CDSC

CENTRAL DEPOSITORY &
SETTLEMENT CORPORATION
Invested in Progress

ANNUAL REPORT

2016

VISION, MISSION & CORE VALUES

VISION

A leading provider of innovative solutions for custody, clearing and settlement services.

MISSION

To provide secure, efficient custody, clearing, settlement and related services to all stakeholders by leveraging on technology and service excellence.

CORE VALUES

1. Bankability; Transactional trust
2. Integrity; Public reliability
3. Customer centric; Market solutions
4. Professionalism; Competence
5. Confidentiality; Non-disclosure
6. Stewardship; Wise and just use of talent and resources in a collaborative manner

CENTRAL DEPOSITORY & SETTLEMENT CORPORATION
Invested in Progress

Table of Contents

GROUP INFORMATION

BOARD OF DIRECTORS

Mike Bristow

Bob Karina

Charles Ogalo

Job Kihumba

Ashok Shah

Nkoregamba Mwebesa

Eunice Kariuki

Geoffrey Odundo

Peter Mwangi

CHIEF EXECUTIVE OFFICER

Rose Mambo

REGISTERED OFFICE

Nation Centre, 10th Floor

Kimathi Street

P.O. Box 3464 - 00100

NAIROBI

AUDITOR

PKF Kenya

Certified Public Accountants

P.O. Box 14077 - 00800

NAIROBI

GROUP SECRETARY

Hilda Njeru

Certified Public Secretary

P.O. Box 3464 - 00100

NAIROBI

PRINCIPAL BANKERS

CFC Stanbic Bank Limited

P.O Box 30550 - 00100

NAIROBI

Commercial Bank of Africa Limited

P.O. Box 30437 - 00100 GPO

NAIROBI

SUBSIDIARIES

CDSC Nominees Limited KENYA

CDSC Registrars Kenya Limited KENYA

CDSC Registrars Rwanda Limited RWANDA

Michael Bristow

Rose Mambo

Shareholder's Report

On behalf of the Board and Management of CDSC, we are pleased to share with you the company's performance for the year ended 31st December 2016.

Economic Performance

In the context of the world economy's GDP growth decelerating to 2.9% in 2016 and that of Sub-Saharan Africa dropping to 1.6%, the East African region proved to be resilient with growth rising to 6.1% on the backdrop of public infrastructure investment, buoyant private consumption and low oil prices.

Kenya's economic performance remained steady in 2016 with a GDP growth of 5.8% similar to that of 2015, benefitting from a relatively conducive environment during the first three quarters of 2016, driven largely by key sectors like agriculture, tourism, construction, real estate, financial and insurance. However, quarter four was affected by drought, causing the agricultural sector to decline to 4.4% growth from 6.2% in the similar period in 2015. This was offset to an extent by tourism, which showed significant recovery.

Inflation eased from 6.6% in 2015 to 6.3% in 2016, while the shilling weakened against major currencies, averaging Kshs.101.5 against the dollar in 2016 compared to Kshs.98.2 in 2015.

Another adverse impact was the capping of interest rates on loans in quarter four of 2016, with private sector credit growth declining to 4.6% in October 2016 from a high of 21% in August 2015 as commercial banks tightened their lending requirements. The Central Bank Rate (CBR) was revised downwards twice to 10.50% in July and 10.00% in September 2016, effectively capping the interest rates charged by banks to 14%.

Capital Markets Performance

The markets remained largely bearish throughout the year. The NSE All Share (NASI) was down 12 points to close the year at 133.34 points compared to 145.7points in 2015. The benchmark NSE 20 share index dropped significantly losing 854.75 points to close the year at 3186.2 compared to 4040.75 in 2015. With the heightened activities in the political scene, it is expected that activities in the capital markets are most likely to remain bearish in view of the elections being held in August.

Total equity turnover in 2016 was Kshs.147 billion compared to Kshs.209.4 billion in 2015 representing a decline of 30%. The bonds turnover recorded a 42% increase to stand at Kshs.434.7 billion compared to Kshs.306.2 billion in 2015. Fixed income demand remained high as government increased appetite for domestic debt for the fiscal year 2016-2017. Commercial banks also opted to lend more to the government as opposed to lending to households and small businesses as credit risks increased with the capping of the interest rates in the last quarter of 2016.

Total equity turnover declined by 30% in 2016 to Kshs.147 billion. Against that, bonds turnover recorded a 42% increase to stand at Kshs.434.7 billion. Fixed income demand remained high as government appetite for domestic debt for the fiscal year 2016-2017 increased and commercial banks also opted to lend more to the government with the advent of interest rate capping.

Market capitalization shrank to Kshs.1.9 trillion from Kshs.2.0 trillion in 2015. The total shares traded amounted to 5.8 billion in 2016 compared to 6.8 billion as at the end of 2015.

