibiting positive signs. The rebound in the economic performance was reflected in the capital markets, with most secondary market

performance indicators registering significant growth.

The important role capital markets are expected to play in Kenya's development agenda is well articulated in the Medium Term Plan. Efficient and effective Capital Markets are key enablers for long-term resource mobilization. The Authority continued to implement key reforms, which were expected to raise the equity market capitalization from 50 percent to 90 percent of GDP and Bond market turnover as a share of GDP from 16 percent in 2008 to 30 percent by 2012.

In the year under review, the Authority was keen to ensure that the Kenyan Capital Markets remain efficient, competitive, financially sound, and dynamic. Besides implementing reforms in the domestic market, the Authority continued to pursue opportunities created through the ongoing regional integration initiatives and other strategic alliances to broaden the scope for resource mobilization.

The capital markets reform agenda, as outlined in the Strategic Plan, aims at positioning the Authority to effectively fulfill its mandate. The Plan focuses on the following key areas:

- Capital markets products and services;
- Market infrastructure, capacity, and institutional arrangement;
- Legal and regulatory framework;
- Investor education and public awareness; and
- Institutional capacity of the Authority.

Service Delivery Charter

To enhance service delivery, in line with the public sector reforms, the Authority launched its Service Charter in December 2009. The charter underscores our commitment to provide quality and timely services and enhance stakeholders' awareness of our mandate, values, the services we offer, and the standards we have set to satisfy the

CHAIRMAN'S STATEMENT

needs of our customers. The Authority will continue to engage with all stakeholders to facilitate high quality standards and services for the market to meet the needs of issuers and investors.

In line with the new strategic direction and service delivery charter, the Authority has been spearheading the following market reforms:

i. Demutualization of the Nairobi Stock Exchange

The demutualization project entered the final stages following incorporation of amendments to the Capital Markets Act to facilitate Demutualization of the Nairobi Stock Exchange (NSE) into the Finance Bill 2010. This process is critical as part of the measures to enhance competitiveness of our exchange and strengthen corporate governance structures.

ii. Bond Market Reforms

The bond market in Kenya is underdeveloped and largely dominated by Government securities and a few corporate bond issues. Last year, the Authority established a Bond Market Steering Committee to spearhead reforms in the bond market. The committee which is chaired by CMA includes representatives from the Ministry of Finance, Central Bank of Kenya, Nairobi Stock Exchange, Central Depository and Settlement Corporation, Kenya Association of Stockbrokers and Investment banks, and market players.

During the year under review trading, clearing, and settlement of bonds was automated and deliberate efforts were made to lengthen the maturity profile. The yield curve at the Nairobi Stock Exchange was accepted by the Institute of Certified Public Accountants of Kenya as a mark-to-market tool. With regard to fiscal incentives, withholding tax on bonds with maturity of ten

years and above was reduced from 15 percent to 10 percent. We are happy to note that these reforms are beginning to transform our bond market with bond market turnover exceeding equity turnover in 2009/2010 for the first time in the history of NSE. The Government and the private sector have been able to raise over Kshs 100 billion infrastructure funds since the launch of the first infrastructure bond last year.

iii. Legal and Regulatory framework

The Authority continued to implement initiatives geared towards reforming its legal and regulatory framework to ensure that it conforms to the international best standards of securities markets regulation. To this end, a number of draft statutes and regulations were exposed for public comment during the year and are in the process of completion.

We are confident that the new regulatory regime will not only safeguard market integrity but also create a firm foundation for introduction of new products and expansion of options for investors and issuers.

iv. Compensation of investors

Investor protection is the mainstay of securities markets world-over. To ensure investors who lost their funds through Nyaga Stockbrokers Limited (Under Statutory Management) did not suffer any longer, the Capital Markets Authority worked with the appointed statutory managers to pay clients who lodged genuine claims subject to the statutory maximum of Kshs.50,000 per investor. The Authority began compensating investors in September 2009 from the Investor Compensation Fund (ICF). Over Kshs. 268 million was paid out to claimants representing 90 percent of the 27,000 investors who lodged genuine claims.

CHAIRMAN'S STATEMENT

BUILDING STRATEGIC ALLIANCES

- **Strengthening Cooperation with Financial Sector Regulators**

In August, 2009 the Capital Markets Authority (CMA), Central Bank of Kenya (CBK), Insurance Regulatory Authority (IRA) and the Retirement Benefits Authority (RBA) signed an Memorandum of Understanding to share information and collaborate on areas of mutual interest in deepening the financial sector in Kenya.

- **Regional Integration and International Co-operation**

The Authority continues to actively participate in the regional and international arena. This is particularly important in the context of EAC regional integration after the East African Common Market Protocol which comes into effect on 1st July 2010.

In this regard, the Authority has been working closely with its peer regulators under East African Securities Regulatory Authorities (EASRA) in sharing experience, knowledge, and expertise. The capital market regulators are working together on harmonization of laws and removal of existing barriers in order to allow for cross border issues, investments and trading in the securities within the East African region.

The Authority remains an active member of the International Organisation of Securities Commissions (IOSCO) which is the global member body of securities regulators. In this regard, the Authority seconded one of its staff members to the IOSCO General Secretariat to provide support to the emerging markets development initiatives.

WAY FORWARD

As we move forward, the Authority will continue to work with other stakeholders to deepen the

market and create a pool of savings and investments that can meet the financing needs as outlined in the Vision 2030 Economic Blueprint. The Authority will focus more on regulatory oversight and encourage the market operators to take a leading role in innovations and market development.

Finally, and on behalf of the Board of the Authority, I wish to acknowledge the support received from the Government through policy interventions and fiscal incentives. I also wish to express my gratitude to management and staff of the Authority, who have worked tirelessly to ensure that our reform agenda is implemented.

Micah Cheserem
Chairman

BOARD MEMBERS OF THE AUTHORITY



Mr. Micah Cheserem
Chairman



Mrs. Stella Kilonzo
Chief Executive



Hon. Amos Wako EGH, EBS
Attorney General



Mr. Joseph Kinyua, CBS
P.S. Treasury



Ms. Nafisa Abbas
Member



Prof. Njuguna Ndung'u
Governor, Central Bank



Mr. James Waweru
Alt. to Attorney General



Dr. Geoffrey Mwau
Alt. to P.S. Treasury



Mr. Mohammed Nyaoga
Member



Ms. Rose Detho
Alt. to Governor



Mr. Meshack Onyango
Member



Dr. Wainaina Gituro
Member



Mrs. Priscilla Komora, CBS
Member



Hon. Jimmy Kitonga
Member

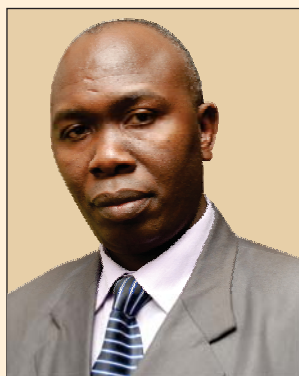
SENIOR MANAGEMENT TEAM



Mrs. Stella Kilonzo
Chief Executive



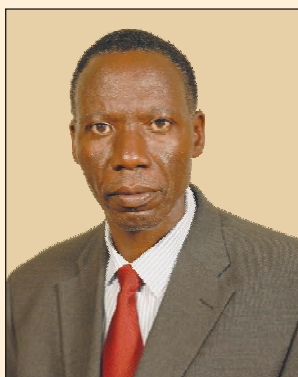
Mr. Sammy Mulang'a
Manager, Research
Policy Analysis & Planning



Mr. Wycliffe Shamiah
Manager, Market Supervision



Mrs. Rose Lumumba
Manager, Legal Affairs



Mr. Richard Chirchir
Manager, ICT



Mrs. Veronica Waiyaki
Manager Human Capital
and Administration



Mr. James Katule
Manager Finance



Mr. Samuel Njoroge
Manager, Corporate
Communications and
Market Development

CORPORATE GOVERNANCE STATEMENT

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

- There are eleven members of the Board all of whom, save for the Chief Executive, are non-executive directors.
- The members possess a broad range of skills and competencies, including legal, finance, banking, economics, and management.
- During the period under review, the Board met six times.

COMPOSITION OF THE BOARD

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

1. Mr. Micah Cheserem (Chairman)

Micah Cheserem is an accountant by profession, having qualified as a Fellow of the Association of Chartered Certified Accountants of London in 1974. He is a former governor of the Central Bank of Kenya. Mr. Cheserem has held a number of posts in various private sector companies including British American Tobacco, Lonrho and Unilever. He is also the Chairman of Equator Flowers Kenya Ltd, a company in which he is a shareholder.

2. Mr. Joseph Kinyua (PS, Treasury)

Mr. Kinyua holds Bachelors & Masters Degrees in Economics, and has wide experience in financial and public sector management, having worked with the University of Nairobi, the International Monetary Fund and the Central Bank of Kenya.

3. Alternate to PS, Treasury: Dr. Geoffrey Mwau (Economic Secretary at Office of the Deputy Prime Minister and Ministry of Finance)

Dr. Mwau graduated from McGill University in Canada with a PhD in economics in 1994. He has worked as a Senior Advisor to the Executive

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

4. Hon. Amos Wako (Attorney General), EGH, EBS

Hon. Wako holds a Master of Law degree from the University of London, with specialization in Comparative Constitutional Law, International Economic Law and the Law of Treaties. He is a Fellow of the Chartered Institute of Arbitrators (London) and the International Academy of Trial Lawyers (USA). He has worked with the United Nations, and other Regional and International Non-Governmental Organisations. The Attorney General is the principal legal advisor to the Government of Kenya.

5. Alternate to AG: Mr. James Waweru

Mr Waweru is a Principal State Counsel and Personal Assistant to the Attorney General. He has a Master of Laws (LL.M) in International Economic Law from the University of Warwick. He is an Advocate of the High Court of Kenya, a member of the Institute of Certified Public Secretaries of Kenya and of the Warwick Graduates Association

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

An Economist by profession, Prof. Ndung'u holds a PhD in Economics from the University of Gothenburg, Sweden, and Masters and Bachelors degrees in Economics from the University of Nairobi. He's an Associate Professor of Economics at the University of Nairobi, and has worked in various capacities with the International Development Research Centre (IDRC) Canada, and the Kenya Institute of Public Policy Research and Analysis (KIPPRA), among other Institutions.

CORPORATE GOVERNANCE STATEMENT

7. Alternate to Central Bank Governor: Ms. Rose Detho

Ms. Rose Detho holds an MBA and B Comm. from the University of Nairobi and is currently the Director of the Deposit Protection Fund Board. Prior to her appointment, she was Director, Bank Supervision Department at the Central Bank of Kenya. Since joining the Central Bank of Kenya in 1988, Ms Detho has worked in several progressive capacities in the Bank Supervision Department. She has served on several occasions as Statutory Manager, appointed by the Bank, to manage financially distressed institutions. She was also seconded to Deposit Protection Fund Board in her capacity as Liquidation Agent of a number of failed institutions.

8. Hon. Jimmy Muthusi Kitonga

Hon. Kitonga is an advocate of the High Court of Kenya and Senior Partner in the law firm of Muthusi Kitonga & Company, Advocates.

9. Mr. Meshack Onyango

Mr. Onyango is a financial sector operations and banking expert with thirty years experience working with the Central Bank of Kenya. He holds a Masters of Science Degree in International Banking and Finance and a Bachelor of Commerce in Accounting.

10. Ms. Nafisa Abass

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

11. Dr. Gituro Wainaina

Dr. Wainaina is a consulting economist and a Director of the Social Pillar at the Vision 2030 Secretariat. He is also an educator and holds a PhD in Agricultural Economics, an MBA, and Bachelor

of Education degree. He has extensive working experience with the World Bank, CARE International and the Education Ministries in Kenya, Malawi and Rwanda.

12. Mrs. Priscilla Komora, CBS

Mrs. Komora was the Controller and Auditor General at the Kenya National Audit Office from July 2006 to January 2009. Prior to her appointment, Mrs Komora who holds a Bachelor of Arts degree had served as Deputy Auditor-General since 1996.

13. Mr. Mohammed Nyaoga

Mr. Nyaoga holds an LLB and LLM degrees from the University of Nairobi and Diploma in law from the Kenya School of Law. He is a Certified Public Secretary (CPS); a Certified Company Director and a member of the London Institute of Directors. Mr. Nyaoga, who was admitted to the Bar in 1985, specializes in corporate finance, civil and commercial litigation. He is also a recognized authority on bank securities.

14. Mrs. Stella Kilonzo, Chief Executive

Mrs. Kilonzo holds an MBA (Corporate Finance) from Loyola University of Chicago, is a CPA (USA), and a First Class Honors B.Com graduate from the Catholic University of Eastern Africa. She has broad experience in corporate finance and in securities market regulation, mainly from Financial Industry Regulatory Authority (FINRA), USA.

As the Chief Executive, Mrs. Kilonzo represents the Authority at the National Economic and Social Council of Kenya (NESC), the Boards of Insurance Regulatory Authority (IRA), Retirement Benefits Authority (RBA) and the Kenya Vision 2030. During the year under review, she was also the Chairperson of the East Africa Securities Regulatory Authorities (EASRA), a forum for East African capital markets regulators.

STATEMENT OF THE BOARD MEMBERS' RESPONSIBILITIES

The principal responsibility of the Board is to determine the long-term goals of the Authority and ensure efficient and effective plans are developed and implemented. This entails:

- Reviewing the values, vision and mission and developing strategy;
- Putting in place management structures [organization, systems and people] to achieve those objectives;
- Setting targets and monitoring performance;
- Guiding the implementation of strategic decisions and actions and advising management as appropriate;
- The review and adoption of annual budgets for the financial performance of the Authority and monitoring the Authority's performance and results;
- Management of risk, overseeing the implementation of adequate control systems and relevant compliance with the law, governance, accounting and auditing standards; and
- Ensuring the preparation of annual financial statements and reports, communication, and disclosure of information to stakeholders.

Board Committees

Subject to fundamental, strategic, policy, and formal matters reserved for its decision and pursuant to Section 14 of the Capital Markets Act, the Board delegates authority to a number of Board committees which operate within defined terms of reference. Other committees may be formed on an ad-hoc basis. During the period under review, the Board had constituted the following committees:

The Finance and Planning Committee

This committee consists of four members, all of whom are non-executive members of the Board.

The committee was chaired by Mr. Meshack Onyango. It has oversight on all financial issues including procurement. The committee met five times during the period.

The Audit, Corporate Governance and Risk Management Committee

This committee consists of six members, all of whom are non-executive members of the Board. The committee was chaired by Mrs. Priscilla Komora, CBS. The mandate of the Committee includes assisting management in enhancing internal controls in order to improve efficiency, transparency, and accountability; reviewing audit issues raised by both internal and external auditors; implementing Public Accounts and Public Investments (PAC/PIC) recommendations; enhancing communication between management, internal and external audit; and fostering an effective internal audit function. The Committee met five times during the year.

