CDSC

CENTRAL DEPOSITORY & SETTLEMENT CORPORATION LIMITED

SAFEGUARDING YOUR INVESTMENTS

ANNUAL REPORT & FINANCIAL STATEMENTS 2012

Contents

Chairman's Report

On behalf of the Board of Directors, I am pleased to present to you the company's financial statements, for the year ended December 31, 2012 together with the highlights of CDSC's performance in that year.

Operating Environment

Economic growth in Kenya was slow in early 2012 with the economy expanding by 3.4 percent and 3.3 percent in the first two quarters, as key sectors such as construction were negatively impacted by high interest rates. This effect was a carry forward from 2011 when rising inflation and a depreciating currency forced policy makers to raise interest rates aggressively, driving up borrowing costs.

Economic growth however significantly improved in the third quarter with a GDP of 4.7 percent compared to 4 percent in the same period in the previous year. The leading sectors were agriculture, which grew by 6.9 percent, and manufacturing, which grew by 4.8 percent, compared to 5.2 and 2.3 percent respectively in the same period in 2011. Construction continued to register slow growth due to the lingering effects of high borrowing costs, and hotels and restaurants also performed poorly.
Slow growth in construction and hotels seemed indicative of investments being held back ahead of the March 2013 elections as investors adopted a wait and see attitude, fearful of a repeat of the post election violence of 2008.

Tourism was in addition negatively impacted by increased insecurity following the war against Al Shabaab. The violence in the Tana Delta and larger Mombasa dampened the allure of the coast, and travel advisories in this regard hit tourism hard. Furthermore, the Eurozone crises in major tourist source markets had a negative impact and tourism slowed to 1.1 per cent during the third quarter of 2012, from 2.1 per cent in the same quarter of 2011.

At the beginning of 2012, inflation had risen to 20 percent from 4 percent the previous year and the Shilling was slowly recovering from a historic low of Kshs. 107 to the dollar recorded on October 11, 2011. Inflation has subsequently stabilized to be within the

Mike Bristow
- Chairman

> "Despite the fragile global economic environment and a slowdown in capital investments, the service sector remains buoyant. Regional integration and harmonization in cross border investments presents an opportunity for business growth."

Government medium-term target of 5 percent, falling steadily throughout the year to hit 3 percent in December 2012, the lowest registered since August 2010. The Central Bank of Kenya (CBK) maintained a base-lending rate of 18 per cent leading to a high cost of borrowing as commercial banks followed suit. However, inflationary pressure eased in the course of the year and CBK cut its base-lending rate to settle at 11 per cent at the end of 2012.

Capital Markets Performance

Kenya's equities market saw improved performance in 2012 on the back of favourable macroeconomic factors like low inflation, declining interest rates and good corporate earnings. The benchmark NSE-20 share index rose 29 percent to 4133.02 during the year, compared to a drop of 28 percent in 2011. The Nairobi Exchange was ranked as the best performing Sub-Sahara African bourse in 2012 by two London-based market index trackers, MSCI and FTSE.

Turnover for the year rose to Kshs. 86.7 billion compared to Kshs. 78 billion in 2011, while the market capitalization rose from Kshs. 868 billion at the end of 2011 to Kshs. 1.27 trillion at the end of 2012, representing growth of about 40 percent. There was strong foreign investor participation in the market, where international investors were net buyers of shares worth Kshs. 19.7 billion, having made purchases of about Kshs. 47.4 billion compared to sales of Kshs. 28.8 billion.
Steady growth was seen in the bond market, where turnover was Kshs. 672 billion in 2012 compared to Kshs. 530 billion in 2011.

Group Performance

The group reported a pretax profit for the year 2012 of Kshs. 23.9 million, compared to the company's 2011 results of Kshs. 44.4 million before tax.

There was a 9.85 percent increase in transaction levy income following improved market turnover in the last few months of 2012. Total income however decreased to Kshs. 172.5 million down from Kshs. 190.3 million in 2011. This was mainly due to a decline in project income and registry fees which were quite significant in 2011 due to CDSC activities in Rwanda.

Operation expenses were managed very carefully but, nevertheless, increased from Kshs. 154.7 million is 2011 to Kshs. 169.1 million in 2012 mainly driven by increases in staff costs, telephone and postage as well as claims and penalties.

At the end of 2012 the group's total equity was Kshs. 207.5 million, compared to the company's total equity of Kshs. 192 million at the end of 2011.

Board Changes

In July 2012 the Board invited Mrs. Eunice Kariuki, currently the Marketing Director and Deputy CEO of Kenya ICT Board, to serve as a public interest director on the CDSC Board.

Future Outlook

The strong growth in market activity experienced in the last quarter of 2012 has continued into 2013 against a backdrop of macroeconomic stability and a bullish equities market as investors react to the largely peaceful elections and acceptance of the ruling on the presidential election petition.

According to the United Nations Economic Commission for Africa (UNECA), the East African region is expected to realize a six percent growth this year compared to 5.6 percent in 2012, the second highest for the continent this year.

The World Bank predicts GDP growth for Kenya of 5.8 percent in 2013, up from an estimated 4.5 percent in 2012. Weak demand for Kenyan exports from the still-struggling Eurozone will have a dampening effect, but this is expected to be offset by strong growth among the country's main African trading partners.

Market turnover has remained robust in the first quarter of 2013, and it is hoped that this trend will continue as the peaceful conclusion of the elections improves Kenya's political risk rating.

In 2013, CDSC will continue to pursue its strategic objectives as outlined in the 2011-2015 Strategic Plan within the six goals of dematerialization, regional expansion, improved risk management, diversification and strengthening of revenue streams, strengthening the CDSC Brand and strengthening organizational capacity, learning and growth.

The market is expected to be fully dematerialized by the end of November 2013 and this will be a testament to the success of the immobilization programme that has been ongoing since 2004.

Conclusion and Appreciation

On behalf of CDSC I would like to welcome our new board member Mrs. Eunice Kariuki, and trust that she will find her service on the Board a rewarding experience, and we look forward to benefitting from her contributions to the stewardship of CDSC. As always, I remain indebted to my fellow directors for their dedication and diligence, as well as, for their unstinting support to the success of CDSC and I would like to thank them for their contribution to the board and service on the various committees of the Board which play a key role in the corporate governance of our organization.

Very importantly, I would also like to record my sincere gratitude to all the staff, who work with unstinting commitment to ensure that CDSC's reputation continues to grow and, without whom, CDSC would not have achieved the very good results of 2012.

To all the stakeholders and partners I want to thank you for the continued support and contribution towards CDSC realizing its strategic goals.

Mike Bristow - Chairman
Central Depository & Settlement Corporation Limited

Chief Executive Officer's Statement

On behalf of the Board of Directors, Management and staff of CDSC, I am pleased to present to you a report on CDSC's performance in the year 2012 and highlight some of the activities undertaken during the year.

The macroeconomic landscape in Africa is characterized by dynamic and sustainable growth, increased capital flows, regionalization, pension reform, political re-evolution, manageable inflation and interest rates that support business growth and economic development. Opportunities for African capital markets are manifest in the growing demand from international and domestic clients as evidenced by the rising interest in secondary trading on the securities exchanges and significant interest in new equity issues, also giving impetus to the development of products such as EFTs and deposit receipt programmes as well as new markets in commodities and futures. New technologies and the adoption of global market standards by many African countries as well as the regionalization of market infrastructure all make our markets attractive investment destinations.

It is CDSC's intention to capitalize on these emerging opportunities and offer a basket of services that will develop CDSC into a world class central depository service provider. CDSC will need to be well prepared and adequately resourced to engage in various projects and activities to position itself to take advantage of these emerging opportunities.

Company's Performance

CDSC's group financial statements are presented in detail in the audited accounts for the financial year ended 31 December 2012 contained in this report. The group reported a pretax profit for the year 2012 of Kshs. 23.9 million, compared to the company's 2011 results of Kshs. 44.4 million before tax. These results were mainly driven by improved market turnover which rose by 11% compared to 2011, as well as improved returns on invested funds.

Rose Mambo
- CEO

> "CDSC is now set to complete the procurement and commence implementation of a new version of the CDS, which sits on a completely new and modern infrastructure, moving us from a client server architecture to a three tier network centric architecture."

Also impacting the results were the performance of our subsidiaries, where CDSC Registrars Rwanda and CDSC Registrars Kenya made a combined loss of Kshs. 1.1 million in the year under review driven by a dearth of new business opportunities in Rwanda and slow uptake of new registers in Kenya. However, during the year, there were encouraging developments when CDSC Registrars Kenya was appointed by the Nairobi Securities Exchange to offer registrar services, as well as by UAP as the registrar and data processing agents for their initial public offer.

Settlement Banks

In 2012 CDSC appointed three additional settlement banks. The three new banks joining CFC Stanbic Bank are Barclays Bank, Cooperative Bank and Equity Bank. This has enhanced our settlement services and diversifies the risk of relying on a single settlement bank. It also gives Central Depository Agents (CDAs) a wider choice of settling equity and debt transactions through a preferred bank.

Dematerialization of Securities

CDSC in conjunction with the Nairobi Securities Exchange commenced a process towards the dematerialization of all shares quoted at the securities exchange, and held a series of stakeholder workshops in this regard. This follows the success hitherto achieved in the immobilization of securities where 80.95% of the free float of shares has been immobilized, and 52% of the total market capitalization has been immobilized. The impact of dematerialization will be that with effect from the dematerialization date, share certificates shall no longer be recognized as prima facie evidence of ownership of shares, and this will be replaced with the electronic record at the central depository. This process is expected to be concluded in November 2013.

Depository and Settlement Operations

The number of central depository accounts rose to 1,981,958 with 21,187 new accounts opened in 2012. The number of shares deposited increased to 32 billion at the end of 2012 from 25.1 billion at the end of 2011. Total immobilization as at the end of December 2012 was 52% of the total market capitalization up from 46.16% at the end of 2011, representing a value of Kshs. 796.1 billion as at that date. The corporate bonds immobilized as at December 2012 was 63.64% of the market capitalization for these bonds. The number of listed companies was 63 at the end of 2012, with a market capitalization of Kshs. 1.2 trillion, compared to Kshs. 868.2 billion at the end of 2011.

