



Annual Report & Financial Statements

For the year ended June 30, 2011



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

The Honourable Minister for Finance

Ministry of Finance

NAIROBI

Dear Honourable Minister for Finance,

I have the honour to submit the Annual Report of Capital Markets Authority for the fiscal year ended June 30, 2011. The report has been prepared in accordance with the provisions and requirements of Section 36(3) of the Capital Markets Act, Cap 485A.

Respectfully yours,

Kung'u Gatabaki

CHAIRMAN

Corporate Information

The present Board members of the Authority are:

Mr. Kung'u Gatabaki	Chairman
Mrs. Stella Kilonzo, MBS	Chief Executive
Mr. Joseph Kinyua, CBS	Permanent Secretary to the Treasury
Dr. Geoffrey Mwau	Alternate to the Permanent Secretary to the Treasury
Prof. Njuguna Ndung'u, CBS	Governor, Central Bank of Kenya
Ms. Rose Detho	Alternate to the Governor, Central Bank of Kenya
Hon Amos Wako, EGH, FCI Arb	Attorney General
Mr. James Waweru	Alternate to the Attorney General
Ms. Nafisa Abass	
Dr. Gituro Wainaina	
Mrs. Priscilla Komora, CBS	
Mr. Mohammed Nyaoga	
Mr. Humphrey Muga	
Mr. Mahmood Manji	

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BANKERS

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Mama Ngina Street
P.O. Box 30437 – 00100,
Nairobi

KCB Mortgage Centre-Salama House
Mama Ngina Street
P.O. Box 45129 - 00100,
Nairobi.

AUDITORS

Auditor - General
Anniversary Towers
University Way
P.O. Box 30084-00100,
Nairobi.

ADVOCATES

Archer & Wilcock Advocates
Marakwet Close, Kilimani
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 2011.

STATUS OF CAPITAL MARKETS REFORM AGENDA

While the overall Kenyan economy continued to grow at an average rate of 4.5%, the year was generally characterized by rising interest rates and inflationary levels as well as depreciation of the Kenyan shilling which peaked at the end of the Financial Year with inflation rising to 14.5% as at June 2011.

During the year, the Authority revised its Strategic Plan in line with emerging issues in the Capital Markets such as: the launch of the East African Common Market Protocol and the Promulgation of the New Kenyan constitution, all presided over by His Excellency, the President of the Republic of Kenya. The Authority further invited the US Securities and Exchange Commission (USSEC) to conduct an assessment of CMA's enforcement and market development functions as it stepped-up its move towards achieving its vision of being a world class regulator of a vibrant capital market.

In addition, the Authority implemented its service delivery charter in line with the public sector reforms and maintained compliance with the Public Complaints Standing Committee guidelines.

Under the Performance Contract with the Government, I am pleased to report that in 2009/2010, the Authority improved in its performance to the "Very Good" Category compared to the previous year's "Good" Category. We however strive to be among the best and expect better performance in 2010/2011 Financial Year.

Further, the Authority continued to play its key role of regulating and facilitating the development of the capital markets through mobilizing savings and investments in productive enterprise; facilitating infrastructure financing and access to capital markets products and services. As we approach the final year of the Medium Term Plan (MTP 2008-2012), our key focus is expected to expand further to include diversification of financing for SMEs; creation of a platform for Kenya to become an International Financial Centre (IFC); and enhancement of capital markets infrastructure through facilitating a unified Central Depository System (CDS).

In line with the revised strategic plan, the Authority has been spearheading the following market reforms:

i. Demutualization of the Nairobi Securities Exchange

The Authority continued to advance the process of demutualization through the Demutualization Steering Committee (DSC) chaired by the Authority. In order to provide a robust framework for demutualization and the procedure to be followed, the Authority developed the following draft regulations for public comments:

- i. Capital Markets (Demutualization of the Nairobi Securities Exchange Limited) Regulations 2011; and
- ii. Capital Markets (Licensing Requirements) (General) (Amendment) Regulations, 2011.

ii. Bond Market Reforms

The Authority continued to spearhead the development of the secondary market and hosted a successful stakeholders' workshop on April 8th 2011 on the Hybrid Bond Market Model. In addition, the Authority secured technical assistance through the Efficient Securities Market Institutional Development (ESMID) programme - a partnership between the Swedish International Development Cooperation Agency (SIDA), the International Finance Corporation (IFC) and the World Bank - for

Chairman's Statement

a consultant to facilitate implementation of Over the Counter (OTC) trading of bonds. The consultant is working with the Bond Market Steering Committee (BMSC) under the chairmanship of CMA to develop the operational framework for the OTC market expected to be in place by mid-2012.

iii. Establishment of a Futures Exchange in Kenya

In executing its mandate as Advisor to Government, the Authority recommended the operationalization of a Commodity Futures market. As a result, the Authority is part of an inter-sectoral Task Force spearheaded by the Office of the Deputy Prime Minister and Ministry of Finance involved in the development of the policy, legal and institutional framework to establish a Futures Market in Kenya. The Task Force established in August 2010, conducted a benchmark study tour of the futures markets in Mauritius and India in November and December 2010, respectively. The Deputy Prime Minister and Minister of Finance during his delivery of the Budget Statement for the 2011-2012 Financial Year provided that the Capital Markets Act is to be amended to allow for the introduction of a regulated Futures Market. The establishment of this exchange is expected to play a key role in raising Kenya's profile as an International Finance Centre (IFC), improve efficiency of price discovery, while hedging against the volatility of commodity prices, in the near future.

iv. Legal and Regulatory framework

The Authority finalized and submitted the Capital Markets Authority Bill, 2011; Securities and Investments Bill, 2011; and Central Depositories (Amendment) Bill, 2011 to Ministry of Finance in June 2011. The Bills, once adopted will set the pace in development of supporting regulations and subsequently address the current gaps and weaknesses in the legal and regulatory framework for the capital markets in Kenya.

v. Building Strategic Alliances

Cooperation among capital markets institutions in Kenya

The Board of the Authority, Nairobi Securities Exchange (NSE) and the Central Depository and Settlement Corporation (CDSC) resolved in December 2010 to jointly address key development

issues and challenges that face the capital markets in Kenya. Following this strategy of working together, a number of reforms have been progressed in the areas of bond market development, demutualization, establishment of a Growth Enterprise Market Segment at the NSE, investor education and regionalization. These institutions technical and management teams met regularly during the second half of the Financial Year.

Cooperation among Financial Sector Regulators

Board Members of the Financial Sector Regulators (CBK, IRA, RBA, and CMA) met in September 2010. The meeting resolved that a delegation composed of Chairmen and Chief Executives of the Regulators would meet with the Ministry of Finance to present a joint Memorandum and collectively bargain on the introduction of a Court with original jurisdiction for the financial sector.

Members also considered the need to include the new regulator, Saccos Regulatory Authority (SASRA) in the Memorandum of Understanding and agreed to invite SASRA on observer status to the next meeting. It was also resolved that the retreat of the Boards would be held bi-annually.

GOING FORWARD

Having been appointed in June 2011 as Chairman of the Capital Markets Authority Board, I believe that the capital markets are undoubtedly the nerve centre of the Kenyan economy and thus critical not only in achievement of the Vision 2030 but in realizing the dreams and aspirations of Kenyans, to be at par with global economies.

We will continue to work closely with all capital markets stakeholders at domestic, regional and international levels to steer our capital markets to greater heights.

I wish to thank all market stakeholders for their support to the Authority. I assure the market that the Authority will continue working with them to continue to grow our capital markets.

Last but not least, I wish to commend my Board Members, the Chief Executive and staff of the Authority for their selfless commitment towards regulating and developing the Kenyan capital markets.

Kung'u Gatabaki,
Chairman

Board Members of the Authority



Mr. Kung'u Gatabaki
Chairman



Mrs. Stella Kilonzo, MBS
Chief Executive



Mr. Joseph Kinyua, CBS
P.S. Treasury



Prof. Njuguna Ndung'u
Governor Central Bank of Kenya



Hon. Amos Wako, EGH, EBS
Attorney General



Ms. Nafisa Abbas
Member



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



Ms. Rose Detho
Alt. to Governor, CBK



Mr. James Waweru
Alt. to Attorney General



Mr. Mohammed Nyaoga
Member



Mr. Mahmood Manji
Member



Mrs. Priscilla Komora, CBS
Member



Dr. Gituro Woinana
Member



Mr. Humphrey Muga
Member

Management Team



Mrs. Stella Kilanza, MBS
Chief Executive



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



Mr. Wycliffe Shamiah
Manager, Market
Supervision



Mrs. Rose Lumumba
Manager, Legal Affairs
and Board Secretary



Mr. Richard Chirchir
Manager, ICT



Mrs. Veronica Waiyaki
Manager, Human Capital &
Administration



Mr. James Katule
Manager, Finance



Ms. Esther Maiyo
Ag. Manager, Internal Audit

Corporate Governance Statement

The Board of the Authority (the Board) is responsible and accountable to the Government of Kenya, through the Ministry of Finance, in 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 directors possess a broad range of skills and competencies, including legal, finance, banking, economics and management;
- ◆ During the year, the Board met ten times.

COMPOSITION OF THE BOARD

During the year, the Board was composed as follows:

1. Mr. Kung'u Gatabaki, Chairman of the Board

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

2. Mr. Joseph Kinyua, CBS (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. Prior to his appointment as a Permanent Secretary, he was the Chief Economist of the Central Bank of Kenya. He joined the Central Bank of Kenya in

1980 and worked his way through the ranks from an Economist to Director of Research. He also worked as an economist on a fixed term appointment with the International Monetary Fund (IMF) 1985 – 1990. Mr. Kinyua was appointed as the Permanent Secretary, Ministry of Finance in September 2002, a position he held until January 2003 when he was appointed Permanent Secretary in the Ministry of Planning and National Development. In July 2003, he was appointed Permanent Secretary in the Ministry of Agriculture where he served until July 2004 when he was reappointed Permanent Secretary to the Ministry of Finance. Mr. Kinyua serves on several boards of State Corporations. He is a member of the Programme Committee of the African Economic Research Consortium (AERC) and Alternate Governor, World Bank Board of Governors.

3. Alternate to PS, Treasury: Dr. Geoffrey Mwaui (Economic Secretary at the office of the DPM & MoF)

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

4. Hon. Amos Wako EGH, FCI Arb, SC, MP (Attorney General)

Hon. Wako holds a Bachelor of Law degree from the University of Dar es Salaam, Bachelor of Science (Economics) Honours degree and a Master of Law 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 (U.S.A). He has worked with the United Nations, and other Regional and International Non-Governmental Organisations. Attorney General is the principal legal advisor to the Government of Kenya.

Corporate Governance Statement

5. Alternate to Hon. Attorney General: 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, CBS (Governor, Central Bank of Kenya)

An Economist by profession, Prof. Ndung'u holds a PhD in Economics from the University of Gothenburg, Sweden, and Masters and Bachelors degree 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.

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

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

8. Mr. Mahmood Manji

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

9. Mr. Humphrey Muga

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

10. Ms. Nafisa Abass

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

11. Dr. Gituro Wainaina

Dr. Wainaina is a consulting economist and educator, holds a PhD in Agricultural Economics, an MBA and Bachelor of Education degrees. He has extensive working experience with the World Bank, CARE International and the Education Ministries in Kenya, Malawi and Rwanda. Dr. Wainaina is currently the Director of the Social and Political Pillar at the Vision 2030 Delivery Secretariat.

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. She holds a Bachelor of Arts degree in Economics from the University of Eastern Africa. Mrs. Komora is also a fellow of the Canadian Comprehensive Auditing Foundation.

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 was called to the Bar in 1985, specializes in corporate finance, civil and commercial litigation. He is also a recognized authority on bank securities and corporate governance.

Corporate Governance Statement

14. Mrs. Stella Kilonzo, MBS (Chief Executive)

Mrs. Stella Kilonzo is the Chief Executive of the Authority appointed by the President of the Republic of Kenya in July 2008 having previously served as Acting CEO since December 2007. She holds an MBA (Corporate Finance) from Loyola University of Chicago, a CPA and a First Class Honors B.Com graduate from Catholic University of Eastern Africa.

Mrs. Stella Kilonzo previously worked at the Financial Regulatory Authority (FINRA), the largest self-regulatory organization of the securities industry in the USA and PricewaterhouseCoopers Kenya.

She was the chairperson of the East African Securities Regulatory Authorities (EASRA), 2008 to

2010. Mrs. Kilonzo serves on the World Economic Forum's Global Agenda Council on Banking and Capital Markets; Kenya's National Economic Social Council (NESC).

She serves in an ex-officio capacity as a member of Financial Stability Board Regional Consultative Group for Sub-Saharan Africa, Kenya's Vision 2030 Delivery Board, Insurance Regulatory Authority and Retirement Benefits Authority. She is also a member of New Faces, New Voices Women in Finance, a Foundation committed to promoting women in finance founded by Her Excellency Graca Machel Mandela and is also a fellow of African Leadership Initiative East Africa and a member of the Aspen Global Leadership Network.

Statement of the Board Members' Responsibilities

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

- ◆ Reviewing the values, vision and mission of the Authority 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 pursuant to Section 14 of the Capital Markets Act, the Board delegates authority to a number of Committees which operate within defined terms of reference. Other Committees are formed on an ad-hoc basis. During the financial year, the Board had constituted the following Committees:

The Finance and Planning Committee

This committee consists of five (5) members, all of whom are non-executive members of the Board. The Committee was chaired by Mrs. Priscilla Komora, CBS. It has oversight on all financial issues including budgets, financial reporting process and controls, and procurement. The Committee met four (4) times during the period.

The Audit, Corporate Governance and Risk Management Committee

This Committee consists of five (5) members, all of

whom are non-executive members of the Board. The Committee was chaired by Mr. Mahmood Manji. It has an oversight responsibility of reviewing, assessing adequacy and monitoring internal controls, risk management and corporate governance processes; examining the internal and external audit reports and recommendations; overseeing financial reporting and reviewing the accounting principles, policies and practices adopted in the preparation of the financial statements. It is also charged with reviewing the risk management and corporate governance practices of licensees and corporate governance practices of listed companies. The Committee met six (6) times during the period.

The Human Resource and Communications Committee

This Committee consists of five (5) members, all of whom are non-executive members of the Board. The Committee was chaired by Mr. Humphrey Muga. It is responsible for the human resource matters including recruitment, management succession and oversees the corporate communication policies. The Committee met eight (8) times during the year.

Technical and Policy Committee

The Committee consists of six (6) 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, including reviewing the Authority's strategy and continuous oversight of the review of the capital market legal and regulatory frameworks. The Committee met ten (10) times during the year.

Asset Recovery Committee

The Committee consists of four (4) members all of whom are non-executive members of the Board. The Committee was chaired by Mr. James Waweru. It is responsible for safeguarding the investors' and the Authority's interest in the event of a market intermediary being placed under statutory management, its license being revoked or otherwise ceasing to operate. The Committee may thereto advise on the best strategy and procedures for tracing of assets and asset recovery, freezing of the assets, restitution and compensation to the victims. The Committee met four (4) times during the year.

Statement of the Board Members' Responsibilities

Supply of Information

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

Accountability and Audit

Directors 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 recommendation from other technical advisors, considered appropriate actions relevant to any operational and financial risk 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



MARKET PERFORMANCE

Kenya's capital markets registered a significantly improved performance during the year characterized by increased activity in both the primary and secondary markets as compared to the previous year.

There was renewed activity in the primary equities market which saw Deacons Kenya Limited raising fresh capital through a Public Offer (PO) and CFC Insurance Holdings limited being listed through an introduction. In addition, Uchumi Supermarkets Limited was re-listed, five (5) years after the retail chain of supermarkets was suspended from trading. Rights issues were also a popular avenue for raising additional capital during the year with four listed companies raising a total of Kshs 28 billion, largely through existing shareholders.

In the primary debt markets, one (1) Infrastructure Bond, nine (9) re-opened issues and twelve (12) new Treasury Bonds were approved by CMA for issuance during the review period. A key milestone also achieved during this year was the issuing of the longest dated Central Government debt instrument in Kenya's history (including East and Central

Africa), a 30-year Savings Development Bond in February 2011. The private sector was also active in the corporate bonds market evidenced by four companies issuing corporate bond offers amounting to Kshs 16.5 billion. Overall, the Kenyan debt market has continued to benefit from increased liquidity with recent issues being oversubscribed. The mid-term future outlook remains positive with several private and public institutions showing interest in raising capital through the bond market.

In the secondary markets, equities market performance was the best over the past three years and one of the best since the establishment of the Nairobi Securities Exchange. Market Capitalization averaged over Kshs 1 trillion (about USD 12.4 billion) throughout the year, while share volume and equity turnovers posted all time annual historical highs. During the period under review, equity turnover and volume recorded corresponding increases of 70% and 37%, as market capitalization rose marginally. The impressive performance was attributed to improved business confidence in the market due to the growing economy and adoption of best business practices within the capital markets industry.

In addition, secondary bond market activity saw an improvement, rising by 22% during the review period compared to a similar period last year. The Automation of bond trading has been a major contributor to increasing liquidity in the bond markets. This is in addition to the ongoing reforms being implemented within the Government Debt sector.

ORGANIZATION STRUCTURE

The Authority recognises that a clear strategy and structure forms the foundation from which it will position itself for future growth and operational efficiency. In this respect, in conjunction with a revision of the Authority's Strategic Plan, the Authority reviewed its organization structure with a view to ensure that it is aligned to its revised strategic plan to effectively deliver on changing market demands as well as the set objectives. The review of the structure was also necessitated by the need to position the Authority to implement the key reforms being undertaken to meet market expectations. In this regard, the Authority created Directorates and initiated the process of filling the positions in the structure in order to enhance capacity, being one of the pillars in the strategic plan.