The Human Resource and Communications Committee

This committee consists of four members, all of whom are non-executive members of the Board. The Committee was chaired by Ms. Nafisa Abass. It is responsible for the human capital and administration policy including recruitment as well as corporate communications and investor education. The Committee met six times during the year.

Technical and Policy Committee

The Committee consists of six members all of whom are non-executive members of the Board. The Committee was chaired by Dr. Gituro Wainaina. It is responsible for considering technical and policy matters of the Authority's operations and the capital markets industry as a whole. The Committee met six times during the year.

STATEMENT OF THE BOARD MEMBERS' RESPONSIBILITIES

Asset Recovery Committee

The committee consists of four members all of whom are non-executive members of the Board. The committee was chaired by Mr. James Waweru. It is responsible for handling issues with respect to statutory management, prosecution, and recovery of assets. The committee met four times during the year.

Supply of Information

Board members have unlimited access to management and to the advice and services of the Authority Secretary. They are provided with all the information needed to carry out their duties and responsibilities fully and effectively. In addition, directors are entitled where necessary to seek independent professional advice concerning the affairs of the Authority.

Accountability and Audit

Board members presented a balanced and understandable assessment of the Authority's financial position and prospects. The Authority continued to release its various reports and statements as required by various stakeholders.

Risk Management and Internal Controls

The Board continued to monitor the operational and financial aspects of the Authority's activities through the Audit, Corporate Governance and Risk Management Committee, the advice of external auditors and with recommendations from other technical advisors. Based on these assessments, the Board where relevant, considered appropriate actions to address any operational and financial risks that the Authority may face. In addition, the Board approved various internal control procedures and continues to investigate ways of further enhancing existing risk management strategies and procedures.

Compliance with the Law

The Board as a collective entity and the individual directors are satisfied that the Authority has to the best of their knowledge complied with all applicable laws. To the knowledge of the Board, no director or employee has acted or committed any offence or indulged in any unethical behaviour in the conduct of the lawfully authorized business of the Authority.

CHIEF EXECUTIVE'S STATEMENT



SECURITIES MARKETS PERFORMANCE

The year 2010 has seen an improved performance of the capital markets virtually in all parameters with an increase in investor activity at the bourse occasioned by stable macroeconomic factors, improved political environment, and investor confidence.

The strong activity in both the primary and secondary debt market registered last year was replicated during the year with two additional Infrastructure Bonds issued totalling Kshs 33 billion as well as three Corporate Bond issues amounting to Kshs 38 billion, all of which were oversubscribed. The longest dated Central Government debt instrument in Kenya's history, a 25-year bond was issued in June 2010, as well as a 20-year bond. In total 15 bonds were issued, raising Kshs 149 billion, out of which 59% were

of 10-year tenor and above. Total bond turnover rose by 146% to Kshs 370 billion, the highest recorded in the history of the NSE, as the benefits of aggressive bond market reforms started to yield returns.

Activity in the primary equities market remained subdued as a result of cautious optimism amongst potential issuers. However a number of listed companies involved existing shareholders in additional capital raising initiatives through rights issues.

Overall, there was mixed performance in the secondary equity market with shares turnover and volume recording corresponding increases of 10% and 15%, while the NSE 20 Share Index and Market Capitalization declined by 31% and 35% respectively. There was however renewed optimism in the market with a return of foreign investors to the NSE as indicated by the net foreign inflow of more than Kshs 8 billion during the year, whose sustained demand is expected to be an important determinant for market performance in the coming year.

MARKET OVERSIGHT DEVELOPMENTS

In its market oversight role, the Authority supervises the market players to bolster a fair, efficient and orderly market and enhance market integrity. The Authority continued to strengthen its supervisory activities through monitoring market players on their compliance with regulatory requirements; periodic review of all licensed persons and listed companies in order to ensure continued compliance with the capital markets regulations and adherence to good corporate governance practices by Intermediaries.

During the year, the Authority spearheaded consultations and meetings with key market players with the aim of discussing challenges faced in the market, review developments in the capital markets sector and ways of enhancing market integrity investor confidence. The Authority will

CHIEF EXECUTIVE'S STATEMENT

continue to conduct focused meetings with stakeholders where necessary as a means of employing a consultative process in its regulatory role. The following activities took place during the period under review:

Risk-Based Supervision

Risk-Based Supervision (RBS) is a modern approach to supervision that places strong emphasis on understanding the inherent risks and assessing the adequacy of each market intermediary's risk management systems. It assigns the highest priority and effort to areas of higher risk. The approach makes efficient use of the Authority's scarce resources with the focus moving from the general approach where all licensees are allocated equal time and resources to a situation where the Authority's resources are concentrated on risky firms. The following milestones have been realized towards embracing risk based supervision approach:

Compliance officers - All the licensees have since been required to appoint compliance officers to coordinate all the compliance issues within the firm. The compliance officers also act as contact persons for the Authority and are in charge of identifying potential areas of risk in their organizations and ensuring that measures are put in place to mitigate such risks. A well established compliance program within a market intermediary plays a critical role in the firm and serves as a control tool to ensure clients assets are protected and helps to detect and prevent wrongdoing. This unit should be adequately staffed and supported by the senior management of the intermediary. As part of the consultative process, the Authority, on several occasions, engaged licensee's compliance officers on the daily operational aspects of the firms, and in the process, provided feedback on the challenges touching on compliance of the intermediary.

Relationship managers - Authority staff members have been assigned specific firms to act

as contacts and to monitor continued compliance by the intermediaries to capital markets regulations. The relationship managers also make follow up on financial statements submissions, enforcement actions on the firms, and solve clients' complaints among other responsibilities. This arrangement has gone a long way in bringing about a common understanding of the capital markets law and improving the compliance of market intermediaries with the same.

Risk profiling - During the year, the Authority developed a risk profiling framework based on the regulatory requirements of the licensees that resulted in the ranking of the licensees from the highest to the lowest risk. This assessment formed the framework within which the annual inspections were conducted. The Authority intensified surveillance on the more risky firms without losing sight of the less risky ones. A survey was also conducted on the most prevalent risks that the market intermediaries face. It was established that technological, liquidity, operational, and market risks among others were widespread.

Early Warning Signs - An early warning signs model was also developed under the Risk Based Supervision process to proactively identify any challenges experienced by a licensee so that mitigation measures are put in place on time. Based on this, inspections were conducted and appropriate regulatory focus placed where the weaknesses were identified. The Authority will periodically review its supervisory procedures and processes in order to align with international best practice.

On-Site Inspections- The Authority conducts compliance oversight reviews or otherwise known as inspections on market intermediaries to ensure compliance with Capital Markets laws and regulations. The supervisory systems within the Authority were reviewed and aligned to International best practice where risk-based supervision approach is being implemented.

CHIEF EXECUTIVE'S STATEMENT

A series of on-site reviews of the operations of the market intermediaries were carried out to determine the compliance levels of intermediaries with the requirements of the Capital Markets Act and the Regulations and also identify any issues that posed an increased risk to the investors. In the period under review 157 inspections were conducted involving 19 investment banks, 7 stockbrokers, 17 fund managers, 25 investment advisers and 11 Collective Investment Schemes.

The assessments were mainly geared towards examining the following areas: compliance with capital adequacy requirements, continuous reporting obligations, internal controls and record-keeping requirements. A number of breaches of capital markets regulations were discovered during the exercise and the necessary regulatory remedial action taken. One stockbroker was placed under statutory management for its failure to meet client obligations, non-compliance with regulatory requirements, and liquidity problems.

Review of Financial Reporting

Dissemination of timely and accurate information by the issuers and licensed institutions play a very crucial role in ensuring that the investing public are well informed at all times. Listed companies, licensees, and other issuers are required by law to submit interim and annual accounts within stipulated time frames. Applicants for approvals and new licenses also submit financial statements as part of the filings made to the Authority to facilitate the processing of those applications. The objective of the review of financial reports is to examine compliance to listing, and licensing requirements as well as International Financial Reporting Standards. The Authority received and reviewed various financial reports in the year and took enforcement actions on those companies found not to be in compliance with the regulations.

The table below shows the classification of the 440 financial reports submitted to the Authority during the year.

Submitting entities	Number of submissions				
	Audited annual accounts	Half year Accounts	Quarterly Accounts	Approvals related reports	Total
Listed Companies	51	50	-	16	117
Licensees	68	68	137	-	273
Unit trusts funds	9	18	27	3	57
Applications for licenses.	-	-	-	9	9
New equity issues	-	-	-	5	5
New corporate Bonds & Commercial Paper	-	-	-	2	2
TOTAL	128	136	164	35	463

Source: CMA Compliance database

CHIEF EXECUTIVE'S STATEMENT

Corporate Governance Guidelines	Listed Companies Meeting Guidelines	Number of Listed Companies
1 Establishment of board committees	48	55
2 Sufficient board composition	46	55
3 Disclosure of a statement on corporate social responsibility in the annual report	39	55
4 Ownership details of the top ten shareholders in annual report	49	55
5 Timely release and submission of 2009 audited accounts	47	55
6 Timely submission of interim reports 2009/2010	49	55
7 Chief Finance Officers being in good standing with ICPA (K)	33	55
8 Company Secretary being in good standing with ICPS (K)	52	55

Source: CMA Compliance database

Market Surveillance

An efficient surveillance system is the bedrock of effective regulation, compliance and enforcement and development of a fair, orderly and transparent market. The surveillance effort at the Authority was directed towards detecting market abuse and manipulation and taking prompt corrective action to maintain market order and avert any potential failure. Surveillance entails monitoring market movements through constant real time watch of the online trading as well as offline analysis to detect potential malpractices or breach of regulations. Listed companies are also required to make announcements of their corporate actions in

a specific manner and timing, failure to which regulatory action is taken against the company.

The Authority observed that there were instances where the Automated Trading System at the NSE experienced technical hitches during the financial year 2009/2010. The Authority received incident reports from the Exchange as well as mitigating measures to avert recurrence.

Financial Performance of Licensees

Presented below is the financial performance for licensed entities for the year ended December 31, 2010.

CHIEF EXECUTIVE'S STATEMENT

Name of Licensee	Turnover	Reported Profit/ (Loss)	Total Assets	Total Liabilities	Net Assets
	Kshs '000'	Kshs '000'	Kshs 000'	Kshs '000'	Kshs '000'
Fund Managers	2,506,589	407,241	2,560,247	946,181	1,614,067
Investment Banks	2,366,001	419,427	13,037,137	5,363,663	7,673,474
Collective Investment Schemes	3,904,533	3,289,207	28,273,793	87,635	28,186,158
Investment Advisers	555,807	30,122	403,995	84,749	319,246
Stockbrokers	523,021	109,598	2,233,462	591,801	1,641,661
Totals	9,855,951	4,255,593	46,508,634	7,074,029	39,434,606

In 2010, the performance of the capital markets licensees' was better as compared to 2009 as most of them reported modest profits during the year. The Collective Investment Schemes reported higher profits than the other licensees. The Collective Investment Schemes and Investment Banks hold the most significant assets with their total assets valued at Kshs 28.2 billion and Kshs 13 billion, respectively. The total assets for the sector were valued at Kshs 46.5 billion as compared to Kshs 29.3 billion reported in 2009. The total turnover for the industry grew from Kshs 4.4 billion in 2009 to Kshs 9.9 billion in 2010.

Investigations

Due to the nature of the operations in the capital

markets, occasionally there is need to conduct investigations on suspected transactions, breach of regulations by regulated entities, and reported cases of malpractice. Investigations are carried out with the purpose of determining the facts surrounding any alleged wrongdoing in the capital markets industry or on the allegations made in the reported cases. During the investigation process, elaborate data is collected regarding primary issues, transactions in the secondary markets, trading details and is followed by verification and analysis of the same. Pursuant to completion of investigation, various administrative actions provided under the Capital Markets Act and Regulations are considered. Summarized below are the complaints received in the year in comparison with those of the previous period.

Nature of the Complaint	To June 30 2009		To June 30 2008	
	No. Received	No. Resolved	No. Received	No. Resolved
1 Investor complaints	415	308	495	210
2 Complaints regarding mismanagement of listed companies	-	-	2	2
3 Market operators without a license	-	-	2	2
4 Fraudulent activities	36	-	-	-
Total	451	308	499	214

CHIEF EXECUTIVE'S STATEMENT

Promotion of Excellence in Financial Reporting

The Authority, jointly with ICPAK and NSE sponsored the annual Financial Reporting Excellence (FiRe) Award, aimed at recognizing and encouraging listed and other public companies to prepare financial statements in full compliance with International Financial Reporting Standards, the Companies Act, and disclose the corporate governance and corporate social responsibility practices.

LEGAL FRAMEWORK, LICENSING AND ENFORCEMENT ACTIONS

Review of the legal and regulatory framework

The Capital Markets Authority has continued to implement initiatives geared towards reforming its legal and regulatory framework to ensure it conforms with the world's best standards of securities markets regulation. Additionally, the Authority is a member of the International Organization of Securities Commissions (IOSCO) which requires adoption of international best practices and standards for capital markets regulation. To this end, the Ministry of Finance under the Financial and Legal Sector Technical Assistance Program (FLSTAP) contracted International Securities Consultancy of Hong Kong (ISC) and Kaplan and Stratton Advocates to undertake a review on the adequacy of the capital markets' legal and regulatory framework and draft new or amended legislation. The following draft pieces of legislations were submitted on 3rd January 2010:

- The Capital Markets Authority Act;
- The Securities Industry Act;
- The Central Depositories (Amendment) Act;
- The Securities Industry (Licensing) Regulations;
- The Securities Industry (Collective Investment Scheme) Regulations;
- The Securities Industry (Offers of Securities)

- Regulations;
- The Securities Industry (Asset backed Securities) Regulations;
- The Securities Industry (Continuing Disclosure Obligations of Issuers) Regulations;
- The Securities Industry (Takeovers) Regulations;
- The Securities Industry (Internet Trading) Regulations;
- The Securities Industry (Investor Compensation) Regulations;
- The Securities Industry (Advertising) Regulations; and
- The Securities Industry (Disciplinary Proceedings) Regulations.

In developing these draft statutes and regulations, the same were exposed for stakeholders' and the general public comments in November 2009 and thereafter, a stakeholders' workshop was held in December 2009 to allow for further discussion.

Gazetted Provisions

In order to ensure that the necessary legal framework is enacted to facilitate the demutualization of the NSE, the Demutualization Steering Committee developed amendments to the Capital Markets Act which were gazetted in the Finance Bill 2010. The Authority continues to engage with NSE and the Ministry of Finance to facilitate the demutualization process.

- The Capital Markets (Corporate Governance) (Market Intermediaries) Regulations, 2010 and the Capital Markets (Conduct of Business) (Market Intermediaries) Regulations, 2010 are at advanced stage in the legislation process having been exposed for public comment and are expected to be gazetted in the first Quarter of the year 2010/2011.
- The Authority also prepared and presented to the Minister, amendments to the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 to provide for the procedure to be followed by issuers of securities who opt to use book-building price determination method.