Two more companies listed at the bourse by way of introduction in the Commercial and Services Sector namely; Nairobi Business Ventures (K shoes) in GEMS and Deacons Kenya in AIMS, bringing the number of listed companies to 66.

CDSC's mandate is to offer custody, clearing and settlement services for equities and corporate bonds traded at the securities exchange. In 2016, a total of 300,454 deals settled through the CDS system. 94,994 new CDS client accounts were opened in 2016 bringing the total number of client accounts to 2,635,580 compared to 2,540,586 in 2015.

Following the change in 2015 of the settlement process from the use of commercial banks money for settlement through the Central Bank of Kenya, CDSC increased the number of settlement banks from four to eleven in 2016. This will further reduce the concentration risk that could arise from operating with only four commercial banks.

CDSC GROUP PERFORMANCE

(i) Financial Performance

The group realized a profit before tax of Kshs. 21.5 million, reflecting 84.3% decline from last year's profit of Kshs.137 million. This fall is largely attributed to the lower market activity in 2016 and a precautionary provision for deposits held in a bank currently under receivership. Indications are that they will be repaid in due course.

Transaction levies are the main source of CDSC's revenue and given the drop of 30% in equity turnover, the decline of 12% to Kshs. 221 million would have been greater had it not been for a revision of CDSC's transaction levy rate from 0.06% to 0.08% in April 2016. The transaction levies are charged on all transactions that are concluded at the securities exchange and settled through the CDS system.

CDSC's Capital base reduced by 1.6% to Kshs.440.5 million. Based on this performance, directors do not recommend a dividend for 2016.

(ii) CDSC Registrars

CDSC Registrars is a wholly owned subsidiary of CDSC limited. Currently, the company maintains and manages registers for 10 clients. The company recorded a profit of Kshs. 1.0 million in the year ended December 2016. This translated to a 159% improvement from the previous year's loss of Kshs. 1.7 million. The Board has approved the sale of 30% shareholding of CDSC Registrars to Escrow Group, who will also take over the management of the company and implement a new joint strategy for the growth of the company.

(iii) CDSC Guarantee Fund

The CDSC Guarantee Fund (GF) is a pooled fund into which all trading participants deposit amounts based on their trading volumes to ensure that there are enough financial resources to be utilized in the event that a participant fails to meet his settlement obligations. Best practice requires that the GF's value must supersede the overall market activity at all times.

To clearly segregate the assets of the Guarantee Fund from those of CDSC, the Guarantee Fund has been registered as a trust, and will be managed by a Board of trustees to be appointed by CDSC.

The Fund recorded a surplus in its assets of Kshs. 64 million as at the close of 2016 bringing the Fund's total assets up to Kshs. 746 million compared to Kshs. 682 million at the close of 2015.

FUTURE OUTLOOK

(i) Economic Projections

The World real Gross Domestic Product (GPD) is projected to grow by 3.3% in 2017, while Kenya's GDP is projected to decelerate to 5.5 percent in 2017, a 0.3% decline from 2016 according to the World Bank's Kenya Economic Update (KEU) released on 12th April 2017. The dip is attributed to poor rains in the last quarter of 2016 and continued drought into 2017.

With the introduction of commercial bank interest rates capping in September 2016, the private sector credit is expected to continue contracting.

The construction industry is expected to continue supporting the growth due to the ongoing public infrastructure development such as the Standard Gauge Railway (1st phase) linking Mombasa to Nairobi which is expected to be completed in June 2017. More activity in the tourism sector is also expected to contribute to the economic growth.

Key risks in the outlook remain the weakening shilling against the US Dollar and the rise in global oil prices.

The World Bank however projects that in the medium term, economic growth is expected to rebound to 5.8% in 2018 and 6.1% in 2019, consistent with Kenya's underlying growth potential.

In the capital markets, the bearish characteristic that dominated the Market in 2016 is expected to continue in 2017. This is based on the expected decline in foreign inflows in 2017 as investors exit stocks listed at the Nairobi bourse due to expected lower earnings from commercial banks and uncertainties over political and social risks as Kenya undertakes general elections. Kenya is nevertheless still expected to attract inflows from long-term investors in preference to other frontier markets.

(ii) Strategic Plan 2016-2020

CDSC is now one year into the implementation of its 5 year strategic plan which has four main objectives namely; Enhance Strategic partnerships and Stakeholder engagements, Increase product offering to propel revenue and profit growth, Sustain robust risk management and corporate governance practices and Build and retain world-class human capital. CDSC is on track with most of the timelines set to ensure full achievement of the set objectives come December 2020.