Chief Executive's Statement

POLICY DEVELOPMENT

The Capital Markets Authority in collaboration with industry stakeholders initiated a number of policy measures towards the development of the capital markets during the Fiscal Year 2011/2012. The policy and legal interventions were mainly targeted

towards product development and strengthening of market institutions and infrastructure. During the budget speech of 2011/2012, the the Deputy Prime Minister and Minister for Finance made a number of pronouncements on capital market developments as outlined below:

Table 1: Budget Outcome 2011/2012

Proposal	Reference	Expected Impact
1. That the Capital Markets Act be amended to facilitate the trading of listed fixed income securities Over the Counter (OTC) outside an approved securities exchange subject to compliance with reporting requirements.	Capital Markets (Amendment Bill), 2011	This is an important step in the introduction of a hybrid bond market where publicly offered bonds will be trading either on the exchange or OTC. This will facilitate issuance of bonds by small and medium enterprises hence increasing bond activity both in the primary and secondary market.
2. Capital Markets Act to be amended to allow for the introduction of a regulated Futures Market.	Capital Markets (Amendment Bill), 2011	This will allow establishment of a futures exchange to serve as a platform for trading futures contracts of multi-asset classes such as currency, minerals and energy derivatives.
3. Capital Markets Act to be amended to recognize Real Estate Investment Trusts and to facilitate the regulation of pooled products for investment in real property. Income Tax Act amended to exempt REITs from corporation tax in addition to exempting investors who receive dividends from REITs from withholding tax.	Finance Bill, 2011 Income Tax (Amendment Bill), 2001	This will assist in addressing the housing problem in Kenya by assisting to pool finance for investment in housing development as well as commercial construction in addition to providing avenues to attracting international investors through Public Private Partnerships (PPP). It will further expand the range of capital markets products.
4. Government coordinating to address the problem of high cost of capital by: introducing reforms to improve the legal, regulatory and administrative processes relating to collateral through: introducing a unified framework for movable and immovable collateral, streamlining the stamp duty regime and simplifying the registration process.	Budget Speech, 2011	Financing through the debt market will be cheaper as other non-Government issuers will benchmark on a flatter Treasury Yield Curve.
5. Requirement by pension schemes to professionally invest scheme funds through fund managers where there investments are limited to guaranteed funds removed.	Budget Speech, 2011	Will lower administration costs for pension schemes investing solely in guaranteed funds and allow them to grow their asset base thus increasing flow of funds to the capital markets.

Chief Executive's Statement

Table 1: Budget Outcome 2011/2012

Proposal	Reference	Expected Impact
6. Government to continue supporting the implementation of provisions of the Common Market Protocol and on-going negotiations of the East African Monetary Union Protocol.	Budget Speech, 2011	To ensure that the Common Market and Monetary Union are realized in regionalization of the EAC economies thus enhancing their competitiveness.
7. Self-Regulatory Organizations to be recognized and the Authority empowered to specifically delegate its powers to an SRO subject to the oversight of the Capital Markets Authority	Budget Speech, 2011	Will allow the Authority to delegate regulatory functions to SROs while ensuring that they have in place proper policies, infrastructure, financial soundness and effective corporate governance.
8. Central Depositories Act to be amended to introduce a robust system to reduce the risk and damage associated with settlement default on securities transactions in addition to providing for insolvency set-off in respect of the obligations between settlement participants.	Central Depositories (Amendment Bill), 2001 Ref: Page 369 of the Finance Bill	This will bring the Kenyan clearing and settlement process into line with international best practice and significantly reduce the risks associated with large scale investment in listed securities by both local and foreign investors.
9. Through the proposed amendment of the Central Depositories Act, the Authority's powers of supervisions, investigation and intervention in respect of central depositories has been strengthened in the interest of securing fair efficient and transparent securities settlement.		Strengthening supervision of the central depository will significantly reduce systemic risk.
10. Section 2 of CM Act amended to redefine 'securities' to better cater for derivatives transactions as well as amending the definition of "key personnel" to ensure the Authority may assess the fitness of key members of management.	Capital Markets (Amendment Bill) 2011	Will enhance trade reporting and information dissemination in securities exchanges as well as ensuring the only properly qualified and vetted persons are entitled to manage licensed entities.
11. Section 11 of CM Act amended to expand the principle objectives of the Authority to recognize the need to improve access to securities markets beyond traditional stocks.	Capital Markets (Amendment Bill) 2011	To ensure investors are provided with an opportunity to access a broad spectrum of securities products.

Chief Executive's Statement

These proposals address long-standing issues that have curtailed the growth of this sector by promoting self-regulation, providing tax incentives for Real Estate Investment Trust (REITs), facilitating Over The Counter (OTC) trading of bonds and futures trading. The capital markets are therefore expected to continue to thrive in coming years. The Government has also demonstrated its desire to bring down transaction costs to make the Kenyan capital markets more competitive.

MARKET SUPERVISION DEVELOPMENTS

Risk Based Supervision

The Authority continued to implement Risk-Based Supervision (RBS), an approach based on identifying the operational risks and assigning resources to mitigate them, during the year. The following milestones have been realized towards embracing RBS approach:

- i. In order to improve the capital adequacy of licensees, the Authority undertook a **Quantitative Impact Study (QIS)** to determine the effect that introducing stringent Financial Resources Rules (FRR) may have on the Kenyan capital markets.
- ii. **Management, Supervision, and Internal Control Guidelines** for licensed entities were also developed and exposed to the stakeholders in the capital markets. It is envisioned that adoption of the guidelines will lead to a better risk management and instil good practice and culture in the market.
- iii. The capacity of the Authority staff members as well as technical and management staff of licensed entities were enhanced through several trainings held in the year.
- iv. In addition, the Authority with the assistance of a consultant developed an initial **risk profiling tool** which is still being tested for use in the market.

On-site inspections

The Authority conducted a series of on-site examinations to assess compliance with the Capital Markets Act and the regulations. The examinations conducted were in line with the risk-based approach and also sought to identify any material risks within the firms. These assessments were mainly geared

towards examining the compliance with capital adequacy requirements, continuous reporting obligations, internal controls and record-keeping requirements. The inspections also targeted key risk areas within the respective firms in line with risk based supervision principles. A number of breaches of capital markets regulations were discovered during the exercise and the necessary regulatory remedial action taken.

LEGAL FRAMEWORK, LICENSING AND ENFORCEMENT ACTIONS

Review of the legal and regulatory framework

Recognizing that Kenya is part of the global financial market, the Capital Markets Authority has continued to implement initiatives geared towards reforming its legal and regulatory framework to ensure that it conforms to the world best standards of securities markets regulation. Additionally, Kenya is a member of the International Organization of Securities Commission (IOSCO) which requires adoption of international best standards and best practices for capital markets regulation. The Capital Markets Authority (CMA) contracted with the Government of Kenya (Ministry of Finance) to submit the following Bills as part of its performance contract obligations for the financial year 2010-2011.

1. Capital Markets Authority Bill, 2011;
2. Securities Industry Bill, 2011; and
3. Central Depositories (Amendment) Bill, 2011.

The three sets of legislation were developed in accordance with the Policy approved by the Board in December 2008 on the gaps and weaknesses that needed to be addressed as well as the specific drafting instructions approved in accordance with the agreed policy. The final Draft Bills were submitted for consideration by the office of the Deputy Prime Minister and Ministry for Finance on June 30, 2011.

Licensing

During the year the Authority issued new licenses to the following:

- i. Equatorial Investment Bank Limited – Dealer; and
- ii. Bora Capital Limited – Investment Advisor

Chief Executive's Statement

The Authority further renewed seventy two (72) licenses for eleven (11) Investment Banks; ten (10) Stockbrokers; nineteen (19) Fund Managers; eighteen (18) Investment Advisers; and fourteen (14) Authorized Depositories. A total of 11 categories of capital market intermediaries comprising 95 players were licensed to operate in 2011 compared to 100 players in 2010.

Enforcement action

The following scope of breaches were noted during the year and appropriate enforcement action taken to address them;

- i. Failure to meet Capital Requirements;
- ii. Level of shareholders' funds being below the prescribed minimum amounts;
- iii. Failure to comply with continuous reporting obligations;
- iv. Irregular public offer of securities;
- v. Publication of advertisements and material information without the Authority's approval;
- vi. Opening of branch office without approval of the Authority;
- vii. Failure to comply with corporate governance practices for public listed companies;
- viii. Unauthorized transactions in Client accounts;

RESEARCH AND PRODUCT DEVELOPMENT

During the year, the Authority completed the following research studies to inform the market reform process:

- i. Survey into the Impact of Past Policy Incentives granted to the Capital Markets;
- ii. Study into the Impact of Implementation of the EAC Common Market Protocol to Kenyan Capital Market Development;
- iii. Study on the Development of an Institutional, Policy and Regulatory Framework for a Commodities and Futures exchange in Kenya:

- iv. Study on the Operationalization of the Investor Compensation Fund Board;
- v. Study on the Development of Islamic Capital Markets in Kenya;

REGIONAL INTEGRATION AND INTERNATIONAL COOPERATION

Subsequent to the launch of the East African Common Market in July 2011, the Authority has continued to participate actively in the regional arena and has already developed an implementation plan for regionalization of the capital markets, one of the key deliverables being the framework for issuance of regional bonds. Further, the Authority is represented at the High Level Task Force on the implementation of the East African Monetary Union (EAMU) Protocol which seeks to create the EAMU.

We continue to work closely with our peer regulators under East African Securities Regulatory Authorities (EASRA) in 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 and capacity building. The Authority acknowledges cooperation with other regulators in Africa and is scheduled to sign a Bilateral Memorandum of Understanding (MOU) with Ghana in September 2011 in Nairobi. The Authority is implementing the peer review report recommendations based on US-SEC Assessment of CMA Kenya.

The Authority remains an active member of the International Organisation of Securities Commissions (IOSCO) and participated in both the 36th Annual IOSCO and the Africa-Middle East Regional Committee (AMERC)) conferences held in South Africa and Mauritius respectively during the year. The Authority is committed to host the African and Middle East Regional Conference (AMERC) – IOSCO in February 2012 for the first time in East and Central Africa.

EAST AFRICA INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) IMPACT INVESTING PROJECT

The Authority successfully launched the East African ICT Impact Investing Task Force report in conjunction with Rockefeller Foundation in February 2011.

Chief Executive's Statement

The Task Force was set up to encourage the growth of venture capital markets in Kenya and East Africa by identifying challenges faced by impact investors with a keen interest in early stage ventures, an overview of impact investing opportunities and proposed creative solutions to help overcome challenges in the medium to long term. With the significant growth of international venture capital markets, the Authority is taking proactive steps to identifying methods to facilitate venture capital investments in Kenya in line with our mandate of developing capital markets. The capital markets in Kenya and East Africa as a whole offer appealing exit strategies, through IPOs and listing by introduction, for venture capital and private equity investors. To realize this highly ambitious objective, it is important to engage with impact investors who have the capacity to stimulate small companies with huge potential to grow in order to create a conducive environment for the flow of these funds into Kenya. The East African project is in line with the East African Community Common Market Protocol signed in 2010. This also recognizes the potential of East Africa's financial markets. Strengthening SME's in Kenya sits well with the objective of setting up an SME platform on the Nairobi Securities Exchange later this year, as it will help prepare such companies for entry into the capital markets, which offers them additional opportunities for growth by facilitating access to capital. Likewise such companies can participate in raising debt capital through the issuance of bonds even prior to listing. The objective of setting up the Task Force was in line with the Vision 2030 Economic Blueprint, where the need to mobilize savings by citizens and provide for access to capital by SMEs is important to propel Kenya to middle income status by the year 2030.

FINANCIAL HIGHLIGHTS

The Authority's financial position is presented in detail in the audited financial statements for the financial year ended 30 June 2011. The Authority experienced a better year in terms of revenue collection compared to the year ended 30 June 2010. This was mainly attributable to a gradual recovery of the capital market. A net surplus of income over expenditure of Kshs 27 million was realized for the year.

FUTURE OUTLOOK

Going forward, stock market performance will be largely dependent upon concerted efforts aimed at overall stability of the macro-economic environment as a result of both internal and external factors. The capital markets remain a significant and viable source of finance for Vision 2030, the Government and private sectors. The sector reforms currently being spearheaded by the Authority are aimed at rejuvenating the capital markets with the aim of making the market more vibrant, fair and orderly. These issues will continue to enhance investor confidence further and spur increased market activity.

Mrs. Stella N Kilonzo, MBS

CHIEF EXECUTIVE

Organizational Updates

MARKET SUPERVISION DEVELOPMENTS

Risk-based supervision

The Authority continued to implement Risk-Based Supervision (RBS), an approach based on identifying the operational risks and assigning resources to mitigate against them, during the year. The following milestones have been realized towards embracing RBS approach:

- i. In order to improve the capital adequacy of licensees, the Authority undertook a **Quantitative Impact Study (QIS)** to determine the effect that introducing stringent Financial Resources Rules (FRR) may have on the Kenyan capital markets. In addition the study formed the basis of an industry consultation paper on any proposed regulations as well as developing an on-going Risk Based Capital Adequacy report format for licensees to submit financial returns on a regular basis and a database and monitoring system for the Authority to maintain.

One of the major outcomes of the study was the development of a capital markets industry paper on risk based capital adequacy which was shared with the stakeholders during the workshops for input. Further, draft Risk Based Capital Adequacy requirements were developed and are currently being discussed and considered for regulation. The study showed that there was a significant short fall in liquid capital brought about by Stockbrokers and Investment Banks deploying funds to either non-core assets or non-paying clients or long term assets, including advances to associated companies.

- ii. **Management, Supervision, and Internal Control Guidelines** for licensed entities were also developed and exposed to the stakeholders in the capital markets. The guidelines have been developed with the aim of ensuring that, on a continuous basis, licensed entities are complying with the applicable laws, rules and regulations and that such compliance provides assurance of:
 - a. the ability to carry on the business in an orderly and efficient manner;
 - b. the safeguarding of its and its clients assets;
 - c. the maintenance of proper records and the reliability of financial and other information used within and published by, the business;

- d. the compliance with all applicable laws and regulatory requirements; and
- e. the completeness and competency of the firm's compliance function

It is envisioned that adoption of the guidelines will lead to a better risk management and instil good practice and culture in the market.

- iii. As part of the implementation of the Risk Based Supervision, the capacity of the Authority staff members, technical and management staff of licensed entities were enhanced through several trainings held in the year. The Authority with the assistance of a consultant developed an initial **risk profiling tool** which is still being tested for use in the market.

On-site inspections

The Authority conducted a series of on-site examinations to assess compliance with the Capital Markets Act and the regulations. The examinations conducted were in line with the risk-based approach and also sought to identify any material risks within the firm. In the year 2010/2011, seventy one (71) reviews were conducted involving eighteen (18) investment banks, twelve (12) stockbrokers, seventeen (17) fund managers, eleven (11) investment advisers, nine (9) Collective Investment Schemes and one (1) authorized depository. Additionally, the Authority also inspected the Nairobi Securities Exchange, Central Depository and Settlement Corporation Limited and one listed company.

The assessments were mainly geared towards examining compliance with capital adequacy requirements, continuous reporting obligations, internal controls and record-keeping requirements. The inspections also targeted key risk areas within the respective firms in line with risk based supervision principles. A number of breaches of capital markets regulations were discovered during the exercise and the necessary regulatory remedial action taken.

Review of financial reporting

Companies listed at the Nairobi Securities Exchange as well as those licensed by the Authority are obligated by law to submit interim and audited accounts to ensure that an up-to-date and relevant information is disseminated to the public. New applicants looking to either list or become licensed also have to submit application forms in line with

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collective investment schemes, stockbrokers, dealers, fund managers and investment banks are required to publish audited and half year accounts. This increases transparency in the market as well as helps protect investors as they can evaluate the financial soundness of the respective firms. 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 515 financial reports submitted to the Authority as well as the financial performance for licensed entities for the half year ended June 30, 2011.

Table 2: Financial reports classification

Submitting entities	Number of submissions				
	Audited annual accounts	Half year Accounts	Quarterly Accounts	Approvals related reports	Total
Listed Companies	50	50	-	23	123
Licensees	64	64	195		323
Unit trusts funds	11	11	22	5	49
Applications for licenses.	-	-	-	5	5
New equity issues	-	-	-	6	6
New Bonds & Commercial Paper	-	-	-	9	9
TOTAL	125	125	217	48	515

Source: CMA Submissions Database

Table 3: Licensees' financial statistics as at 30 June 2011

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	1,451,491	328,550	3,001,586	944,132	2,057,454
Investment Banks	1,064,226	222,475	8,557,533	3,600,219	4,957,314
Collective Investment Schemes	720,134	114,431	23,628,638	73,196	23,555,442
Investment Advisers	280,917	63,676	544,759	98,626	446,133
Stockbrokers	179,892	24,407	1,301,876	441,844	860,032
Totals	3,696,660	753,539	37,034,392	5,158,017	31,876,375

Source: CMA submissions database

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Corporate governance

Good governance enhances trust and confidence among investors within the capital markets. The Authority takes cognizance of these and strives to

facilitate good corporate governance amongst both licensed persons and listed firms. The table below shows the compliance levels of listed firms with the corporate governance guidelines.

Table 4: Compliance with corporate governance guidelines

Corporate Governance Guidelines	Listed Companies Meeting Guidelines	Number of Listed Companies
1 Establishment of board committees	47	55
2 Sufficient board composition	49	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 2010 audited accounts	46	55
6 Timely submission of interim reports 2010/2011	46	55
7 Chief Finance Officers being in good standing with ICPA (K)	38	55
8 Company Secretary being in good standing with ICPS (K)	47	55

Source: CMA Submissions Database

Market surveillance

The Authority undertakes surveillance of both listed companies and licensed companies to ensure the development of a fair, orderly and transparent market. Surveillance entails monitoring market movements through constant real-time watch of the online trading as well as off-line analysis to detect potential malpractices or breach of regulations. The Authority has increased oversight activities on listed companies as follows;

i. Attendance of shareholders' meetings:

This has been done by Authority officers attending annual general meetings and investor briefings for listed companies. The staff attended 20 annual general meetings and 15 investor briefings during the financial year as observers and filed observations for each of the visits.

ii. Oversight of disclosure of material information:

The regulations require material information that may affect decision making process of investors and /or prices of capital market securities be disclosed. In this regard the local dailies and other news media are monitored daily and enforcement action taken for any unauthorized material.

LEGAL FRAMEWORK, LICENSING AND ENFORCEMENT ACTIONS

Review of the legal and regulatory framework

Recognizing that Kenya is part of the global financial market, the Capital Markets Authority has continued to implement initiatives geared towards reforming its legal and regulatory framework to ensure that it conforms to the world best standards

Organizational Updates

of securities markets regulation. Additionally, Kenya is a member of the International Organization of Securities Commission (IOSCO) which requires adoption of international best standards and best practices for capital markets regulation.

The Capital Markets Authority (CMA) contracted with the Government of Kenya (Ministry of Finance) to submit the following Bills as part of its performance contract obligations for the financial year 2010-2011.