CHIEF EXECUTIVE'S STATEMENT

- In support of the coming into force of the Proceeds of Crime and Anti Money Laundering Act, the Authority developed and exposed for industry consultation guidelines to its licensees on their obligations arising under the new Act. These guidelines are expected to be gazetted in the first Quarter of the year 2010/2011. The Authority is also in the process of developing a standard Know Your Client (KYC) procedure which contains the minimum requirements to be requested in client account opening forms.

Amendment to section 29 of the Capital Markets Act

Proposed amendments to section 29 (4), (5) & (6) of the Capital Markets Act were introduced to ensure further clarity in the interpretation of the 2009 amendments to Section 29 of the Capital Markets Act. These amendments refine the prescribed corporate shareholding structures for stockbrokers, investment banks and fund managers as well as give the Authority the latitude to subject other market intermediaries to these requirements. These amendments were exposed for stakeholders and public comments in the month of June 2010 and will be subjected to further review based on the industry feedback received.

Streamlining the approval process of private transfers applications

In order to introduce greater efficiency in the process for the transfer of securities outside the trading system at NSE an adhoc committee comprising of representatives from Nairobi Stock Exchange, Capital Markets Authority, Central Depository and Settlement Corporation, Kenya Association of Stock brokers and Investment Banks and some Share Registrars, was set up to review the process and recommend the way forward. Following the recommendations of this committee, joint regulatory provisions are under development and are being prepared to be

exposed for stakeholder and public comments once approved.

Assisted IOSCO Principles Self-Assessment

The International Organization of Securities Commissions (IOSCO), which the Authority is a member of, has developed the 38 Principles of securities regulation which are accepted as the international standard for effective regulations of securities markets. In order to benchmark its legal framework against this standard, the Authority reviewed the entire legal and regulatory framework, and identified potential gaps and weaknesses impacting the Authority coming into full compliance with the IOSCO Principles. A report was prepared with the assistance of the World Bank and Financial Sector Reform and Strengthening (FIRST) Initiative. This is the benchmark against which the Authority is reviewing the draft pieces of legislation as prepared by the International Securities Consultancy Limited under the Financial and Legal Sector Technical Assistance Project (FLSTAP).

Licensing, Approvals and Regulatory Actions

i. New licenses

During the year 2009/2010 the Authority granted new licences to the following market intermediaries;

Type of licensee	Number
Investment advisors	2
Fund Managers	2
Authorised Depositories	2

The Authority renewed seventy five (75) licenses for nineteen (19) Investment Banks; five (5) Stockbrokers; eighteen (18) Fund Managers; eighteen (18) Investment Advisers; and fifteen (15) Authorized Depositories.

CHIEF EXECUTIVE'S STATEMENT

ii. Extended Licenses

The Authority had initially extended three (3) licensees; one (1) Stockbroker and two (2) Investment Advisers.

iii. Suspended Licenses

Shah Munge & Partners Limited and Francis Thuo & Partners Limited remained suspended. Nyaga Stockbrokers Limited and Discount Securities Limited remained under statutory management. Ngenye Kariuki & Company Limited was also placed under statutory management due to solvency problems.

iv. Revoked Licenses

The Investment Advisers license of WSD Capital (K) Limited; Jani Consultancy Services Limited and Inter-Alliance (Kenya) Limited were revoked.

Enforcement Round-Up

The Board of the Authority approved the publication of enforcement actions pursuant to Section 25A (4) of the Capital Markets Act for enforcement actions taken from July 2009. The following breaches were noted during the period under review and enforcement action taken as follows;

i. Failure to meet Capital Requirements

Enforcement action was taken against two stock brokers. One was placed under statutory management while the other one, which was required to recapitalize, was bought by a bigger entity. Two investment advisers firms were directed to regularize their capital positions which they did by June 30 2010.

ii. Overdrawing clients accounts

Enforcement action was taken against 3 firms which action was in respect of reduced amounts and frequency of over drawings as compared to previous periods.

iii. Removal of Directors

Two directors of investment advisers firms, facing

criminal charges, were requested to step aside to allow for investigations into their conduct. The firms were also directed to appoint replacements who are in compliance with the set fit and proper criterion.

iv. Level of shareholders funds being below the prescribed minimum amounts

Five firms were directed to regularize this position.

v. Continuous reporting obligations

Enforcement action was taken against fourteen licensees for late submission of management and annual accounts for the period just ended. Most of the late submissions were in a span of less than five days which is a marked improvement from the previous year's trends.

Capital Markets Fraud Investigation Unit

The Authority established the Capital Markets Fraud Investigation Unit (CMFIU) in May 2009 staffed by officers from the Criminal Investigation Department specializing in economic and cyber crime. The Unit is intended to enhance the Authority's capacity especially with regard to enforcement with an aim to:

- Fast track fraud cases within the securities industry.
- Centralize the investigation of securities related fraud.
- Promote investor confidence.

The Unit has received a total of 390 cases for the period July 1, 2009 to June 30, 2010. Investigations into a total of 66 cases have been finalized and the status of the cases is as follows;

CHIEF EXECUTIVE'S STATEMENT

Position of Cases	No.
Pending before court	36
Pending arrest of Known accused person	2
Settlement through court	2
Withdrawal by Complainant after settlement	10
Recommendation for Enforcement actions	13
Forwarded to Director CID for further action	3
Pending under active investigations	324

In the course of investigation of the above cases, the Unit made recoveries totaling to Kshs 7.5 million, representing the values of monies paid to clients, and or value of shares reinstated.

INVESTOR EDUCATION AND AWARENESS PROGRAMMES

Investor education and outreach programmes are very crucial in increasing financial literacy as well as investor confidence in Kenya. During the year under review, the Authority continued to pursue its outreach programme both to existing as well as potential investors. The Authority held several forums, workshops, exhibitions and town hall meetings in various parts of the country. Through our investor education and awareness programme, there has been a keen interest showed by institutions of higher learning such as universities and colleges in the area of capital markets as was exemplified by the level of participation during the Authority's visits and the number of visits made to the Authority by these institutions. The Authority continues to explore innovative ways to enhance financial literacy and awareness on capital market developments.

In addition, the Authority's investor education strategy continued to focus on the potential investors in the rural areas. The use of vernacular radio stations continued to be an effective tool as in the year before. In addition, the Authority participated in rural shows and trade fairs to reach the heart of potential investors in Kenya.

OPERATIONAL EFFICIENCY

The Authority attained ISO 9001:2008 certification in December 2009 and has continued to maintain the Quality Management System over the year as evidenced by successful surveillance audits. The Authority is committed to continuous improvement in its pursuit to become more efficient and effective in performing and delivering on its mandate. In addition, a performance management system, aimed at enhancing performance at all levels and to identify areas of training, was put into operation. Further, the Authority is implementing a document imaging and workflow system with a view to automating all business processes.

Capacity Building

The Authority continued to develop the core competencies and skills of its employees. During the year, members of staff attended both local and overseas training. They were also exposed to various overseas securities markets such as Canada, Malaysia, Sri Lanka, South Africa, Sweden and United States of America through training programmes and study tours.

Further, the Authority co-sponsored a regulators training workshop in Nairobi together with the

CHIEF EXECUTIVE'S STATEMENT

United States Securities and Exchange Commission, designed as a forum for the exchange of best practices in the development and regulation of capital markets presented through a series of lectures, roundtables, and case studies. The program also explored responses to crisis, provided observations comparing and contrasting approaches by regulatory systems around the world, and highlighted international best practices using real-world examples of market inefficiencies to explore the regulatory, statutory, and other tools capital market regulators need to address these challenges. It was very well attended not only by staff and industry stakeholders but also by several other regulators from within the continent.

The Authority filled eight vacant positions during the year, increasing the total number of staff from 53 in June 2009 to 61 in June 2010. Following a detailed skills gaps analysis for core departments, and in response to an increasingly vibrant market, the recruitment for several positions will continue in the coming year.

FINANCIAL HIGHLIGHTS

The Authority's financial position is presented in detail in the audited financial statements for the financial year ended 30 June 2010.

The Authority experienced an improved year in terms of revenue collection compared to the year ended 30 June 2009. This was mainly attributable to the rebounding of the market and easing of the global financial crisis. A surplus before tax and transfer to the exchequer, of Kshs 149 million was realized in the year compared to Kshs 90 million in the previous year. The net surplus is Kshs 36 million.

The total income earned in the year is Kshs 485 million compared to Kshs 368 million in the previous year, an increase of 32 percent. The total expenditure incurred is Kshs 337 million which is Kshs 58 million higher than previous year.

INCOME EXPENDITURE SUMMARY:	30.06.2010 Sh' 000	30.06.2009 Sh' 000
INCOME		
Government Bonds and Capitalization fees	205,024	106,518
NSE Transaction fees	154,854	137,652
Others	79,841	89,929
TOTAL OPERATING INCOME	439,719	334,099
Donor Funding	45,541	34,282
Total Income	485,260	368,381
EXPENDITURE		
Salaries and Staff costs	178,430	111,526
Rent and Maintenance	17,033	13,180
Trainings and Conferences	12,104	11,801
Investor Education	13,228	22,665
Authority Members' Allowances	15,918	11,334
Professional and Market Development	48,752	61,095
Depreciation on Property, Plant and Equipment	9,171	5,043
Others	41,951	42,145
TOTAL EXPENDITURE	336,587	278,789

CHIEF EXECUTIVE'S STATEMENT

LOOKING AHEAD

The capital markets remain a significant and viable source of finance for the Government and the private sector. The Authority will continue to spearhead the ongoing reform measures to grow the fund raising capacity and enhance the competitiveness of the market on all fronts.

We thank all our stakeholders for the support we have continued to receive and look further to strengthen this cooperation in the years ahead. On behalf of the Authority's management and staff, I wish to thank the Board of the Authority for the policy guidance provided. I commend the entire team at the Authority for the hard work and commitment throughout the year.

Stella Kilonzo (Mrs)
CHIEF EXECUTIVE

OPERATING ENVIRONMENT

World Economic Situation

The global economy began a slow recovery from recession, with stock markets improving in performance throughout the developed and developing worlds, although at varying pace. International trade and global industrial production recovered noticeably, with an increasing number of countries registering positive growth in Gross Domestic Product (GDP). This economic revival was largely in response to the massive policy stimuli injected worldwide since late 2008.

Developing nations recorded an average growth of 1.9 percent, outperforming the developed world which contracted by 3.5 percent as the world economy was characterized by negative growth in GDP of around 2.2 percent. Foreign direct investment (FDI) and remittance inflows to developing countries declined rapidly, while commodity prices rebounded ahead of the recovery.

Africa, despite being adversely affected by the global economic downturn, has shown signs of recovery, as China's strong stimulus-induced economic growth is benefiting commodity exports from the continent in terms of both export and inward investment. In addition to the sharp downturn in global demand and commodity prices, Africa was adversely affected by the tightening of financing conditions, weak household spending and low business confidence. However, growth has somewhat recovered in 2010, spurred by the modest global recovery and increased inflows of investments especially from China.

The year 2010 portends a slow overall global economic recovery due to weak internal demand in a number of current account-deficit countries, including the USA. Appropriate macroeconomic and financial policies are still required, to sustain strong demand in key countries mainly in the developed world.

As the global economy recovers, African commodity exports and prices are projected to increase, boosting growth in 2010. However, the continents medium- and long-term growth

prospects depend mainly on its ability to reduce its high dependence on Overseas Development Assistance (ODA) and on primary exports that are often subject to significant fluctuations in commodity demand and prices. All this calls for increased mobilization of domestic resources that are more predictable as a source of development financing and that can also provide more policy space to implement effective growth strategies.

Domestic Environment

The Kenyan economy grew by 2.6 percent in 2009, nearly doubling the figure recorded in 2008 of 1.6 percent largely as a result of easing inflation levels owing to a decline in energy costs and food prices, growth of the financial sector and increase in net capital inflows. Growth is expected to rise further to between 4 percent and 5 percent in 2010, supported by a stable macro-economic environment, improved rainfall, anticipated global recovery, and the expected benefits from the implementation of the East African Common Market Protocol.

Kenya's capital markets registered mixed performance during the period under review. However, the outlook for 2010 remains positive due to improved economic conditions, stable interest rates and inflation. In addition, the effects of the prolonged dry weather and the global economic downturn are slowly abating. The year 2009/2010 was characterized by increased activity in the primary bond market as well as the secondary equity and bond markets. It is also the period when the Government issued two infrastructure bonds; a listed company issued the first ever corporate infrastructure bond; the Government bond reopening programme was implemented; Greenshoe options were introduced in corporate bond offers; and clearing and settlement of bonds in the secondary market was automated.

MARKET PERFORMANCE

Equity

Activities in the primary equity market remained subdued, largely due to uncertainty over the recovery in the economy and the failure of

OPERATING ENVIRONMENT

companies to privatize through the stock market. However as the economy remains on a recovery path, there is huge potential for fund-raising through the capital markets.

Debt instruments

• Treasury Bonds

During the period under review, the Government raised Kshs 149 billion through Treasury bonds, 51 percent higher compared to Kshs 98.5 billion in FY 2008/2009. The average subscription rate for Government bonds during the period under review was 142.8 percent compared to 99 percent for a similar period in 2008/2009.

The Government launched its second infrastructure bond on November 12, 2009 to raise a further Kshs 18.5 billion, following the success of Kenya's debut infrastructure bond

issued in January 2009. The issue registered a 225.9 percent subscription rate with the bids received amounting to Kshs 44.1 billion. In February 2010, the Central Bank of Kenya issued its third Infrastructure Bond within a span of a year, which recorded an excellent subscription rate of 243 percent.

During the year the Government sustained its policy of issuing long-term paper. It issued the longest dated central government debt instrument in Kenya's history, a 25-year bond in June 2010, as well 20-year bond, raising Kshs 10 billion and Kshs 7.5 billion respectively. In total 15 bonds were issued, raising Kshs 149 billion compared to 11 bonds issued the previous year which raised Kshs 98.5 billion. Average bond yields varied from 6.5 percent on the two-year bond to 10 percent on the 25 year fixed rate bond.