CDSC rebranded in November 2016. The rebranding coincided with CDSC's 12th anniversary of offering custody, delivery and settlement services to the capital market in Kenya. With the new look; comes renewed commitment to all clients embodied in the new tagline "Invested in Progress". In line with the new strategy, CDSC will leverage on technology and service excellence to provide secure, clearing, settlement and related services to its clients.

Board Changes

Mr. Job Kimani Kihumba, one of our long serving board members representing the Nairobi Securities Exchange, exited the board to pursue other personal interests. On behalf of the Board, I thank Mr. Kihumba for his wise counsel and the unmatched market knowledge that he freely shared with all of us since 2010. I also congratulate him on the appointment as the chairman of the Institute of Certified Investment and Financial Analysts (ICIFA). Mr. Kihumba represented the NSE.

On behalf of the Board, I extend a warm welcome to Mr. Samuel Kimani who has joined the board and represents Nairobi Securities Exchange, where he serves as the chairman of the Board. Mr. Kimani brings to the board considerable experience in finance and governance from his previous and ongoing executive roles.

Conclusion

In conclusion, we would like to thank the board of directors for their continued support in building the CDSC brand. Their expertise and wise counsel is unequivocally appreciated. On behalf of the Board I express our appreciation to the CEO, Ms. Rose Mambo for her consistent commitment to the organization's progress and our sincere appreciation goes out to the entire management team, and staff for the diligence and professional manner in which they continue to manage the affairs of the company and for the support they continue to offer our customers. To you our customers and partners, without your support and cordial business relationships that we are grateful for, CDSC would not be the brand it is today. Allow us to most sincerely thank you.

Mike Bristow
Chairmam

Rose Mambo
C.E.O

BOARD OF DIRECTORS

Peter K. Mwangi

Mr Peter K. Mwangi is the Group Chief Executive Officer of the UAP-Old Mutual Group in East Africa. He was appointed to this position on 1st July 2015. Before this appointment he was the Group Chief Executive Officer of the Old Mutual Group in Kenya from October 2014 after having been the Chief Executive Officer of the Nairobi Securities Exchange for six years until September 2014. He is a non-executive director on the boards of the Central Depository and Settlement Corporation, British American Tobacco Kenya and Funguo Investments Ltd. He is an executive director on the boards of several subsidiaries of the UAP-Old Mutual and Faulu Group in the region.

Between 2004 and 2008, Peter was the Managing Director of Centum Investment, the largest publicly quoted investment company in the East African region. He started his career in the Kenya Air Force where he worked for 5 years and left having attained the rank of Captain.

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

Samuel Kimani

Samuel Kimani is the Managing Director and Chief Executive Officer of Jamii Bora Bank Ltd. He has previously held senior management positions in the financial services industry. He is a member of ICPAK and holds an MBA in Strategic Management and a BSc in Civil Engineering, both from the University of Nairobi, an Advanced Management Program (AMP 177) Harvard and is a CPA (K).

Mr Kimani has a wealth of experience in the banking industry having served as the Deputy CEO and Finance Director of the KCB Group. Prior to this, he served at the Central Bank of Kenya as Deputy Chief Banking Manager, Deputy Director Financial Markets, Principle Financial Accountant, and the Chief Internal Auditor. He also headed the Surveillance Division of the Deposit Protection Fund. He has also served as a Senior Auditor at PriceWaterhouseCoopers.

He sits on the boards of Kenya Deposit Insurance Corporation (KDIC), is the Chairperson, Nairobi Securities Exchange (NSE), and is a member of the University of Stellenbosch Executive Education Advisory Board (USB-AB).

Geoffrey Odundo

Mr. Geoffrey Otieno Odundo is the Chief Executive of the Nairobi Securities Exchange Limited. Mr. Odundo, an accomplished Investment Banker has been in the financial services sector for the last 24 years, 18 of which have been in the Capital Markets in various senior roles in asset management, corporate finance and securities trading. Prior to his appointment, Mr. Odundo was the Managing Director and Chief Executive Officer of Kingdom Securities Limited. He was instrumental in the setting up of Co-op Trust Investment Services, Co-op Consultancy Services Limited and Kingdom

Securities Limited.

Mr Odundo has advised on a number of corporate finance mandates in both the public and private sectors; he has also managed key mandates in the asset management industry. He has contributed to the growth of the Capital Markets in his previous role in the Kenya Association of Investment Banks, the Kenya Bureau of Standards and on the Board of the Nairobi Securities Exchange Limited.

He is currently a Director of the Central Depository and Settlement Corporation Limited, Director of the NSE Clear Limited as well as a trustee of the NSE Fidelity Funds. He is a Council Member of the Institute of Financial Analysts (ICIFA). He holds a Master's degree in Strategic Management and an undergraduate degree in Mathematics and Economics. He has also pursued the Advanced Management Program (AMP) from the Strathmore Business School.