HR Review

In 2012 CDSC engaged a consultant to carry out an organization review with a view to rationalizing our staff complement, developing a more robust performance management system, and benchmarking of salaries against the market. The implementation of a new organizational structure and performance management system in 2012 and early 2013 will ensure that CDSC has the right staff complement to perform its obligations professionally and efficiently to achieve its objectives in the strategic plan.

Future Outlook

CDSC is now set to complete the procurement and commence implementation of a new version of the CDS, which sits on a completely new and modern infrastructure, moving us from a client server architecture to a three tier network centric architecture.

The upgrade is intended to achieve enhanced technology that will make the system far more user friendly and make it easier to manage the deployment in the CDAs offices and will facilitate high availability of the system by harnessing the processing power of multiple interconnected servers. The upgrade will additionally pave the way for the realization of several projects envisaged in our strategic plan and manage the evolving and ever increasing market demands with a new state of the art system.

In addition to strengthening our capacity to achieve our core mandate, CDSC intends to offer a broader range of services such as collateral management, day trading, settlement services for government securities, and, regulatory environment permitting, securities lending and borrowing. Through its subsidiaries CDSC intends to pursue the delivery of other value added services such as OTC settlement and asset servicing while growing the registrar services business.

Appreciation

I wish to take this opportunity to express my sincere gratitude to our customers, shareholders and business partners for their support and loyalty. I would like to thank the Board for their judicious leadership and guidance and the staff for their dedication and passion which has seen CDSC deliver positive results in 2012. I look forward to working with you all in 2013, building on our successes of previous years and charting a strong future for CDSC.

Rose Mambo - CEO
Central Depository & Settlement
Corporation Limited

Mr. Mike Bristow

Mike holds a Masters degree from London University and is a Fellow of the Chartered Institute of Bankers. He is a seasoned banker with considerable experience in retail and corporate banking. He served for many years as the Executive Director of Commercial Bank of Africa, prior to which, he served in various senior executive positions for Barclays Bank in the UK and a number of countries in Africa. He is a non-Executive Director of First Assurance Ltd. He has also served in the Council of the Ghana Stock Exchange.

Mr. Job Kihumba

Job is a Fellow of the ICPSK, a member of various professional organizations and holds a Masters in Business Administration from the UK. He is a director at Standard Investment Bank, Nairobi Securities Exchange, Centre for Corporate Governance, East Africa School of Management, among others. He has served with the capital markets industry for over twenty (20) years having been the first CEO of the NSE for nine years (1991-1999), where he is now the second Vice Chairman. Mr. Kihumba has served in various professional and business capacities in many organizations e.g. Chairman of ICPSK, Public Procurement Appeals Board, Association of Professional Societies in East Africa, Development Learning Resources Centre, Africa Capital Markets Forum, International Corporate Governance Forum, among others.

Mr. Joseph Kitamirike

Mr. Kitamirike holds a B.Sc. (Eng) (Hons.) in Mechanical Engineering from Makerere University and a MBA (Finance) from the University of Connecticut, USA. He has been the Chief Executive of Uganda Securities Exchange, since August 2010. He is also the current chairperson of the Audit committee of Nkumba University Council.

Mr. Kitamirike is the Immediate Past Chairman of the East African Securities Exchanges Association (EASEA), an executive member of the African Stock Exchanges Association (ASEA). He also serves as director on the Board of the Fidelis International Institute and as Senior Director at the Albright Stonebridge Group in Washington, DC.

In his previous assignments he worked as CEO of National Housing & Construction Company between 2005 and 2010, Commissioner for Industry & Technology between 2004 and 2005 at the Ministry of Tourism, Trade & Industry and Research Analyst at General Electric Capital Corp, Stanford, Connecticut. He also worked with Uganda Development Bank and Uganda Investment Authority.

Mr. Kitamirike has served as a Director and a Chairperson of the Audit Committee at Housing Finance Bank and Nile Bank. He has also been a director at, Kinyara Sugar Works Ltd., Uganda Investment Authority, Uganda Clays Ltd and an Alternate director at Uganda Revenue Authority.

He is an avid reader with interest in the fields of business, economics and leadership.

Mr. James Mworia

James is the Managing Director and Chief Executive Officer of Centum Investment Limited (Centum) having being appointed in October 2008. Prior to his appointment he was the Head of Investments at Trans-Century Ltd and also served as the Head of Investments at ICDC Investment Company Limited, now Centum. Mworia is a member of the Board of UAP Life Insurance, Lewa Conservancy, East Africa Venture Capital Association and he represents Centum as a non Executive director on the Boards of UAP Holdings Ltd., Almasi Bottlers, Nairobi Bottlers Limited, General Motors East Africa and NAS Airport Services. Mr. Mworia is an Advocate of the High Court of Kenya. He is also a member of the CFA Institute, Institute of Certified Public Accountants of Kenya (ICPAK) and the Chartered Institute of Management Accountants (CIMA).

Mr. Ashok Kumar Mepa Shah

Ashok education is in Applied Chemistry. Professionally he is a Chartered Insurer with ACII. He is a member of the Chartered Institute of Arbitrators (MCIArb) and an Associate of the Insurance Institute of Kenya (AIIK). He is a past Chairman of Association of Kenya Insurers (AKI).

He is currently the Group Chief Executive of Apollo Investments Limited. Before taking over this position he was the CEO of APA Insurance from its inception from the merger of the General Insurance business of Apollo Insurance and Pan Africa Insurance. APA is a leading regional player.

He is a Director of CDSC representing the Capital Market Challenge Fund. Other directorships include APA Insurance Ltd, Barclays Bank of Kenya, Apollo Life Assurance, Apollo Asset Management, APA Insurance Uganda and Reliance Insurance Company Ltd in Tanzania. He was the first recipient of the Lifetime Achievement Award for his contribution to the Insurance Industry.

Mr. Peter Mwangi

Peter holds a Bachelor of Science Degree in Electrical Engineering from the University of Nairobi. He is a member of the CFA Institute, the CFA Society of South Africa, Institute of Certified Public Accountants of Kenya, Institute of Certified Public Secretaries of Kenya, East African Society of Investment Professionals, Institute of Directors of Kenya and the Kenya Institute of Management.

Mr. Peter Mwangi is the Chief Executive of the Nairobi Securities Exchange. He is also a Director of the Central Depository and Settlement Corporation in Kenya, and a Member of the Executive Committees of the African Securities Exchanges Association (ASEA) and the East African Securities Exchanges Association (EASEA).

Before joining the Exchange, Peter was the Managing Director of Centum Investment, the largest publicly quoted investment company in the East African region from 2004 to 2008.

He started his career in the Kenya Air Force where he worked for 5 years and left having attained the rank of Captain.

Mr. Bob Karina

Mr. Karina holds a Master of Science (MSc) in Corporate Finance from the University of Liverpool, in the UK. He has broad experience in advising institutional and corporate investors, corporate finance consulting and research analysis.
He is the founder and Chairman of Faida Investment Bank, and the Vice Chairman of the Nairobi Securities Ltd (NSE). He is a board member of the Rwanda Stock Exchange, where he has played a key role in the set up of the Rwanda Stock Exchange (RSE). He is also a Board Member of the Central Depository and Settlement Corporation (CDSC). He is an accomplished stockbroker, an information technology professional and a successful businessman. He plays other roles including; Chairman of Asterisks Holdings, Chairman of Norwich Union Properties Ltd., Chairman of Association of Kenya Stockbrokers (AKS) Nominees Ltd and Founder Member of the Institute of Certified Securities and Investment Analysts (ICSIA). He is also a member of the Institute of Directors.
Mr. Karina was instrumental in the establishment of the Central Depository and Settlement Corporation (CDSC), the implementation of the NSE's IT systems – Automated Trading System (ATS), the Wide Area Network (WAN), and the Broker Back Office (BBO) system, as the Chair of the committees that spearheaded these developments in the Kenyan Capital Markets.

Mr. Charles Ogalo

Charles holds a BSc in Economics from the State University of New York, New Paltz, and an MSc in Economics from Rutgers University, New Jersey. He is currently the Managing Director of Genesis Kenya Investment Management Ltd, a position he has held since 1st April 1996. He is also the Chairman of South Nyanza Sugar Company and Board Member of Ecobank Kenya. Mr Ogalo has served in various positions of responsibility in the banking industry for over 11 years, both locally and internationally before joining Genesis Kenya.

Mr. Nkoregamba Mwebesa

Nkoregamba holds an MBA from the Maastricht School of Management and an Upper Second Class Bachelors Degree in Economics and Philosophy from the University of Nairobi. He is the Chief Executive of CfC Stanbic Financial Services, (CSFS) a leading securities trading and placement firm with membership at the Nairobi Stock Exchange. At CSFS Nkoregamba is responsible for the Sales and Trading (Execution) desks across all distribution channels. He is also responsible for the Capital Markets business with direct oversight for Marketing and Distribution Strategies and Equity and Debt Placement.
Prior to joining CfC Stanbic Financial Services, he was the Chief Executive Nairobi Securities Exchange (NSE). At the NSE, Nkoregamba was responsible for the successful implementation of the Automated Trading System (ATS) and also preceded over 11 new listings.
Nkoregamba has extensive experience in the financial services sector in the East African Region and has held various positions of responsibility in the banking industry.

Mrs. Eunice Mueni Kariuki

Eunice holds an MBA in Strategic Management from Maastricht School of Management (affiliated to ESAMI), a BSc (Hons) degree in Business Studies, a Higher National Diploma in Business Information Technology (BITech), and Chartered Institute of Marketing (CIM) Diploma all from UK. Eunice is the Marketing Director at Kenya ICT Board where she also doubles up as a Deputy CEO, a position she has held for the last 5 years. She has always worked in the public sector space where she served as the Microsoft public sector manager for 2 years. Eunice founded Records & Archives Management Solutions (RAMS) Ltd in 1999 and served as a Managing Director for 7 years. She worked for Eastman Kodak as the public sector document imaging solutions manager for two years from 1997 prior to which, she worked at Avro International Aerospace in UK for a year. She is a nominated member of the Kenya Information & Technology Outsourcing Society (KITOS) where she represents the interests the government. She is also the National Chair of the Kenya Freedom Online Chapter of the 17 country members Coalition for the freedom of expression online movement.