Government Treasury Bond Issues July 2009- June 2010

Date of approval	Number of T-Bonds Issued	Amount offered (Kshs Bn)	Tenor	Amount Raised	Subscription Level (%)
2009					
July	FXD2/2008/10	12	10 Years	10.3	85.8
Aug	FXD3/2008/5	11	5 Years	10.5	95.8
Sep	FXD3/2009/2	11	2 Years	8.2	74.5
	FXD1/2009/5		5 Years		
Oct	FXD1/2009/15	12	15 Years	10.7	88.9
Nov	IFB2/2009/12	18.5	12 Years	18.5	225.9
Dec	FXD1/2008/20	10	20 Years	10	102.48
2010					
Jan	FXD1/2010/2	12	2 Years	12	242
	FXD1/2009/5		5 Years		
Feb	IFB1/2010/8	14.5	8 Years	14.5	243.36
Mar	FXD2/2010/2	16.5	2 Years	16.5	183.79
	FXD1/2010/15		15 Years		
Apr	FXD1/2010/10	12	10 Years	12	139.57
May	FXD1/2010/5	12	5 Years	12	156.37
June	FXD1/2010/25	7.5	25 Years	7.5	360.96

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Treasury bond Issues by tenor; 2006 - 2010

Tenor	2006		2007		2008		2009		2010	
	No of Issues	Value (Kshs bn)	No of Issues	Value (Kshs bn)	No of Issues	Value (Kshs bn)	No of Issues	Value (Kshs bn)	No of Issues	Value (Kshs bn)
1 year	-	-	2	8.08	1	3	2	10	0	-
2 year	4	18.96	3	11.68	3	16	1	6	3	-
3 year	2	12.80	2	6.87	-	-	-	-	0	-
4 year	3	9.55	1	3.38	-	-	-	-	0	-
5 year	2	7.91	2	5.39	4	24.09	2	15	4	46
6 year	2	14.00	2	11.70	-	-	-	-	0	-
7 year	1	3.18	1	2.26	1	8	-	-	0	-
8 year	1	3.20	1	2.62	-	-	-	-	1	14.5
9 year	1	2.95	-	-	-	-	-	-	0	-
10 year	1	5.09	-	-	2	14.27	--4	36	2	24
11 year	-	-	1	3.91	-	-	-	-	0	-
12 year	-	-	2	8.82	-	-	1	18.5	1	18.5
15 year	-	-	2	11.07	2	14.4	-	-	2	28.5
20 year	-	-	-	-	1	7.5	1	13	1	10
25 year	-	-	-	-	-	-	-	-	1	7.5
Total	17	77.64	19	75.78	14	87.26	11	98.5	15	149

Source: CBK

b. Corporate Bonds

Activity in the primary bond market was bullish during the period under review with three Corporate Bonds amounting to Kshs 38 billion being issued.

- Kenya Electricity Generating Company Limited, KenGen, the leading electric power generation company in Kenya, issued a Public Infrastructure Bond (PIB) which was subscribed by 177 percent. The firm raised Kshs 25 billion after exercising the Greenshoe Option.
- Safaricom Limited, Kenya's largest mobile telephony company also issued a corporate bond, registering an over-subscription of 50 percent. The first tranche of the Kshs 12 billion

bond program received applications worth Kshs 7.5 billion against a target of Kshs 5 billion put on offer, also exercising the Greenshoe Option.

- The other successful corporate bond issue was Shelter Afrique's Kshs 1 billion offer that registered a 108 percent subscription rate

Overall, the Kenyan debt market has continued to benefit from increased liquidity with recent issues being oversubscribed. Outlook for 2010 remains positive with several private and public institutions showing interest in raising capital through the bond market. The outstanding value of corporate bonds as at end of June 2010 was Kshs 18.4 billion.

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Corporate Bond Issues as at June 30, 2010

Issuer	Approved Amount (Kshs mn)	Date of approval	Maturity Date	Outstanding (Kshs mn)	Yield (%)
Barclays Bank of Kenya Ltd Tranche 1	1,000	9-Oct-07	19-Nov-14	1,000	8.83%
Barclays Bank of Kenya Ltd Tranche 2	2,000	16-Jul-08	16-Jul-13	2,000	11.50%
East African Development Bank	1,500	30-Jun-04	31-Dec-10	240	10.50%
Sasini Tea	600	22-Nov-07	22-Nov-12	540	11.75%
Athi River Mining	800	27-Oct-05	27-Oct-10	160	6.65%
PTA Bank Ltd 2007	1,000	17-Sep-07	17-Sep-14	1,000	9.47%
PTA Bank Ltd 2005	1,000	17-Sep-07	17-Sep-14	400	8.06%
Mabati Rolling Mills - Fixed	2,000	1-Sep-08	1-Sep-16	727	13%
Mabati Rolling Mills - Floating	2,000	1-Sep-08	1-Sep-16	1,274	9.82%
CFC Stanbic Bank Ltd - Fixed	5,000	10-Jun-09	1-Sep-16	2,402	12.5%
CFC Stanbic Bank Ltd -Floating	5,000	10-Jun-09	1-Sep-16	98	8.99%
Shelter Afrique Limited - Fixed	1,000	20-Aug-09	31-Aug-13	905	11.00%
Shelter Afrique Ltd - Floating	1,000	20-Aug-09	31-Aug-13	95	8.10%
Safaricom Ltd - Fixed	12,000	2-Oct-09	2-Oct-16	7,050	12.25%
Safaricom Ltd - Floating	-	-	-	463	9.92%
TOTAL	27,900	-	-	18,354	-

KenGen Kshs 25 billion has been treated as an Infrastructure Bond and has not been included in the table.
Source: Capital Markets Authority

OPERATING ENVIRONMENT

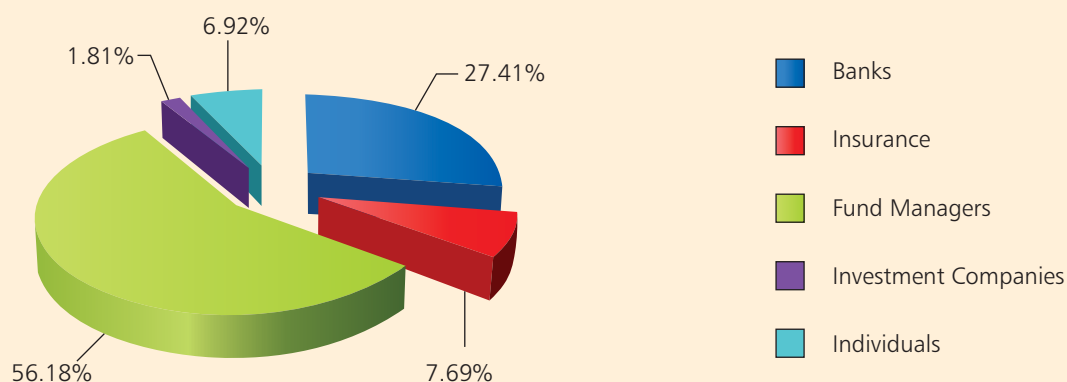
Holding of corporate bonds by class of investors as at June 30, 2010

Issuer	Banks	Insurance companies	Fund Managers	Investment Companies	Individuals
Barclays Bank of Kenya Ltd Tranche 1	4.5%	2.5%	87.3%	5%	0.7%
Barclays Bank of Kenya Ltd Tranche 2	3.1%	6.3%	72.5%	6%	12.1%
East African Development Bank	36.3%	17.6%	46.1%	-	-
Sasini	8.3%	-	91.7%	-	-
Athi River Mining	19.5%	11%	69.5%	-	-
PTA Bank Ltd 2007	16.8%	4%	79.2%	-	-
PTA Bank Ltd 2005	45.1%	2.4%	51.9%	0.6%	-
Mabati Rolling Mills - Fixed	13.8%	11.0	75%	-	0.2%
Mabati Rolling Mills - Floating	41.6%	2%	54.5%	1.6%	0.2%
CFC Stanbic Bank Ltd - Fixed	25.1%	7.2%	64.3%	1.9%	1.6%
CFC Stanbic Bank Ltd -Floating	-	31%	68%	-	1.1%
Safaricom Ltd - Fixed	49.8%	4.4%	38.2%	1.4%	6.3%
Shelter Afrique	22.1%	18%	57.7%	1.6%	0.6%

*KenGen Kshs 25 billion has been treated as an Infrastructure Bond and has not been included in the table.
Source: Capital Markets Authority

Fund managers and commercial banks continued to dominate investments in corporate debt accounting for 83.59 percent of the total portfolio.

Percentage Holding of Corporate Bonds by Class of Investors



OPERATING ENVIRONMENT

• Commercial paper programme

Companies continued to use commercial paper to raise short term capital to finance working capital requirements. One CP was approved, another renewed, while four were retired during the period under review. The outstanding value of commercial papers at the end of financial year 2009/2010 was Kshs 1.9 billion.

Commercial Paper Approvals FY 2009/2010

Issuer	Amount (Kshs million)	Date of approval	Expiry date	Outstanding (Kshs million)	Average Yield (%)
Cooper (Kenya)	140	26-Mar-09	26-Mar-10	140	8.89%
Davis & Shirtliff	100	12-Mar-10	12-Mar-11	36.3	8.41%
Crown Berger	300	13-Aug-08	13-Aug-09	239.5	11.33%
Kenol Kobil	1,500	1-Jun-2010	1-Jun-2011	1,500	-
TOTAL	2,040			1,915.9	

Source: Capital Markets Authority

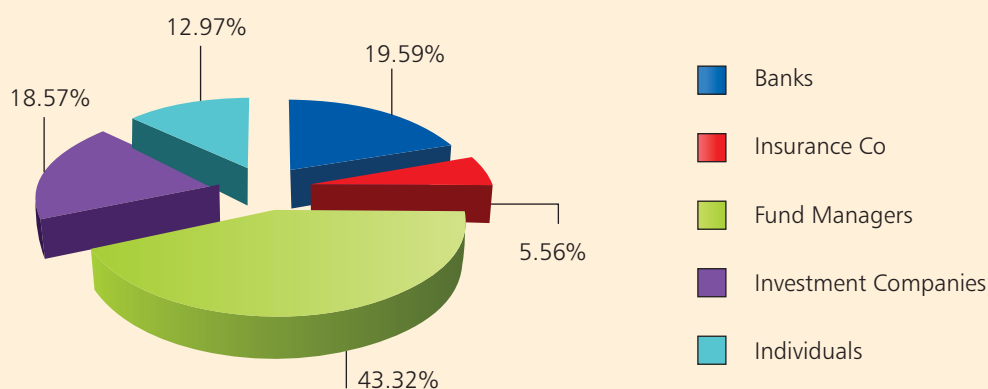
Holdings commercial paper by class of investors as at June 2010

Issuer	Banks	Insurance company	Fund managers	Investment companies	Individuals
Cooper (Kenya)	41.4%	-	22.9%	35.7%	-
Davis & Shirtliff (renewed Mar. 12)	-	-	71.0%	-%	29.0%
Crown Berger	66.8%	6.5%	12.5%	-	14.2%

Source: CMA

Allocation schedule for Kenol Kobil CP programme not available as at time of compilation of this report

Percentage Holding of Commercial Paper by Investor class as at June 2010



OPERATING ENVIRONMENT

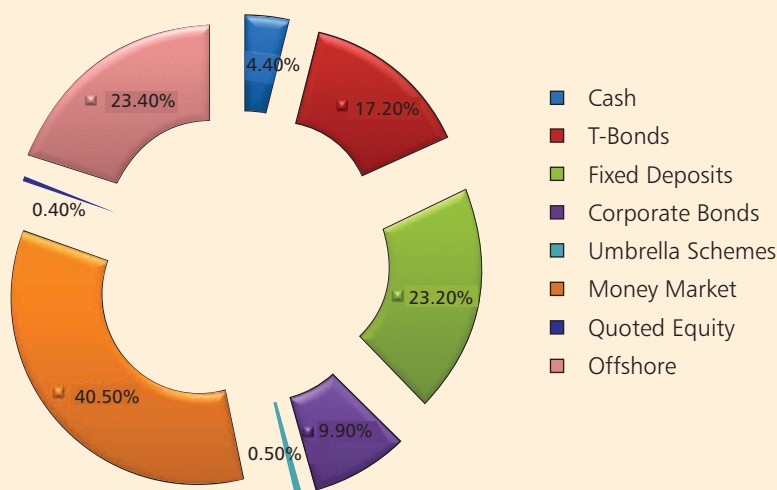
Collective Investment Schemes

The total Net Asset Value of unit trusts in Kenya was Kshs 17.6 billion as at June 2010 with the highest percentages of 40% and 23% invested in quoted domestic equities and fixed deposits, respectively.

Unit Trust Holdings as at June 2010

Investment	Amount (Kshs'000)	% of holding in total portfolio
Cash and Demand deposits	768,780	4.4%
Treasury bills & bonds	3,038,260	17.2%
Unquoted securities	-	-
Fixed Deposits	4,126,720	23.4%
Corporate Bonds	1,746,100	9.9%
Other Unit Trusts	80,140	0.5%
Money Market	6,330	0.04%
Commercial Paper	191,760	1.1%
Quoted Domestic Equities	7,138,490	40.5%
Offshore Investment	530,580	3.0%
Total	17,627,160	100%

Unit Trust Holdings by Class of Investors



OPERATING ENVIRONMENT

SECONDARY MARKET

Gross Secondary Market Statistics

YEAR	MONTH	EQUITY TURNOVER (KSHS BN)	SHARE VOLUME (MN)	NSE 20 SHARE INDEX	AVERAGE MARKET CAPITALIZATION (KSHS BN)	BOND TURNOVER (KSHS BN)
2009	July	3.26	296.19	3273	826	16.65
	August	3.15	280.89	3102	785	12.89
	September	3.55	231.69	3005	771	20.93
	October	4.52	303.30	3083	783	22.38
	November	4.65	396.36	3189	825	14.94
	December	2.59	214.90	3247	834	15.94
2010	January	6.36	603.91	3565	910	26.75
	February	4.21	369.76	3629	922	41.64
	March	7.03	525.77	3933	962	42.40
	April	6.75	398.53	4233	1062	23.24
	May	10.34	933.53	4242	1073	37.20
	June	6.8	364.71	4339	1109	95.20
TOTAL		63.21	4919.54	4339	1109	370.16
TOTAL FY 2008/2009		56.99	4260.92	3294	821	150.44
% Change		10.9	15.5	31.7	35.1	146.1

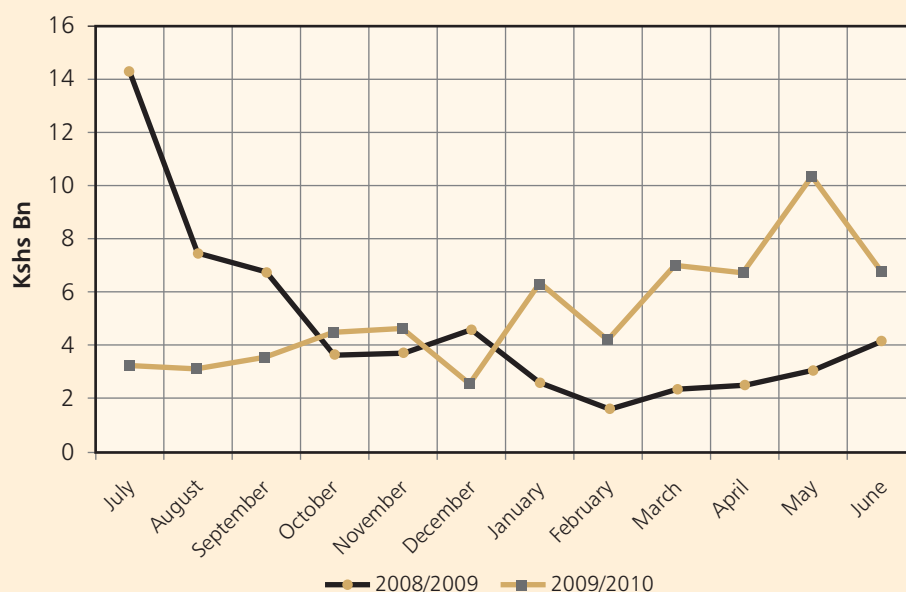
Source: NSE

The year 2010 continued to register mixed performance with shares turnover and volume recording corresponding increases of 10% and 15%, as the NSE 20 Index and Market Capitalization declined by 31% and 35% respectively.