Bob Karina

Mr. Karina is the Founder and Chairman of Faida Investment Bank and the Vice Chairman of the Nairobi Securities Exchange (NSE) Ltd. He is also the Vice Chairman of the Rwanda Stock Exchange, where he has played a key role in the setup of the Rwanda Stock Exchange (RSE) and serves as the Chairman of the Market Operations & Development Committee. He is a Board Member of the Central Depository and Settlement Corporation (CDSC), where he serves as the Chairman of the Finance Committee.

He is an accomplished Stockbroker, an information technology professional and a successful businessman. He plays other roles including; Chairman of Norwich Union Properties Ltd., Chairman of Association of Kenya Stockbrokers (AKS) Nominees Ltd and Founder Member of the Institute of Certified Investment and Financial Analysts (ICIFA). A Director of Kenya Industrial Estates(KIE), a government parastatal that promotes industrialization through development of SMEs. He is also a member of the Institute of Directors. He also served as Director of Kenya Private Sector Alliance (KEPSA) and Director at the National Chamber of Commerce and Industry (KNCCI).

Mr. Karina was instrumental in the establishment of the CDSC, the implementation of the NSE's Automated Trading System (ATS), the Wide Area Network (WAN), and the Broker Back Office (BBO) system, as the Chair of the implementation committees that spearheaded these developments in the Kenyan Capital Markets. He has broad experience in advising institutional and corporate investors, corporate finance consulting and research analysis. He holds a Master of Science (MSc) in Corporate Finance from the University of Liverpool, in the UK.

Eunice Kariuki

Eunice was appointed Director of Partnerships, Innovation and Capacity in January 2015 at ICT Authority, a merger of former ICT Board, e-Government and Government Technology Systems (GITS). Until then she was the Marketing Director at Kenya ICT Board for 8 years where she doubled up as Deputy CEO. Prior to her post at the ICT Board, Eunice worked for 2 years at Microsoft as a Public Sector Account Manager in charge of Education in Eastern and Southern Africa. In 1999 she founded and managed Records & Archives Management Systems (RAMS) Ltd for 7 years. She also worked for Eastman Kodak for 2 years, and 1 year at Avro International Aerospace in UK. Eunice holds an MBA in Strategic Management from Maastricht School of Management affiliated to Eastern Southern African Management Institute (ESAMI), a BSc. (Hons) Degree in Business Studies from UK, a Higher National Diploma in Business Information Technology (BITech), and Chartered Institute of Marketing (CIM) Post Graduate Diploma. She is also a Member of the Institute of Directors (IOD) and Chartered Institute of Marketing (CIM). Eunice was listed on the 2009 top 40 under 40 women in Kenya, and most recently as one of the 2017 top 25 Digital Influencers in Kenya.

Michael Bristow

Mike Bristow holds a Masters degree from London University and is a Fellow of the Chartered Institute of Bankers. A seasoned banker with more than forty years' 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 holds non-Executive Directorships in FSD Africa and Front Clear, companies working to improve efficiency of and access to capital markets in Africa, as well as Cytonn, an investment management company.

Charles Ogalo

Mr. Charles Ogalo 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 Genafrica Asset Managers Ltd. (formerly Genesis Kenya Investment Management Ltd.), a position he has held since 1st April 1996. He has served in several public and private sector companies in Kenya as a non-Executive Director, and is currently the Chairman of Ecobank Kenya. A member of the Institute of Directors, Mr Ogalo served in various positions of responsibility in the banking industry for over 11 years, both locally and internationally before joining Genesis Kenya.

Nkoregamba Mwebesa

Mr. Nkoregamba Mwebesa is the Managing Director of STANLIB Kenya Limited. Mr. Mwebesa has more than 25 years of experience in the East Africa Financial Services Sector. His expertise spans Investment Management, Capital Markets and Securities, and Investment Banking. Prior to joining STANLIB Kenya, Mr. Mwebesa was the Chief Executive of SBG Securities (SBGS), a licensed Investment Bank in Kenya, Uganda and Rwanda. During his tenure at SBGS Mr Mwebesa led the strategic re-positioning of the business which resulted in the growth in market share and a leap from 7th place to 2nd place in NSE Equity trading rankings, position1 on the Uganda Securities Exchange and position 2 on the Rwandan Stock Exchange. Mr. Mwebesa had a very successful tenure as the CEO of the Nairobi Securities Exchange Limited (NSE), the largest securities exchange in the East African Region between 2005 and 2009.

Ashok Kumar Mepa Shah

Mr. Shah's 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, APA 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. Recently he was one of the finalists of the Ernest and Young Entrepreneur of the Year Award in the Masters Category. Shah emerged a finalist in the All Africa Business Leaders Awards – 2015 (AABLA), under the category of Philanthropist of The Year 2015. He is the winner of the 2016 AABLA Entrepreneur of the Year Award- East Africa Chapter.