1. Capital Markets Authority Bill, 2011;
2. Securities Industry Bill, 2011; and
3. Central Depositories (Amendment) Bill, 2011.

The three sets of legislation have been developed in accordance with the Policy approved by the Board in December 2008 on the gaps and weaknesses that needed to be addressed as well as the specific drafting instructions approved in accordance with the agreed policy.

a The Capital Markets Authority Bill, 2011

The Capital Markets Authority Bill, 2011 is intended to provide for the foundation for the establishment, functions, powers and operations of the Capital Markets Authority and is intended to be complemented by the Securities and Investments Bill, 2011 (Formerly the Securities Industry Bill, 2011) which sets out the key legal provisions touching on regulated persons as well as regulated products.

The Bill expressly provides for the establishment of the CMA as the successor to the Authority established pursuant to the current Capital Markets Act, Cap 485A, which is proposed to be repealed. The Bill sets out expressly the objectives of the Authority which provide the context for the role of the Authority in the market.

The Bill further sets out the functions and powers of the Authority necessary to fully execute its mandated objectives. In respect of the constitution of the Board of the Authority, the Bill specifically caters for the appointment of members, operations of the Board, imposition of responsibilities for confidentiality and disclosure of conflicts of interests on members as well as specifically catering for the delegation of powers of the Authority.

The power of delegation is a new introduction to specifically facilitate the introduction of properly functioning and supervised Self-Regulatory Organizations (SRO's) which have been identified as a crucial player in efficient market development.

The Bill substantially elaborates on the Authority's powers of supervision and investigation which in the current Act have been stipulated as mere general powers without added detail in the manner and procedures which should be followed in exercise of those powers. Based on investigations carried out, the Bill also vests the Authority with the power to Orders from the court for the seizing and removal of documents and assets as well as the power to petition the court for the winding up of any regulated person (covering licensed persons, listed entities and issuers of securities to the public).

Building on the powers under the current Act, the Bill further refines the Authority's powers to take disciplinary action against licensed persons as well as elaborating on the circumstances and the procedure to be followed for the suspension or revocation of a license in order to cater for natural justice in line with the new Constitution.

The Bill makes specific provision for broadened powers of intervention by the Authority to cater for restrictions on licenses, restrictions on the handling of assets, the requirement to make adequate financial arrangements for potential liabilities as well as the existing powers for the appointment of statutory managers.

The Bill proposes to bring the jurisdiction of the Tribunal under the Act to conform with the current Tribunal decisions providing that the Capital Markets Tribunal may hear appeals in respect of any matter arising under the Act on which a person is aggrieved by a decision of the Authority. This is further in line with the objective of introducing increased accountability for the Authority in respect of its increased administrative powers in line with the new Constitution.

In respect of the penalty powers of the Authority, the Bill establishes the standard of proof for administrative offences as being the civil "balance of probabilities" as opposed to the criminal standard of proof "beyond reasonable doubt" to facilitate more efficient enforcement action by the Authority. The Bill further empowers the Authority, with the consent of the Director of Public Prosecutions and subject to the agreement of the person investigated, to compound an offense thereby allowing for the collection of a financial penalty for a criminal offence without going to court and awaiting a judicial decision. This is especially important in the case of complex market manipulation and insider trading cases where it may be time consuming to go to court and the evidence is weighty but highly circumstantial.

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The Bill also provides for the powers of the Authority to make regulations as well as a distinct power to issue market codes and guidelines to allow the Authority to be more responsive and to be able to provide binding legal guidance to the market without awaiting a lengthy gazette process. In line with the Authority's obligations under the IOSCO MMoU, the EASRA MOU and local financial sector regulators MOU, the Bill expressly provides for the power of the Authority to assist other regulators both within and outside Kenya.

b. The Securities and Investments Bill, 2011

The Securities and Investments Bill, 2011 has been developed to complement the Capital Markets Authority Bill, 2011 and sets out the key legal provisions touching on regulated persons as well as regulated products.

This Bill caters for the important area of the recognition and supervision of Self-Regulatory Organizations. This will ideally provide the framework for the market and relevant industry associations to take on increased supervisory responsibility for their members and participants, and by extension a stronger role in market development activities.

The Bill also recognizes the option for licensing of a diverse range of securities exchanges which may deal in equities, bonds, futures and derivatives or other products, thereby moving away from the current Act focus on securities exchanges as solely stock markets. Given the central importance of securities exchanges to market infrastructure, the Authority is vested with specific powers in respect of the regulation of these entities including interventions in the case of market emergencies that undermine efficient and transparent market operations. Given the adjustment of certain existing license categories such as the merger of broker and dealer licenses into a single license in line with the practice in other EAC jurisdictions, the Bill also provides transition provisions to cater for the timelines for compliance of existing license holders with the new requirements.

The Bill also diversifies the range of licenses available in the market to ensure that intermediaries can target the license that caters for the specific business they intend to carry on and details the licensing process to be followed. The new Bill specifically limits the carrying on of non-licensed activities by a licensed entity and elaborates on key conduct of business requirements to be imposed under the regulations.

In respect of regulated products:

- i. The Bill sets out the detailed provisions relating to the public offer of securities as well as providing clear exceptions for the limited offer of securities to institutional investors and the prospectus disclosure requirements arising in each instance. The Bill also introduces modern companies law requirements on liability for defective prospectuses as well as in respect of false or misleading prospectuses and unfair prejudice in the distribution of information to investors.
- ii. In connection with the regulation of Collective Investment Schemes (CISs), the new Bill broadens the existing framework to effectively distinguish between the requirements for mutual funds and unit trusts with regard to their institutional structures and operations. The Bill also creates a framework for the recognition of foreign CISs to broaden the scope of regulated products available for investors while ensuring that those schemes are subjected to sufficient oversight by the Authority in conjunction with the relevant home regulator.
- iii. The Securities and Investments Bill, 2011 further provides a detailed framework for the regulation of securitization based on the extensive market study carried out by the consultant appointed to address the gaps and weaknesses in the 2007 Asset Backed Securities Regulations. Due to the complex nature of securitization transactions, the relevant Part of the Act provides detailed provisions on eligibility, disclosure and transaction structure requirements as elaborated in underlying regulations.
- iv. In recognition of the importance of proper oversight of take over and merger processes, the Bill anchors the key requirements for the carrying out of a take-overs under the Bill as elaborated in the existing regulations.

In the interest of facilitating the implementation of the EAC Common Market Protocol, the Bill makes specific provisions for the mutual recognition of licensing, public offer and CISs approvals granted by EAC securities regulators and caters for recognition and access by those persons and products to the Kenyan market.

In accordance with the mandate of the Authority to facilitate the existence of investor compensation arrangements, the Bill further provides for the

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establishment of an independent Investor Compensation Fund Board and details the key requirements guiding the consideration of compensation claims as elaborated in the regulations.

c. The Central Depositories (Amendment) Bill, 2011

The Central Depositories (Amendment) Bill, 2011 has been developed to address identified gaps in the existing Central Depositories Act 2000 with particular reference to clearly providing for the functions and powers under that Act which was developed to specifically cater for Central Depositories. The amendments also seek to clearly provide for certainty in the settlement process to avoid systemic risk through robust default process requirements as well as creating a specific curve out for securities transactions under the insolvency laws.

Due to historical reasons the functions and powers of the Authority are not clearly provided for under the Central Depositories Act 2000 which has led to challenges in the proper administration of this Act as well as the supervision of the Central Depository and Settlement Corporation (CDSC). With the broadening and elaboration of the powers of the Authority under the new Capital Markets Authority Bill, 2011 it has become all the more important to ensure the powers of the Authority are consistent across all licensed persons and Acts under its administration. This amendment Bill is focused on achieving that consistency.

In line with the international standards on the regulation of clearing, payment and settlement systems (CPSS – IOSCO standards), the Bill introduces detailed provisions relating to how a failure of any central depository agent to meet their settlement obligations will be dealt with through a default process. This introduces the requirement on a Central Depository to impose collateral requirements on its agents to reduce the potential exposures arising from a settlement failure as well as catering for the setting off of liabilities between different agents at the point of a settlement failure.

The default measures provisions are significant as they provide for insolvency set-off of all transactions in an approved securities exchange at the point of a failure thereby ensuring securities transactions can be settled without awaiting liquidation proceedings by the courts. This “curve out” under insolvency laws is crucial for the promotion of the growth of the

securities markets to ensure investors can be confident of the robustness of the settlement systems in Kenya. It is noted that in the final draft of the Bill which was published, the provisions which sought to exclude the jurisdiction of the courts to block or delay a default proceeding were deleted. This weakens the robustness of the settlement finality framework but the Management is confident the amendments adopted significantly strengthen the overall settlement infrastructure for the capital markets in Kenya.

Given the central importance of the clearing and settlement system to the national economy, the Bill provides for emergency intervention and direction powers similar to those that have been developed in respect of securities exchanges to ensure that the Authority is able to promptly address market instability.

In recognition of the possibility that more than one central depository may be licensed at any one time, the Bill also provides for general requirements relating to the rules to be put in place by any central depository including the requirement to have a clear settlement guarantee fund in operation as well as insurance policy in respect of its operations. These amendments are intended to shift the regulatory focus from the CDSC which is only on central depository to establish the requirements for the industry as a whole.

Interim Amendments for consideration through the Finance Bill and the Capital Markets (Amendment) Act, 2011 include:

- i. Section 31 of the Capital Markets Act to be amended to facilitate the trading of listed fixed income securities Over the Counter (OTC), being outside an approved securities exchange, subject to compliance with reporting requirements;
- ii. Sections 2, 11, 18, and 19 of the Capital Markets Act to be amended to allow for the introduction of a regulated derivatives or futures market through broadening the scope of securities exchange licenses and providing for the introduction of licensed derivatives dealers;
- iii. Section 2 of the Capital Markets Act to be amended to recognize Real Estate Investment Trusts (REITs) and to facilitate the regulation of pooled products for investment in real property;

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- iv. Section 59 of the Central Depositories Act, 2000 to be amended to give the Authority powers to supervise, investigate and intervene in respect of central depositories in the interest of securing fair efficient and transparent securities settlement;
- v. Self-Regulatory Organizations to be recognized and the Authority empowered to specifically delegate its powers to an SRO subject to the oversight of the Capital Markets Authority;
- vi. Section 20 of the Income Tax Act to be amended to exempt REITs from corporation tax in addition to exempting investors who receive dividends from REITs from payment of withholding tax.

LICENSING

During the year the Authority issued new licenses to the following:

- i. Equatorial Investment Bank Limited – Dealer and
- ii. Bora Capital Limited – Investment Advisor

The Authority further renewed seventy two (72) licenses for eleven (11) Investment Banks; ten (10) Stockbrokers; nineteen (19) Fund Managers; eighteen (18) Investment Advisers; and fourteen (14) Authorized Depositories. A total of 11 categories of capital market intermediaries comprising 95 players were licensed to operate in 2011 compared to 100 players in 2010.

Table 5: Licensed/Approved Institutions

	Licensed/approved Institutions	December 2010	April 2011
1	Securities Exchange (NSE)	1	1
2	Central Depositories (CDSC)	1	1
3	Investment Banks	19	12
4	Stockbrokers	5	10
5	Investment advisers	21	19
6	Fund Managers	20	19
7	Collective Investment Schemes	13	16
8	Authorized depositories/Custodians	17	14
9	Credit Rating Agencies	1	1
10	Venture Capital Companies	1	1
11	Dealer	1	1
	Total	100	95

Extended Licenses

The Authority had initially extended one (1) Investment Bank License.

Suspended Licenses

Shah Munge & Partners Limited and Francis Thuo & Partners Limited remained suspended. Nyaga Stockbrokers Limited, Ngenye Kariuki & Company Limited and Discount Securities Limited remained under statutory management.

Revoked Licenses

The following licenses were revoked:

- i. Equilibrium Capital Limited - Investment Adviser
- ii. Finconsult Limited - Investment Adviser
- iii. African Alliance Kenya Securities Ltd - Stock Broker
- iv. African Alliance Kenya Management Ltd - Fund Manager
- v. Dubai Bank Limited - Authorized Depository

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ENFORCEMENT ACTION

The following breaches were noted during the year and enforcement action taken as follows;

i. Failure to meet Capital Requirements

It was noted that three Investment Banks were operating below the required capital. One of the investment banks has applied for revocation of its license while the two other Investment Banks were in the process of regularising their capitalisation by 30 June 2011.

ii. Level of shareholders' funds being below the prescribed minimum amounts

Enforcement action was taken against one licensee for having deficient shareholder funds.

iii. Continuous reporting obligations

Enforcement action was taken against nine licensees for late submission of management and annual accounts for the period just ended. Two Licensees were directed to regularise their end of year period to comply with the Regulatory regime and were in the process of seeking the requisite approvals from the Kenya Revenue Authority.

iv. Irregular public offer of securities

Enforcement action was taken against two Saccos for undertaking public offer of securities contrary to the requirements of the capital markets regulatory regime.

v. Publication of advertisements and material information without the Authority's approval

Enforcement action was taken against three Licensees and three listed companies for publishing advertisements and material information without first obtaining the Authority's approval.

vi. Opening of branch office without approval of the Authority

Enforcement action was taken against one Licensee who opened a Branch office without seeking the approval of the Authority.

vii. Corporate governance practices for public listed companies

Enforcement action was taken against a listed company for failure to comply with corporate governance practices whereby management

was found to have failed to provide timely and adequate information to the Board to enable it discharge its duties.

viii. Unauthorized transactions in Client accounts

Enforcement action was taken against seven licensees for undertaking unauthorized transactions in client accounts in the period 2010-11. The matters have since been resolved and the practice abated due to stringent enforcement by the Authority.

RESEARCH AND PRODUCT DEVELOPMENT

The Authority completed the following research studies to inform the market reform process:

i. Survey into the Impact of Past Policy Incentives granted to the Capital Markets;

The Government of Kenya has granted various policy incentives towards the capital markets aimed at deepening the markets. In this regard, this study was aimed at gaining empirical stock of the impact of these incentives towards capital market growth to inform on the most critical areas of targeting policy intervention in the future.

ii. Study into the Impact of Implementation of the EAC Common Market Protocol to Kenyan Capital Market Development:

The study sought to examine the impact of the coming into effect of the Monetary Union as well as explore various capital market integration models that could be adopted towards the integration of East Africa's Capital Markets.

iii. Study on the Development of an Institutional, Policy and Regulatory Framework for a Commodities and Futures exchange in Kenya:

This study was instigated by the Ministerial pronouncement during the 2011/2012 budget reading committing to the establishment of a Commodities and Futures Exchange in Kenya. In this regard, this study was aimed at proposing an institutional, policy and regulatory framework for a Commodities and Futures Exchange in Kenya.

iv. Study on the Operationalization of the Investor Compensation Fund Board:

During the budget reading of Financial Year 2007/2008, the Minister for Finance proposed the formation of an Investor Compensation

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Fund Board to administer the Investor Compensation Fund. In this regard, this study was conducted to inform on the operationalization of this Board.

- v. **Study on Impact Investing – Challenges and Opportunities in the East African ICT sector;** The CMA recognizes the importance of ICT in economic development. To encourage the growth of Venture Capital Markets in contributing towards ICT growth, the CMA in conjunction with the Rockefeller Foundation undertook this study to identify constraints as well as opportunities to ICT impact investing within the SME sector.
- vi. **Study on the Development of Islamic Capital Markets in Kenya:** Islamic Capital Markets are a niche market with great potential for growth within Kenya's financial services industry. This study was therefore undertaken with the aim of developing a policy and regulatory framework for the Islamic Capital Markets in Kenya.

FINANCIAL HIGHLIGHTS

The Authority's financial position is presented in detail in the audited financial statements for the financial year ended 30 June, 2011.

The Authority experienced a better year in terms of revenue collection compared to the year ended 30 June 2010. This was mainly attributed to a gradual recovery of the capital market. A net surplus of income over expenditure of Kshs 27 million was realized for the year.

The total income earned in the year is Kshs 564.9 million, an increase of 16% from the previous year. The total expenditure incurred is Kshs 429.5 million which is Kshs 92.9 million higher than previous year due to increased spending under staff costs as the staff compliment was expanded, staff training and development, and professional and consultancy expenses. These expenditures have enabled the Authority effectively implement its mandate.

Table 6: Income – Expenditure Summary

INCOME EXPENDITURE SUMMARY:	30.06.2011	30.06.2010
	Sh' 000	Sh' 000
INCOME		
Government Bonds and Capitalization fees	214,857	205,024
NSE Transaction fees	234,539	154,854
Others	86,070	79,841
Total Operating Income	535,466	439,719
Donor Funding	29,415	45,541
Total Income	564,881	485,260
EXPENDITURE		
Salaries and Staff costs	222,289	189,879
Rent and Maintenance	19,790	17,033
Trainings and Conferences	18,292	12,104
Investor Education	14,859	13,228
Authority Members' Allowances	14,390	15,918
Professional and Market Development	76,847	48,752
Depreciation on Property, Plant and Equipment	12,685	9,171
Others	99,657	30,472
TOTAL EXPENDITURE	478,809	336,587

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HUMAN CAPITAL AND ADMINISTRATION

Capacity Building

The total number of staff increased from 61 in June 2010 to 68 as at June 2011. The Authority has continued to develop the skills of its employees. During the year, members of staff attended local and overseas training. Local training included group trainings aimed at enhancing specified skills and competencies across the organisation e.g. Budgeting, Fraud awareness, detection and investigation, Defensive driving and first aid, Leadership and report writing, ICT risk security management and cyber crimes, Project management, Administrative and Communication skills among others. Staff were also exposed through workshops and study tours in various overseas countries such as U.S, Brazil, U.K, India, Malaysia and Turkey with key exposure areas focusing on Bond and Derivative markets development, Emerging Capital Markets Development, Implementation of IOSCO principles, Corporate Fraud Management, Advanced ICT Management, as well as leadership, research and accounting skills development.

Operational Efficiency

Having gained ISO certification in 2009, the Authority has continued to maintain the ISO Quality Management System as evidenced by successful surveillance audits. In addition, the Authority continued to implement its performance management system in order to ensure that organizational goals are consistently met in an effective and efficient manner.

Office Relocation

The Board approved the Authority's relocation to new office premises at Embankment Plaza, Upper Hill and arrangements to relocate commenced.