Market activity was boosted by a return by foreign investors, whose sustained demand is expected to be an important determinant for market performance in the coming year.

OPERATING ENVIRONMENT

Comparative Trends in Equity Turnover



Gross Secondary Market Statistics 2004 to 2010

	2004	2005	2006	2007	2008	2009	2010
Share Volume (m)	525.9	579.9	1,227.8	1,519.2	4,257.5	4260.9	4919.5
Shares Turnover (Kshs bn)	20.4	22.03	60.3	100.9	103.5	56.99	63.21
Market Capitalization (Kshs bn)	274.4	420.7	623.2	743.9	1230.7	821.8	1109
Index (at year's close)	2640	3972	4260	5146	5185	3294	4339
Bond Turnover (Kshs bn)	48.4	14.3	43.0	61.5	78.0	150.4	370.2

**Periods indicated reflect the period July to June for each year*

Foreign Investor Activity

For the period under review, foreign investor participation at the bourse averaged at approximately 50% of total turnover, registering a net inflow of Kshs 13.2 billion.

OPERATING ENVIRONMENT

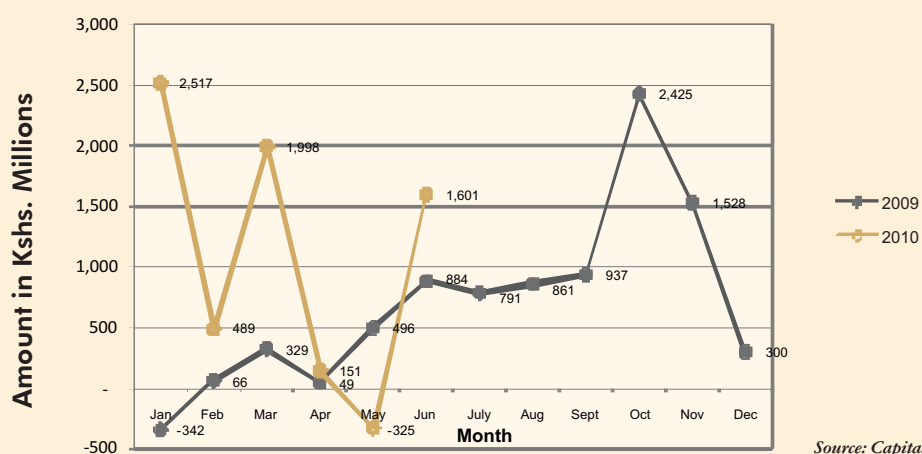
Foreign Investor Net Cash Inflow Activity (Kshs Millions)

2009	Kshs Millions
July	791
August	861
September	937
October	2,425
November	1,528
December	300
2010	
January	2,517
February	489
March	1,998
April	151
May	(325)
June	1,601
NET CASH INFLOW	13,273

Source: NSE

Trends in Foreign Investor Cash Inflows – [2009 – 2010]

NSE Foreign Investor Net Cash Inflow in Kshs. Millions
(2009 - 2010)



Source: Capital Markets Authority

OPERATING ENVIRONMENT

Corporate Actions

One listed company, Kenya Oil Company Ltd, undertook a share split during the period under review. In addition, seven companies announced bonus issues while three announced rights issues. This increased the number of shares listed by 2.5 billion compared to 3.5 billion for a similar period last year.

Company Announcements 2009/2010

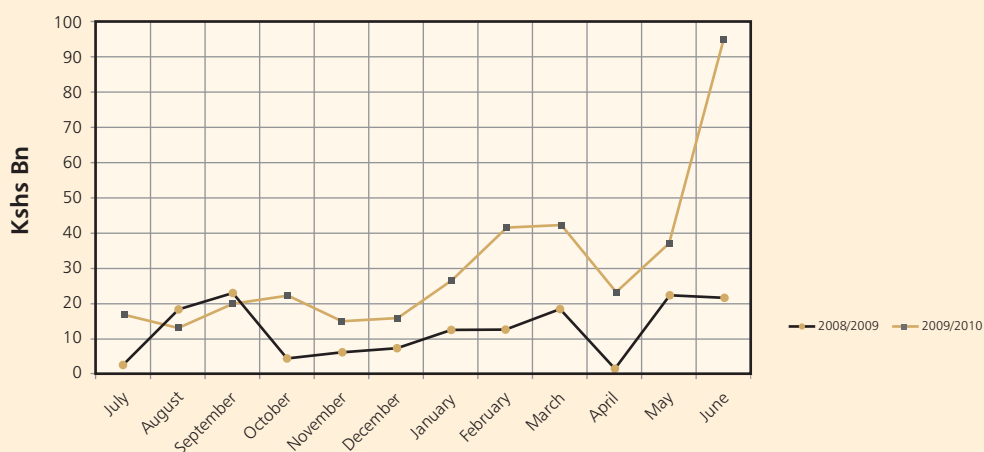
Company	Announcement	Ratio
Carbacid	BI	2:1
NIC Bank	BI	1:10
NBK	BI	2:5
NMG	BI	1:10
TPS (EA)	BI	1:6
TPS (EA)	RI	1:5
Jubilee Holdings	BI	1:10
Centum	BI	1:10
SCB	RI	1:10
KCB	RI	2:5
Kenol Kobil Ltd	Share Split	10:1

BI- Bonus Issue | RI-Rights Issue

Secondary Treasury Bond Market

The bond market witnessed bullish activity for the period under review. Total bond turnover increased to Kshs 370.2 billion at the end of June 2010 compared to Kshs 146 billion for the previous period, a 146% increase, occasioned by stable but marginally declining interest rates, stable and relatively low inflationary environment as well as automation of secondary market bond trading.

Comparative Trends in Bond Turnover



OPERATING ENVIRONMENT

The Board members of the Authority submit their report and the audited financial statements for the year ended 30 June 2010, which show the state of the Authority's affairs.

1. INCORPORATION

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

2. PRINCIPAL ACTIVITY

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

3. RESULTS

The results for the year are summarised below:-

	2010 Kshs '000	2009 Kshs '000
Total income for the year	485,260	368,381
Total operating expenditure for the year	(336,587)	(278,789)
Surplus before tax and transfer to exchequer	148,673	89,592

4. FINANCIAL STATEMENTS

At the date of this report, the board members of the Authority were not aware of any circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

5. BOARD MEMBERS OF THE AUTHORITY

The present board members of the Authority are:		
Mr. Micah Cheserem	-	Chairman
Mrs. Stella Kilonzo	-	Chief Executive
Mr. Joseph Kinyua-CBS	-	Permanent Secretary to the Treasury
Dr. Geoffrey Mwau	-	Alternate to the Permanent Secretary to the Treasury
Hon. Amos Wako-EGH, EBS	-	Attorney General
Mr. James Waweru	-	Alternate to the Attorney General
Prof. Njuguna Ndung'u	-	Governor Central Bank of Kenya
Ms. Rose Detho	-	Alternate to the Governor Central Bank of Kenya
Dr. Gituro Wainaina	-	Member

OPERATING ENVIRONMENT

Ms. Nafisa Abass	-	Member
Mr. Meshack Onyango	-	Member
Hon. Jimmy M. Kitonga	-	Member
Mrs. Priscilla Komora – CBS	-	Member
Mr. Mohammed Nyaoga	-	Member

6. BOARD MEMBERS' BENEFITS

Since the last board meeting of the Authority to the date of this report, no board member has received or become entitled to receive any benefit other than members' allowances and amounts received under employment contracts for the Chief Executive.

The aggregate amount of emoluments for board members services rendered in the financial year is disclosed on page 58.

7. AUDITOR

The Kenya National Audit Office is responsible for the statutory audit of the Authority's books of account in accordance with Sections 14 and 39 (1) of the Public Audit Act 2003.

BY ORDER OF THE BOARD

Chief Executive

Nairobi

27th January, 2011

STATEMENT OF AUTHORITY BOARD MEMBERS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

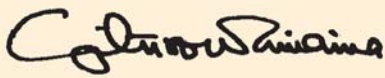
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

The Capital Markets Act requires the Authority board 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 operating results for the year. It also requires the board members to ensure that the Authority keeps proper accounting records, which disclose, with reasonable accuracy, the financial position of the Authority. They are also responsible for safeguarding the assets of the Authority.

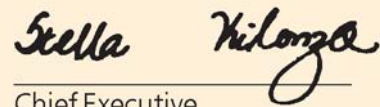
The board members accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Capital Markets Act. The board members are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority and of its operating results. The board members further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

The statement was approved by the board members of the Authority on 27th January, 2011 and signed on its behalf by:-



Director



Chief Executive



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2010

I have audited the accompanying financial statements of Capital Markets Authority set out on pages 39 to 59, which comprise the Statement of Financial Position as at 30 June 2010, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and summary of significant accounting policies and other explanatory information, in accordance with the provisions of section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial reporting Standards and for such internal controls as management determines is necessary to enable presentation of financial statements that are free from material misstatement whether due to fraud or error.

Responsibility of the Auditor-General

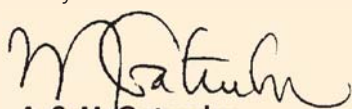
My responsibility is to express an independent opinion to the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements presents fairly, in all material respects, the financial position of the Authority as at 30 June 2010 and its financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards and Comply with the Capital Markets Act, Cap. 485A of the Laws of Kenya.


A. S. M. Gatumbu
 AUDITOR-GENERAL

Nairobi
 17 February 2011

STATEMENT OF COMPREHENSIVE INCOME

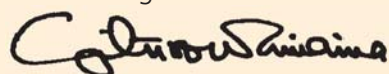
	Note	2010 Kshs '000	2009 Kshs'000
FEE INCOME	4	384,371	265,147
OTHER INCOME	5	<u>100,889</u>	<u>103,234</u>
TOTAL INCOME		485,260	368,381
EXPENDITURE	6	<u>(336,587)</u>	<u>(278,789)</u>
GROSS SURPLUS FOR THE YEAR		148,673	89,592
SURPLUS TO EXCHEQUER - 2008/2009	7	(7,775)	
CORPORATION TAX PROVISION		(26,893)	
SURPLUS TO EXCHEQUER - 2009/2010	24	<u>(77,624)</u>	
COMPREHENSIVE INCOME FOR THE YEAR	8	<u><u>36,381</u></u>	<u><u>89,592</u></u>

STATEMENT OF FINANCIAL POSITION

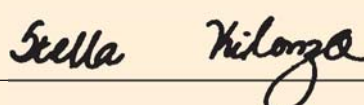
	Note	2010 Kshs '000	2009 Kshs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment	9	40,547	14,481
Intangible assets	10	2,350	3,780
Staff loans and advances	11	9,145	5,726
Investment in Government securities	13	454,015	465,233
Investors' compensation fund's investment in CDSC	14	7,000	7,000
Investors' compensation fund's investment in T/ bonds	14	77,127	144,695
		<u>590,184</u>	<u>640,915</u>
CURRENT ASSETS			
Staff loans and advances	11	2,635	943
Inventories	12	1,549	1,061
Investment in Government securities	13	281,933	336,720
Trade and other receivables	15	89,555	99,198
Staff benevolent fund	16	4,989	4,687
Cash and Cash equivalents	17	221,783	88,260
Investors' Compensation Fund	14	108,908	272,178
		<u>711,352</u>	<u>803,047</u>
TOTAL ASSETS		<u>1,301,536</u>	<u>1,443,962</u>
FUNDS AND LIABILITIES			
FUNDS			
Capital fund	18	27,886	27,886
General fund	19	661,642	929,245
		<u>689,528</u>	<u>957,131</u>
CURRENT LIABILITIES			
Investors' Compensation Fund	14	193,034	424,890
Staff benevolent fund	16	4,989	4,687
Trade and other payables	20	80,582	42,347
Provisions	21	14,500	14,500
Millennium staff savings scheme	22	407	407
Corporation Tax	23	233,097	-
Surplus to Exchequer-2008/2009	24	7,775	-
Surplus to Exchequer-2009/2010	24	77,624	-
		<u>612,008</u>	<u>486,831</u>
TOTAL FUNDS AND LIABILITIES		<u>1,301,536</u>	<u>1,443,962</u>

The financial statements on pages 39 to 59 were approved for issue by the Members of the Authority on 27th January, 2011 and signed on their behalf by:

DIRECTOR



CHIEF EXECUTIVE



STATEMENT OF CHANGES IN EQUITY

	Note	Capital fund Kshs'000	General fund Kshs'000	Total Kshs'000
At 1 July 2008		27,886	997,116	1,025,002
Payment of 2008 Surplus to Treasury	7		(140,000)	(140,000)
Adjustment CFC Fees			(33,696)	(33,696)
Surplus for the year			89,591	89,591
Statutory Management expenses 2007/2008	15		16,234	16,234
At 30 June 2009		<u>27,886</u>	<u>929,245</u>	<u>957,131</u>
Corporation tax years 2003-2009	23		(289,199)	(289,199)
At 1 July 2009		27,886	640,046	667,932
Surplus for the year		-	148,673	148,673
Transfer to Exchequer	7		(7,775)	(7,775)
Adjustment of corporation tax 2007/2008	23		(4,870)	(4,870)
Adjustment of corporation tax 2008/2009	23		(9,916)	(9,916)
Current year provision	23		(26,893)	(26,893)
90% Transfer to Exchequer	24		(77,624)	(77,624)
At 30 June 2010		<u>27,886</u>	<u>661,642</u>	<u>689,528</u>

Explanation of the Adjusted CFC Fees (Kshs. 33,696,000)

Having regard to the multiple components of the CFC Stanbic merger transaction which gave rise to the distinct heads of chargeable fees, the Authority, in the interest of market development and facilitation, determined that a weighted average of the various charges be calculated in accordance with the regulator's requirements in order to arrive at a single consolidated charge for what amounted to a single transaction.