MANAGEMENT PROFILES

Rose Mambo

Is the Chief Executive at CDSC and is responsible for strategic leadership for the corporation and corporate governance. She has steered the company to achieve a number of key milestones including a T+3 settlement cycle, full dematerialization of the market, several large successful IPOs, and improved efficiency and risk management in the settlement function of the corporation with a Guarantee Fund value that has grown over five times since she joined CDSC in 2007. Under her stewardship, CDSC has grown to accommodate over 2 million CDS accounts, while the company's financial performance has significantly improved in line with the growth in Kenya's capital market. Under her leadership, CDSC has transitioned to a brand that is more customer-centric in product and service offering, to meet CDSC's objective of being the leading provider of innovative solutions for custody, clearing and settlement services.

Rose holds an MBA from Strathmore University, 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. 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 Attorney General's Office and at the Nairobi Securities Exchange as Company Secretary and Head of Legal and Compliance.

Hilda Njeru

Heads the Legal, Risk & Compliance Department whose mandate is to provide legal services to CDSC and its subsidiaries, oversee risk management and ensure compliance with legal and regulatory requirements. She is also the CDSC Group Company Secretary.

Hilda holds a Master of Laws degree (LL.M) and a Bachelor

of Laws degree (LL.B) both from the University of Nairobi. She has a Post Graduate Diploma in Law from the Kenya School of Law and is an Advocate of the High Court of Kenya. She is also a Certified Public Secretary, CPS (K) and has successfully completed the Certified Public Accountants (CPA) course. She has over 10 years experience in the field of financial law and regulatory compliance and has worked in the Banking and Capital Markets industries.

Lucy Nyakwaka- Omol

Is the Acting Manager, Registrar Services. The department is responsible for the company's Registrars Services.
Lucy has over 10 years experience in share registry having worked and managed share registry operations, overseeing the transfer process, immobilization, customer service, dividend payments, bonus, splits issues among others, and was also a key resource in the NIC Bank, Kenya Airways, Olympia Capital rights issue, HFCK, Umeme, STANLIB IPO, Centum and Barclays Bond issue. She also managed the takeover of SCBK, BAT, CMC, NMG, CENTUM and SAMEER registers.

She holds a Bachelors Degree in Business Administration and a diploma in Leadership and Management. Lucy Previously Worked for Barclays Bank of Kenya and most recently Custody & Registrars Services Limited.

Francis Kibathi

Heads the Internal Audit Department which is primarily charged with Risk Management and Internal Control.

Francis holds a Bachelor of Commerce Degree, Finance option. He is a Certified Public Accountant, a Certified Information Systems Auditor and has also completed the Chartered Financial Analyst (CFA) Program. He has served in various capacities as both external and internal auditor, and has a wealth of experience in audit.

Irene Mutiso

Heads the HR and Corporate Affairs department and represents CDSC in Investor Education Working Committee (IEWC), Securities Industry Training Institute East Africa (SITI), and is a member of Champions of Corporate Governance Award (COG) taskforce.

Irene holds a Masters of Business Administration Degree in Human Resources Management and a Bachelors Degree in Commerce both from University of Nairobi. Irene is a qualified Executive Coach, Certified Human Resource Analyst (CHRA), a Full Member of Women on Boards Network, Institute of Human Resource Management (IHRM), Kenya Institute of Management (KIM) and Society of Human Resources (SHRM). Irene has over nine years experience in Human Capital Management and Corporate Communication. Prior to joining CDSC, she worked at Nairobi Securities Exchange and held various positions.

James Gikonyo

Is the Head of Information and Communication Technology at CDSC and he participates in policy and decision making at executive management level regarding the future direction and proposed information systems in CDSC.

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.