INFORMATION COMMUNICATION & TECHNOLOGY

Emerging Information and Communication Technology (ICT) is setting the pace for changing, competitive and dynamic local and global markets, representing an invaluable vehicle for business and socioeconomic development and introducing new forms and structures of organizations that are no longer affected by geographical or time barriers. During the year under review, the Authority continued to review the state of its Information and

Communication Technology systems and services with a view to ensuring that ICT in CMA is responsive and provides business solutions to the Authority. During the year, the Authority undertook a number of ICT related projects including:

- i. Operationalization of the Document imaging workflow system,
- ii. Upgrading of ICT infrastructure,
- iii. Installation of a modern PABX Solution,
- iv. Installation of a Microsoft Exchange system,
- v. Installation of an Access control System,
- vi. Operationalization of the Broker Back office Management System,
- vii. Developing and testing of an Online application system,
- viii. Studying different models of a modern Market Surveillance System.

Broker Back Office System (BBOS)

The Authority has been championing the implementation of a Broker Back Office System (BBOS). This is in line with the objective of CMA to fully automate the market place so as to enhance efficiency within the market and effectively mitigate potential risks to investors. The development will also facilitate the introduction of internet trading in the capital market. We expect to see improved market efficiency, reporting and liquidity. Following the successful completion of system delivery acceptance tests, the system was installed and piloted in parallel with existing broker back office systems. The system is now live while training on the same has also been completed.

CORPORATE COMMUNICATIONS

The Corporate Communications Unit serves the role of enhancing and managing the corporate image, brand, and reputation of the Authority. Media engagement was pursued proactively, resulting in increased media coverage on the Authority's activities, enhanced media relations for the Authority, and improved understanding among media on the role of the Capital Markets Authority and its regulatory mandate.

Organizational Updates

CAPITAL MARKETS FRAUD AND INVESTIGATION UNIT

The Capital Markets 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.

During the year under review, the Commissioner of Police, on request of the Authority, increased the number of investigators from 6 to 11, a major boost to the unit as it enhanced its capacity to handle fraud cases. The unit has continued to work with all

stakeholders to fast-track cases within the securities industry, to restore investor confidence, identify fraud risk areas and recommend preventive measures to the Authority. The unit is also committed to effective investigation and prosecution of persons who commit frauds within the Securities market. The work of the unit has been noted to have had the effect of deterring fraud in the capital markets.

A comparative analysis on the position of cases for the 2009/2010 and 2010/2011 financial years is as follows:-

Table 7: CMFIU Case Log

POSITION OF CASES	2010	2011
PENDING BEFORE COURT	36	30
PENDING ARREST OF KNOWN ACCUSED PERSON	2	19
WITHDRAWAL	12	40
FOR ENFORCEMENT	13	17
FORWARDED TO DIRECTOR OF PUBLIC PROSECUTIONS	3	7
ACTIVE INVESTIGATIONS	324	347
REPORTED CASES	390	460

In the course of investigations the unit has made recoveries totaling Kshs 25.4 million in the year under review which represents the monies paid to clients or values of shares reinstated as compared to Kshs. 7.5 million recovered during the previous year. This represents a 239% recovery rate over the preceding year.

INVESTOR EDUCATION AND AWARENESS PROGRAMMES

Financial and capital markets awareness continued to be an important priority of the Authority. During the year under review, the Authority pursued a number initiatives aimed at raising the literacy levels of both the existing as well as the potential investors. In addition to the various seminars, forums, publications, workshops and exhibitions, the Authority also undertook the following activities as part of our investor education initiatives:

Investor Education Impact Assessment

Following approval by the CMA Board on the Authority's new strategic plan, investor education and public awareness was identified as one of the key mandates. The Authority therefore undertook a study on the effectiveness of the current investor

education strategies. The findings and recommendations of this study will inform the development of a new Investor Education Strategy in the coming year, which will define new targeted approaches that the Authority will use in implementing investor education programmes with a view to raising the level of awareness in the capital markets.

Partnerships

Solid partnerships are an effective tool that supports an organization's business, and objectives. It involves situation analysis, team work, conceptualizing appropriate strategies and action plans, and determining the measurement of results. In this regard, the Authority collaborated with several partners and industry stakeholders to increase its investor awareness, such as joint media training for business journalists and open days in selected Counties in Kenya. Partners included, but were not limited to; The Association of Chartered Certified Accountants (ACCA), The Rockefeller Foundation, Institute of Certified Public Secretaries of Kenya (ICPSK), Central Bank of Kenya (CBK), Retirement Benefits Authority (RBA), Insurance Regulatory Authority (IRA), Nairobi Securities Exchange (NSE), Central Depository and Settlement

Organizational Updates

Corporation (CDSC), Kenya Accountants and Secretaries National Examination Board (KASNEB) as well as various Public and Private Universities.

INTERNAL AUDIT

During the year, a fully-fledged Internal Audit Department was established with the recruitment and appointment of two qualified and experienced employees to fill the vacant positions. Internal audits of the various operational and support units were carried out within the year with the recommendations being adopted and monitored for implementation. The internal audits focused on the review and assessment of the adequacy of internal controls and compliance to laws, policies, and procedures to enhance the efficiency of utilization of resources and effectiveness of the Authority in the discharge of its duties. The external auditors were also supported to carry out their statutory audits as required under the Public Audit Act.

In addition, the ground work for the development of an Enterprise Risk Management Framework for the Authority was laid out in the year. The department also facilitated the development of an Anti-Corruption Policy and Corruption Prevention Plan across all functional units of the Authority as well as the establishment of an Integrity Corruption Committee in line with the Ethics and Anti-Corruption Commission guidelines. The role of the Committee is to keep a constant check on the Authority's operations and procedures to ensure that any emerging opportunities for corruption are dealt with appropriately and on a timely basis. It also plans and coordinates corruption prevention

strategies within the Authority. During the year, four Integrity Assurance Officers were trained by KACC while two members of staff attended the 5th National Integrity Conference.

The Internal Audit department continues to provide independent and objective assurance and consulting services designed to add value and to ensure that continuous improvement is achieved in the Authority's operations.

STATUTORY MANAGEMENT

Restructuring of Ngenye Kariuki & Co. Ltd

The Capital Markets Authority placed Ngenye Kariuki & Co. Ltd under Statutory Management on 5th February 2010, a move aimed at protecting the interests of investors and also to address financial challenges facing the company. Restructuring efforts at the company are ongoing and are aimed at giving the company an opportunity to resume operations. Within the financial year, the statutory manager managed to negotiate with the company's major creditors towards restructuring of the company's debts. The shareholders of the company also injected additional capital into the company to improve its liquidity to enable the company meet financial requirements for operating as a stockbroker. Following injection of capital by shareholders, the statutory manager commenced payments to investors who were owed money by the company. The statutory manager also commissioned an audit firm to undertake a forensic audit into the company so as to independently ascertain the status of its assets and liabilities.

World Economic Situation and Prospects

After a year of fragile and uneven recovery, global economic growth started to decelerate on a broad front in mid-2010. The slowdown is expected to continue into 2011 and 2012 as weaknesses in major developed economies continue to provide a drag on the global recovery and pose risks for world economic stability in the coming years. The unprecedented scale of the policy measures taken by Governments during the early stage of the crisis no doubt helped stabilize financial markets and jump-start a recovery. The policy response weakened during 2010 and is expected to be much less supportive in the near term especially as widening fiscal deficits and rising public debt have undermined support for further fiscal stimuli. Many Governments, particularly those in developed countries, are already shifting towards fiscal austerity. This will adversely affect global economic growth during 2011 and 2012.

Despite the notable progress made in reducing the share of troubled assets in the banking sector, multiple risks remain. Real estate markets may deteriorate further, credit growth remains feeble, and levels of unemployment are persistently high. Most countries have kept in place, or even intensified, policies of cheap money (low interest rates and quantitative easing) in efforts to help financial sectors return to normalcy and stimulate economic activity as fiscal stimuli are being phased out. This has, however, added new risks, including greater exchange-rate volatility among major currencies and a surge of volatile capital flows to emerging markets, which have already become a source of economic tension and could harm the recovery in the near term. Such tensions have weakened the commitment to coordinate policies at the international level, which in turn has made dealing with the global imbalances, and other structural problems that led to the crisis, as well as those that were created by it, all the more challenging.

World Gross Product (WGP) is forecast to expand by 3.1% in 2011 and 3.5% in 2012. The recovery may, however, suffer setbacks and slow to below 2%, while some developed economies may slip back into recession if several of the downside risks take shape. Developing countries and the economies in transition continue to drive the global recovery, but their output growth is also expected to moderate during 2011 and 2012.

In the financial markets, net private capital flows to developing countries have recovered strongly from their slump in 2008 and early 2009. Investors are searching for higher returns, and economic growth in emerging and other developing economies has been much stronger than in advanced economies; also, extensive monetary easing has kept interest rates very low in the latter. With continued fragility and the substantial excess liquidity in developed financial markets, investors have shifted parts of their portfolios to emerging markets. Much of the surge in private capital flows to developing countries has taken the form of short-term, and probably volatile, equity investments, though foreign direct investment (FDI), especially in the extractive industries of commodity-exporting economies, also increased.

Africa's rebound from the Global Financial Crisis

Africa's economy expanded by 4.7% in 2010 and is expected to grow by 5% in 2011 and 5.1% in 2012, showing its resilience after the downturn caused by the global crisis. The present recovery has been much quicker than those following previous global recessions. The recovery of global trade and the strong economic rebound in East Asia supported a strong rebound in Africa's commodity exports. But this was only one factor in Africa's present economic rebound as increased government spending on infrastructure, strong performance of the agricultural sector and new inflows of foreign investments in extractive industries underpinned strong growth in domestic demand. Macroeconomic prospects for 2011 and 2012 remain generally positive. It is widely expected that several of the factors which supported the rebound in 2010 will carry over to 2011 and 2012.

Domestic Environment

The Kenyan economy grew by 5.6% in 2010 compared to 2.6% in 2009 supported by a stable macro-economic environment, improved weather conditions, low inflationary pressure, low interest rates, and increased credit to the private sector, higher investments, anticipated global recovery, and the expected benefits from the implementation of the East African Common Market Protocol. Going forward, the economy is expected to maintain a positive growth rate of between 3% to 3.5% against the backdrop of continued recovery in the world economy. However, risks likely to

Operating Environment

influence economic growth include; High international oil prices, fluctuations in the exchange rate, inadequate rainfall, rising global food prices as well as the political environment leading to the 2012 general elections.

Kenya's capital markets registered a significantly improved performance during the year characterized by increased activity in the primary and secondary markets. The NSE's equities market performance was the best over the past three years and one of its best since its establishment. Market Capitalization averaged over Kshs 1 trillion (about USD 12.4 billion) throughout the year, while share volume and equity turnovers posted all time annual historical high.

Going forward, stock market performance will be largely dependent upon concerted efforts aimed at political stability, stabilization of key macro-economic variables such as inflation, interest rates and foreign exchange rates which have been steadily rising due to a combination of internal and external factors. Additionally, of concern are the high equity portfolio outflows registered during the year. However, this was mainly occasioned by the US and Eurozone debt crisis as well as the impending general elections.

Nevertheless, capital markets remain a significant and viable source of finance for both the Government and Corporate sectors. In the long run, the ongoing reforms spearheaded by the Authority will further improve investor confidence and in spurring higher market activity for economic growth and development.

MARKET PERFORMANCE PRIMARY MARKETS

Equity Market

There was renewed activity in the primary equities market in Kenya with Deacons Kenya Limited raising Kshs 800 million in fresh capital through a Public Offer (PO) through issuance of 13 million shares in November 2010, while CFC Insurance holdings was listed in April 2011 through an introduction. In addition, Uchumi Supermarkets Limited was re-listed on May 31, 2011 at the Nairobi Securities Exchange, five (5) years after the retail chain of supermarkets was suspended from trading.

Table 8: Equity Issues (IPOs) 2000-2011*

Company	Shares on Issue	Type of Issue	Year of Issue	Issue Price	Sum Raised	Subscription level
	Ordinary Shares		Year/Month	Kshs	Kshs.	%
African Lakes (Delisted in 2003)	4,000,000	IPO	2000 March	94.50	378,000,000.00	150%
Mumias Sugar Company	300,000,000	IPO	2001 November	6.25	1,125,000,000	60%
Kengen	658,900,000	IPO	2006 April	11.90	7,840,910,000.00	333%
Scangroup	69,000,000	IPO	2006 June	10.45	721,050,000.00	620%
Eveready	63,000,000	IPO	2006 Aug	9.50	598,500,000.00	830%
Access Kenya	80,000,000	IPO	2007 March	10.00	800,000,000.00	363%
Kenya Re	240,000,000	IPO	2007 July	9.50	2,280,000,000.00	334%
Safaricom	10,000,000,000	IPO	2008 June	5.00	50,000,000,000.00	532%
Co-op Bank	701,000,000	IPO	2008 October	9.50	5,400,000,000.00	81%
TOTAL	14,815,900,000				69,143,460,000.00	

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Table 9: Issues 2000-2011

Company	Shares on Issue	Type of issue	Year of Issue	Offer Price	Sum Raised	Subscription level
	Ordinary Shares	OFS/Introd.	Year	Kshs	Kshs.	%
Pan African Insurance Holdings	24,000,000	OFS	2000	21.50	516,000,000.00	100%
ICDC	8,948,725	OFS	2001	37.00	211,905,808.00	64%
Mumias Sugar Company	91,999,220	OFS	2006	49.50	4,320,000,000.00	95%
Equity Bank	90,500,000	Introduction	2006	90.00	N/A	N/A
Deacons Kenya	12,800,000	Public Offer	2010	62.50	700,990,000	87.5%
TOTAL	228,247,945.00				5,748,895,808.00	

Year to date; Source: Capital Markets Authority

Rights Issues

Rights issues were also a popular avenue for raising additional capital in the first half of 2010/2011 with four offers raising Kshs 28 billion through the NSE. Below is a summary of the rights issues:

Table 10: Rights Issues in 2010

Company	Shares on Issue	Year of Issue	Offer Price (Kshs)	Sum Raised (Kshs Mn)	Sum Accepted (Kshs Mn)	Subscription level
KCB	887,111,110	July 2010	17.00	12,500.00	12,500.00	83%
TPS East Africa	24,701,774	Sep 2010	48.00	1,500.00	1,500.00	135%
Standard Chartered Bank	15,109,323	Oct 2010	165.45	4,022.28	2,500.00	161%
KPLC	488,630,245	Nov 2010	19.5	9,830.34	9,500.00	103%
TOTAL	1,415,552,452			27,852.62	26,000.00	

Source: Capital Markets Authority

Debt Market

i. Treasury Bonds

During the year, the Government issued 21 Treasury Bonds raising Kshs 208 billion. These included one Infrastructure Bond, nine re-opened issues and twelve new Treasury Bonds. This was 39% higher compared to a similar period last year which raised Kshs 149 billion. In addition, the Government sustained its policy of issuing long-term paper. It

issued the longest dated Central Government debt instrument in Kenya's history (including East and Central Africa), a 30-year Savings Development Bond in February 2011. This was the first of its type in Kenya's capital markets. The average subscription rate for Government bonds during the year was 130% compared to 142.8% for a similar period in 2010/2011.

Operating Environment

Table 11: Issued/Re-opened Bonds as at October 2011/2012

Date of issue	Instrument type	Tenor (Years)	Amount Offered (Kshs. M)	Performance Rate (%)
Jul-10	FXD1/2010/25 (Re-opened)	25	15,000	106%
Aug-10	IFB 2/2010/9	9	31,600	108%
Sep-10	FXD 3/2010/2	2	13,000	103%
Oct-10	FXD 2/2010/10	10	15,000	161%
Nov-10	FXD 2/2010/5	5	12,000	151%
Dec-10	FXD 4/2010/2	2	15,000	162%
	FXD 2/2010/15	15		
Jan-11	FXD 1/2011/5	5	16,000	190.64%
	FXD 2/2010/10 (Re-opened)	10		
Feb - 11	FXD 1/2011/2	2	18,000	186.97%
	SDB 1/2011/30	30		
Mar - 11	FXD 1/2011/5	5	18,000	144.1%
	SDB 1/2011/30 (Re-opened)	30		
Apr - 11	FXD 2/2010/15 (Re-opened)	15	18,000	58%
	FXD 2/2011/2	2		
May - 11	FXD2/2011/2 (Re-opened)	2	18,000	106%
	FXD 1/2010/10 (Re-opened)	10		
	FXD 1/2011/20	20		
Jun - 11	FXD 2/2011/2 (Re-opened)	2	18,000	105%
	FXD 2/2010/5 (Re-opened)	5		
	FXD 1/2011/20 (Re-opened)	20		

Source: CBK

Table 12: Treasury bond Issues by tenor; 2007 - 2011

Tenor	2007		2008		2009		2010		2011	
	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	3	11.68	3	16	1	6	3	-	6	-
3 year	2	6.87	-	-	-	-	0	-	-	-
4 year	1	3.38	-	-	-	-	0	-	-	-
5 year	2	5.39	4	24.09	2	15	4	46	4	-
6 year	2	11.70	-	-	-	-	0	-	-	-
7 year	1	2.26	1	8	-	-	0	-	-	-
8 year	1	2.62	-	-	-	-	1	14.5	-	-
9 year	-	-	-	-	-	-	0	-	1	31.6
10 year	-	-	2	14.27	-4	36	2	24	3	-
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	2	-
20 year	-	-	1	7.5	1	13	1	10	2	-
25 year	-	-	-	-	-	-	1	7.5	1	15.0
30 year	-	-	-	-	-	-	-	-	2	-
Total	19	75.78	14	87.26	11	98.5	15	149	21	207.6

Source: CBK

Operating Environment

ii. Corporate Bonds

Mortgage financier Housing Finance issued a Kshs 7 billion bond in September 2010. In addition, Shelter Afrique issued a corporate bond of Kshs 2.5 billion, the first tranche of its Kshs 3 billion bond in June 2011. Finally, two companies issued second tranches of their bond offers during the year. Telecom operator Safaricom launched a Kshs 4.5 billion shillings bond at the end of November 2010, while CFC Stanbic Bank launched a Kshs 2.5 billion offer. These bonds were fully subscribed bringing the total amount issued to Kshs 16.5 billion. Further, Sasini Limited which had issued a Kshs 600 million

corporate bond in November 2007 fully redeemed the bond before its maturity in November 2012. Also, East African Development Bank Corporate Bond fully matured in June 2011.