STATEMENT OF CASH FLOWS

	Note	2010 Kshs'000	2009 Kshs'000
Operating activities:			
Cash generated from operations	25	53,918	330,060
Interest received		52,722	65,538
Corporation tax paid		(8,582)	-
Net cash generated from operating activities		<u>98,058</u>	<u>395,598</u>
Cash flows from investing activities:			
Purchase of property, plant and equipment		(35,236)	(6,265)
Purchase of intangible assets		(295)	(3,797)
Proceeds from disposal of property, plant and equipment		157	-
Purchase of treasury bonds from the Investors' Compensation Fund		20,030	(5,976)
Purchase of treasury bills from the Investors' Compensation Fund		-	(42,236)
Purchase of treasury bonds		-	-
Purchase of treasury bills		58,050	(381,084)
Benevolent fund		-	-
Net cash used in investing activities		<u>42,706</u>	<u>(439,358)</u>
Net increase in cash and cash equivalents		<u>140,763</u>	<u>(43,758)</u>
Movement in cash and cash equivalents:-			
At the start of the year		90,474	134,232
Increase		<u>140,763</u>	<u>(43,758)</u>
At the end of the year	17	<u>231,237</u>	<u>90,474</u>

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied over the years presented unless otherwise stated:

a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs). The financial statements are prepared under the historical cost basis of accounting as modified by the revaluation of certain investments to fair value and are presented in the functional currency, Kenya shillings (Kshs) rounded to the nearest one thousand shillings.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Authority's accounting policies. The areas involving a higher degree of judgement and complexity, or where assumptions and estimates are significant to the financial statements are disclosed in note 3.

b) Property, plant, equipment and depreciation

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income and expenditure account in the financial period in which they are incurred.

Depreciation is calculated on the straight line basis, at annual rates estimated to write off carrying values of the property, plant and equipment over their expected useful life.

The rates in use are:

Motor vehicles	25.00%
Computer equipment	25.00%
Office equipment	20.00%
Furniture and fittings	12.50%

The carrying values of property, plant and equipment are reviewed for impairment when events indicate that the carrying values may not be recoverable and are adjusted for impairment where it is considered necessary.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating surplus/ (deficit). On disposal of revalued assets, amounts in the revaluation surplus relating to the asset are transferred to retained earnings.

c) Financial instruments

Financial instruments carried on the balance sheet include cash on hand and bank, investments, trade and other receivables and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

NOTES TO THE FINANCIAL STATEMENTS

d) Investments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

Long term investments that are to be held to maturity, such as bonds, are subsequently measured at amortized cost using the effective interest rate method.

e) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured.

Fees, interest and other income

Fees, interest and other income are recognised on accrual basis.

f) Intangible assets

The costs incurred to acquire and bring to use specific computer software licences are capitalized. The costs are amortized on a straight line basis over the expected useful lives, not exceeding three years. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

g) Foreign currency transactions

Transactions during the year are converted into Kenya shillings at rates ruling at the transactions dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income and expenditure account in the period in which they arise.

h) Employment benefits

(i) Pension obligations

The Authority operates an in-house defined benefits pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by both the Authority and employees.

The Authority also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs 200.00 per employee per month, with the Authority contributing a similar amount.

The Authority's contributions to the above schemes are charged to the income and expenditure account in the year to which they relate.

(ii) Gratuity obligations

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

NOTES TO THE FINANCIAL STATEMENTS

i) Other employee entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. The monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

j) Leases

Leases where the lessor does not retain substantially all the risks and benefits of ownership of assets are classified as operating leases. Operating lease payments are recognized as an expense in the income and expenditure account on a straight line basis over the lease term.

k) Trade and other receivables

Trade and other receivables are recognized at anticipated realizable value less an allowance for any uncollectible amounts. An estimate/specific provision is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have been taken without success.

l) Trade and other payables

Trade and other payables are stated at their nominal value.

m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, the cash and cash equivalents comprise of cash and cash equivalents as defined above and include; the Investors' Compensation and Staff Benevolent funds.

n) Provisions

A provision is recognized in the balance sheet when the Authority has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and it can be reliably estimated.

o) Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured.

p) Related parties

In the normal course of business the Authority enters into transactions with related parties. The related party transactions are at arms length.

NOTES TO THE FINANCIAL STATEMENTS

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Authority's activities expose it to a variety of financial risks, including credit risks and the effects of changes in interest rates. The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances:

i) Critical accounting estimates and assumptions.

Property, plant and equipment

Critical estimates are made by the Authority members in determining depreciation rates for the property, plant and equipment. The rates are set out in note 1 (b) above.

ii) Critical judgments in applying the entity's accounting policies

In the process of applying the Authority's accounting policies, management has made judgements in determining:

- Whether assets are impaired
- The classification of financial assets and leases
- Provisions and contingent liabilities

4. FEE INCOME

	2010 Kshs'000	2009 Kshs'000
Capitalisation, rights and new issue fees	205,024	106,518
NSE - transaction fees	154,854	137,652
Application and licensing fees	15,021	12, 546
Market development fees	9,472	8,431
	<u>384,371</u>	<u>265,147,</u>

5. OTHER INCOME

	2010 Kshs '000	2009 Kshs '000
Interest income on investments	52,722	65,538
Donor funding	45,541	34,282
Gain on disposal of property, plant and equipment	157	-
Miscellaneous income	2,469	3,414
	<u>100,889</u>	<u>103,234</u>

NOTES TO THE FINANCIAL STATEMENTS

6. EXPENDITURE

Personnel costs (note 29)	178,430	111,526
Rent and maintenance	17,033	13,180
Equipment maintenance and stationery	6,574	6,727
Telephone, postage and utilities	5,314	6,694
Entertainment and public relations	3,988	8,638
Medical scheme and insurance expenses	11,449	7,389
Training and conferences	12,104	11,801
Motor vehicle running expenses	2,233	2,378
Subscriptions and IOSCO membership	4,102	5,146
Authority members' emoluments-other allowances	15,918	11,334
Professional and market development services	48,752	61,095
Staff uniforms & miscellaneous expenses	328	262
Provision for doubtful debts	4,495	-
Depreciation of property, plant and equipment	9,171	5,043
Amortisation of intangible assets	1,725	1,786
Auditor's remuneration	450	450
Investors' education and awareness programme	13,228	22,665
Tribunal expenses	1,293	2,675
	336,587	278,789

7. During the year, the Authority made commitment to pay to the Exchequer Kshs 7.7 million from 2009 reserves (2008- Kshs 140 million).

8. NET SURPLUS FOR THE YEAR

	2010 Kshs'000	2009 Kshs'000
The surplus for the year is stated after charging:-		
Depreciation of property, plant and equipment	9,171	5,043
Amortization of intangibles	1,725	1,786
Authority members' emoluments and other allowances	15,918	11,334
Auditor's remuneration	450	450
Provision for doubtful debts	4,495	-
Employees' benefits expense	17,474	9,819
And after crediting:		
Interest income on investments:	52,722	65,537
Gain on disposal of property, plant and equipment	157	-
Donor funding	45,541	34,282

NOTES TO THE FINANCIAL STATEMENTS

9. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles Kshs'000	Computer equipment Kshs'000	Office equipment Kshs'000	Furniture and fittings Kshs'000	Total Kshs'000
COST					
At 1 July 2008	14,250	14,832	6,534	24,251	59,867
Addition	-	2,514	1,810	1,941	6,265
Disposal	-	-	-	-	-
At 30 June 2009	14,250	17,346	8,344	26,192	66,132
DEPRECIATION					
At 1 July 2008	10,977	10,376	5,684	19,570	46,607
Charge for the year	1,074	2,069	491	1,409	5,043
On disposal	-	-	-	-	-
At 30 June 2009	12,051	12,445	6,175	20,979	51,650
COST					
At 1 July 2009	14,250	17,346	8,344	26,192	66,132
Additions	13,579	15,190	4,800	1,667	35,236
Disposal	(1,678)	(1,533)	(387)	(781)	(4,379)
At 30 June 2010	26,151	31,003	12,757	27,078	96,989
DEPRECIATION					
At 1 July 2009	12,051	12,445	6,175	20,979	51,650
Charge for the year	2,504	4,371	731	1,565	9,171
Disposal	(1,678)	(1,522)	(398)	(781)	(4,379)
At 30 June 2010	12,877	15,294	6,508	21,763	56,442
NET BOOK VALUE					
At 30 June 2010	13,274	15,709	6,249	5,315	40,547
At 30 June 2009	2,198	4,901	2,169	5,213	14,482

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property, plant and equipment with a cost of Kshs 38,606,211.00 (2009 Kshs 43,476,555.00) which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to Kshs 7,378,624.00 (2009 Kshs 8,422,298.00).

Included in the fixed assets is a vehicle purchased in the year, for Kshs 6,013,195/- which has been earmarked for disposal in order for the Authority to be in compliance with the Government transport regulations.

NOTES TO THE FINANCIAL STATEMENTS

10. INTANGIBLE ASSETS

	2010 Kshs'000
COST	
At 1 July 2008	4,221
Additions	<u>3,797</u>
At 30 June 2009	<u>8,018</u>
AMORTIZATION	
At July 1 2008	2,452
Charge for the year	<u>1,786</u>
At 30 June 2009	<u>4,238</u>
NET BOOK AMOUNT	
As at 30 June 2009	<u><u>3,780</u></u>
COST	
At 1 July 2009	8,018
Additions	<u>295</u>
At 30 June 2010	<u>8,313</u>
AMORTIZATION	
At July 1 2009	4,238
Charge for the year	<u>1,725</u>
At 30 June 2010	<u>5,963</u>
NET BOOK AMOUNT	
At 30 June 2010	<u><u>2,350</u></u>
At 30 June 2009	<u><u>3,780</u></u>

NOTES TO THE FINANCIAL STATEMENTS

11. STAFF LOANS AND ADVANCES

	Short Term Kshs'000	Long Term Kshs'000	Total 2010 Kshs'000	Total 2009 Kshs'000
Car loans	1,832	6,882	8,714	3,585
House loans	-	1,920	1,920	1,920
Other loans and advances	802	2,264	3,067	3,085
Provision for bad and doubtful debts	-	(1,922)	(1,922)	(1,922)
	<u>2,634</u>	<u>9,145</u>	<u>11,779</u>	<u>6,669</u>

12. INVENTORIES

Inventories consist of stationery and computer consumables required for day to day use by the Authority. (2009- Kshs 1,061,000.00)

13. INVESTMENT IN GOVERNMENT SECURITIES

	2010 Kshs'000	2009 Kshs'000
Non Current		
a) Treasury bonds		
Maturing after four years	205,252	176,987
Accrued interest	2,813	4,285
	<u>208,066</u>	<u>181,272</u>
Maturing after three years	107,564	35,000
Accrued interest	3,282	48
	<u>110,846</u>	<u>35,048</u>
Maturing after two years	69,422	29,487
Accrued interest	1,022	73
	<u>70,444</u>	<u>29,560</u>
Maturing after 1 year	64,487	215,197
Accrued interest	172	4,157
	<u>64,659</u>	<u>219,353</u>
	<u>454,015</u>	<u>465,233</u>

NOTES TO THE FINANCIAL STATEMENTS

Current		
b) Treasury bills	280,339	333,068
Accrued interest	<u>1,594</u>	<u>3,652</u>
	<u>281,933</u>	<u>336,720</u>
	<u>281,933</u>	<u>336,720</u>
	<u>735,948</u>	<u>801,953</u>

The average interest rate earned on Treasury bonds during the year was 10.4% (2009:9.5%).

14. INVESTORS' COMPENSATION FUND

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

The fund derives its income from the following sources:

- (i) Interest accruing on funds received from subscribers to public issues, between the day of closing the issue and making the refunds.
- (ii) 0.01% of the consideration from sale and purchase of shares through the Nairobi Stock Exchange.

Interest earned from investment of the funds held in this account.

Financial penalties imposed on operators for non-compliance with Capital Markets Authority Rules and Regulations.

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

	2010 Kshs'000	2009 Kshs'000
At beginning of the year	424,890	227,572
Nairobi Stock Exchange transactions fees	12,906	11,469
Interest on investments	18,779	20,990
Financial penalties	6,016	8,585
Management fees	(500)	(500)
Public issue fees	12,824	156,774
Compensation to Nyaga Stock brokers investors	<u>(281,880)</u>	<u>-</u>
At end of the year	<u>193,034</u>	<u>424,890</u>

NOTES TO THE FINANCIAL STATEMENTS

Included in the Investor Compensation Fund is Kshs 11,435,732.00 worth of claims payable. The amount relates to claims by investors of Nyaga Stock Brokers (Under Statutory Management) which are due for payment.

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

	2010 Kshs'000	2009 Kshs'000
Non-current		
Equity investment in the Central Depository and Settlement Corporation (at cost)	7,000	7,000
Treasury bonds maturing after one year (effective interest rate - 11.25% per annum)	-	116,161
Treasury bonds maturing after two years (effective interest rate - 9.50% & 11.75% per annum)	28,764	
Treasury bonds maturing after three years (effective interest rate - 11.75% & 9.50% per annum)	-	22,350
Treasury bonds maturing after four years (effective interest rate - 11.25% per annum)	-	6,184
Treasury bonds maturing after five years (effective interest rate - 12.0% per annum)	48,363	-
	<u>77,127</u>	<u>144,695</u>

	2010 Kshs'000	2009 Kshs'000
Current		
Treasury bonds - maturing within 1 year (effective interest rate - 11.0% per annum)	7,998	-
Treasury bills - maturing within 1 year (effective interest rate - 4.01% per annum)	74,216	-
Treasury bills - maturing within 1 year (effective interest rate - 8.69% per annum)	-	100,193
Bank balance	23,369	10,072
Public issue fees and other receivable	3,325	161,913
	<u>108,908</u>	<u>272,178</u>

NOTES TO THE FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES

	2010 Kshs'000	2009 Kshs'000
Trade receivables	37,972	35,988
Specific provision for bad debts	(4,494)	-
Statutory Management expenses restated 2007/2008	16,234	16,234
Statutory Management expenses restated 2008/2009	33,051	33,051
Nairobi Stock Exchange	2,430	-
Prepayments	1,055	3,838
Statutory management receivables	2,764	-
Sundry receivables	543	248
Treasury bonds receivable	-	9,839
	<u>89,555</u>	<u>99,198</u>

16. STAFF BENEVOLENT FUND

	2010 Kshs'000	2009 Kshs'000
Investment in treasury bonds	4,613	4,313
Interest on investment	52	52
Cash and cash equivalents	324	322
	<u>4,989</u>	<u>4,687</u>

17. CASH AND CASH EQUIVALENTS

	2010 Kshs'000	2009 Kshs'000
Cash in hand	21	22
Cash at bank	52,028	18,763
Call deposit	155,497	61,295
Bank Guarantee	180	100
Staff Mortgage	14,057	8,080
	<u>221,783</u>	<u>88,260</u>

For the purposes of the cash flow statement, the year end cash and cash equivalents comprise the following at 30 June 2010.

NOTES TO THE FINANCIAL STATEMENTS

CASH AND CASH EQUIVALENTS (cont'd)

Cash in hand	21	22
Cash at bank	52,028	18,763
Call deposit	155,495	61,295
Staff benevolent fund bank balance	324	322
Investors' compensation fund bank balance	23,369	10,072
	<u>231,237</u>	<u>90,474</u>

18. CAPITAL FUND

At 1 July 2009 and at 30 June 2010	<u>27,886</u>	<u>27,886</u>
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Capital fund represents the initial contribution by the government of Kenya towards the establishment of the Capital Markets Authority.