Marion Kioi

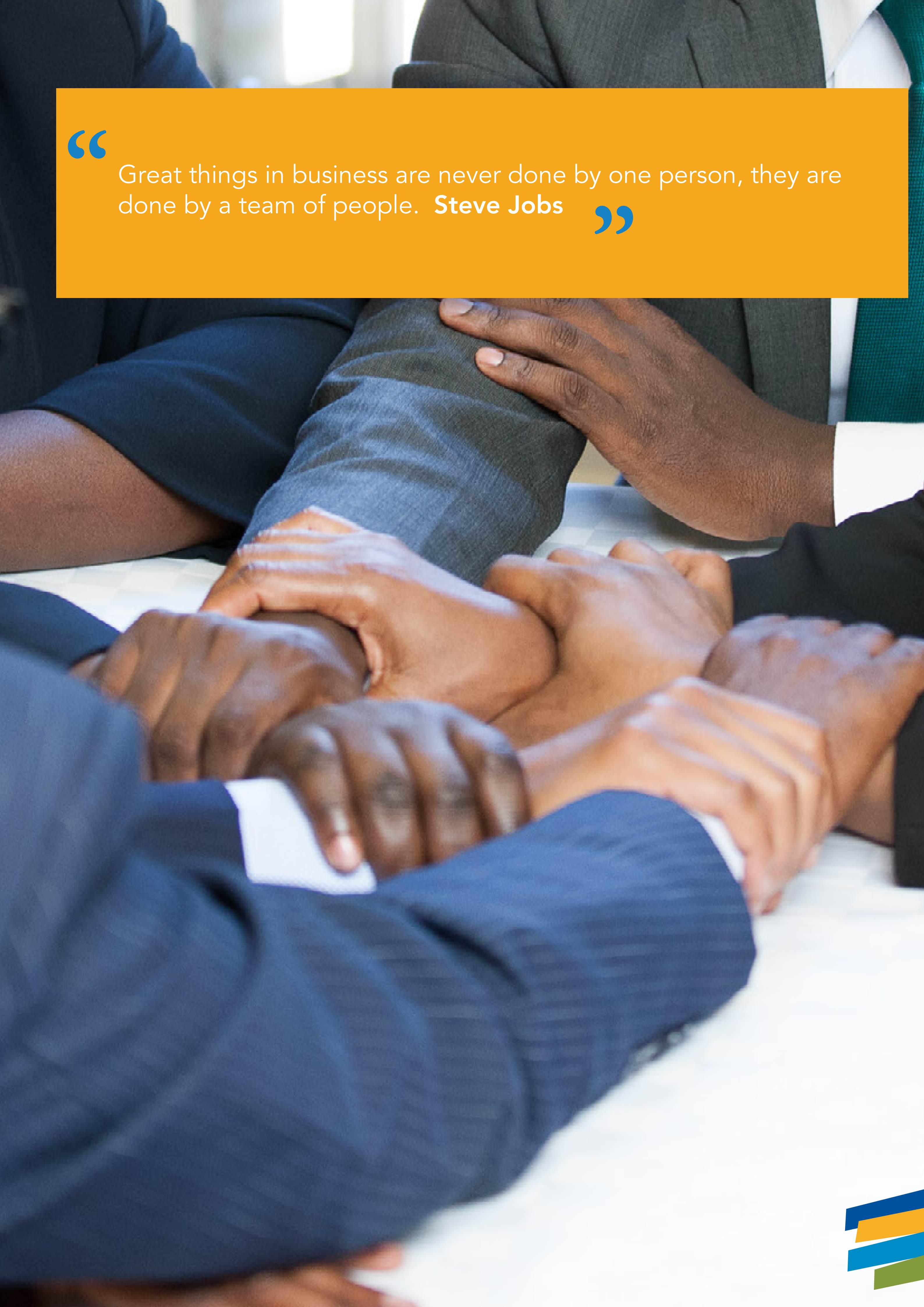
Heads the Operations Department which is charged with the safe custody of securities in CDS and management of the daily electronic clearing, delivery and settlement processes. She is also the secretary of CDSC's Business Conduct Committee.

Marion holds a Bachelor of Science Degree from the University of Nairobi. She is currently pursuing certification as a Chartered Financial Analyst and has over 10 years experience in Operations at CDSC. Prior to joining CDSC, Marion worked for Nairobi Securities Exchange in the Delivery & Settlement department.

Augustine Suka

Heads the Finance & Administration department at CDSC. He has 15 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 Suka holds a Masters of Business Administration (Finance) degree as well as a Bachelor of Commerce (Accounting) degree, both 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 has also undertaken and completed the Certified Public Secretaries (CPS) course.



"Great things in business are never done by one person, they are done by a team of people. **Steve Jobs**"

PICTORIALS





1. CDSC Board (L-R) Mr. Kihumba, Mr. Karina, Mr. Shah, Ms. Mambo, Treasury P.S Dr. Thugge, Mr. Ogalo, Mr. Mwangi, Mr. Oltetia (CMA) and Ms. Kariuki toast to the new CDSC brand during its launch
2. CDSC's Mr. Ogalo gives his speech at the CDSC 2016 brand launch
3. Part of the CDSC brand team (standing) is recognized at the 2016 rebranding event
4. The 2016 End year party winning team receives their prize.
5. Part of the CDSC team at the 2016 end year party