Overall, the Kenyan debt market has continued to benefit from increased liquidity with recent issues being oversubscribed. The mid-term future outlook 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 2011 was Kshs 57 billion.

Table 13: Corporate Bond Issues as at June 30, 2011

Issuer	Approved Amount (Kshs mn)	Issued Amount (Kshs mn)	Date of approval	Maturity	Outstanding (Kshs mn)	Yield (%)
PTA Bank (2005)	1,600	1,600	17-Jun-05	5-Jul-12	240	1% above the average weighted 91-day T-bill yield.
PTA Bank (2007)	1,000	1,000	17-Sep-07	17-Sep-14	1,000	1% above the most recent average 182-day T-bill rate.
Barclays Bank K Ltd (1 st Tranche)	1,000	1,000	9-Oct-07	19-Nov-14	1,000	0.6% above the most recent average 91 day T-bill rate.
Barclays Bank (2 nd Tranche)	2,000	2,000	16-Jul-08	16-Jul-13	2,000	Fixed rate of 0.75% above the 7 year Treasury yield rate, with an indicative fixed coupon rate of 11.5%. Floating rate equivalent to the spot 182-day Treasury Bill yield rate plus a margin of 1%.
Mabati Rolling Mills		1,200	1-Sep-08	1-Sep-16	1,273.5	182 Day T-Bill rate + 1.75% re-priced semi-annually
Mabati Rolling Mills	2,000	800	1-Sep-08	1-Sep-16	726.5	FXD 13.00%
Shelter Afrique		95	24-Aug-10	31-Aug-12	95.2	FR: Government 182-day Treasury bills rate +1.50%
Shelter Afrique	1,000	905	24-Aug-10	31-Aug-12	904.8	FXD 11%
CFC Stanbic (1 st Tranche m – Kshs 2.4b)		2,402	10-Jun-09	1-Sep-16	2,402	FXD: 12.5%
CFC Stanbic(1 st Tranche – Kshs 0.098b)		97.9	10-Jun-09	1-Sep-16	97.9	FR: +1.75% above prevailing 182-day T-Bill rates
CFC Stanbic (2 nd Tranche)		2,500	17-Dec-10	17-Dec-14	2,500	FXD 7.5%
Safaricom* (1 st Tranche – Kshs 5b)		7,513	2-Oct-09	3-Nov-14	95.2 7,049.6	FR: T.B (182) + 1.85% FXD: 12.25%
Safaricom (2 nd Tranche – Kshs 4.5b)	12,000	4,500	30-Nov-10	30-Nov-15	463.4 4,287	FXD-7.75% FR 185 basis points above the prevailing 182 day TB rates
Housing Finance (1 st Tranche – Kshs. 7b)	10,000	7,000	20-Sep-10	20-Sep-17	5,865.4 1,165.5	FXD: 8.5% FR: 182 day + 3% with a floor of 5% and a cap of 9.5%
KenGen	15,000	25,000	2-Nov-10	31-Oct-19	25,000	FXD 12.5%
Shelter Afrique	3,000	2,500	15-Jun-11	9-Jun-14	2,500	FR: 182 day + (1.3% to 1.5%)
TOTAL					57,393	

Source: Capital Markets Authority

Operating Environment

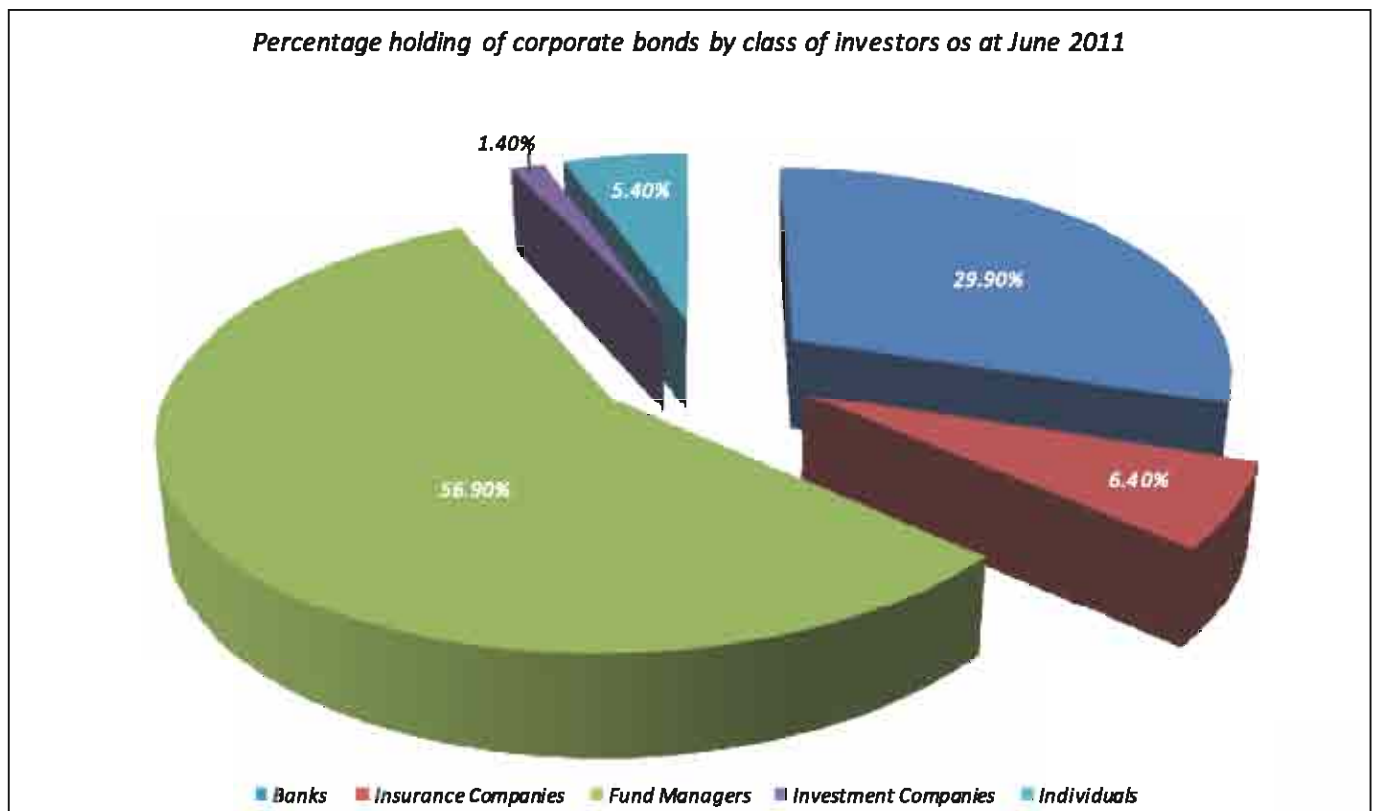
Table 14: Holding of corporate bonds by class of investors as at June 30, 2011

Issuer	Banks	Ins.Com.	F/man.	Inv.Com. & Inst.	Individuals
Barclays Bank of Kenya Ltd Tranche 1	4.50%	2.50%	87.30%	5.00%	0.70%
Barclays Bank of Kenya Ltd Tranche 2	3.05%	6.33%	72.49%	6.00%	12.14%
PTA Bank Ltd 2007	16.80%	4.00%	79.20%	0.00%	0.00%
PTA Bank Ltd 2005	45.44%	2.68%	51.88%	0.00%	0.00%
Mabati Rolling Mills - Fixed	13.76%	11.01%	75.02%	0.00%	0.21%
Mabati Rolling Mills - Floating	41.62%	1.96%	54.50%	0.00%	1.92%
CFC Stanbic Bank Ltd Tranche 1 - Fixed	25.11%	7.21%	55.35%	10.75%	1.58%
CFC Stanbic Bank Ltd Tranche 1 -Floating	0.00%	30.95%	67.97%	0.00%	1.08%
CFC Stanbic Bank Ltd Tranche 2	20.00%	3.60%	76.39%	0.00%	0.01%
Shelter Afrique Ltd - fixed	22.10%	18.10%	58.06%	0.00%	1.71%
Shelter Afrique Ltd - floating	3.78%	0.00%	96.22%	0.00%	0.00%
Safaricom Ltd Tranche 1- Fixed	49.76%	4.40%	38.58%	0.00%	7.26%
Safaricom Ltd Tranche 1- Floating	0.00%	0.00%	100.00%	0.00%	0.00%
Safaricom Ltd Tranche 2	43.62%	2.76%	52.99%	0.00%	0.63%
HFCK Ltd Tranche 2 Fixed	22.16%	29.15%	46.49%	0.27%	1.93%
HFCK Ltd Tranche 2 Floating	0.00%	0.00%	97.68%	2.32%	0.00%
Kenya Electricity Generating Company Ltd	21.90%	0.00%	64.53%	0.00%	13.57%

Source: Capital Markets Authority

Fund managers and commercial banks continued to dominate investments in corporate debt accounting for 87% of the total portfolio.

Chart 1: Percentage holding of corporate bonds by class of investor



Source: CMA Database

Operating Environment

Commercial Paper

Companies continued to use Commercial Paper (CP) to raise short term capital to finance working capital requirements. One new CP was approved, Five renewed, while Two were retired during the year. The outstanding value of commercial papers at the end of financial year 2010/2011 was Kshs 1.1 billion.

Table 15: Commercial Paper Approvals FY 2010/2011

Issuer	Approved Amount (Kshs million)	Date of approval	Date of expiry	Outstanding (Kshs. millions)
Ecta (Kenya) Limited	70,000,000	14-Feb-09	14-Feb-10	51,100,000.00
Cooper (Kenya) Limited	140,000,000	26-Jun-10	06-Oct-11	140,000,000.00
Davis & Shirliff	100,000,000	16-Mar-11	30-Jun-11	98,422,995.17
Crown Berger	300,000,000	13-Aug-10	13-Aug-11	124,927,883.22
CMC Holdings	500,000,000	8-Mar-09	08-Mar-10	499,610,000.00
Kenya Kazi Limited	250,000,000	16-Mar-11	16-Jun-11	180,694,614.46
TOTAL				1,094,755,492.85

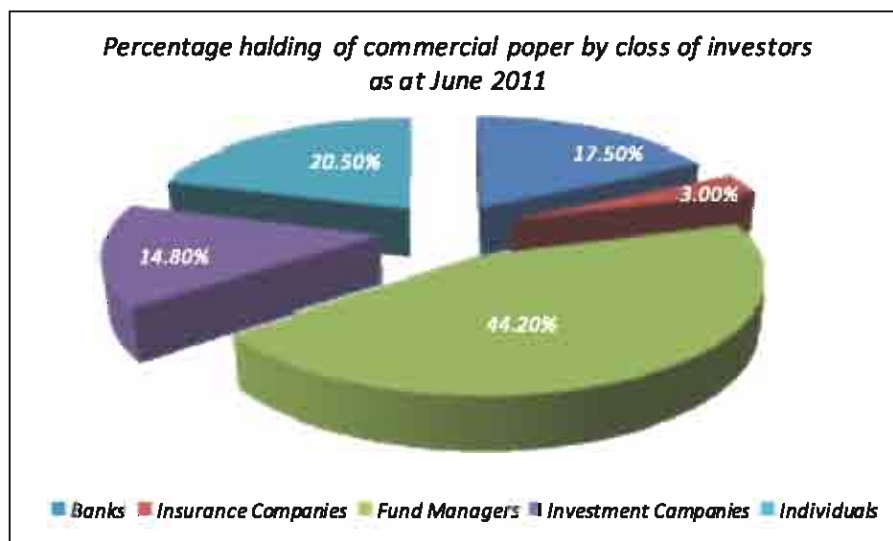
Source: Capital Markets Authority

Table 16: Holdings commercial paper by class of investors as at June 2011

Issuer	Banks	Ins.Com.	F/man.	Inv.Com. & Inst.	Individuals.
	Banks	Ins.Com.	F/man.	Inv.Com. & Inst.	Individuals
Ecta (Kenya) Limited	88.06%	0.00%	0.00%	11.94%	0.00%
Cooper (Kenya) Limited	41.43%	17.86%	5.00%	35.71%	0.00%
Davis & Shirliff	20.32%	0.00%	28.46%	0.00%	51.22%
Crown Berger	66.80%	6.53%	12.52%	0.00%	14.15%
CMC Holdings	0.00%	0.00%	75.26%	5.51%	19.23%
Kenya Kazi Limited	28.20%	0.00%	36.67%	0.00%	35.13%

Source: CMA

Chart 2: CP holding by class of Investor



Source: CMA Database

Operating Environment

Collective Investment Schemes

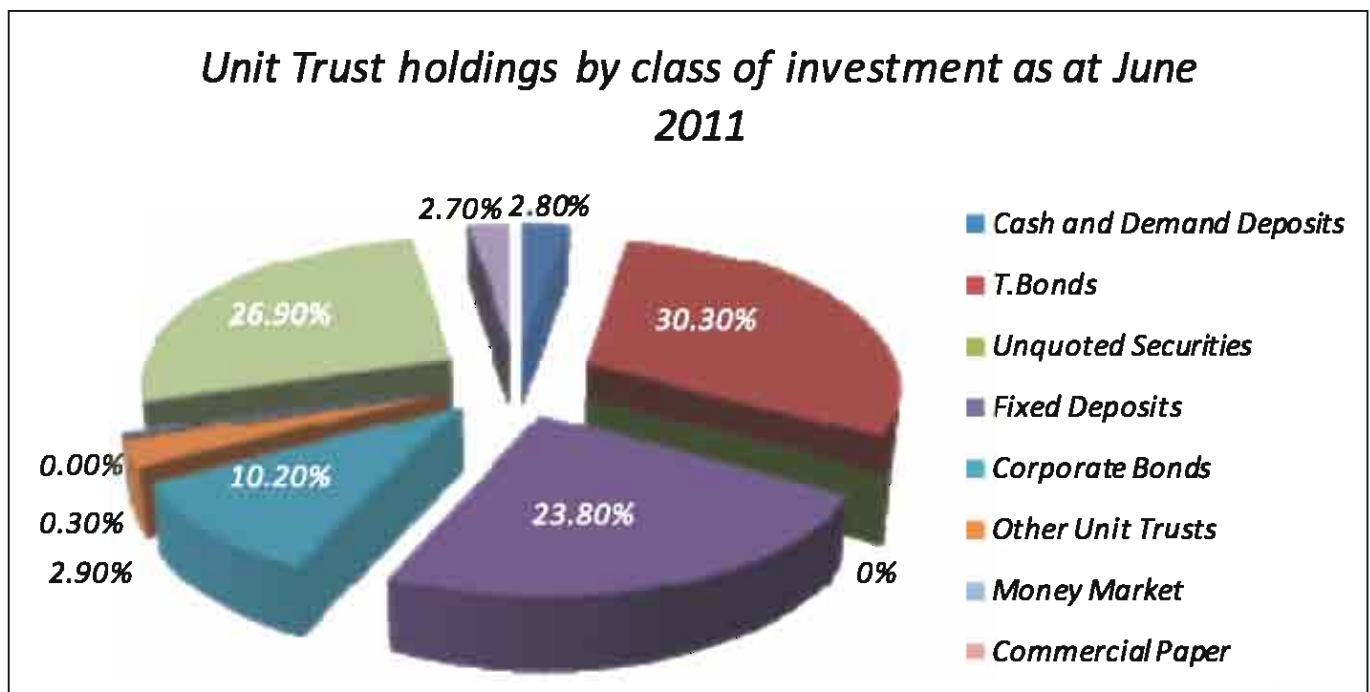
The total Net Asset Value of unit trusts in Kenya was Kshs 29.1 billion as at June 2011 compared to Kshs 17.6 billion as at June 2010, an increase of 66% year on year.

Table 17: Unit Trust Holdings as at June 2011

Investment	Amount (Kshs'000)	% of holding in total portfolio
Cash and Demand deposits	816,791	2.8%
Treasury bills & bonds	8,847,327	30.3%
Unquoted securities	-	-
Fixed Deposits	6,948,836	23.8%
Corporate Bonds	2,963,986	10.2%
Other Unit Trusts	851,639	2.9%
Money Market	88,665	0.3%
Commercial Paper	-	-
Quoted Domestic Equities	7,841,882	26.9%
Offshore Investment	799,153	2.7%
Total	29,158,079	100%

Source: Capital Markets Authority

Chart 3: Unit Trust Holdings by Class of Investment as at June 2011



Operating Environment

SECONDARY MARKET

Table 18: Market Statistics 2010/2011

YEAR	MONTH	EQUITY TURNOVER (KSHS BN)	SHARE VOLUME (MN)	NSE 20 SHARE INDEX	AVERAGE MARKET CAPITALIZATION (KSHS BN)	BOND TURNOVER (KSHS BN)
2010	July	11	691	4438	1,143	64
	August	16	1,030	4454	1,136	23
	September	8	804	4629	1,174	31
	October	10	501	4659	1,222	30
	November	9	499	4395	1,169	34
	December	6	358	4433	1,167	23
2011	January	10	725	4,465	1,192	20
	February	6	335	4,240	1,177	49
	March	8	469	3,887	1,090	40
	April	8	497	4,029	1,155	33
	May	8	411	4,078	1,144	34
	June	7	411	3,968	1,121	69
TOTAL FY 2010/2011		107	6,731	3,968	1,121	450
TOTAL FY 2009/2010		63	4,920	4,339	1,109	370
% Change		70%	37%	(9%)	1%	22%

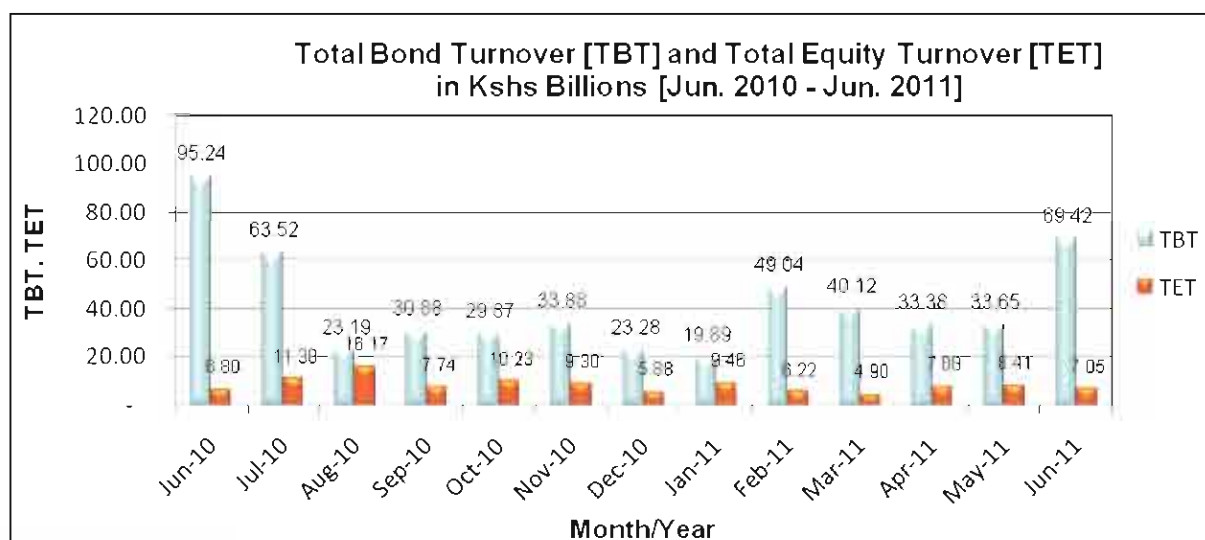
Source: NSE

The year 2010/2011 witnessed the best secondary equity performance during the past three years and one of its best in Kenya's history. Market capitalization averaged Kshs 1.1 billion throughout the year while share volume and equity turnovers recorded all time annual historical highs. During the year, equity turnover and volume recorded corresponding increases of 70% and 37%, as market capitalization rose marginally. The impressive performance was attributed to improved business confidence in the market due to the

growing economy and adoption of best business practice within the capital markets industry.