Rose Mambo

Chief Executive

Rose holds a Master of Laws degree from the American University in Washington DC specializing in international business law and a Bachelor of Laws degree from the University of Nairobi and is currently pursuing an MBA at Strathmore University. She is an advocate of the High Court of Kenya and a Fellow of the Institute of Certified Public Secretaries of Kenya. Rose has worked as a State Counsel at the State Law Office and prior to taking up her current position as Chief Executive of CDSC in September 2007, she worked for seven years at the Nairobi Securities Exchange as the Company Secretary and Head of Legal and Compliance.

James Gikonyo

Head, Information & Communition Technology

James holds a Master's of Science in Information Systems specializing in Strategic Management of Information and Communication Technology as well as Information Systems Security. He also holds a Bachelor of Science degree in Mathematics and Computer Science from University of Nairobi. James is a Certified Information Systems Auditor (CISA) and has over 18 years experience in the Information and Communication Technology fields with 16 years experience in Banking IT systems having worked with Barclays Bank of Kenya and Transnational Bank Limited. As the Head of ICT, he participates in policy and decision making at executive management level regarding the future direction and proposed information systems in CDSC.

Florence Kamau

Head of Operations

Florence holds a Bachelor of Arts degree in Economics from Moi University and currently pursuing an MBA at Strathmore University. She joined CDSC in 2003 to commence functions of the Operations department. Prior to joining CDSC, Florence worked for Nairobi Securities Exchange Ltd and held various positions at the NSE's Trading, Delivery & Settlement departments.
Florence heads Operations Department which is in charge of management of the daily electronic clearing, delivery and settlement process. She is also the Secretary of CDSC's Business Conduct Committee.

Augustine Suka

Head of Finance and administration

Augustine Suka holds an MBA (Finance) and a Bachelor of commerce (Accounting) degrees from the University of Nairobi.
He is a certified Public Accountant - CPA (K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). Augustine is a trained Certified Public Secretary and is currently pursuing a Law degree at the University of Nairobi, School of Law . He has 14 years experience in Accounting, Finance & Administration acquired in the Insurance, Logistics and Public sector where he served in various capacities as an Accountant, Finance Manager, Group Finance Manager and Deputy Director -Finance & Administration.
Augustine heads the Finance & Administration Department which is primarily charged with the management and control of the company's financial resources as well as ensuring smooth office administrative systems. He is also the Secretary to the Finance & Staff committee of the CDSC Board.

Irene Mutiso

Manager, HR & Corporate Affairs

Irene holds an MBA in Human Resource Management and a Bachelors Degree in Commerce (Marketing) both from University of Nairobi. She is a Full Member of Institute of Human Resource Management (IHRM), Kenya Institute of Management (KIM) and Society of Human Resources (SHRM). Irene has over seven years experience in Human Capital Management. Prior to joining CDSC, she worked at Nairobi Securities Exchange and held various positions. Irene provided secretariat services to the Association of Kenya Stockbrokers & Investment Banks (KASIB) for a period of four years. She is a member of Investor Education Working Committee (IEWC). She represents CDSC in Securities Industry Training Institute East Africa (SITI) and in Champions of Corporate Governance Award (COG) taskforce.
Irene is responsible for human capital management and the preservation of CDSC's reputation both internally and externally.

John Karanja

Manager, Registry Services

John Karanja holds a MBA in Corporate Finance from The University of Dallas (Texas-USA), a Bachelor of Science degree in International Business Administration (USIU) and a Postgraduate Diploma in Marketing (CIM-UK). He has over eight years of experience both locally and internationally. John has been involved in managing and overseeing several projects in the financial services sector prior to joining CDSC. He has previously worked for Chase Bank (K), Equity Bank (K) and most recently Custody & Registrars Services Ltd where he gained vast experience in overall business management, relationship management and operations. He also had a chance to work in Corporate Finance as a Financial Analyst and in Mortgage Re-financing. John is responsible for the company's Registrars Services.

CDSC Chairman, NSE Chief Executive and CMA Chairman confer with each other during the Capital Markets Joint Board meeting in Mombasa.

The Chairmen, CDSC, CMA & NSE during the launch of the mobile Library at Wema Center Mombasa.

CDSC Staff speaks to the Business Community in Nakuru during a Capital Markets Open Day.

The Chief Executive – CDSC exchanges pleasantries with Ms. Beatrice Meso during the 3rd Champion of Governance Award (COG).

CDSC staff receives Mr. Paul Muthaura, Ag. Chief Executive - CMA during the Mombasa International Trade Fair.

CDSC staff at an End of Year staff party.

The capital markets in Kenya has had a long history of paper based transactions and physical certificates until the Central Depository and Settlement Corporation (CDSC) commenced operations in 2004. The modernization and automation of our securities market commenced in 1999, when CDSC was incorporated as a company with the intention of introducing book entry or electronic securities in the market, to do away with the inefficiencies of a paper based trading environment, and enhance the safety and security of dealing with shares listed on the securities exchange.

The paper based system has had a variety of challenges like duplication of shares, loss and mutilation of certificates, signature mismatches and a time consuming transfer process. This had become a major contributor to rising arbitration cases and investor disputes. The setting up of the CDSC revolutionized the industry by substantially reducing the inefficiencies risks associated with the paper certificates through immobilization of securities, allowing for the electronic settlement of transactions concluded on the securities exchange. The volume of work in the back office operations for the stockbrokers and investment banks was significantly reduced with the cessation of manual matching of buy and sell transactions to the individual transfer documents and corresponding share certificates.

In November 2004, the immobilization of securities started in a phased approach, where the listed companies were divided into four tranches, and CDSC progressively declared each tranche of securities eligible for immobilization, meaning that from that date, the certificates could be surrendered and replaced with an electronic record of holdings referred to as a book entry security. It also meant that no eligible security could be traded on the securities exchange without being immobilized. By February 2005, all securities listed on the Nairobi Securities Exchange were eligible for immobilization, and all trades in the market were conducted on book entry securities. The number of investor's CDS accounts has grown exponentially since that time, from 30,000 accounts in 2004, to the current 1.9 million accounts.

Dematerialization is the next logical step after of immobilization. Dematerialization also refers to the process of converting paper certificates into electronic form, the main difference being that on the dematerialization date, all securities will be held in electronic form and the underlying physical certificate will cease to be evidence of ownership of securities of any company quoted at the Nairobi Securities Exchange (NSE). Evidence of ownership will be in the electronic holdings maintained in the Central Depository System (CDS) operated by CDSC.

In 2012, CDSC in conjunction with the Nairobi Securities Exchange commenced a process towards the dematerialization of all shares quoted at the securities exchange, and held a series of stakeholder workshops in this regard. This follows the success achieved in the immobilization of securities where a total of 83.85% of the free float of shares has been immobilized and 54.58% of the total market capitalization has been immobilized by 23rd May 2013, up from 52% at the end of 2012, representing a value of Kshs.954.7 billion as at that date. The corporate bonds immobilized as at 23rd May 2013 was 63.90% of the market capitalization for these bonds. There are a total of 63 companies listed at the NSE.

All quoted companies at the NSE have been grouped into three tranches to facilitate dematerialization in a phased approach. The process of dematerialization commenced in 2012 with stakeholder consultations, workshops and trainings and will close in November 2013. The impact of dematerialization will be that with effect from the dematerialization date, share certificates shall no longer be recognized as prima facie evidence of ownership of shares, and this will be replaced with the electronic record at the central depository. With the implementation of Dematerialization, risks involved with physical certificates for listed securities will be eliminated and the full register of members in a listed company will be available and maintained at CDSC.

The decision to dematerialize all Securities quoted at the securities exchange is a major step in the capital market and will significantly raise the profile of Kenya's capital market in adherence to international best practice. This will also go a long way in achieving greater efficiency within the capital market.

CDSC takes this opportunity to thank our partners in this journey towards the dematerialization of the market, the Nairobi Securities Exchange and the Capital Markets Authority, and is also extremely appreciative of the support received from our stakeholders including the listed companies and their shares registrars, as well as our central depository agents.

1. What is Dematerialization?
Dematerialization is the next step after of immobilization. Dematerialization is the process of converting paper certificates into electronic form. On the dematerialization date, all securities will be held in a dematerialized form and the underlying physical certificate will cease to be evidence of ownership of securities of any company quoted at the Nairobi Securities Exchange (NSE). Evidence of ownership will be in the electronic holdings maintained in the Central Depository System (CDS) operated by CDSC.

2. What is a Dematerialized Security?
It is a book entry security which has been prescribed by CDSC under section 24 of the Central Depositories Act, whereby the underlying physical certificate is no longer recognized as evidence of ownership under the Companies Act Cap 486 on or after the dematerialization date.

3. What is the Dematerialization date?
This is the date prescribed by CDSC under section 24 as being the last day on which certificates representing such a security shall be recognized as evidence of ownership under the Companies Act Cap 486. In this case, the "date" shall be specific to each tranche the final date being November 2013.

4. What is the impact of Dematerialization?
Currently, shares can be withdrawn from a CDS account and held in a certificated form. With effect from the Dematerialization date (November 2013) shares will not be withdrawn from the CDS account because the law does not permit the issuing of share certificates with respect to a dematerialized security.

5. What does Dematerialization mean to the issuer?
Issuers of Dematerialized securities will no longer issue certificates to their shareholders whether for additional shares, bonus issues, rights issues or shares splits. All these shall be issued in electronic form.

6. What Do I need to do as a shareholder if I have already deposited all my shares in the CDS account?
You shall not be required to take any further action as a result of dematerialization.

7. What are the benefits of Dematerialization?
- There will be no loss of certificates since they will be kept in an electronic form.
- It will be easier and faster to transfer or sell your shares.
- Your share certificates will not be mutilated since they will be kept in electronic form in your CDS account.
- You can still keep your certificate as a souvenir.
- Cost of issuing new shares will be greatly minimized.

8. What happens to my shares after the November 2013?
After the Dematerialization date, your registrar will open a CDS account where all shares that have not been immobilized shall be held in trust by your respective issuer.