6. CDSC staff and CDA's pause for a photo after a workshop following the appointment of new Settlement Banks
7. CDSC C.E.O Ms. Mambo presents a raffle winner their prize at the 2016 Women4Cancer Golf tournament
8. CDSC C.E.O Ms. Mambo (R) presents a cheque to support the Women4Cancer Foundation
9. CDSC Corporate Affairs Officer (L) talks to investors at an investor education initiative
10. CDSC C.E.O Ms. Mambo (R) gives tokens of appreciation to CDSC staff doubling up as MC's at the 2016 end year party
11. (L-R) NSE Chairman, Mr. Kimani, CDSC Chairman, Mr. Bristow and CMA Chairman, Mr. Ndegwa (Extreme R), present a cheque to Shimo La Tewa School Mombasa officials, during a joint CSR activity
12. CDSC staff at the 2016 Champions of Governance Awards Gala dinner
13. CDSC sports team at the 2016 Beyond Zero marathon

REPORT OF THE DIRECTORS

The directors submit their report and the audited consolidated financial statements for the year ended 31 December 2016, which disclose the state of affairs of the company and the group.

PRINCIPAL ACTIVITIES

The principal activities of the group are that of providing 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.

	Group		Company	
	2016	2015	2016	2015
RESULTS	Shs	Shs	Shs	Shs
Profit before tax	21,506,840	136,958,175	19,862,803	137,665,321
Tax	(7,412,222)	(41,551,677)	(7,197,171)	(41,408,211)
Profit for the year	14,094,618	95,406,498	12,665,632	96,257,110

DIVIDENDS

The directors do not propose a final dividend for the year (2015: Shs. 11.43 per share amounting to a total Shs. 20,000,000).

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 1.
In accordance with the group's Articles of Association, no directors are due for retirement by rotation.

AUDITOR

PKF Kenya, was appointed during the year and continues in accordance with the Companies Act, 2015.

BY ORDER OF THE BOARD

Hilda Njeru

COMPANY SECRETARY

29th March 2017 NAIROBI

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act, 2015 requires the directors to prepare consolidated 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 its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the group and the company; that disclose, with reasonable accuracy, the financial position of the group and company and that enable them to prepare consolidated financial statements of the group and the company that comply with International Financial Reporting Standards and the requirements of the Companies Act, 2015. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2015. They also accept responsibility for:

i) Designing, implementing and maintaining such internal controls as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;
ii) Selecting and applying appropriate accounting policies; and
iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the consolidated financial statements give a true and fair view of the financial position of the group and the company as at 31 December 2016 and of the group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

In preparing these financial statements the directors have assessed the group's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the company and its subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement.

The directors acknowledge that the independent audit of the consolidated financial statements does not relieve them of their responsibilities.

So far as each of the directors is aware, there is no relevant audit information which the auditor is unaware of, and each of the directors has taken all the steps that ought to have been taken in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by the board of directors on 16th March 2017 and signed on its behalf by:

DIRECTOR DIRECTOR

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CENTRAL DEPOSITORY AND SETTLEMENT CORPORATION LIMITED

Report on the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Central Depository and Settlement Corporation Limited and its subsidiaries, (collectively referred to as the 'group') set out on pages 24 to 53 which comprise the consolidated and company statement of financial position as at 31 December 2016 and the consolidated and company statement of profit or loss and other comprehensive income, the consolidated and company statement of changes in equity and consolidated and company statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated and company financial position of as at 31 December 2016, and of its groups financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of bank balances held with Chase Bank Kenya Limited (In Receivership)

As disclosed in Note 12 to the financial statements at the reporting date, the company held deposits measured at Shs. 131,227,340 included within cash and cash equivalents with Chase Bank Kenya Limited (In Receivership) which was placed under statutory management in April 2016. The directors have exercised significant judgement and estimation as detailed in accounting policy (b) whilst assessing the recoverability and measurement of these balances. Because of the significance of these judgements and the value of these balances at the reporting date, this is a key audit matter.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CENTRAL DEPOSITORY AND SETTLEMENT CORPORATION LIMITED (CONTINUED)

Key Audit Matters (continued)

- Recoverability of bank balances held with Chase Bank Kenya Limited (In Receivership) (continued)

Our audit procedures included challenging the judgements and assumptions made by the directors in assessing the recoverability and the basis for measurement of these balances with reference to available public information, and the guidance issued by the Capital Markets Authority to its licensees. We also considered the adequacy of the disclosures provided in Note 12 to the consolidated financial statements.

- Information technology (IT) systems and controls over financial reporting

The group is heavily reliant on complex IT systems. There is a risk that the controls around complex IT systems may not be designed and operating effectively.

We assessed and tested the overall design and operational effectiveness of controls over information systems that are critical to financial reporting where deficiencies observed affected application and databases. Within the scope of our audit, we performed additional controls and substantive procedures to determine the reliance placed on the completeness and accuracy of the system generated information.