In addition, secondary bond market activity saw an improvement, rising by 22% during the review period compared to a similar period last year. The Automation of bond trading has been a major contributor to increasing liquidity in the bond markets. This is in addition to the ongoing reforms being implemented within the Government Debt sector.

Chart 4: Turnover Trends



Operating Environment

In addition, market activity was boosted by a return of foreign and institutional investors whose sustained activity is expected to be an important determinant for market performance in the coming

years. Foreign turnover averaged at approximately 45% of total annual turnover, registering a net portfolio equity flow of Kshs 5 billion during the review period.

Chart 5: Trends in Foreign Investor Cash Inflows – [2009 – 2011]

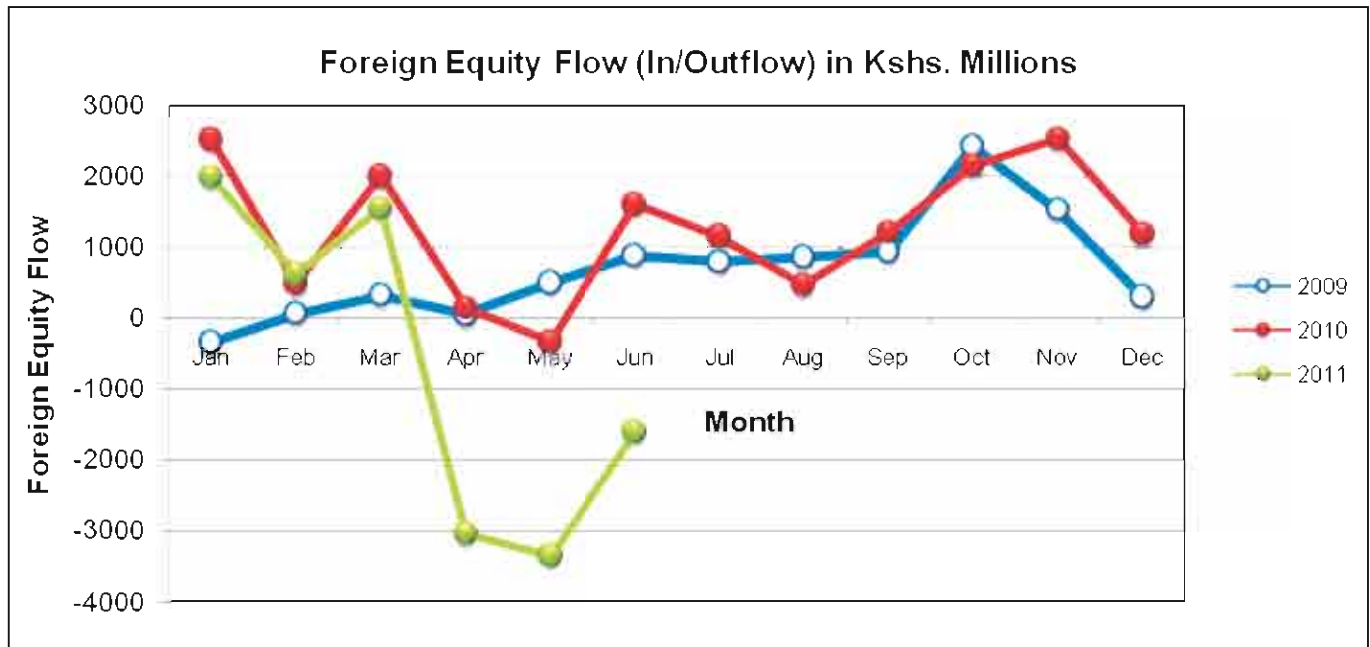


Table 19: Gross Secondary Market Statistics 2004 to 2011

	2004	2005	2006	2007	2008	2009	2010	2011
Share Volume (m)	526	580	1,228	1,519	4,258	4,261	4,920	6,731
Shares Turnover (Kshs bn)	20	22	60	101	104	57	63	107
Market Capitalization (Kshs bn)	274	421	623	744	1,231	822	1,109	1,121
Index (at year's close)	2,640	3,972	4,260	5,146	5,185	3,294	4,339	3,968
Bond Turnover (Kshs bn)	48	14	43	62	78	150	370	450

*Periods Indicated reflect the period July to June for each year
Source: NSE

Operating Environment

Corporate Actions

Nine listed companies announced bonus issues while 49 listed companies made dividend announcements during the year.

Table 20: Company Announcements 2010/2011

OLYMPIA	2-JUL-10	FINAL	0.10
HFCK	21-JUL-10	INTERIM	0.35
NMG	2-AUG-10	INTERIM	1.50
BAMBURI	6-AUG-10	INTERIM	1.50
BARCLAYS	11-AUG-10	INTERIM	0.75
JUBILEE	16-AUG-10	INTERIM	1.00
SCB	18-AUG-10	RIGHTS ISSUE	1:18
NIC BANK	19-AUG-10	INTERIM	0.25
MUMIAS	27-AUG-10	FIRST & FINAL	0.40
BOC	16-SEP-10	INTERIM	2.00
KPLC	24-SEP-10	FINAL	5.00
UNGA	30-SEP-10	FIRST & FINAL	0.50
KENGEN	13-OCT-10	FINAL	0.50
BAT	19-NOV-10	INTERIM	3.00
KPLC	22-NOV-10	RIGHTS	20:51
KAPCHORUA	29-NOV-10	INTERIM	1.25
WTK	29-NOV-10	INTERIM	2.50
KAPCHORUA	29-NOV-10	INTERIM	1.25
SASINI	08-DEC-10	FINAL	0.30
REA-VIPINGO	12-JAN-11	FIRST & FINAL	0.80
CMC	13-JAN-11	FINAL	0.20
CAR & GENERAL	28-JAN-11	FINAL	0.80
CAR & GENERAL	28-JAN-11	BONUS	1:2
EA CABLES	09-FEB-11	FINAL	1.00
EA CABLES	09-FEB-11	BONUS	1:4
EABL	18-FEB-11	INTERIM	2.50
BOC GASES	18-FEB-11	FINAL	1.40
BOC GASES	18-FEB-11	SPECIAL	6.00
BARCLAYS	22-FEB-11	FINAL	4.70
BARCLAYS	22-FEB-11	BONUS	4:1
NIC BANK	24-FEB-11	FINAL	0.25
NIC BANK	24-FEB-11	BONUS	1:10
BAT	24-FEB-11	FINAL	14.50
KCB	24-FEB-11	FIRST & FINAL	1.25
KPLC	25-FEB-11	INTERIM	0.35
BAMBURI	28-FEB-11	FINAL	7.00
EQUITY BANK	28-FEB-11	FIRST & FINAL	0.80
HFCK	3-MAR-11	FINAL	0.70
SCBK	07-MAR-11	FINAL	8.50
COOP	10-MAR-11	FIRST & FINAL	0.40
TOTAL	10-MAR-11	FIRST & FINAL	1.05
DTBK	10-MAR-11	FIRST & FINAL	1.60
DTBK	10-MAR-11	BONUS	1:5
CFC STANBIC	14-MAR-11	SPECIAL	1:1
PAI	16-MAR-11	FIRST & FINAL	3.00
PAI	16-MAR-11	BONUS	1:1

Operating Environment

Table 20: Company Announcements 2010/2011

ARM	17-MAR-11	FIRST & FINAL	1.75
SGL	17-MAR-11	FINAL	0.50
NBK	17-MAR-11	FIRST & FINAL	0.60
KAKUZI	18-MAR-11	FIRST & FINAL	2.50
CFC STANBIC	21-MAR-11	FINAL	0.804
TPSEA	24-MAR-11	FINAL	1.25
KENOLKOBIL	24-MAR-11	FIRST & FINAL	0.52
CARBACID	28-MAR-11	INTERIM	2.00
LIMURU TEA	30-MAR-11	FINAL	7.50
NMG	31-MAR-11	FINAL	4.00
NMG	31-MAR-11	SPECIAL	2.50
JUBILEE	4-APR-11	FINAL	4.50
JUBILEE	4-APR-11	BONUS	1:10
SCANGROUP	19-APR-11	FIRST & FINAL	0.70
SCANGROUP	19-APR-11	BONUS	1:5
KENYA RE	20-APR-11	FIRST & FINAL	0.35
CROWN BERGER	26-APR-11	DIVIDEND	1.25
SAFARICOM	19-MAY-11	DIVIDEND	0.20
SASINI	23-MAY-11	INTERIM	0.50
KENYA AIRWAYS	2-JUN-11	FIRST & FINAL	1.50
CENTUM	7-JUN-11	BONUS	1:10
WILLIAMSON TEA	20-JUN-11	FINAL	12.50
KAPCHORUA	20-JUN-11	FINAL	7.50

Report of the Members of the Authority for the year ended 30th June 2011

The members of the Authority submit their report and the audited financial statements for the year ended 30 June 2011, 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:-

	Jun -2011	Jun-2010
	Kshs '000	Kshs '000
Total income for the year	564,881	485,260
Total operating expenditure for the year	<u>(478,809)</u>	<u>(336,587)</u>
Surplus before tax and transfer to exchequer	<u>86,072</u>	<u>148,673</u>

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. Kung'u Gatabaki	- Chairman
Mrs. Stella Kilonzo, MBS	- 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, SC, MP	- Attorney General
Mr. James Waweru	- Alternate to the Hon. Attorney General
Prof. Njuguna Ndung'u, CBS	- Governor, Central Bank of Kenya
Ms. Rose Detho	- Alternate to the Governor, Central Bank of Kenya
Dr. Gituro Wainaina	- Member
Ms. Nafisa Abass	- Member
Mrs. Priscilla Komora, CBS	- Member
Mr. Mohammed Nyaoga	- Member
Mr. Humphrey Muga	- Member
Mr. Mahmood Manji	- Member

Report of the Members of the Authority for the year ended 30th June 2011

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 contract for the Chief Executive.

The aggregate amount of emoluments for Board members services rendered in the financial year is disclosed on page 64.

7. **AUDITOR**

The Auditor General 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

30 November 2011

Statement of Authority Board Members' Responsibilities on the Financial Statements for the year ended 30 June 2011

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 30 November 2011 and signed on its behalf by:-



Chairman



Chief Executive



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2011

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Capital Markets Authority set out on pages 48 to 65 which comprises the statement of financial position as at 30 June 2011, statement of comprehensive income, statement of changes of equity and statement of cash flows for the year then ended, and a summary of significant accounting policies of the explanatory information in accordance with the provisions of article 229 of the Constitution of Kenya and 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

Management is responsible for the preparation and fair representation of these 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.

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

Auditor-General's Responsibility

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

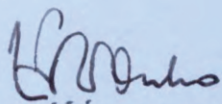
Auditor General's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors judgment, including the assessment of the risks of the material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal controls relevant to the entity's preparation and fair preparation 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, and 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 audit opinion.

Unqualified Opinion

In my opinion, the financial statements present fairly, in all materials respect, the financial position of the Authority as at 30 June 2011, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Capital Markets Authority Act, Cap 485A of Laws of Kenya.



Edward R.O. Ouko
AUDITOR-GENERAL

Nairobi

4 January 2012

Statement of Comprehensive Income for the year ended 30 June 2011

	Note	Jun-2011 Kshs '000	Jun-2010 Kshs '000
FEE INCOME	4	474,567	384,371
OTHER INCOME	5	<u>90,314</u>	<u>100,889</u>
TOTAL INCOME		564,881	485,260
EXPENDITURE	6	<u>(478,809)</u>	<u>(336,587)</u>
GROSS SURPLUS FOR THE YEAR	7	86,072	148,673
SURPLUS TO EXCHEQUER - 2008/2009	24	-	(7,775)
CORPORATION TAX PROVISION		-	(26,893)
SURPLUS TO EXCHEQUER	24	<u>(63,795)</u>	<u>(77,624)</u>
COMPREHENSIVE INCOME FOR THE YEAR	8	<u>22,277</u>	<u>36,381</u>

Statement of Financial Position as at 30 June 2011

	Note	Jun-2011 Kshs '000	Jun-2010 Kshs '000
ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment	9	32,067	40,547
Intangible assets	10	1,566	2,350
Staff loans and advances	11	18,612	9,145
Investment in government securities	13	451,476	454,015
Investors' compensation fund's investment in CDSC	14	7,000	7,000
Investors' compensation fund's investment in T/ bonds	14	<u>114,621</u>	<u>77,127</u>
		<u>625,342</u>	<u>590,184</u>
CURRENT ASSETS			
Staff loans and advances	11	296	2,635
Inventories	12	1,974	1,549
Investment in government securities	13	215,623	281,933
Trade and other receivables	15	45,315	89,555
Staff benevolent fund	16	5,299	4,989
Cash and Cash equivalents	17	121,411	221,783
Investors' compensation fund	14	<u>156,133</u>	<u>108,908</u>
		<u>546,051</u>	<u>711,352</u>
TOTAL ASSETS		<u>1,171,393</u>	<u>1,301,536</u>
FUNDS AND LIABILITIES			
FUNDS			
Capital fund	18	27,886	27,886
General fund	19	<u>683,919</u>	<u>661,642</u>
		<u>711,805</u>	<u>689,528</u>
CURRENT LIABILITIES			
Investors' compensation fund	14	277,754	193,034
Staff benevolent fund	16	5,299	4,989
Trade and other payables	20	61,666	80,582
Provisions	21	41,700	14,500
Millennium staff savings scheme	22	224	407
Corporation Tax	23	9,150	233,097
Surplus to Exchequer-2008/2009	24	-	7,775
Surplus to Exchequer-2010/2011	24	<u>63,795</u>	<u>77,624</u>
		<u>459,588</u>	<u>612,008</u>
TOTAL FUNDS AND LIABILITIES		<u>1,171,393</u>	<u>1,301,536</u>

The financial statements on pages 48 to 65 were approved for issue by the Members of the Authority on

..... 2011 and signed on their behalf by:

..... CHAIRMAN

..... CHIEF EXECUTIVE

Statement of Changes in Equity for the year ended 30 June 2011

	Note	Capital fund Kshs'000	General fund Kshs'000	Total Kshs'000
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>
At 1 July 2010		27,886	661,642	689,528
Surplus for the year			86,072	86,072
Less: 90% Transfer to Exchequer			(63,795)	(63,795)
At 30 June 2011		<u>27,886</u>	<u>683,919</u>	<u>711,805</u>

Provision for 2010/2011 capital commitments (Kshs 10,094,765)

Included in the calculation of the transfer to Treasury is a commitment done for the purchase and installation of a computer exchange server, and enhancement of the security system, at a total cost of Kshs 10,094,765.

Statement of Cash Flows for the year ended 30 June 2011

	Note	Jun-2011 Kshs '000	Jun-2010 Kshs '000
Operating activities:			
Cash generated from operations	25	(318,089)	53,918
Interest received		56,337	52,722
Corporation tax paid		-	(8,582)
Net cash generated from operating activities		<u>(261,752)</u>	<u>98,058</u>
Cash flows from investing activities:			
Purchase of property, plant and equipment		(4,204)	(35,236)
Purchase of intangible assets		(889)	(295)
Proceeds from disposal of property, plant and equipment		1,382	157
Purchase of treasury bonds from the Investors' Compensation Fund		(38,188)	20,030
Purchase of treasury bills from the Investors' Compensation Fund		61,043	-
Purchase of treasury bonds		(60,000)	-
Purchase of treasury bills		161,284	58,050
Benevolent fund		(319)	-
Net cash used in investing activities		<u>120,109</u>	<u>42,706</u>
Net increase/(decrease) in cash and cash equivalents		(141,643)	140,763
Movement in cash and cash equivalents:-			
At the start of the year		231,237	90,474
Increase/(Decrease)		<u>(141,643)</u>	<u>140,763</u>
At the end of the period/year	17	<u>89,594</u>	<u>231,237</u>

Statement of Cash Flows for the year ended 30 June 2011

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.

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 mortized cost using the effective interest rate method.

Statement of Cash Flows for the year ended 30 June 2011

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.

iii) 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.

Statement of Cash Flows for the year ended 30 June 2011

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.