9. What if I want to access my shares which are held in trust by the issuer?
If you wish to access your shares for purposes of trading, transfer etc you will need to follow a verification process through your registrar after which, your shares will be transferred to your personal CDS account once you have opened it.

10. How do I keep track of my shares?
CDSC shall send you monthly statements if your account is active otherwise; you will receive your statement only once a year. However, if you would like to view/download/print your statements, you can visit our website on www.cdsckenya.com. You can also subscribe to our mobile services and you shall receive an alert every time there is an activity in your account e.g corporate actions, sale, buy, etc., for a minimal fee of Kshs.10.00 per alert. To subscribe, send the word "register" to 22372 and follow the instructions.

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DIRECTORS

Mr Michael Bristow* - Chairman
Mr Ashok Shah*
Mr Charles Ogalo
Mr Joseph Kitamirike**
Mr Peter Mwangi
Mr Bob Karina
Mr Job Kihumba
Mr Nkoregamba Mwebesa
Mr James Mworia
Ms. Eunice Kariuki - Appointed on 19 July 2012

* British ** Ugandan

CHIEF EXECUTIVE OFFICER

Rose Mambo

SECRETARY

Rose Mambo
P. O. Box 3464, 00100 GPO
Nairobi

REGISTERED OFFICE

10TH Floor, Nation Centre
P. O. Box 3464, 00100 GPO
Nairobi

BANKERS

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

Equatorial Commercial Bank
Nyerere Road
GPO P. O. Box 52467, 00200 City Square
Nairobi

CFC Stanbic Bank Limited
Kenyatta Avenue
P. O. Box 30550, 00100
Nairobi

Chase Bank Limited
Riverside Mews
P. O. Box 66049, 00800
Nairobi

AUDITORS

Deloitte & Touche
Deloitte Place
Waiyaki Way, Muthangari
P. O. Box 40092, 00100 GPO
Nairobi

ADVOCATE

Mboya Wangong'u & Waiyaki Advocates
Lex Chambers
Off James Gichuru Road,
Lavington,
P. O. Box 74041, 00200
Nairobi

The directors have pleasure in presenting their report and audited financial statements for the year ended
31 December 2012.

ACTIVITIES

The principal activity of the group is the provision of automated clearing, delivery and settlement facilities in respect of transactions carried out at the Nairobi Securities Exchange and the holding of securities as nominees on behalf of investors.

RESULTS

	2012
	Sh
Profit before taxation	23,889,892
Taxation	(8,260,088)
Profit for the year	15,629,804
	=========

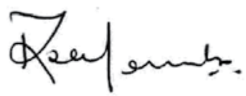
DIRECTORS

The current directors are shown on page 2.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office in accordance with Section 159(2) of the Companies Act.

BY ORDER OF THE BOARD



Secretary 2013

Nairobi

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the operating results of the group for that year. It also requires the directors to ensure that the group and the company keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the company. They are also responsible for safeguarding the assets of the group.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors 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 Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's operating results. The directors 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 directors to indicate that the company and its subsidiaries will not remain going concerns for at least the next twelve months from the date of this statement.

....	....
Director	Director

2013

Report on the financial statements

We have audited the accompanying financial statements of Central Depository and Settlement Corporation Limited and its subsidiaries set out on pages 7 to 37 which comprise the consolidated and the company statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income and consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company and its subsidiaries as at 31 December 2012 and of the group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on other legal requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
iii) the company's statement of financial position(balance sheet) and statement of comprehensive income(income statement) are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)

28th February 2013
Nairobi

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 Sh	2011 Sh
INCOME	5	172,523,151	190,311,209
OPERATING EXPENSES	6	(169,053,047)	(154,711,188)
OPERATING PROFIT		3,470,104	35,600,021
NET FINANCE INCOME	8	20,419,788	8,808,015
PROFIT BEFORE TAXATION		23,889,892	44,408,036
TAXATION CHARGE	9	(8,260,088)	(17,138,389)
PROFIT FOR THE YEAR		15,629,804	27,269,647
OTHER COMPREHENSIVE INCOME			
EXCHANGE DIFFERENCES ARISING FROM TRANSLATION OF FOREIGN OPERATION		(168,241)	(352,338)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		15,461,563	26,917,309

	Note	2012 Sh	2011 Sh
ASSETS			
Non-current assets			
Equipment	10	9,955,945	11,914,529
Intangible assets	11	3,116,439	8,961,989
Deferred taxation	16	5,998,772	500,736
		19,071,156	21,377,254
Current assets			
Receivables and prepayments	14	34,551,362	31,044,818
Due from related parties	18(b)	353,720	-
Fixed deposits	13	127,454,671	120,829,533
Taxation receivable		4,443,201	-
Bank and cash balances		47,524,251	39,962,315
		214,327,205	191,836,666
Total assets		233,398,361	213,213,920

	Note	2012 Sh	2011 Sh
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	100,000,000	100,000,000
Revenue reserve		108,025,782	92,395,978
Translation reserve		(520,579)	(352,338)
Shareholders' equity		207,505,203	192,043,640
Current liabilities			
Payables	17	25,893,158	18,149,550
Due to related parties	18(a)	-	63,976
Taxation payable	9(c)	-	2,956,754
		25,893,158	21,170,280
Total equity and liabilities		233,398,361	213,213,920

The financial statements on pages 14 to 39 were approved by the board of directors on 28th February 2013 and were signed on their behalf by:

.... Director

.... Director

	Note	2012 Sh	2011 Sh
ASSETS			
Non-current assets			
Equipment	10	9,725,270	11,593,685
Intangible assets	11	2,741,150	8,429,617
Investment in subsidiaries	12	261,043	261,043
Deferred taxation	16	5,704,243	500,736
		18,431,706	20,785,081
Current assets			
Receivables	14	29,622,277	29,870,259
Due from related parties	18(b)	12,014,088	5,899,266
Taxation receivable	9(c)	2,933,877	179,882
Fixed deposits	13	127,454,671	114,217,039
Bank and cash balances		39,211,189	27,467,290
		211,236,102	177,633,736
Total assets		229,667,808	198,418,817
		=========	==========

	Note	2012 Sh	2011 Sh
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	100,000,000	100,000,000
Revenue reserve		98,834,607	81,795,827
Shareholders' equity		198,834,607	181,795,827
Current liabilities			
Payables	17	23,959,663	16,297,971
Due to related parties	18(b)	6,873,538	325,019
		30,833,201	16,622,990
Total equity and liabilities		229,667,808	198,418,817
		=========	==========

The financial statements on pages 14 to 39 were approved by the board of directors on 28th February 2013 and were signed on their behalf by:

.... Director

.... Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital Sh	Revenue reserve Sh	Translation reserve Sh	Total Sh
At 1 January 2011	100,000,000	65,126,331	-	165,126,331
Profit for the year	-	27,269,647	-	27,269,647
Other comprehensive loss	-	-	(352,338)	(352,338)
Total comprehensive income for the year	-	27,269,647	(352,338)	26,917,309
At 31 December 2011	100,000,000	92,395,978	(352,338)	192,043,640
At 1 January 2012	100,000,000	92,395,978	(352,338)	192,043,640
Profit for the year	-	15,629,804	-	15,629,804
Other comprehensive loss	-	-	(168,241)	(168,241)
Total comprehensive income for the year	-	15,629,804	(168,241)	15,461,563
At 31 December 2012	100,000,000	108,025,782	(520,579)	207,505,203

The translation reserve represents the translation losses arising from conversion of the net assets of the foreign operation, CDSC Registrars Rwanda, to the reporting currency.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital Sh	Revenue reserve Sh	Total Sh
At 1 January 2011	100,000,000	65,126,331	165,126,331
Profit for the year and total comprehensive income	-	16,669,496	16,669,496
At 31 December 2011	100,000,000	81,795,827	181,795,827
	==========	==========	==========
At 1 January 2012	100,000,000	81,795,827	181,795,827
Profit for the year and total comprehensive income	-	17,038,780	17,038,780
At 31 December 2012	100,000,000	98,834,607	198,834,607
	==========	==========	==========

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 Sh	2011 Sh
OPERATING ACTIVITIES			
Cash generated from operations	19(a)	17,290,856	37,645,362
Income tax paid	9(c)	(21,242,304)	(17,502,791)
Interest received	8	20,419,788	8,826,568
Net cash generated from operating activities		16,468,340	28,969,139
INVESTING ACTIVITIES			
Purchase of equipment	10	(1,165,408)	(5,484,152)
Purchase of intangible assets	11	(1,019,723)	(1,310,640)
Net cash used in investing activities		(2,185,131)	(6,794,792)
NET INCREASE IN CASH AND CASH EQUIVALENTS		14,283,209	22,174,347
EFFECT OF THE EXCHANGE RATES		(96,135)	(358,246)
CASH AND CASH EQUIVALENTS:			
AT 1 JANUARY		160,791,848	138,975,747
AT 31 DECEMBER	19(b)	174,978,922	160,791,848

1. ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.
For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is represented by/ is equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(a) New and revised IFRSs effective in the current period

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IFRS 1 Severe Hyperinflation	The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time The application of the amendments had no effect on the group's financial statements.
Amendments to IFRS 1 Removal of Fixed Dates for First-time Adopters	The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs. The application of the amendments had no effect on the group's financial statements.
Amendments to IFRS 7 Disclosures – Transfers of Financial Assets	The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset The application of the amendments had no effect on the group's financial statements.
Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets	The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 Investment Property will be recovered entirely through sale. The amendments were issued in response to concerns that application of IAS 12's general approach can be difficult or subjective for investment property measured at fair value because it may be that the entity intends to hold the asset for an indefinite or indeterminate period of time, during which it anticipates both rental income and capital appreciation. The application of the amendments had no effect on the group's financial statements.

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(i) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2012

	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments (as revised in 2010)	1 January 2015
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IFRS 10 Consolidated Financial Statements	1 January 2013
IAS 27 Separate Financial Statements (as revised in 2011)	1 January 2013
IAS 19 Employee Benefits (2011) - Revised requirements for pensions and other post retirement benefits, termination benefits and other changes.	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014

(ii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods

- **IFRS 9, Financial Instruments**

IFRS 9 Financial Instruments issued in November 2010 and amended in October 2010 and December 2011 introduces new requirements for the classification and measurement of financial assets.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

- **IFRS 9, Financial Instruments (Continued)**

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The directors anticipate that IFRS 9 will be adopted in the group's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have an impact on amounts reported in respect of the group's financial assets and financial liabilities (e.g. the group will classify financial assets as subsequently measured at either amortised cost or fair value). However, it is not practicable to provide a reasonable estimate of that effect until a detailed review is done.