19. GENERAL FUND

	2010 Kshs'000	2009 Kshs'000
As at 1 st July	929,245	997,116
Surplus for the year	148,673	89,591
Payment of 2008 Surplus to Treasury	-	(140,000)
Adjustment of CFC Fees	-	(33,696)
Statutory Management expenses restated 2007/2008 Corporation tax years - 2003 - 2009	(289,199)	16,234
Provision for Surplus to Exchequer - 2008/2009	(7,775)	-
Adjustment of corporation tax 2008/2009	(4,870)	-
Adjustment of corporation tax 2008/2009	(9,916)	-
Corporation Tax provision - 2009/2010	(26,893)	-
Provision for Surplus to Exchequer - 2009/2010	(77,624)	-
As at 30th June	<u>661,642</u>	<u>929,245</u>

General fund represents accumulated surpluses over the years.

The General Fund, comprises of Kshs 562,396,462 for headquarter development and Kshs 99,246,435.00 for General/Volatility fund.

NOTES TO THE FINANCIAL STATEMENTS

20. TRADE AND OTHER PAYABLES

	2010 Kshs'000	2009 Kshs'000
Trade payables	18,527	8,583
Accruals	61,605	33,314
Audit fees accrual	450	450
	<u>80,582</u>	<u>42,347</u>

21. PROVISIONS

	2010 Kshs'000	2009 Kshs'000
Provisions for pending lawsuits (note 30)	14,500	14,500
Service gratuity	-	-
	<u>14,500</u>	<u>14,500</u>

22. MILLENNIUM STAFF SAVINGS SCHEME

	2010 Kshs'000	2009 Kshs'000
At 1 July and 30 June	<u>407</u>	<u>407</u>

This relates to amounts payable to former staff which is a subject of court cases. The amounts are being held until a ruling is made.

23. CORPORATION TAX

	2010 Kshs'000	2009 Kshs'000
Prior period provision (2003-2009)	289,199	-
Adjustment of corporation tax 2007/2008	4,870	-
Adjustment of corporation tax 2007/2008	9,916	-
Current year provision	26,893	-
Less: instalments paid (2003-2009)	(89,199)	-
Less: instalments paid current year	(8,582)	-
	<u>233,097</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

24. SURPLUS TO EXCHEQUER 2009/2010

	2010 Kshs'000	2009 Kshs'000
Surplus for the year after tax	121,780	-
Less: Capital expenditure	<u>(35,531)</u>	-
Net Surplus for the year	86,248	-
Surplus to Exchequer @ 90%	<u>77,624</u>	-
Surplus to Treasury 2008/2009	<u>7,775</u>	-

25. CASH GENERATED FROM OPERATIONS

	2010 Kshs'000	2009 Kshs'000
Reconciliation of surplus for the year to cash generated from operations:-		
Surplus for the year	148,673	89,591
Depreciation of property, plant and equipment	9,171	5,043
Amortisation of intangible assets	1,725	1,786
Interest on investments	(52,722)	(65,538)
Surplus to the Ministry of Finance	-	(140,000)
Payment of prior period taxes 2003-2009	(89,199)	
Payment of prior period taxes 2003-2009	(8,582)	
Adjustment for corporation tax 2007/2008 and 2008/2009	(14,786)	
Gain on disposal of property, plant and equipment	<u>(157)</u>	-
Operating surplus before working capital changes	(5,877)	(109,118)
Trade and other receivables	9,155	233,744
Staff loans and advances	(5,111)	1,542
Trade and other payables	49,091	6,131
Tax provisions	238,213	-
Investors' compensation fund	(231,855)	197,319
Staff benevolent fund	<u>302</u>	<u>444</u>
Cash generated from operations	<u>53,918</u>	<u>330,060</u>

NOTES TO THE FINANCIAL STATEMENTS

26. OPERATING LEASE COMMITMENTS

Operating lease commitments represent rentals payable by the Authority for its office property. Property rental expenses during the year amounted to Kshs 17,033,420.00 (2009: Kshs 13,180,211.00). At the balance sheet date, the Authority had outstanding commitments under operating leases, which fall due as follows

	2010 Kshs'000	2009 Kshs'000
Within one year	17,033	13,180
Between 2-5 years	40,376	52,441
	<u>57,409</u>	<u>65,621</u>

27. EMPLOYEE BENEFITS EXPENSE

The Authority operates an in-house defined benefits pension scheme for its employees. The investment of the scheme's assets is managed by an independent fund manager, Genesis Kenya Investment Management Limited, on behalf of the Trustees.

The scheme is subjected to triennial valuations by independent actuaries to fulfil the statutory requirements under the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Rules 2000. The latest actuarial valuation was carried out as at 1 July 2007. The actuarial valuation method adopted, 'Attained Age Method', entailed the comparison of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

The principal actuarial assumptions applied in the valuation are:

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

Based on the actuarial report, the Actuaries estimate that the present value of past service actuarial liabilities amounted to Kshs 49,919,000.00 at 1 July 2007, and that the value of scheme's assets exceeded the liabilities by Kshs 4,683,000.00 at that date.

The following items are included within employee benefits expense:

	2010 Kshs'000	2009 Kshs'000
Retirement benefits costs;		
- Defined benefit scheme	17,330	9,696
- National Social Security Fund	144	123
	<u>17,474</u>	<u>9,819</u>

NOTES TO THE FINANCIAL STATEMENTS

28. RELATED PARTY TRANSACTIONS

	2010 Kshs'000	2009 Kshs'000
i) Key management compensation:		
Salaries and other short term benefits	42,786	23,829
Post employment benefits	-	-
	<u>42,786</u>	<u>23,829</u>

ii) Members' emoluments

A listing of the members of the Authority is shown on pages 35 and 36 of the annual report. In 2010 the total remuneration of the members excluding the Chief Executive amounted to Kshs 15,917,587.00 (2009: Kshs 11,333,669.00).

29. PERSONNEL COSTS

	2010 Kshs'000	2009 Kshs'000
Consolidated pay, leave pay and passages	160,737	101,522
Staff retirement benefits and gratuity	17,330	9,696
Benevolent fund contributions	219	185
National Social Security Fund (NSSF)	144	123
	<u>178,430</u>	<u>111,526</u>
Average number of employees during the year	<u>60</u>	<u>52</u>

30. CONTINGENT LIABILITY

	2010 Kshs'000	2009 Kshs'000
Pending law suits	<u>61,723</u>	<u>61,723</u>

Former employees of the Authority have filed suits against the Authority for wrongful dismissal and are seeking damages to the extent of Kshs. 61,722,700.00. Based on professional advice, the Authority has estimated a contingent liability of Kshs. 14,500,000.00 (2009: Kshs.14,500,000.00). The estimated liability has been recognised in these financial statements (note 21).

NOTES TO THE FINANCIAL STATEMENTS

31. CAPITAL COMMITMENTS

Commitments at year-end for which no provision has been made in these financial statements:

	2010 Kshs'000	2009 Kshs'000
Capital authorised but not contracted for	- <u> </u>	15,000 <u> </u>

32. CURRENCY RISK

The Authority operates wholly within Kenya and its assets and liabilities are reported in the local currency. It therefore held no significant foreign currency exposure at 30 June 2010.

33. COMPARATIVES

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

APPENDICES

1. ENABLING LEGISLATION:

a) Main Acts

i) The Capital Markets Act Cap 485A

This Act establishes the Capital Markets Authority for the purpose of promoting, regulating and facilitating the development of an orderly, fair and efficient Capital Markets in Kenya and for connected purposes.

ii) The Central Depositories Act 2000

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

b) Regulations

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

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

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

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

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

These regulations, requirements for licensing, approval as well as financial requirements prescribes code of conduct and reporting obligations of capital markets institutions.

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

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

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

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

APPENDICES

vi) The Capital Markets Tribunal Rules, 2002

These are rules that deal with the procedures of Appeals made to the Tribunal by persons aggrieved by a decision made by the Authority.

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

These rules deal with the regulation of the Central depositories.

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

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

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

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

c) Guidelines

i) The Capital Markets Guidelines on corporate governance practices by public listed companies in Kenya

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

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

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

Credit rating is an objective and independent opinion on the general creditworthiness of an issuer of a debt instrument and its ability to meet its obligations in a timely manner over the life of the financial instrument based on relevant risk factors including the ability of the issuer to generate cash in the future. Ratings rank the issue within a consistent framework to compare risk among the different debt instruments in the market and assign a risk grade.

LICENSEES AS AT 30 JUNE 2010

APPROVED INSTITUTIONS INVESTMENT BANKS

SECURITIES EXCHANGE

Nairobi Stock Exchange Ltd

Kimathi Street, Nation Centre, 1st Floor
P.O. Box 43633-00100, Nairobi
Tel: 254 20 2831000
Fax: 254 20 224200
Email: info@nse.co.ke
Website: www.nse.co.ke

DEPOSITORY AND SETTLEMENT SYSTEM

Central Depository and Settlement Corporation Ltd

Nation Centre, Kimathi Street, 10th Floor
P. O. Box 3464-00100, Nairobi
Tel: 254 20 253078/230692 ext 248
Fax: 254 20 253077
Email: helpdesk@cdskenya.com
cdskenya@cdskenya.com
Website: www.cdskenya.com

CREDIT RATING AGENCIES

Global Credit Rating Company

P.O. Box 76667
Wendywood, 2144
South Africa
Tel: 27 11 784-1771
Fax: 27 11 784-1770
E-mail: king@globalratings.net

REGISTERED VENTURE CAPITAL FUND

Acacia Fund

Norfolk Towers, Kijabe Street 1st Floor
P.O. Box 43233, Nairobi
Tel: 254 20 2228870
Fax: 254 20 330120
E-mail: general_manager@kcpafrica.com
Website: www.kcpafrica.com

African Alliance Kenya Investment Bank Ltd

4th Floor, Kenya Re Towers, Upper Hill
P.O. Box 27639 - 00506, Nairobi
Tel : 254 20 2710978/2718720
Fax : 254 20 2710247
Email : enquiries@africanalliance.co.ke

Apex Africa Capital Limited

Rehani House (HFCK), 4th Floor
Corner of Kenyatta Avenue and Koinange Street
P.O. Box 43676-00100, Nairobi
Tel : 254 20 2242170
Fax : 254 20 215554
Email : hak@insightkenya.com

Dyer & Blair Investment Bank Ltd

Loita House, 10th Floor
Loita Street
P.O Box 45396 - 00100, Nairobi
Tel: 254 20 227803/3240000
Fax: 254 20 218633
E-mail: admin@dyer.africaonline.com
Website: www.dyerandblair.com

Standard Investment Bank

ICEA Building, 16th Floor, Kenyatta Avenue
P. O Box 13714 - 00800, Nairobi
Tel: 254 20 220225/227004
Fax: 254 20 240297
Email: info@standardstocks.com
Website: www.standardstocks.com

CFC Stanbic Financial Services Limited

CFC Center, Chiromo Road
P.O. Box 44074 - 00100, Nairobi
Tel. 254 20 3752900/1
Fax. 254 20 3752905/7
Email: enquiries@cfcbank.co.ke

CBA Capital Limited

International House, Mama Ngina Street
PO Box 30437 - 00100, Nairobi
Fax: 254 20 335827
Email: cbacapital@cba.co.ke
Website: www.cba.co.ke

Kestrel Capital (EA) Limited

ICEA Building, 5th Floor
Kenyatta Avenue
P.O Box 40005 - 00100, Nairobi
Tel: 254 20 251758/251893
Fax: 254 20 243264
Email: info@kestrelcapital.com

Barclays Financial Services Limited

Barclays Plaza M6, Loita Street
P.O. Box 30120-00100, Nairobi
Tel: 254 20 332230
Fax : 254 20 213915
Email : barclays.kenya@barclays.com
Website : www.barclays.com

Drummond Investment Bank Limited

Hughes Building, 2nd Floor
P.O. Box 45465 - 00100, Nairobi
Tel: 254 20 318686/318689
Fax: 254 20 223061
E-mail: info@francisdrummond.com
Website: www.francisdrummond.com

Suntra Investment Bank Ltd

10th Floor Nation Centre,
Kimathi Street
P.O. Box 74016-00200, Nairobi
Tel: 254 20 247530/223329/223330
Fax: 254 20 224327
E-mail: info@suntra.co.ke
Website: www.suntra.co.ke

NIC Capital Limited

NIC House, Masaba Road
P. O. Box 44599-00100, Nairobi
Tel: 254 20 2888000
Fax: 254 20 2888505
Email: service@nic-capital.com

Renaissance Capital (K) Limited

Pushottam Place, 7th Floor
Chiromo Road, Westlands
P. O. Box 40560-00100, Nairobi
Tel: 254 20 3673737
Fax: 254 20 3601100
Email: pmweheire@rencap.com

Equatorial Investment Bank Ltd

Nyerere Road
P. O. Box 52467-00200, Nairobi
Tel: 254 20 2714774
Fax: 254 20 2713899
Email: mombuoro@eib.co.ke

Equity Investment Bank Ltd

Ground Floor, Equity Centre
P. O. Box 74454-00200, Nairobi
Tel: 254 20 2262030
Fax: 254 20 8055798
Email: info@equityinvestment.co.ke
Website: www.equitybank.co.ke

Faida Investment Bank Limited

Windsor House, 1st Floor
P. O. Box 45236-00100, Nairobi
Tel: 254 20 243811
Fax: 254 20 243814
Email: bob@faidastocks.com

Africa Investment Bank Limited

Finance House, Loita Street
P. O. Box 41684-00100, Nairobi
Tel: 254 20 2210178/2212989
Fax: 254 20 2210500
Email:
info@afrikainvestmentbank.com

Dry Associates

Dry Associates House
Brookside Grove/Matundu Lane
P.O Box 684 Sarit Centre 00606,
Nairobi
Tel: 254 20 4450520/1/2/3/4,
4440546
Fax: 254 20 4441330
E-mail: dryassoc@wananchi.com
Website: www.dryassociates.com

Sterling Investment Bank

Finance House, Loita Street
P. O. Box 45080-00100, Nairobi
Tel: 254 20
2220225/227004/2213914
Fax: 254 20 240297
Email: info@sib.co.ke

FCB Capital Limited

Prudential Assurance Building, 1st
Floor, Wabera Street
P. O. Box 56793 - 00300, Nairobi
Tel: 254 20 3580866
Fax: 254 20 213582
Email: info@fcbtakafuagency.co.ke

STOCK BROKERS

African Alliance Kenya Securities Ltd

Transnational Plaza, 1st Floor,
Wing-B, Mama Ngina street
P. O. Box 27639-00506, Nairobi
Tel: 254 20 2762000/2710749
Fax: 254 20 2762670
Email:
enquiries@africanalliance.co.ke

Reliable Securities Limited

IPS Building, 6th Floor
Kimathi Street
P. O. Box 50338 - 00200, Nairobi
Tel: 254 20 241350/54/79
Fax: 254 20 241392
E-mail: reliable@gt.co.ke

ABC Capital Limited

IPS Building, 5th Floor
Kimathi Street
P.O. Box 34137-00100, Nairobi
Tel: 254 20 2241046
Fax: 254 20 316144
Email: headoffice@abccapital.co.ke

NIC Securities Limited

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

Genghis Capital Limited

Prudential Assurance Building
Wabera Street
P. O. Box 28987-00200, Nairobi
Tel: 254 20 2774195/199
Fax: 254 20 2246334
Email: info@genghiscapital.co.ke

Kingdom Securities Ltd

Co-operative Bank House, 5th Floor
Haile - Selassie Avenue
P. O. Box 48231-00100, Nairobi
Tel: 254 20
3276676/311898/310540
Fax: 254 20 2210279
Email:
info@kingdomsecurities.co.ke

FUND MANAGERS

PineBridge Investment Co. (EA) Ltd

Africa Re- Centre 5th Floor
Hospital Road, Upper Hill
P.O Box 67262 - 00200, Nairobi
Tel: 254 20 2733400/8
Fax: 254 20 2733410

Old Mutual Asset Managers (K) Ltd

Old Mutual building, Mara Road,
Upper Hill
P.O Box 11589 - 0040, Nairobi
Tel: 254 20 2711309/2730466
Fax: 254 20 2711066
E-mail: omam@omamkenya.com
Website:
www.oldmutualkenya.com

African Alliance (K) Management Ltd

Kenya Re Towers, 4th Floor
Off Ragati Road, Upper Hill
P.O. Box 27639 - 00506, Nairobi
Tel: 254 20 2710978
Fax: 254 20 2710247
Email:
enquiries@africanalliance.co.ke

Stanbic Investment Management Services Ltd

Stanbic Building, Kenyatta Avenue
P.O. Box 30550 - 00100, Nairobi
Tel: 254 20 3268000
Fax: 254 20 247285
E-mail : sims@africaonline.co.ke

Aureos Kenya Managers

Norfolk Towers, 1st Floor, Kijabe
Street,
P.O. Box 43233 - 00100, Nairobi
Tel: 254 20 228870-/337828
Fax: 254 20 330120/219744
E-mail: mails@aureos.co.ke
Website: www.aureos.com

ICEA Asset Management Ltd.