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

Statement of Cash Flows for the year ended 30 June 2011

4. FEE INCOME

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Capitalisation, rights and new issue fees	214,857	205,024
NSE - transaction fees	234,539	154,854
Application and licensing fees	15,061	15,021
Market development fees	<u>10,110</u>	<u>9,472</u>
	<u>474,567</u>	<u>384,371</u>

5. OTHER INCOME

	Jun 2011 Kshs'000	Jun-2010 Kshs'000
Interest income on investments	56,337	52,722
Donor funding	29,415	45,541
Gain on disposal of property, plant and equipment	1,382	157
Miscellaneous income	<u>3,180</u>	<u>2,469</u>
	<u>90,314</u>	<u>100,889</u>

6. EXPENDITURE

Personnel costs (note 29)	222,289	178,430
Rent and maintenance	19,790	17,033
Equipment maintenance and stationery	7,023	6,574
Telephone, postage and utilities	7,413	5,314
Entertainment and public relations	13,311	3,988
Medical scheme and insurance expenses	12,113	11,449
Training and conferences	18,292	12,104
Motor vehicle running expenses	2,309	2,233
Subscriptions and IOSCO membership	4,626	4,102
Authority members' emoluments-other allowances	14,390	15,918
Professional and market development services	76,847	48,752
Staff uniforms & miscellaneous expenses	171	328
Provision for doubtful debts	49,285	4,495
Depreciation of property, plant and equipment	12,685	9,171
Amortisation of intangible assets	1,673	1,725
Auditor's remuneration	450	450
Investors' education and awareness programme	14,859	13,228
Tribunal expenses	<u>1,282</u>	<u>1,293</u>
	<u>478,809</u>	<u>336,587</u>

7. Surplus to Exchequer (2008/2009)

- 7,775

8. NET SURPLUS FOR THE YEAR

The surplus for the year is stated after charging:-

	Jun 2011 Kshs'000	Jun-2010 Kshs'000
Depreciation of property, plant and equipment	12,685	9,171
Amortization of intangibles	1,673	1,725
Authority members' emoluments and other allowances	14,390	15,918
Auditor's remuneration	450	450
Provision for doubtful debts	49,285	4,495
Employees' benefits expense (Note 27)	<u>18,344</u>	<u>17,474</u>
And after crediting:		
Interest income on investments:	56,337	52,722
Gain on disposal of property, plant and equipment	1,382	157
Donor funding	<u>29,415</u>	<u>45,541</u>

Statement of Cash Flows for the year ended 30 June 2011

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 2009	14,250	17,333	8,356	26,192	66,132
Addition	13,579	15,191	4,800	1,667	21,657
Disposal	<u>(1,678)</u>	<u>(1,522)</u>	<u>(398)</u>	<u>(781)</u>	<u>(4,379)</u>
At 30 June 2010	<u>26,151</u>	<u>31,003</u>	<u>12,757</u>	<u>27,078</u>	<u>96,989</u>
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
On disposal	<u>(1,678)</u>	<u>(1,522)</u>	<u>(398)</u>	<u>(781)</u>	<u>(4,379)</u>
At 30 June 2010	<u>12,877</u>	<u>15,294</u>	<u>6,508</u>	<u>21,763</u>	<u>56,442</u>
COST					
At 1 July 2010	26,151	31,003	12,757	27,078	96,989
Additions	-	3,001	1,076	127	4,204
Disposal	<u>(8,275)</u>	-	-	-	<u>(8,275)</u>
At 30 June 2011	<u>17,876</u>	<u>34,004</u>	<u>13,833</u>	<u>27,205</u>	<u>92,918</u>
DEPRECIATION					
At 1 July 2010	12,877	15,294	6,508	21,763	56,442
Charge for the year	4,382	5,510	1,555	1,237	12,684
Disposal	<u>(8,275)</u>	-	-	-	<u>(8,275)</u>
At 30 June 2011	<u>8,984</u>	<u>20,804</u>	<u>8,063</u>	<u>23,000</u>	<u>60,851</u>
NET BOOK VALUE					
At 30 June 2011	<u>8,892</u>	<u>13,200</u>	<u>5,770</u>	<u>4,205</u>	<u>32,067</u>
At 30 June 2010	<u>13,274</u>	<u>15,709</u>	<u>6,249</u>	<u>5,315</u>	<u>40,547</u>

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 32,484,059.70 (2010 Kshs 38,606,211) 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 5,476,850.85 (2010 Kshs 7,378,624). Included in the fixed assets is a vehicle 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.

Statement of Cash Flows for the year ended 30 June 2011

10. INTANGIBLE ASSETS

	2011
	Kshs'000
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	
As at 30 June 2010	<u>2,350</u>
COST	
At 1 July 2010	8,313
Additions	<u>889</u>
At 30 June 2011	<u>9,202</u>
AMORTIZATION	
At July 1 2010	5,963
Charge for the year	<u>1,673</u>
At 30 June 2011	<u>7,636</u>
NET BOOK AMOUNT	
At 30 June 2011	<u>1,566</u>
At 30 June 2010	<u>2,350</u>

11. STAFF LOANS AND ADVANCES

	Short Term Jun-2011 Kshs'000	Short Term Jun-2010 Kshs'000	Long Term Jun-2011 Kshs'000	Long Term Jun- 2010	Total Jun-2011 Kshs'000	Total Jun-2010 Kshs'000
Car loans	-	1,832	16,126	6,883	16,126	8,714
House loans	-	-	1,920	1,920	1,920	1,920
Other loans and advances	296	802	2,487	2,264	2,783	3,067
Provision for bad and doubtful debts	-	-	<u>(1,922)</u>	<u>(1,922)</u>	<u>(1,922)</u>	<u>(1,922)</u>
	<u>296</u>	<u>2,634</u>	<u>18,612</u>	<u>9,145</u>	<u>18,908</u>	<u>11,779</u>

Statement of Cash Flows for the year ended 30 June 2011

12. INVENTORIES

Inventories consist of stationery and computer consumables required for day to day use by the Authority.
(2010- Kshs 1,549,000)

13. INVESTMENT IN GOVERNMENT SECURITIES

Non Current	Jun 2011 Kshs'000	Jun-2010 Kshs'000
a) Treasury bonds		
Maturing after four years	145,000	205,252
Accrued interest	<u>1,759</u>	<u>2,813</u>
	146,759	208,066
Maturing after three years	120,252	107,564
Accrued interest	<u>2,523</u>	<u>3,282</u>
	<u>122,775</u>	<u>110,846</u>
Maturing after two year s	107,564	69,422
Accrued interest	<u>3,771</u>	<u>1,022</u>
	<u>111,336</u>	<u>70,444</u>
Maturing after 1 year	69,422	64,487
Accrued interest	<u>1,184</u>	<u>172</u>
	<u>70,606</u>	<u>64,659</u>
	<u>451,476</u>	<u>454,015</u>
Current		
b) Treasury bonds		
Maturing within 1 year	64,487	
Accrued interest	<u>219</u>	
	64,706	
c) Treasury bills	150,012	280,339
Accrued interest	<u>905</u>	<u>1,594</u>
	<u>150,917</u>	<u>281,933</u>
	<u>215,623</u>	<u>281,933</u>
	<u>667,099</u>	<u>735,948</u>

The average interest rate earned on Treasury bonds during the year was 7.29% (June 2010:10.4%).

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.

Statement of Cash Flows for the year ended 30 June 2011

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.
- (iii) Interest earned from investment of the funds held in this account.
- (iv) 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:

	June 2011 Kshs'000	June-2010 Kshs'000
At beginning of the year	193,035	424,890
Nairobi Stock Exchange transactions fees	41,558	12,906
Interest on investments	13,693	18,779
Financial penalties	8,387	6,016
Management fees	(500)	(500)
Public issue fees	28,589	12,824
Compensation to Nyaga Stock brokers investors	<u>(7,008)</u>	<u>(281,880)</u>
At end of the year	<u>277,754</u>	<u>193,035</u>

Included in the Investor Compensation Fund is Kshs 11,435,732 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:

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Non-current		
Equity investment in the Central Depository and Settlement Corporation (at cost)	<u>7,000</u>	<u>7,000</u>
Treasury bonds maturing after one year (effective interest rate – 9.50% per annum)	13,597	-
Treasury bonds maturing after two years (effective interest rate – 9.50% & 11.75% per annum)	6,187	28,764
Treasury bonds maturing after three years (effective interest rate – 11.75% & 9.50% per annum)	-	-
Treasury bonds maturing after five years (effective interest rate – 12.0% per annum)	48,347	48,363
Treasury bonds maturing after five years (effective interest rate – 9.307% per annum)	<u>46,489</u>	<u>=</u>
	<u>114,620</u>	<u>77,127</u>

Statement of Cash Flows for the year ended 30 June 2011

Current

	Jun 2011 Kshs'000	Jun-2010 Kshs'000
Treasury bonds – maturing within 1 year (effective interest rate – 11.75% per annum)	8,978	7,998
Treasury bills – maturing within 1 year (effective interest rate – 3.62%, 3.50% and 3.27% per annum respectively)	130,881	74,216
Fees receivable	7,434	-
Bank balance	8,840	23,369
Public issue fees and other receivable	-	3,325
	<u>156,133</u>	<u>108,908</u>

15. TRADE AND OTHER RECEIVABLES

	Jun 2011 Kshs'000	Jun-2010 Kshs'000
Trade receivables	37,209	37,972
Specific provision for bad debts	(53,780)	(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	921	1,055
Statutory management receivables	4,051	2,764
Sundry receivables	897	543
Treasury bonds receivable	<u>6,732</u>	-
	<u>45,315</u>	<u>89,555</u>

16. STAFF BENEVOLENT FUND

	Jun- 2011 Kshs'000	Jun-2010 Kshs'000
Investment in treasury bills	4,932	4,613
Interest on investment	42	52
Cash and cash equivalents	<u>325</u>	<u>324</u>
	<u>5,299</u>	<u>4,989</u>

17. CASH AND CASH EQUIVALENTS

	Jun 2011 Kshs'000	Jun-2010 Kshs'000
Cash in hand	43	21
Cash at bank	20,042	52,028
Short term/Call deposit	60,345	155,497
Bank Guarantee	180	180
Staff Mortgage	<u>40,801</u>	<u>14,057</u>
	<u>121,411</u>	<u>221,783</u>

For the purposes of the cash flow statement, the year end cash and cash equivalents comprise the following at 30 June 2011.

Notes to the Financial Statements for the year ended 30 June 2011

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Cash in hand	43	21
Cash at bank	20,042	52,028
Short term/ Call deposit	60,345	155,495
Staff benevolent Fund bank balance	325	324
Investors' compensation Fund bank balance	<u>8,840</u>	<u>23,369</u>
	<u>89,594</u>	<u>231,237</u>

18. CAPITAL FUND

At 1 July 2009 and at 30 June 2011	<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

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
At 1 July	661,642	929,245
Surplus for the year	86,072	148,673
Corporation tax years – 2003 - 2009	-	(289,199)
Provision for Surplus to Exchequer - 2008/2009	-	(7,775)
Adjustment of corporation tax 2007/2008	-	(4,870)
Adjustment of corporation tax 2008/2009	-	(9,916)
Corporation Tax provision - 2009/2010	-	(26,892)
Provision for Surplus to Exchequer -	<u>(63,795)</u>	<u>(77,624)</u>
At 30 June	<u>683,919</u>	<u>661,642</u>

General Fund represents accumulated surpluses over the years.

The General Fund, comprises of Kshs 585,521,242 for headquarter development and Kshs 103,327,278 for General / Volatility Fund.

20. TRADE AND OTHER PAYABLES

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Trade payables	12,779	18,527
Accruals	48,437	61,605
Audit fees accrual	<u>450</u>	<u>450</u>
	<u>61,666</u>	<u>80,582</u>

Notes to the Financial Statements for the year ended 30 June 2011

21. PROVISIONS

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Provisions for pending lawsuits (note 30)	41,700	14,500
Service gratuity	<u>-</u>	<u>-</u>
	<u><u>41,700</u></u>	<u><u>14,500</u></u>

22. MILLENNIUM STAFF SAVINGS SCHEME

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
At 1 July and 30 June	<u>224</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

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Prior period provision (2003-2009)	233,097	289,199
Adjustment of corporation tax 2007/2008	-	4,870
Adjustment of corporation tax 2008/2009	-	9,916
Current year provision	-	26,893
Less: instalments paid (2003-2009)	(184,590)	(89,199)
Less: Payment of final balance	(19,435)	-
Less: Taxes Withheld at source	(4,512)	-
Less: instalments paid current year	<u>(15,411)</u>	<u>(8,582)</u>
	<u><u>9,149</u></u>	<u><u>233,097</u></u>

24. SURPLUS TO EXCHEQUER 2010/2011

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Surplus for the year after tax	86,072	121,780
Less: Capital expenditure	<u>(5,094)</u>	<u>(35,531)</u>
Net Surplus for the year	80,978	86,248
Adjust for capital commitments 2010/2011	<u>(10,095)</u>	<u>-</u>
Net Adjusted Surplus	<u>70,883</u>	<u>86,248</u>
Surplus to Exchequer @ 90%	<u>63,795</u>	<u>77,624</u>
Net Surplus for Retention @ 10%	<u>7,088</u>	<u>8,624</u>
Surplus to Treasury 2008/ 2009	<u>Nil</u>	<u>7,775</u>

Notes to the Financial Statements for the year ended 30 June 2011

25. CASH GENERATED FROM OPERATIONS

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Reconciliation of surplus for the year to cash generated from operations:-		
Surplus for the year	86,072	148,673
Depreciation of property, plant and equipment	12,685	9,171
Amortisation of intangible assets	1,673	1,725
Interest on investments	(56,337)	(52,722)
Surplus to the Ministry of Finance	(85,397)	-
Payment of prior period taxes 2003-2009	(204,026)	(97,781)
Adjustment for corporation tax 2007/2008 and 2008/2009		(14,786)
Gain on disposal of property, plant and equipment	<u>(1,382)</u>	<u>(157)</u>
Operating surplus before working capital changes	(246,712)	(5,877)
Trade and other receivables	43,816	9,155
Staff loans and advances	(7,129)	(5,111)
Trade and other payables	(18,916)	49,091
Tax provisions	(174,176)	238,213
Investors' compensation fund	84,719	(231,855)
Staff benevolent fund	<u>309</u>	<u>302</u>
Cash generated from operations	-	-
	<u>(318,089)</u>	<u>53,918</u>

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 19,789,859 (2010: Kshs 17,033,420). At the balance sheet date, the Authority had outstanding commitments under operating leases, which fall due as follows

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Within one year	19,789	17,033
Between 2-5 years	<u>86,209</u>	<u>40,376</u>
	<u>105,998</u>	<u>57,409</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 2010. 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.

Notes to the Financial Statements for the year ended 30 June 2011

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 107,141,000 at 1 July 2010, and that the value of scheme's assets exceeded the liabilities by Kshs 9,016,000 at that date.

The following items are included within employee benefits expense:

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Retirement benefits costs;		
- Defined benefit scheme	18,187	17,330
- National Social Security Fund	<u>157</u>	<u>144</u>
	<u>18,344</u>	<u>17,474</u>

28. RELATED PARTY TRANSACTIONS

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
i) Key management compensation:		
Salaries and other short term benefits	50,581	42,786
Post employment benefits	<u>-</u>	<u>-</u>
	<u>50,581</u>	<u>42,786</u>

ii) Members' emoluments

A listing of the members of the Authority is shown on page 2 of the annual report. Up-to June 2011 the total remuneration of the members excluding the Chief Executive amounted to Kshs 14,390,304 (2010: Kshs 15,917,587).

29. PERSONNEL COSTS

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Consolidated pay, leave pay and passages	203,661	160,737
Staff retirement benefits and gratuity	18,187	17,330
Benevolent fund contributions	284	219
National Social Security Fund (NSSF)	<u>157</u>	<u>144</u>
	<u>222,289</u>	<u>178,430</u>
Average number of employees during the period/year	<u>65</u>	<u>60</u>

Notes to the Financial Statements for the year ended 30 June 2011

30. CONTINGENT LIABILITY

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Pending law suits	<u>61,723</u>	<u>61,723</u>

A former employee of the Authority had filed a suit against the Authority for wrongful dismissal and is seeking damages to the extent of Kshs. 61,722,700. Based on professional advice, the Authority has estimated a contingent liability of Kshs. 6,000,000 (2010: Kshs.6,000,000). The estimated liability has been recognised in these financial statements (note 21).

31. CAPITAL COMMITMENTS

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

	Jun-2011 Kshs'000	Jun-2010 Kshs'000
Capital authorised but not contracted for	<u>10,095</u>	<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 2011.

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, provides for licensing requirements, approval as well as financial requirements, prescribed 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 sets out the obligations of parties to the transactions.

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

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

vi) **The Capital Markets Tribunal Rules, 2002**

These 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 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 be 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 sets 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 credit 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 2011

APPROVED INSTITUTIONS

SECURITIES EXCHANGE

Nairobi Securities 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

CREDIT RATING AGENCIES

Global Credit Rating Company

P.O. Box 76667
Wendywood, 2144,
South Africa
Tel: 254 20 2711 784-1771
Fax: 254 20 2711 784-1770
E-mail: king@globalratings.net

DEPOSITORY AND SETTLEMENT SYSTEM

Central Depository and Settlement Corporation Ltd

Nation Centre, Kimathi Street, 10th Floor
P. O. Box 43633-00100,
Nairobi
Tel: 254 20 253078/230692 ext 248
Fax: 254 20 253077
Email: helpdesk@cdskenya.com

REGISTERED VENTURE CAPITAL FUND

Acacia Fund

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

INVESTMENT BANKS

African Alliance Kenya Investment Bank Ltd.

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

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

CFC Stanbic Financial Services Limited

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

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

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

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

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

Standard Investment Bank

ICEA Building, 17th floor
P. O Box 13714 – 00800, Nairobi
Tel: 254 20 220225/227004
Fax: 254 20 240297
Email: info@standardstocks.com
Website: www.standardstocks.com

Licensees as at 30 June 2011

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

NIC Capital Limited

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

Equatorial Investment Bank Limited

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

NHIF Building, 14th Floor
P. O. Box 75104-00200, Nairobi
Tel : 254 20 2736620
Fax : 254 20 2737276
Website : www.equitybank.co.ke

STOCK BROKERS

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

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

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

Sterling Capital Ltd

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

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

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

NIC Capital 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

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

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

Apex Africa Investment Bank Limited

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

Licensees as at 30 June 2011

DEALERS

Equatorial Investment Bank Limited

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

FUND MANAGERS

PineBridge Investment Co. (EA) Ltd

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

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

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

Co-op Trust Investment Services Ltd.

Co-operative House Mezzanine
Haile selassie Avenue
P.O. Box 48231 - 00100,
Nairobi
Tel: 254 20 3276100
Email: customerservice@co-opbank.co.ke

Amana Capital Limited

Barclays Plaza, Mezzanine, Loita Street
P.O.Box 9480 – 00100,
Nairobi
Tel: 254 20 313356/312144
E-mail: hardy@amanacapital.co.ke
Website: amanacapital.co.ke

Zimele Asset Management Co. Ltd.