- **IFRS 12 Disclosure of Interests in Other Entities**

IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgements and assumptions - such as how control, joint control, significant influence has been determined

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(ii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 December 2012 and future annual periods (Continued)

- **IFRS 12 Disclosure of Interests in Other Entities (Continued)**

- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

The directors anticipate that IFRS 12 will be adopted in the group's financial statements for the annual period beginning 1 January 2013 and that the application of the new standard would result in more extensive disclosures in the financial statements.

- **IFRS 13 Fair Value Measurements**

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - unobservable inputs for the asset or liability.

The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The directors anticipate that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements, however, the group is yet to assess IFRS 13's full impact and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2013.

- **IFRS 10 Consolidated Financial Statements**

IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements that deals with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities.

Headline changes brought about by IFRS 10 are as follows:

- Under IFRS 10, there is only one basis for consolidation for all entities, and that basis is control. This change removes the perceived inconsistency between the previous version of IAS 27 and SIC-12 – the former used control concept whilst the latter placed greater emphasis on risks and rewards.

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(ii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (Continued)

- **IFRS 10 Consolidated Financial Statements(Continued)**

- A more robust definition of control has been developed in IFRS 10 in order to address unintentional weaknesses of the definition of control set out in the previous version of IAS

- 27. The definition of control in IFRS 10 includes three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) ability to use its power over the investee to affect the amount of the investor's returns.

- IFRS 10 requires an investor to focus on activities that significantly affect the returns of an investee ('relevant activities') in assessing whether it has control over the investee (not merely financial and operating policies as set out in the previous version of IAS 27).

- IFRS 10 replaces the term 'benefits' with the term 'returns' so as to clarify that an investor's returns could potentially be positive, negative or both.

- IFRS 10 makes it clear that there must be a linkage between 'power' and 'returns from the investee'.
- IFRS 10 requires that, in assessing control, only substantive rights (i.e. rights that their holder has the practical ability to exercise) are considered. For a right to be substantive, the right needs to be currently exercisable at the time when decisions about the relevant activities need to be made

- **Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)**

Amends the disclosure requirements in IFRS 7 Financial Instruments: Disclosure to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation.
The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

- **IAS 19 Employee Benefits (2011)**

An amended version of IAS 19 Employee Benefits with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes.
The key amendments include:
- Requiring the recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of remeasurements in other comprehensive income, plan amendments, curtailments and settlements (eliminating the 'corridor approach' permitted by the existing IAS 19)
- Introducing enhanced disclosures about defined benefit plans
- Modifying accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits
- Clarifying various miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features
- Incorporating other matters submitted to the IFRS Interpretations Committee.

The directors anticipate that the application of the amendment may affect the amounts reported in the financial statements. However, the group is yet to assess full impact of the amendment.

- **Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)**

These amend IAS 1, Presentation of Financial Statements, to revise the way other comprehensive income is presented.

The amendments:
- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and Other comprehensive Income (OCI) to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement.
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified.

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(ii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (Continued)

- **Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (Continued)**

  - Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

  The above amendments are generally effective for annual periods beginning on or after 1 July 2012. The group will apply the amendments prospectively. Other than presentation, the directors anticipate no material impact to the group's financial statements.

- **Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**

  Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

  - the meaning of 'currently has a legally enforceable right of set-off'
  - the application of simultaneous realization and settlement
  - the offsetting of collateral amounts
  - the unit of account for applying the offsetting requirements.

  The above amendments are generally effective for annual periods beginning on or after 1 January 2013. The group will apply the amendments prospectively. The directors anticipate no material impact to the group's financial statements.

(b) Early adoption of standards

The Group did not early-adopt any new or amended standards in 2012.

Basis of accounting

The group prepares its financial statements under the historical cost convention.

Consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries, CDSC Nominees Limited, CDSC Registrars Rwanda limited and CDSC Registrars Kenya Limited all of which are made up to 31 December each year.

Subsidiary undertaking, being a company in which the group either directly or indirectly has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations, has been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the group and are not consolidated as from the date of disposal. All intercompany transactions, balances and unrealized surpluses and deficits on transactions with the subsidiary companies have been eliminated. Subsidiary undertakings are disclosed in Note 12.

Investment in subsidiary company

Investment in the subsidiary company is stated at cost less provision for impairment where applicable.

Revenue recognition

Revenue comprises transaction, depository levies which are recognised to income once the transaction is recognised in the Central Depository System.

Pledge income comprises fees paid by shareholders when pledging their shares as security for loans. The fees are recognized when the shares are designated as pledged, preventing them from being traded.

Fees, postage income, interest and other income are recognised to income on the accruals basis.

Motor vehicles, furniture and equipment

Motor vehicles, furniture and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the straight line basis to write off the cost of motor vehicles, furniture and fittings, equipment and computers over their expected useful lives at the following annual rates:

Motor vehicles	25%
Computer equipment	25%
Office equipment	25%
Furniture and fittings	12.5%

1 ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets represent computer software and CDS software which are stated at cost less amortization. Amortisation is calculated to write off the cost of the computer software on a straight line basis over its estimated useful life of four years and eight years in respect of the CDS software.

Taxation

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax assets in respect of taxable losses carried forward are recognised only to the extent that it is probable that future taxable income will be sufficient to utilize these losses.

Provision for liabilities and charges

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave at the end of the reporting period.

Retirement benefit obligations

The group adheres to a defined contribution provident scheme for its staff and also makes contributions to the statutory National Social Security Fund, a defined contribution scheme registered under the National Social Security Act.

The group's obligations to all staff retirement benefits schemes are recognised in profit or loss as they fall due.

Foreign currency translation

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the reporting date. Transactions during the year are translated at rates ruling on the dates of the transactions. Exchange gains and losses are dealt with in the profit or loss.

Financial instruments

Financial assets and liabilities are initially recognised in the group's statement of financial position at cost using settlement date accounting, when the group has become a party to the contractual provisions of the instrument.

Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading.

Available for sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity are classified as available for sale.

Recognition and derecognition

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

Available for sale financial assets are carried at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity are recognised in the profit or loss.

Impairment

At each balance sheet date, the group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in the profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

Comparatives

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the group's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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. These are dealt with below:

Property, plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Risk management is carried out by the finance department under policies approved by the Board of Directors. Finance identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

a) Market risk

(i) Price risk

The group does not hold investments that would be subject to price risk; hence this risk is not relevant.

(ii) Interest rate risk

The group holds interest bearing assets in form of fixed deposits. This risk has been managed by negotiating interest rates on the deposits with the banks resulting in consistent earnings during the duration of the deposits.

As at 31 December 2012, an increase/decrease of 5 basis points would have resulted in an increase/decrease in profit before taxation of Sh 1,020,033 (2011- Sh 419,964).

b) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the company. Credit risk is managed on a group-wide basis. Credit risk arises from cash and cash equivalents, deposits with banks, as well as trade and other receivables. The group only deals with listed companies in the stock exchange and authorized central depository agents who are considered credit worthy counterparties. Individual risk limits are regularly assessed by the management of the group. The utilization of credit limits is regularly monitored. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by the banking regulatory authority.

The amount that best represents the company's maximum exposure to credit risk at 31 December is as follows:

	2012 Kshs	2011 Kshs
Fixed deposits	127,454,671	120,829,533
Trade receivables	24,928,701	20,621,584
Bank and cash balances	47,524,251	39,962,315
	199,907,623	181,413,432
	==========	==========

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Classification of trade receivables

The group classifies the credit quality of its trade receivables into three categories; performing, past due and impaired. The performing debts are those which are within the set credit period of 30 days, the default rate is low.

Past due amounts are those beyond the maximum established credit period of 30 days and represents slow but paying customers. These receivables continue to be serviced even though this is not done on the contractual dates. The finance department is actively following this debt.

The analysis of trade receivables is as detailed below:

Receivables At 31 December 2012	Fully performing Sh	Past due Sh	Impaired Sh	Total (gross) Sh
Trade receivables	14,772,081	7,953,470	1,245,150	23,970,701
	=========	========	========	=========

Receivables At 31 December 2011	Fully performing Sh	Past due Sh	Impaired Sh	Total (gross) Sh
Trade receivables	17,206,059	3,415,525	2,787,458	23,409,042
	=========	========	========	=========

c)Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash to meet group obligations. The group manages this risk by maintaining adequate cash balances in the bank, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows.

The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month Sh	Between 1 - 3 months Sh	Over 3 months Sh	Total Sh
At 31 December 2012:				
Trade and other payables	25,893,158	-	-	25,893,158
=========	=========	========	=========	
At 31 December 2011:				
Trade and other payables	15,758,078	-	-	15,758,078
Due to related parties	63,976	-	-	63,976
	=========	=========	========	=========

4 CAPITAL MANAGEMENT

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. The group did not have borrowings in both year ends and was therefore not geared.