ICEA Bldg 14th Floor
P.O. Box 46143 - 00100, Nairobi
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Fax: 254 20 338089
E-mail: iisl@icea.co.ke

Co-op Trust Investment Services Ltd.

Co-operative House, Mezzanine
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Email: customerservice@co-opbank.co.ke

Genesis (K) Management Ltd

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Amana Capital Limited

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Zimele Asset Management Co. Ltd.

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Fax: 254 20 2722953
E-mail: zimele@africaonline.co.ke

Sanlam Investment Management Limited

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Muthithi Road
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Fax : 254 20 2722953
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Fax : 254 20 2727783
Email : info@investeqcapital.com

Standard Chartered Investment Services Limited

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48 Westlands Road
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Fax : 254 20 2281605
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CIC Asset Management Company Ltd

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Old Mutual Investment Services (K) Ltd

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Fax: 254 20 2722415

Madison Asset Management Services Ltd

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Fax: 254 20 2723344
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Fax: 254 20 2714811
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Email: nri.africa@citigroup.com

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Fax: 254 20 2711331
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Iroko Securities Kenya Ltd

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Fax: 254 20 3740497
Email: ismailmawji@mawjisennik.com

Lifestyle Management Limited

Havea Park, Unit D
Lower Kabete Road, Westlands
P. O. Box 1342-00606, Nairobi
Tel: 254 20 8034246
Cell: 0735 821 336
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Winton Investment Services Ltd.

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Regnum Consultants Limited

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P. O. Box 11431-00400, Nairobi
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agichanga@regnuminvest.com

J. W. Seagon and Company Ltd

Location: 1st Floor, Mobil Plaza,
Muthaiga
P. O. Box 16658 - 00620, Nairobi
Tel: 254 20 3750008 /
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Fax: 254 20 3750062
Email: info@jwseagon.com
Website: www.jwseagon.com

Tsavo Securities Limited

Kimathi House, 6th Floor, Kimathi Street
P. O. Box 11987-00100, Nairobi
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The Profin Group (K) Limited

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Fax: 254 20 2043461

Alliance Capital Partners Ltd.

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Email: Gregory.atoko@citidell.com

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Fax: 254 20 312392
Website: www.barclays.com

CFC Stanbic Bank Ltd.

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P.O. Box 72833-00200, Nairobi
Tel: 254 20 363800
Fax: 254 20 3752906/5/7
E-mail: cfcstanbic@stanbic.com
Website: www.stanbicbank.co.ke

Kenya Commercial Bank Ltd.

Kencom House
P.O. Box 48400, Nairobi
Tel: 254 2 339441
Fax: 254 2 339415
Email: custody@kcb.co.ke
Website: www.kcb.co.ke

National Bank of Kenya Ltd

National Bank Building
P.O. Box 72866, Nairobi
Tel: 254 2 339690
Fax: 254 2 330784
E-mail: vicki@nationalbank.co.ke
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NIC Bank Ltd

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Email: info@nic.bank.com
Website: www.nic-bank.com

Cooperative Bank of Kenya

Co-operative House
Haile Selassie Avenue
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Tel: 254 20 32076000/32076100
Website : www.co-opbank.co.ke

African Banking Corporation Limited

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Tel : 254 20 2223922
Fax : 254 20 2222437
Email :
headoffice@abcthebank.com
Website : www.abcthebank.com

Dubai Bank Kenya Ltd

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Fax : 254 20 2245242
Email : info@dubaibank.co.ke
Website : www.dubaibank.co.ke

Equity Bank Limited

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Fax : 254 20 2737276
Website : www.equitybank.co.ke

I & M Bank Limited

I & M House, Kenyatta Avenue
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Fax : 254 20
2211160/2212947/2216732
Email : invest@imbank.co.ke
Website : www.imbank.com

Prime Bank Limited

Riverside Drive
P. O. Box 43825-00100, Nairobi
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42300/4203116/4203148
Fax: 254 20 4451247
Email:
headoffice@primebank.co.ke

Equatorial Commercial Bank Limited

Equatorial Commercial Bank Centre
Nyerere Road
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Fax: 254 20 2710366
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customerservice@ecb.co.ke

Transnational Bank Limited

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P. O. Box 34353-00100, Nairobi
Tel: 254 20
2224235/6/252188/90/91
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Email: info@tnbl.co.ke

Chase Bank Kenya Ltd

Prudential Assurance Building, 6th
Floor, Wabera Street
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2774000/4454803/4/6/8
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Email: info@chasebank.co.ke

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Floor, 48 Westlands Road
P. O. Box 30003-00100, Nairobi
Tel: 254 20 3293000
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Email: Talk.To-Us@sc.com

APPROVED COLLECTIVE INVESTMENT SCHEMES

1. African Alliance Kenya Unit Trust Scheme:
 - African Alliance Kenya Shilling Fund.
 - African Alliance Kenya Fixed Income Fund
 - African Alliance Kenya Managed Fund.
2. Old Mutual Unit Trust Scheme:
 - Old Mutual Equity Fund.
 - Old Mutual Money Market Fund.
 - Old Mutual Balanced Fund.
 - Old Mutual East Africa Fund
 - Old Mutual Bond Fund
3. British American Unit Trust Scheme:
 - British American Money Market Fund.
 - British American Income Fund.
 - British American Balanced Fund.
 - British American Managed Retirement Fund.
 - British American Equity Fund.
4. Stanbic Unit Trust Scheme:
 - Stanbic Money Market Fund.
 - Stanbic Flexible Income Fund.
 - Stanbic Managed Prudential Fund.
5. Commercial Bank of Africa Unit Trust Scheme:
 - Commercial Bank of Africa Money Market Fund.
 - Commercial Bank of Africa Equity Fund.
6. Zimele Unit Trust Scheme:
 - Zimele Balanced Fund
 - Zimele Money Market Fund
7. Suntra Unit Trust.
 - Suntra Money Market Fund
 - Suntra Equity Fund
 - Suntra Balanced Fund
8. ICEA Unit Trust.
 - ICEA Money Market Fund
 - ICEA Equity Fund
 - ICEA Growth Fund
 - ICEA Bond Fund
9. Standard Investment Trust Funds:
 - Standard Equity Growth Fund
 - Standard Income Fund
 - Standard Balanced Fund
10. Dyer and Blair Unit Trust Scheme:
 - Dyer and Blair Diversified Fund
 - Dyer and Blair Bond Fund
 - Dyer and Blair Money Market Fund
 - Dyer and Blair Equity Fund
11. CFC Unit Trust Fund
 - CFC Stanbic Equity Fund
 - CFC Simba Fund
12. Amana Unit Trust Funds Scheme:
 - Amana Shilling Fund
 - Amana Balanced Fund
 - Amana Growth Fund
13. Diaspora Unit Trust Funds Scheme
 - Diaspora Money Market Fund
 - Diaspora Equity Fund
 - Diaspora Bond Fund

APPROVED EMPLOYEE SHARE OWNERSHIP PLANS (ESOPS):

1. EABL Employee Share Ownership Plan
2. KENOL Employee Share Ownership Plan
3. ARM Employee Share Ownership Plan
4. AccessKenya Group Employee Share Ownership Plan
5. Scangroup Employee Share Ownership Plan
6. Safaricom Employee Share Ownership Plan
7. Equity Employee Share Ownership Plan
8. KCB Employee Share Ownership Plan

3. LISTED COMPANIES AND MARKET CAPITALIZATION AS AT JUNE 30, 2010

COMPANY	TOTAL NO OF SHARES ISSUED	MRT CAP '000'	CLOSING PRICE AS AT 30/6/10 (KSHS)
AGRICULTURAL			
Kakuzi Ord.5.00	19,599,999	1,528,800	78.00
Rea Vipingo Plantations Ltd Ord 5.00	60,000,000	1,140,000	19.00
Sasini Ltd Ord 5.00	228,055,500	3,204,180	14.05
COMMERCIAL AND SERVICES			
Accesskenya Ltd Ord. 1.00	206,331,223	4,178,207	20.25
Car & General (K) Ltd Ord 5.00	22,279,616	1,080,561	48.50
CMC Holdings Ltd Ord 5.00	582,709,440	7,400,410	12.70
Hutchings Biemer Ltd Ord 5.00	360,000	7,290	20.25
Kenya Airways Ltd Ord 5.00	461,615,484	21,580,524	46.75
Marshalls (E.A.) Ltd Ord 5.00	14,393,106	236,047	16.40
Nation Media Group Ord. 5.00	142,610,520	19,965,473	140.00
Safaricom Ltd Ord.0.05	40,000,000,000	232,000,000	5.80
ScanGroup Ord. 1.00	220,689,655	8,772,414	39.75
Standard Group Ltd Ord 5.00	73,275,029	2,821,089	38.50
TPS Eastern Africa (Serena) Ltd Ord 1.00	105,864,742	5,981,358	56.50
Uchumi Supermarket Ltd Ord 5.00	180,000,000	2,610,000	14.50
FINANCE AND INVESTMENT			
Barclays Bank Ltd Ord 10.00	1,357,884,000	83,509,866	61.50
Centum Investment Co. Ltd Ord 5.00	549,951,880	12,236,429	22.25
CFC Stanbic Holdings Ltd ord.5.00	273,684,211	20,252,632	74.00
Diamond Trust Bank Kenya Ltd Ord 4.00	163,037,108	14,591,821	89.50
Equity Bank Ltd Ord 0.5	3,702,777,020	88,866,648	24.00
Housing Finance Co Ltd Ord 5.00	230,000,000	4,830,000	21.00
Jubilee Holdings Ltd Ord 5.00	45,000,000	7,650,000	170.00

Kenya Commercial Bank Ltd Ord 10.00	2,217,777,777	41,250,667	18.60
Kenya Re-Insurance Corporation Ltd Ord 2.50	600,000,000	7,260,000	12.10
National Bank of Kenya Ltd Ord 5.00	280,000,000	11,060,000	39.50
NIC Bank Ltd Ord 5.00	358,997,784	14,180,412	39.50
Olympia Capital Holdings Ltd Ord 5.00	40,000,000	320,000	8.00
Pan Africa Insurance Holdings Ltd Ord 5.00	48,000,000	3,024,000	63.00
Standard Chartered Bank Ltd Ord 5.00	271,967,810	60,376,854	222.00
Co-operative Bank of Kenya Ord. 1.00	3,492,369,900	52,385,549	15.00
INDUSTRIAL AND ALLIED			
Athi River Mining Ord 5.00	99,055,000	13,867,700	140.00
B.O.C Kenya Ltd Ord 5.00	19,525,446	2,635,935	135.00
Bamburi Cement Ltd Ord 5.00	362,959,275	72,591,855	200.00
British American Tobacco Kenya Ltd Ord 10.00	100,000,000	21,500,000	215.00
Carbacid Investments Ltd Ord 5.00	33,980,265	4,927,138	145.00
Crown Berger Ltd Ord 5.00	23,727,000	753,332	31.75
E.A.Cables Ltd Ord 5.00	202,500,000	4,100,625	20.25
E.A.Portland Cement Ltd Ord 5.00	90,000,000	10,350,000	115.00
East African Breweries Ltd Ord 2.00	790,774,356	143,130,158	181.00
Eveready East Africa Ltd Ord. 1.00	210,000,000	840,000	4.00
KenGen Ltd. Ord. 2.50	2,198,361,456	37,591,981	17.10
Kenya Oil Co Ltd Ord 0.50	1,471,761,200	13,466,615	9.15
Kenya Power & Lighting Ltd Ord 20.00	79,128,000	15,825,600	200.00
Mumias Sugar Co. Ltd Ord 2.00	1,530,000,000	19,660,500	12.85
Sameer Africa Ltd Ord 5.00	278,342,393	2,463,330	8.85
Total Kenya Ltd Ord 5.00	175,028,706	4,988,318	28.50
Unga Group Ltd Ord 5.00	75,708,873	927,434	12.25
ALTERNATIVE INVESTMENT MARKET SEGMENT			
A.Baumann & Co.Ltd Ord 5.00	3,840,066	42,625	11.10
City Trust Ltd Ord 5.00	5,728,314	630,115	110.00
Eaagads Ltd Ord 1.25	16,078,500	836,082	52.00
Express Ltd Ord 5.00	35,403,790	316,864	8.95
Williamson Tea Kenya Ltd Ord 5.00	8,756,320	1,908,878	218.00
Kapchorua Tea Co. Ltd Ord Ord 5.00	3,912,000	582,888	149.00
Kenya Orchards Ltd Ord 5.00	12,868,124	38,604	3.00
Limuru Tea Co. Ltd Ord 20.00	1,200,000	360,000	300.00
PREFERENCE SHARES			
Kenya Power & Lighting Ltd 4% Pref 20.00	1,800,000	14,400	8.00
Kenya Power & Lighting Ltd 7% Pref 20.00	350,000	1,925	5.50
TOTAL	63,780,020,888	1,108,654,133	



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