Fedha Towers, 7th Floor
City Hall Way
P.O. Box 76528 – 00508, Nairobi
Tel: 254 20 2729078/2722953
Fax: 254 20 2722953
E-mail: zimele@africaonline.co.ke

InvesteQ Capital Limited

Milimani Road, Ambassador Court
P. O. Box 46143-00100, Nairobi
Tel : 254 20 2730980
Fax : 254 20 2727783
Email : info@investeqcapital.com

CIC Asset Management Company Ltd

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

Madison Asset Management Services Ltd

Madison Insurance House, 2nd Floor
Upper Hill
P. O. Box 20092-00100, Nairobi
Tel: 254 20 2721340
Fax: 254 20 2723344
Email: info@mams.co.ke

Apollo Asset Management Co. Ltd

Apollo Centre, 3rd Floor
Ring Road
P. O. Box 30389-00100, Nairobi
Tel: 254 20 3641010
Cell: 0722 276556/254/ 0733676556
Fax: 254 20 3641100
Email: assetmanagement@apollo.co.ke

Old Mutual Asset Managers (K) Ltd

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

FCB Capital Limited

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

Licensees as at 30 June 2011

Stanbic Investment Management Services (EA) 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

ICEA Asset Management Ltd.

ICEA Bldg. 14th Floor
P.O. Box 46143 – 00100, Nairobi
Tel: 254 20 340365/6
Fax: 254 20 338089
E-mail: iisl@icea.co.ke

Genesis (K) Management Ltd

Lonrho House, 12th Floor
P.O. Box 79217, Nairobi
Tel: 254 20 251012
Fax: 254 20 250716
E-mail: genesis@swiftkenya.com

British-American Asset Managers Limited

Britak Centre Upperhill
P.O. Box 30375-00100, Nairobi
Tel: 254 20 2710927
Fax: 254 20 2717626
E-mail: Britak@Britak.co.ke
Website: www.britak.com

Sanlam Investment Management Limited

The Citidell, 9th Floor
Muthithi Road
P.O. Box 7848-00100, Nairobi
Tel: 254 20 2729078/2722953
Fax: 254 20 2722953
Email: info@sim.sanlam.com

Standard Chartered Investment Services Limited

Stanbank House, Haile Selassie Avenue
P.O. Box 30003-00100,
Nairobi
Tel: 254 20 3276100
Fax: 254 20 223380
Email: Talk.To-Us@standardchartered.com

Old Mutual Investment Services (K) Ltd

Old Mutual Building, 2nd Floor
Corner of Mara & Ragati Road
P.O. Box 30059-00100,
Nairobi
Tel: 254 20 2829333/2829000
Fax: 254 20 2722415

INVESTMENT ADVISORS

Deloitte Financial Advisory Ltd

Deloitte & Touche
Kirungii Road, Westlands
P.O. Box 40092-00100,
Nairobi
Tel: 254 20 4441344/5-12
Fax: 254 20 4448966
Email: mcs@deloitte.co.ke

PriceWaterhouseCoopers Associates Ltd

The Rahimtulla Tower
Upper Hill Road
P.O. Box 43963-00100,
Nairobi
Tel: 254 20 2855000
Fax: 254 20 2888505
Email: pwc.com/ke

Cititrust (K) Limited

Citibank House,
P.O. Box 30711 – 00100,
Nairobi
Tel: 254 20 2711221/222248
Fax: 254 20 2714811
Website: www.citirri.com
Email: nri.africa@citigroup.com

Cooperative Consultancy Services Ltd

International House, Mama Ngina Street
P.O. Box 48231,
Nairobi
Tel: 254 20 2287111/2/3
Fax: 254 20 219821
Email: cmb@africaonline.co.ke

Loita Asset Management Limited

Victoria Towers, 8th Floor, Upper Hill
P.O. Box 39466-00623,
Nairobi
Tel: 254 20 2219015
Fax: 254 20 2218992
Email: akosanya@loita.co.ke

Iroko Securities Kenya Ltd

2nd Floor, Fedha Towers
Muindi Mbingu Street
P.O. Box 66249-00800,
Nairobi
Tel: 3740497-8
Fax: 3740497
Email: ms@mawjisennik.com

Licensees as at 30 June 2011

Winton Investment Services Ltd.

Village Market, Limuru Road
P.O. Box 607-00621, Nairobi
Tel: 254 20 7121771
Fax: 254 20 7121742
Cell: 0722 509 269/ 0733 339047
E-mail: info@winton-investments.com

Regnum Consultants Limited

Fort Granit Apartments, F2,
Bishops Road, Upper Hill
P.O. Box 11431-00400, Nairobi
Tel: 254 20 3862336
Fax: 254 20 3862335
Email: agichanga@regnuminvest.com

Alliance Capital Partners Limited

Shelter Afrique Centre
Longonot Road, Upper Hill
P.O. Box 12181-00100, Nairobi
Tel: 254 20 2729062/3
Fax: 254 20 2729059
Email: info@acp-africa.com

Executive and Corporate Advisory Services (K) Ltd

Mvuli Road, Westlands
P.O. Box 72216-00200, Nairobi
Tel: 254 20 4444913/6
Fax: 254 20 4444897
E-mail: huma@execorp.co.ke

V F S International (K) Limited

Village Market
P.O. Box 400621, Nairobi
Tel: 254 20 7120361
Email: info@vfsint.com
Website: www.vfsint.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
Email: info@ilsmafrica.com

Franklin Management Consultants Ltd

Viking House, Old Wing, 1st Floor
P.O. Box 61843-00200, Nairobi
Tel: 254 20 4441123/2285
Fax: 254 20 4441832
E-mail: franklin@wananchi.com

J. W. Seagon and Company Ltd

Mobil Plaza, 4th Floor, Westlands Road
P.O. Box 16658 – 00620, Nairobi
Tel: 254 20 513600/6
Email: info@jwseagon.com
Website: www.jwseagon.com

The Profin Group (K) Limited

39 Longonot Place,
P.O. Box 9980 – 00100, Nairobi
Tel: 254 20 2043476/68
Fax: 254 20 2043461
Email: douglaswekhomba@theprofingroup.com

Citidell Company Limited

LR No. 209/7333
Kivemia Road, Milimani
P.O. Box 185-00606, Nairobi
Tel: 254 20 2714728
Cell: 0735 380388/0728 625015
Email: Gregory.atoko@citidell.com

Tsavo Securities Limited

Kimathi House, 6th Floor, Kimathi Street
P.O. Box 11987-00100, Nairobi
Tel: 254 20 245042
Fax: 254 20 2243958
Email: info@tsavo.co.ke

Standard Chartered Securities (K) Ltd

I&M House, 5th Floor, 2nd Ngong Avenue
P.O. Box 56179-00200, Nairobi
Tel: 254 20 2710821/2
Fax: 254 20 2711331
Email: Talk.To-Us@standardchartered.com

AUTHORIZED DEPOSITORIES

Barclays Bank of Kenya Ltd

Barclays Plaza, Loita Street
P.O. Box 30120, Nairobi
Tel: 254 20 332230/313405/313364
Fax: 254 20 312392
Website: www.barclays.com

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

Licensees as at 30 June 2011

National Industrial Credit (NIC) Bank Ltd.

NIC Hse, 2nd Floor
Masaba Road/Uhuru Highway
P.O. Box 72866-00200,
Nairobi
Tel: 254 20 718200/229251
Email: info@nic.bank.com
Website: www.nic-bank.com

African Banking Corporation Limited

ABC Bank, Mezzanine Floor,
Koinange Street
P.O. Box 45452-00100,
Nairobi
Tel: 254 20 2223922
Fax: 254 20 222437
Email: headoffice@abcthebank.com
Website: www.abcthebank.com

Prime Bank Limited

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

Equatorial Commercial Bank Limited

Equatorial Commercial Bank Centre
Nyerere Road
P.O. Box 52467-00200,
Nairobi
Tel: 254 20 2710455/4981000
Fax: 254 20 2710366
Email: customerservice@ecb.co.ke

Chase Bank Kenya Ltd.

Prudential Assurance Building, 6th Floor
Wabera Street
P.O. Box 66049-00800,
Nairobi
Tel: 254 20 2774000/4454803/4/6/8
Fax: 254 20 4454816
Email: info@chasebank.co.ke

CFC Stanbic Bank Ltd.

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

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
Website: www.nationalbank.co.ke

Cooperative Bank of Kenya

Co-operative House
Haile Selassie Avenue
P.O. Box 48231-00100,
Nairobi.
Tel: 254 20 32076000/32076100
Website : www.co-opbank.co.ke

Equity Bank Limited

NHIF Building, 14th Floor
P.O. Box 75104-00200,
Nairobi
Tel: 254 20 2736620
Fax: 254 20 2737276
Website: www.equitybank.co.ke

I & M Bank Limited

I & M House, Kenyatta Avenue
P.O. Box 72833-00200,
Nairobi
Tel: 254 20 3221200/246552
Fax: 254 20 2211160/2212947/2216732
Email: invest@imbank.co.ke
Website: www.imbank.com

Transnational Bank Limited

Trans-National Plaza, 2nd Floor
City Hall Way
P.O. Box 34353-00100,
Nairobi
Tel: 254 20 2224235/6/252188/90/91
Fax: 254 20 252225
Email: info@tnbl.co.ke

Standard Chartered Bank Kenya Ltd

I&M House, 5th Floor, 2nd Ngong Avenue
P.O. Box 56179-00200,
Nairobi
Tel: 254 20 2710821/2
Fax: 254 20 2711331
Email: Talk.To-Us@standardchartered.com

Licenses as at 30 June 2011

APPROVED COLLECTIVE INVESTMENT SCHEMES

1. African Alliance Kenya Unit Trust Scheme:

- (i) African Alliance Kenya Shilling Fund.
- (ii) African Alliance Kenya Fixed Income Fund
- (iii) African Alliance Kenya Managed Fund
- (iv) African Alliance Kenya Equity Fund

2. Old Mutual Unit Trust Scheme:

- (i) Old Mutual Equity Fund.
- (ii) Old Mutual Money Market Fund.
- (iii) Old Mutual Balanced Fund
- (iv) Old Mutual East Africa Fund
- (v) Old Mutual Bond Fund

3. British American Unit Trust Scheme:

- (i) British American Money Market Fund.
- (ii) British American Income Fund.
- (iii) British American Balanced Fund.
- (iv) British American Managed Retirement Fund.
- (v) British American Equity Fund.

4. Stanbic Unit Trust Scheme:

- (i) Stanbic Money Market Fund.
- (ii) Stanbic Flexible Income Fund.
- (iii) Stanbic Managed Prudential Fund
- (iv) Stanbic Equity Fund

5. Commercial Bank of Africa Unit Trust Scheme:

- (i) Commercial Bank of Africa Money Market Fund.
- (ii) Commercial Bank of Africa Equity Fund.

6. Zimele Unit Trust Scheme:

- (i) Zimele Balanced Fund
- (ii) Zimele Money Market Fund

7. Suntra Unit Trust.

- (i) Suntra Money Market Fund
- (ii) Suntra Equity Fund
- (iii) Suntra Balanced Fund

8. ICEA Unit Trust.

- (i) ICEA Money Market Fund
- (ii) ICEA Equity Fund
- (iii) ICEA Growth Fund
- (iv) ICEA Bond Fund

9. Standard Investment Trust Funds:

- (i). Standard Equity Growth Fund
- (ii). Standard Income Fund
- (iii). Standard Balanced Fund

10. Dyer and Blair Unit Trust Scheme:

- (i). Dyer and Blair Diversified Fund
- (ii). Dyer and Blair Bond Fund
- (iii). Dyer and Blair Money Market Fund
- (iv). Dyer and Blair Equity Fund

11. CFC Unit Trust Fund

- (i). CFC Stanbic Money Market Fund
- (ii). CFC Simba Fund

12. Amana Unit Trust Funds Scheme:

- (i). Amana Money Market Fund
- (ii). Amana Balanced Fund
- (iii). Amana Growth Fund

13. Diaspora Unit Trust Funds Scheme:

- (i). Diaspora Money Market Fund
- (ii). Diaspora Equity Fund
- (iii). Diaspora Bond Fund

14. First Ethical Opportunities Fund:

15. CIC Unit Trust Fund:

- (i) CIC Money Market Fund
- (ii) CIC Balanced Fund
- (iii) CIC Fixed Income Fund
- (iv) CIC Equity Fund

16. Madison Asset Unit Trust Fund:

- (i) Madison Asset Equity Fund
- (ii) Madison Asset Balanced Fund
- (iii) Madison Asset Money Market Fund
- (iv) Madison Asset Treasury Bill Fund
- (v) Madison asset Bond Fund

Licenses as at 30 June 2011

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 Scheme
8. KCB Employee Share Ownership Plan
9. HF Employee Share Ownership Plan

LISTED COMPANIES AND MARKET CAPITALIZATION AS AT JUNE 30, 2011

COMPANY	TOTAL NO OF SHARES ISSUED	MRT CAP '000'	CLOSING PRICES AS AT JUNE 30TH 2011
AGRICULTURAL			
Kakuzi Ord.5.00	19,599,999	1,372,000	70.00
Rea Vipingo Plantations Ltd Ord 5.00	60,000,000	870,000	14.50
Sasini Ltd Ord 5.00	228,055,500	2,577,027	11.30
COMMERCIAL AND SERVICES			
Access Kenya Ltd Ord. 1.00	208,084,296	1,519,015	7.30
Car & General (K) Ltd Ord 5.00	33,419,424	1,036,002	31.00
CMC Holdings Ltd Ord 5.00	582,709,440	6,293,262	10.80
Hutchings Biemer Ltd Ord 5.00	360,000	7,290	20.25
Kenya Airways Ltd Ord 5.00	461,615,484	17,541,388	38.00
Marshalls (E.A.) Ltd Ord 5.00	14,393,106	183,512	12.75
Nation Media Group Ord. 5.00	157,118,572	26,238,802	167.00
Safaricom Ltd Ord.0.05	40,000,000,000	158,000,000	3.95
ScanGroup Ord. 1.00	284,789,128	14,951,429	52.50
Standard Group Ltd Ord 5.00	74,059,026	2,592,066	35.00
TPS Eastern Africa (Serena) Ltd Ord 1.00	148,210,640	9,930,113	67.00
Uchumi Supermarket Ltd Ord 5.00	265,426,614	3,025,863	11.40
FINANCE AND INVESTMENT			
Barclays Bank Ltd Ord 10.00	5,431,536,000	93,422,419	17.20
Centum Investment Co. Ltd Ord 5.00	604,947,068	13,762,546	22.75
CFC Insurance Holdings Ltd ord.1.00	515,270,364	7,574,474	14.70
CFC Stanbic Holdings Ltd ord.5.00	273,684,211	13,821,053	50.50
Diamond Trust Bank Kenya Ltd Ord 4.00	163,037,108	19,564,453	120.00
Equity Bank Ltd Ord 0.5	3,702,777,020	95,346,508	25.75
Housing Finance Co Ltd Ord 5.00	235,750,000	5,540,125	23.50
Jubilee Holdings Ltd Ord 5.00	49,500,000	8,811,000	178.00
Kenya Commercial Bank Ltd Ord 10.00	2,950,169,143	70,804,059	24.00
Kenya Re-Insurance Corporation Ltd Ord 2.50	600,000,000	5,160,000	8.60
National Bank of Kenya Ltd Ord 5.00	280,000,000	9,730,000	34.75
NIC Bank Ltd Ord 5.00	394,897,562	17,375,493	44.00
Olympia Capital Holdings Ltd Ord 5.00	40,000,000	176,000	4.40
Pan Africa Insurance Holdings Ltd Ord 5.00	48,000,000	1,992,000	41.50
Standard Chartered Bank Ltd Ord 5.00	287,077,133	67,176,049	234.00
The Co-operative Bank of Kenya Ord. 1.00	3,492,370,900	57,100,264	16.35

Licensees as at 30 June 2011

COMPANY	TOTAL NO OF SHARES ISSUED	MRT CAP '000'	CLOSING PRICES AS AT JUNE 30TH 2011
INDUSTRIAL AND ALLIED			
Athi River Mining Ord 5.00	99,055,000	18,028,010	182.00
B.O.C Kenya Ltd Ord 5.00	19,525,446	2,323,528	119.00
Bamburi Cement Ltd Ord 5.00	362,959,275	64,969,710	179.00
British American Tobacco Kenya Ltd Ord 10.00	100,000,000	26,400,000	264.00
Carbacid Investments Ltd Ord 5.00	33,980,265	4,383,454	129.00
Crown Berger Ltd Ord 5.00	23,727,000	711,810	30.00
E.A.Cables Ltd Ord 5.00	253,125,000	3,303,281	13.05
E.A.Portland Cement Ltd Ord 5.00	90,000,000	7,200,000	80.00
East African Breweries Ltd Ord 2.00	790,774,356	154,200,999	195.00
Eveready East Africa Ltd Ord.1.00	210,000,000	420,000	2.00
KenGen Ltd. Ord. 2.50	2,198,361,456	29,787,798	13.55
Kenya Oil Co Ltd Ord 0.50	1,471,761,200	16,925,254	11.50
Kenya Power & Lighting Ltd Ord 20.00	1,734,637,374	37,294,704	21.50
Mumias Sugar Co. Ltd Ord 2.00	1,530,000,000	10,939,500	7.15
Sameer Africa Ltd Ord 5.00	278,342,393	1,447,380	5.20
Total Kenya Ltd Ord 5.00	175,028,706	4,113,175	23.50
Unga Group Ltd Ord 5.00	75,708,873	757,089	10.00
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	1,231,588	215.00
Eaagads Ltd Ord 1.25	16,078,500	663,238	41.25
Express Ltd Ord 5.00	35,403,790	159,317	4.50
Williamson Tea Kenya Ltd Ord 5.00	8,756,320	1,821,315	208.00
Kapchorua Tea Co. Ltd Ord Ord 5.00	3,912,000	528,120	135.00
Kenya Orchards Ltd Ord 5.00	12,868,124	38,604	3.00
Limuru Tea Co. Ltd Ord 20.00	1,200,000	255,600	213.00
PREFERENCE SHARES			
Kenya Power & Lighting Ltd 4% Pref 2.50		14,400	
Kenya Power & Lighting Ltd 7% Pref 2.50		1,925	