5 INCOME

	2012 Sh	2011 Sh
Transaction levy	104,154,350	94,816,568
Bond levy Income	22,843,777	19,502,212
Depository levy	20,410,315	21,486,200
IPO Postage income	15,664,560	29,130
Registry fees	3,660,770	22,541,972
Pledges	2,948,700	4,469,011
Miscellaneous	1,278,594	29,950
Security transfer fees	1,031,000	3,389,826
SMS Solution fees	247,585	385,229
Interim statement fees	238,000	289,442
Withdrawal fees	45,500	145,500
Appointment fees	-	559,856
Project fees	-	22,666,313
	172,523,151	190,311,209
	==========	==========

6 OPERATING EXPENSES

	2012 Sh	2011 Sh
Staff costs (Note 7)	77,338,075	70,822,941
Telephone and postage	18,796,548	13,749,460
Claims and penalties	7,149,218	-
Rent and related expenses	7,249,361	13,110,626
Software and equipment maintenance and hire	6,893,069	6,357,460
Amortisation	6,869,860	7,458,125
Office stationery	5,283,467	4,703,273
Insurance	5,611,243	4,955,327
Traveling	5,166,553	7,542,118
Depreciation	3,131,524	3,655,676
Board and committee expenses	2,572,467	1,689,812
Professional fees	2,188,688	5,306,085
Office expenses	2,059,992	932,813
Conference expenses	2,156,399	105,406
Service charge	2,908,119	22,344
Advertising & Public Education	1,965,702	955,782
Internet services	1,502,317	3,267,001
Electricity	1,308,350	-
Provision for doubtful debts	1,245,150	2,787,457
Licenses & fees	1,242,788	629,514
Repairs and renewals	1,214,436	472,650
General expenses	1,117,643	1,525,289
Statutory audit fees	1,051,708	918,354
Security charges	724,192	728,136
Publications	719,316	495,726
Subscriptions and periodicals	502,770	435,658
Bank charges	344,344	521,282
Systems audit fees	253,390	776,040
Donations	150,000	100,000
Legal Fees	120,783	310,000
Immobilization costs	119,480	183,931
Entertainment	96,095	14,210
Installations	-	178,692
	169,053,047	154,711,188
	=========	==========

7 STAFF COSTS

	2012 Sh	2011 Sh
Salaries and wages	63,126,216	60,158,372
Medical costs	4,614,609	3,912,105
Employer provident fund contributions	3,279,500	3,311,959
Gratuity expenses	2,385,973	-
Training costs	1,954,490	2,466,413
Staff welfare	986,281	1,035,714
Leave pay provision	899,733	(168,778)
Employer NSSF	72,200	85,200
CSR - Rwanda employer contribution	19,073	21,956
	77,338,075	70,822,941
	=========	=========

8 NET FINANCE INCOME

	2012 Sh	2011 Sh
Interest income	20,419,788	8,826,568
Foreign exchange gain	-	(18,553)
	20,419,788	8,808,015

9 TAXATION

a) Taxation charge

	2012 Sh	2011 Sh
Current taxation based on chargeable Profit for the year at 30%	13,842,349	16,470,474
Prior year under provision	-	3,588,623
Current tax charge	13,842,349	20,059,097
Deferred taxation credit (note 16)	(3,868,443)	(1,017,357)
Prior year deferred tax over provision	(1,713,818)	(1,903,351)
Deferred tax credit	(5,582,261)	(2,920,708)
Taxation expense	8,260,088	17,138,389

9 TAXATION (continued)

b) Reconciliation of taxation charge to the expected tax based on accounting profit before taxation

	2012 Sh	2011 Sh
Accounting profit before taxation	23,889,892	44,408,036
Tax at the applicable rate of 30%	7,166,967	13,322,411
Tax effect of expenses not deductible for tax	2,806,939	2,130,706
Prior year current tax under provision	-	3,588,623
Prior year deferred tax over provision	(1,713,818)	(1,903,351)
	8,260,088	17,138,389

c) Taxation (recoverable)/ payable – group

	2012 Sh	2011 Sh
At 1 January	2,956,754	400,448
Charge for the year	13,842,349	16,470,474
Tax paid in the year	(21,242,304)	(17,502,791)
Prior year current tax under provision	-	3,588,623
	(4,443,201)	2,956,754

	2012 Sh	2011 Sh
Taxation (recoverable)/ payable - company		
At 1 January	179,882	400,448
Charge for the year	13,842,349	11,927,553
Tax paid in the year	(16,956,108)	(15,736,742)
Prior year current tax under provision	-	3,588,623
	(2,933,877)	179,882

10 EQUIPMENT

GROUP

	Furniture fittings and office equipment Sh	Computer equipment Sh	Total Sh
COST			
At 1 January 2011	19,558,034	28,784,944	48,342,978
Additions	4,943,460	540,692	5,484,152
Write off	(1,083,639)	-	(1,083,639)
At 31 December 2011	23,417,855	29,325,636	52,743,491
At 1 January 2012	23,417,855	29,325,636	52,743,491
Additions	473,040	692,368	1,165,408
At 31 December 2012	23,890,895	30,018,004	53,908,899
DEPRECIATION			
At 1 January 2011	11,877,745	25,591,337	37,469,082
Charge for the year	2,090,925	1,564,751	3,655,676
Writeoff	(293,486)	-	(293,486)
Translation adjustment	(2,010)	(300)	(2,310)
At 31 December 2011	13,673,174	27,155,788	40,828,962
At 1 January 2012	13,673,174	27,155,788	40,828,962
Charge for the year	2,096,301	1,035,223	3,131,524
Translation adjustment	(2,945)	(4,587)	(7,532)
At 31 December 2012	15,766,530	28,186,424	43,952,954

10 EQUIPMENT (continued)

	Furniture fittings and office equipment Sh	Computer equipment Sh	Total Sh
NET BOOK VALUE			
At 31 December 2012	8,210,348	1,831,580	9,955,945
	========	========	========
At 31 December 2011	9,744,681	2,169,848	11,914,529
	========	========	========

Included in equipment are assets with a cost of Sh 36,999,682 (2011 – 30,482,778) that are fully depreciated. The normal annual depreciation charge on these assets would have been Sh 8,422,452 (2011 – 7,050,342).

	Furniture fittings and office equipment Sh	Computer equipment Sh	Total Sh
COMPANY			
COST			
At 1 January 2011	19,558,034	28,784,944	48,342,978
Additions	4,624,560	489,916	5,114,476
Write off	(1,083,639)	-	(1,083,639)
At 31 December 2011	23,098,955	29,274,860	52,373,815
At 1 January 2012	23,098,955	29,274,860	52,373,815
Additions	473,040	692,368	1,165,408
At 31 December 2012	23,571,995	29,967,228	53,539,223
DEPRECIATION			
At 1 January 2011	11,877,745	25,591,337	37,469,082
Charge for the year	2,046,432	1,558,104	3,604,536
Write off	(293,488)	-	(293,488)

	Furniture fittings and office equipment Sh	Computer equipment Sh	Total Sh
At 31 December 2011 40,780,130		13,630,689	27,149,441
At 1 January 2012 40,780,130		13,630,689	27,149,441
Charge for the year	1,998,600	1,035,223	3,033,823
At 31 December 2012 43,813,953		15,629,289	28,184,664
NET BOOK VALUE			
At 31 December 2012 9,725,270		7,942,706	1,782,564
	==========	========	========
At 31 December 2011 11,593,685		9,468,266	2,125,419
	==========	========	========

Included in equipment are assets with a cost of Sh 36,999,682 (2011 – 30,482,778) that are fully depreciated. The normal annual depreciation charge on these assets would have been Sh 8,422,452 (2011 – 7,050,342).

11 INTANGIBLE ASSETS

GROUP

	Computer and CDS Software Sh
COST	
At 1 January 2011	49,362,896
Additions	1,310,640
At 31 December 2011	50,673,536
At 1 January 2012	50,673,536
Additions	1,019,723
At 31 December 2012	51,693,259
AMORTISATION	
At 1 January 2011	34,257,020
Charge for the year	7,458,125
Translation adjustment	(3,598)
At 31 December 2011	41,711,547
At 1 January 2012	41,711,547
Charge for the year	6,869,860
Translation adjustment	(4,587)
At 31 December 2012	48,576,820
NET BOOK VALUE	
At 31 December 2012	3,116,439
At 31 December 2011	8,961,989

COMPANY

	Computer and CDS Software Sh
COST	
At 1 January 2011	49,362,896
Additions	702,215
At 31 December 2011	50,065,111
At 1 January 2012	50,065,111
Additions	1,019,723
At 31 December 2012	51,084,834
AMORTISATION	
At 1 January 2011	34,257,020
Charge for the year	7,378,474
At 31 December 2011	41,635,494
At 1 January 2012	41,635,494
Charge for the year	6,708,190

11 INTANGIBLE ASSETS (Continued)

At 31 December 2012	48,343,684
NET BOOK VALUE	
At 31 December 2012	2,741,150
At 31 December 2011	8,429,617

12 INVESTMENT IN SUBSIDIARIES

COMPANY

	2012 Sh	2011 Sh
CDSC Nominees Limited	20,000	20,000
CDSC Registrars Rwanda Limited	141,043	141,043
CDSC Registrars Kenya Limited	100,000	100,000
	261,043	261,043

Company	Share capital Sh	% Holding	Country of Incorporation	Principal activity
CDSC Nominees	20,000	100%	Kenya	Holding securities as a nominee on behalf of Central Depository and Settlement Corporation Limited
CDSC Registrars Rwanda Limited	141,043	100%	Rwanda	Carry out business as a shares and securities registrar
CDSC Registrars Kenya Limited	100,000	100%	Kenya	CDSC Registrars Kenya Carry out business as a shares and securities registrar

The investment in subsidiaries is stated at cost.

13 FIXED DEPOSITS

GROUP

	2012 Sh	2011 Sh
Held to maturity-maturing within 120 days:		
CFC Stanbic Bank Limited interest rate at 13.5% (2011 – 16.8 %)	61,863,178	54,577,153
CBA Limited– interest rate at 9.5% (2011 - 18%)	15,542,395	24,181,016
Chase Bank-Interest rate at 10% (2011-30%)	26,142,909	21,470,985
Equitorial bank Interest rate at 14%	23,906,189	-
I&M Bank interest rate (2011 - 7.25%)	-	20,600,379
	127,454,671	120,829,533

	2012 Sh	2011 Sh
Held to maturity-Maturing within 120 days:		
CFC Stanbic Bank Limited interest rate at 13.5% (2011 – 16.77 %)	61,863,178	47,964,659
CBA Limited– interest rate 9.5% (2011 - 18%)	15,542,395	24,181,016
Chase Bank-Interest rate at 10% (2011-30%)	26,142,909	21,470,985
Equitorial bank Interest rate at 14%	23,906,189	-
I&M Bank interest rate (2011 - 7.25%)	-	20,600,379
	127,454,671	114,217,039

14 RECEIVABLES

	2012 Sh	2011 Sh
GROUP		
Bond levy debtors	6,551,643	3,130,699
Registry fees receivable	4,891,517	1,174,559
Transaction levy fees receivable	5,793,743	5,096,687
Net depository levy receivable	5,298,170	3,070,358
Management fees	1,435,628	8,149,281
Total trade receivables	23,970,701	20,621,584
Prepayments	7,650,230	9,041,329
Other receivables	2,930,431	1,381,905
	34,551,362	31,044,818

14 RECEIVABLES (Continued)

COMPANY

Trade receivables	17,643,556	11,529,694
Prepayments	7,650,230	9,041,329
Other receivables	2,892,863	1,149,955
Management fees	1,435,628	8,149,281
	29,622,277	29,870,259

15 SHARE CAPITAL

Authorized, issued and fully paid		
1,000,000 shares of Sh 100 each	100,000,000	100,000,000

16 DEFERRED INCOME TAXES

GROUP

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted rate of 30%. The net deferred tax asset is attributable to the following items:

	2012 Sh	2011 Sh
Accumulated tax losses	378,754	-
Accelerated capital allowance	3,240,146	1,152,614
General bad debt provision	1,209,791	(836,246)
Leave pay provision	454,289	184,368
Gratuity provision	715,792	-
	5,998,772	500,736

Movement in net deferred tax asset is as follows:

At 1 January	500,736	(2,419,972)
Deferred tax credit to the income statement (note 9(a))	3,868,443	1,017,357
Prior year deferred tax over provision	1,713,818	1,903,351
Prior year under provision	(84,225)	-
At 31 December	5,998,772	500,736

COMPANY

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted rate of 30%. The net deferred tax asset is attributable to the following items:

	2012 Sh	2011 Sh
Accelerated capital allowance	3,324,371	1,152,614
General bad debt provision	1,209,791	(836,246)
Leave pay provision	454,289	184,368
Gratuity provision	715,792	-
	5,704,243	500,736

Movement in net deferred tax asset is as follows:

At 1 January	500,736	(2,419,972)
Deferred tax credit to the income statement (note 9(a))	3,489,689	1,017,357
Prior year deferred tax over provision	1,713,818	1,903,351
At 31 December	5,704,243	500,736

17 PAYABLES

GROUP

Accrued expenses	13,155,162	13,237,313
Trade and other payables	11,223,701	2,520,765
Leave pay provision	1,514,295	614,562
VAT payable	-	1,776,910
	25,893,158	18,149,550

COMPANY

Accrued expenses	13,155,162	13,162,644
Trade and other payables	9,290,206	2,520,765
Leave pay provision	1,514,295	614,562
	23,959,663	16,297,971

18 RELATED PARTIES

The group transacts with other companies related to it by virtue of shareholding. During the year, the following transactions were entered into with related parties:

	GROUP		COMPANY	
	2012 Sh	2011 Sh	2012 Sh	2011 Sh
(a) Due to related parties				
Due to CDSC Nominees Limited	-	-	20,000	20,000
CDSC Guarantee Fund	-	63,976	-	63,976
Due to CDSC Registrars Kenya	-	-	240,606	100,000
Due to CDSC Registrars Rwanda	-	-	6,612,932	141,043
	-	63,976	6,873,538	325,019
(b) Due from related parties				
CDSC Registrars	-	-	3,285,370	5,899,266
CDSC Registrars Rwanda	-	-	8,374,998	-
Due from NSE	176,860	-	176,860	-
Due from CMA	176,860	-	176,860	-
	353,720	-	12,014,088	5,899,266

(c) Key Management Compensation

The remuneration of directors and other members of key management during the year were as follows:

GROUP AND COMPANY	2012 Sh	2011 Sh
Salaries and other benefits	35,293,848	32,596,746
	========	========
Directors' remuneration		
Fees for services as directors	1,367,857	582,143
	========	========

19 NOTES TO THE STATEMENT OF CASH FLOWS

	2012 Sh	2011 Sh
(a) Reconciliation of operating profit to cash used in operations		
Profit before taxation	23,889,892	44,408,036
Adjustments:		
Interest income	(20,419,788)	(8,826,568)
Depreciation	3,131,524	3,655,676
Amortisation	6,869,860	7,458,125
Loss on asset written off	-	790,153
Working capital changes:		
Increase in receivables	(3,506,544)	(6,911,124)
Increase/(decrease) in payables	7,743,608	(4,941,646)
Decrease in due to related party balances	(63,976)	(117,397)
(Increase)/decrease in amounts due from related parties	(353,720)	2,130,107
Net cash generated from operations	17,290,856	37,645,362
	=========	=========
(b) Analysis of cash and cash equivalents		
Bank and Cash balances	47,524,251	39,962,315
Fixed deposits	127,454,671	120,829,533
	174,978,922	160,791,848
	========	==========

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits maturing within 90 days, held with banks.

20 PROFIT FOR THE YEAR

A profit for the year of Sh 17,038,780 (2011 – Sh 16,669,496) has been dealt with in the books of the company, Central Depository and Settlement Corporation Limited.

21 OPERATING LEASE COMMITMENTS

GROUP AND COMPANY

	2012 Sh	2011 Sh
Amounts payable under operating leases in respect of property rental (group offices)		
Within one year	9,179,530	5,790,817
Between one and two years	716,000	6,080,362
	9,895,530	11,871,179

22 CONTINGENT LIABILITIES - GROUP AND COMPANY

The group and the company had no contingent liabilities as at 31 December 2012 (2011-Nil).

23 CAPITAL COMMITMENTS - GROUP AND COMPANY

	2012 Sh	2011 Sh
Authorized and contracted for	-	-
Authorized but not contracted for	77,146,072	45,221,924

24 INCORPORATION

The company is incorporated and domiciled in Kenya under the Companies Act.

25 CURRENCY

The financial statements are presented in Kenya Shillings (Sh).

DETAILED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 Sh	2011 Sh
INCOME (Appendix II)	168,862,381	167,158,702
OPERATING EXPENSES (Appendix II)	(163,604,547)	(145,255,366)
OPERATING PROFIT	5,257,834	21,903,336
NET FINANCE INCOME (Appendix II)	20,419,788	7,361,627
PROFIT BEFORE TAXATION	25,677,622	29,264,963
TAXATION CHARGE	(8,638,842)	(12,595,467)
PROFIT FOR THE YEAR	17,038,780	16,669,496
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME	17,038,780	16,669,496

	2012 Sh	2011 Sh
INCOME		
Transaction levy	104,154,350	94,816,568
Bond levy Income	22,843,777	19,502,212
Depository levy	20,410,315	21,486,200
IPO Postage income	15,664,560	29,130
Miscellaneous	1,123,594	22,000
Pledges	2,948,700	4,163,250
Security transfer fees	1,031,000	3,362,500
SMS Solution fees	247,585	385,229
Interim statement fees	238,000	287,300
Appointment/Annual Subscription fees	155,000	292,500
Withdrawal fees	45,500	145,500
Project fees	-	22,666,313
	168,862,381	167,158,702

DETAILED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	2012 Sh	2011 Sh
OPERATING EXPENSES		
Staff costs	74,252,242	68,927,710
Telephone and postage	18,781,472	13,544,669
Rent and related expenses	6,987,058	12,292,210
Software and equipment maintenance and hire	6,874,086	6,357,460
Amortisation	6,708,090	7,378,477
Office stationery	5,245,886	4,618,817
Travelling	3,778,196	4,164,104
Insurance	5,536,767	4,876,021
Board and committee expenses	2,572,467	1,689,812
Office expenses	2,070,486	1,108,311
Depreciation	3,033,823	3,311,050
Claims and penalties	7,149,218	-
Conference expenses	2,156,399	71,359
Service charge	2,858,472	22,344
Professional fees	2,188,688	5,125,650
Advertising & Public Education	1,965,702	856,981
Internet services	1,476,100	1,888,352
Provision for doubtful debts	1,245,150	2,787,457
Licences & fees	1,242,788	629,514
Repairs and renewals	1,214,436	406,109
Electricity	1,308,350	-
Legal fees	99,535	310,000
Immobilisation costs	119,480	165,300
Bank charges	334,525	496,046
Statutory audit fees	948,352	918,354
Systems audit fees	253,390	776,040
Publications	719,316	495,726
General expenses	1,011,016	764,674
Security charges	724,192	728,136
Subscriptions and periodicals	502,770	430,473
Entertainment	96,095	14,210
Donations	150,000	100,000
	163,604,547	145,255,366

	2012 Sh	2011 Sh
NET FINANCE INCOME		
Interest income	20,419,788	7,380,180
Foreign exchange gain	-	(18,553)
	20,419,788	7,361,627

1. **FRANCIS DRUMMOND & COMPANY LTD (B01)**
Hughes Building, 2nd Floor
P.O. Box 45465 -00100 Nairobi
Tel: 318689/90
Fax: 318686
Email: info@drummond.co.ke
Website: www.drummond.co.ke

2. **DYER & BLAIR INVESTMENT BANK (B02)**
Loita House, 10th Floor
P.O. Box 45396 -00100 Nairobi
Tel: 3240000/227803/4/5
Fax: 3240114
Email: shares@dyerandblair.com
Website: www.dyerandblair.com

3. **SUNTRA INVESTMENT BANK LTD(B07)**
Nation Centre, 7th Floor
P.O. Box 74016 -00200 Nairobi
Tel: 2870000/2223329/247530/2223330
Mobile: 0724-257024, 0733222216
Fax: 224327
Email: info@suntra.co.ke
Website: www.suntra.com

4. **OLD MUTUAL SECURITIES LTD (B08)**
IPS building, 6th Floor
P.O. Box 50338 – 00200 Nairobi
Tel: 2241379/2246296
Fax: 2241392
Email: oms@oldmutualkenya.com
Website: www.oldmutual.co.ke

5. **CFC STANBIC FINANCIAL SERVICES LTD(B09)**
CFC Stanbic Centre, Chiromo
P.O. Box 47198 -00100 Nairobi
Tel: 3638900/3638080
Fax: 2218813 /3752950
Email: csfs-customerservice@stanbic.com
Website: www.cfcstanbic.co.ke

6. **KINGDOM SECURITIES (B11)**
Co-operative Bank House, 5th Floor
P.O. Box 48231 -00100 Nairobi
Tel: 3276000
Fax: 3276676
Email: info@kingdomsecurities.co.ke
Website: www.kingdomsecurities.co.ke

7. **AIB CAPITAL LTD(B12)**
Finance House 9th Floor
P.O. Box 11019 -00100 Nairobi
Tel: 2210178/2212989
Fax: 2210500
Email: info@aibcapital.com
Website: www.aibcapital.com

8. **ABC CAPITAL LTD(B14)**
IPS Building, 5th Floor
P.O Box 34137 -00100 Nairobi
Tel: 2246036/2245971
Fax: 2245971/316144
Email: headoffice@abccapital.co.ke
Website: www.abccapital.co.ke

9. **STERLING CAPITAL LIMITED (B15)**
Barclays Plaza, 5th Floor
P.O. Box 45080 -00100 Nairobi
Tel: 2213914/2244077
Fax: 2218261
Email: info@sterlingib.com
Website: www.sterlingstocks.com

CENTRAL DEPOSITORY AGENTS. (CDA's)

10. **APEX AFRICA CAPITAL LTD(B16)**
Rehani House, 4th Floor
P.O. Box 43676 -00100 Nairobi
Tel: 2242170//2220517
Fax: 2215554
Email: invest@apexafrica.com
Website: www.apexafrica.com

11. **FAIDA INVESTMENT BANK LTD(B17)**
Windsor House, 1st Floor
P.O. Box 45236 -00100 Nairobi
Tel: 2243811/2/3
Fax: 2243814
Email: info@fib.co.ke
Website: www. fib.co.ke

12. **NIC CAPITAL SECURITIES LTD(B18)**
NIC House, Masaba Road
P. O. Box 44599 - 00100 Nairobi
Tel: 2888000/ 2718200/ 4948000
Fax: 2888505/ 2888512
Email: info@nic-securities.com
Web: www.nic-bank.com

13. **GENGHIS CAPITAL LTD(B19)**
Prudential Assurance Building, 6th Floor
Wabera Street
P. O. Box 607 - 00612 Nairobi
Tel: 2774750/1/2
Fax: 2246334
Email: info@geghiscapital.co.ke
Website: www.genghis-capital.com

14. **STANDARD INVESTMENT BANK LTD(B20)**
ICEA Building, 16th Floor
P.O. Box13714 -00800 Nairobi
Tel: 2220225/240296/227004
Fax: 2240297/2251865
Email: info@sib.co.ke
Website: www. sib.co.ke

15. **KESTREL CAPITAL (EAST AFRICA) LTD(B21)**
ICEA Building, 5th Floor
Kenyatta Avenue
P.O. Box 40005 -00100 Nairobi
Tel: 2251758/2251893
Fax: 2243264
Email: info@kestrelcapital.com
Website: www.kestrelcapital.com

16. **AFRICAN ALLIANCE KENYA SECURITIES LTD(B23)**
Trans National plaza. 1st Floor
Mama Ngina Street
P.O. Box 27639 -00506 Nairobi
Tel: 2735013/2735154, 2762000
Fax:2216070
Email: securities@africanalliance.co.ke
Website: www.africanalliance.com

17. **RENAISSANCE CAPITAL (KENYA) LTD(B24)**
6th Floor, Purshottam Place
Westlands Road, Chiromo
P.O. Box 40560 -00100 Nairobi
Tel: 3682000/368100
Fax: 3682339/3681100
Email: infokenya@rencap.com
Website: www.reinaissancegroup.com

18. **ABCC - AFRICAN BANKING CORPORATION LTD**
ABC Bank, Koinange Street
P.O Box46452 -00100 Nairobi
Tel: 2226712/2217856/7/8
Fax: 2222437
Email: westlands@abcthebank.com
Website: www.abcthebank.com

19. **BBKC - BARCLAYS BANK OF KENYA LTD**
Westend Building
P. O. Box 30120 - 00100
Tel: 2241270
Fax: 213915
Email: bss.ke@barclays.com
Website: www.barclays.com

20. **COBC - CO-OPERATIVE BANK OF KENYA**
Co-op Bank House, 14th floor
Haile Selassie Avenue
P.O. Box48231 -00100 Nairobi
Tel: 020- 32076100
Fax: 020-227747/219831
Email:custodial@co-opbank.co.ke
Website: www.co-opbank.co.ke

21. **ECBC - EQUATORIAL COMMERCIAL BANK**
Equatorial Commercial Bank Centre
Nyerere Road
P.O. Box 52467-00200 Nairobi
Tel: 2710455
Fax: 2710366
Email:customerservice@ecb.co.ke
Website: equatorialbank.co.ke

22. **EQBC - EQUITY BANK**
Equity Centre, Upper Hill
P.O. Box 75104 -00200 Nairobi
Tel: 2736620/17/24/2262909/2262479
Mobile: 0722209591 / 0733602500
Fax: 2737276
Email: custody@equitybank.co.ke
Website: www.equitybank.co.ke

23. **IMBC - I&M BANK**
I & M Tower, 1st Floor
Kenyatta Avenue
P.O. Box 30238 -00100 Nairobi
Tel: 3221200/ 3221217
Fax: 2212947 /2216732
Email: invest@imbank.co.ke
Website: www.imbank.com

24. **KCBC - KENYA COMMERCIAL BANK LTD**
P.O Box 30664 -00100Nairobi
Piedmont Plaza, Ngong Road,
Opposite Kenya Science
Tel: 020 8084388 / 89
Fax: 020 807666
Email: custody@kcb.co.ke
Website: www.kcb.co.ke

25. **NBKC - NATIONAL BANK OF KENYA. LTD**
National Bank Building
Harambee Avenue
P.O. Box 72866 -00200
Tel: 2828000
Fax: 311444
Email: info@nationalbank.co.ke
Website: www.nationalbank.co.ke

26. **NIBC - NIC BANK LIMITED**
NIC House, Masaba Road
P.O.Box 44559 -00100 Nairobi
Tel: 2888000
Fax: 2888505/513
Email: custody@nic-bank.com
Website: www.nic-bank.com

27. **PRBC - PRIME BANK LIMITED**
Prime Bank Office
Riverside Drive
P.O. Box 43825 -00100 Nairobi
Tel: 4203000/4203116/4203148
Fax: 4451247/4203204
Email: custodial@primebank.co.ke
Website: www.primebank.co.ke

28. **STBC - CFC STANBIC**
CFC Stanbic Centre
Chiromo Road, Westlands
P.O. Box 30550 -00100 Nairobi
Tel: 3268000 /311997
Fax: 3752906 /310601
Email: csb_ ken_ cusodial@stanbic.com
Website: www.cfcstanbicbank.co.ke

29. **CHBC - CHASE BANK (K) LTD**
Assurance Building
6th Floor, Wabera Street
P.O. Box 28987 -00200
Tel: 2774000/2774001/2774002
Fax: 246334
Email: info@chasebank.co.ke
Website: www.chasebankkenya.co.ke

30. **SCBC - STANDARD CHARTERED BANK LTD**
Standard Building Chiromo
48, Westlands Road
P. O. Box 30003 - 00100 Nairobi
Tel: 3293000
Fax: 201914
Email: ky.securities-services@sc.com
Website: www.standardcharted.com

31. **TNBC - TRANS - NATIONAL BANK LTD**
Trans-National Plaza
2nd Floor, City Hall Way
P.O. Box 34353 -00100 GPO
Tel: 2224235/6, 252188/90/91
Fax: 252225
Email: enquires@tnbl.co.ke
Website:www.tnbl.co.ke

32. **APA INSURANCE LTD**
Apollo Centre
07 Ring Road Westlands
P.O. Box 30065 -00100
Tel: 2862000
Fax: 2862200
Email: info@apainsurance.org
Website: www.apainsurance.org

33. **BANK OF AFRICA KENYA LTD**
Reinsurance Plaza, Taifa Road
P.O. Box 69562 -00400
Tel: 3275000
Fax: 2214166
Email: info@boakenya.com
Website: www.boakenya.com

34. **APOLLO LIFE ASSURANCE LTD**
Apollo Centre
07 Ring Road Westlands
P.O. Box 30389 -00100
Tel: 364100
Fax: 3641100
Email: isurance@apollo.com
Website: www.apollo.co.ke

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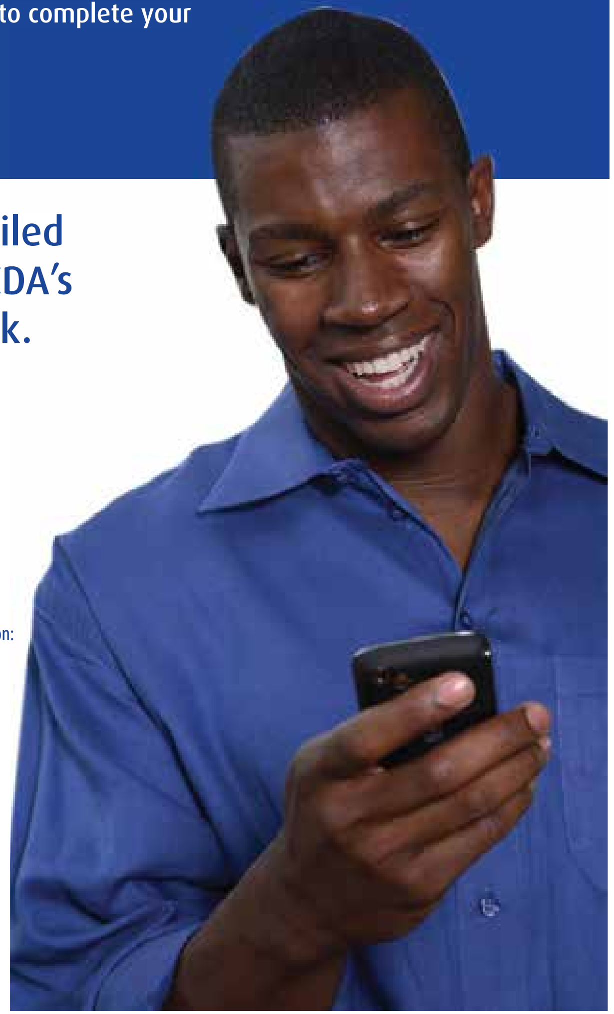

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