Other information

The directors are responsible for the other information. The other information comprises the report of the directors, report to shareholders, board of directors, management profiles, pictorials, the schedule of expenditure but does not include the consolidated financial statements and our auditor's report thereon.Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CENTRAL DEPOSITORY AND SETTLEMENT CORPORATION LIMITED (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CENTRAL DEPOSITORY AND SETTLEMENT CORPORATION LIMITED (CONTINUED)

Report on Other Legal and Regulatory Requirements

As required by the Companies Act, 2015 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 consolidated and company's statement of financial position and consolidated and company statement of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is
CPA Darshan Prabhulal Shah - P/No. 2051.

PKF Kenya

Certified Public Accountants

NAIROBI

31st March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		2016	2015
	Note	Shs	Shs
Revenue	1	289,571,380	323,266,478
Other operating income	2	27,406,081	41,597,250
Remeasurement loss on balances held with banks under receivership	12	(66,093,528)	-
Administrative expenses		(189,296,137)	(188,926,792)
Other operating expenses		(40,080,956)	(38,978,761)
Profit before tax	3	21,506,840	136,958,175
Tax	5	(7,412,222)	(41,551,677)
Profit for the year		14,094,618	95,406,498
Other comprehensive income:			
- Exchange differences on translation of foreign operations		(1,114,339)	272,902
Total comprehensive income for the year		12,980,279	95,679,400
Dividend: Final dividend		-	20,000,000

The notes on pages 32 to 53 form an integral part of these financial statements.

Report of the independent auditor - pages 20 to 23.

COMPANY STATEMENT OF PROFIT OR LOSS

	Note	2016 Shs	2015 Shs
Revenue	1	279,076,209	302,871,016
Other operating income	2	27,406,081	41,358,736
Remeasurement loss on balances held with banks under receivership	12	(66,093,528)	-
Administrative expenses		(182,166,294)	(175,866,169)
Other operating expenses		(38,359,665)	(30,698,262)
Profit before tax	3	19,862,803	137,665,321
Tax	5	(7,197,171)	(41,408,211)
Profit for the year		12,665,632	96,257,110
Dividend:			
Final dividend		-	20,000,000

The notes on pages 32 to 53 form an integral part of these financial statements.

Report of the independent auditor - pages 20 to 23..

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2016	2015
CAPITAL EMPLOYED	Note	Shs	Shs
Share capital	7	175,000,000	175,000,000
Translation reserve		(1,941,233)	(826,894)
Retained earnings		267,489,719	273,395,101
Shareholders' funds		440,548,486	447,568,207
REPRESENTED BY			
Non-current assets			
Property and equipment	8	13,111,487	15,047,849
Intangible assets	9	97,221,414	93,801,582
Deferred tax	10	7,186,607	8,441,933
		117,519,508	117,291,364
Current assets			
Trade and other receivables	11	37,845,839	59,883,899
Cash and cash equivalents	12	254,162,503	421,658,007
Tax recoverable		48,079,491	19,667,306
		340,087,833	501,209,212
Current liabilities			
Trade and other payables	13	17,058,855	170,932,369
Net current assets		323,028,978	330,276,843
		440,548,486	447,568,207

The financial statements on pages 24 to 53 were approved and authorised for issue by the Board of Directors on 16th March 2017 and were signed on its behalf by:

DIRECTOR DIRECTOR

The notes on pages 32 to 53 form an integral part of these financial statements.

Report of the independent auditor - pages 20 to 23.

COMPANY STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2016	2015
CAPITAL EMPLOYED	Note	Shs	Shs
Share capital	7	175,000,000	175,000,000
Retained earnings		257,926,338	265,260,706
Shareholders' funds		432,926,338	440,260,706
REPRESENTED BY			
Non-current assets			
Property and equipment	8	13,094,484	15,014,714
Intangible assets	9	97,221,414	93,735,197
Deferred tax	10	5,512,257	6,362,364
Investment in subsidiaries	14	261,043	261,043
		116,089,198	115,373,318
Current assets			
Trade and other receivables	11	53,529,087	74,120,931
Cash and cash equivalents	12	250,380,533	404,169,430
Tax recoverable		47,285,421	18,890,648
		351,195,041	497,181,009
Current liabilities			
Trade and other payables	13	34,357,901	172,293,621
Net current assets		316,837,140	324,887,388
		432,926,338	440,260,706

The financial statements on pages 24 to 53 were approved and authorised for issue by the Board of Directors on 2017 and were signed on its behalf by:

DIRECTOR DIRECTOR

The notes on pages 32 to 53 form an integral part of these financial statements.

Report of the independent auditor - pages 20 to 23.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share Capital	Translation Reserve	Retained Earnings	Total
		Shs	Shs	Shs	Shs
Year ended 31 December 2015					
At start of year		175,000,000	(1,099,796)	192,988,603	366,888,807
Total comprehensive income for the year		-	272,902	95,406,498	95,679,400
Transactions with owners					
- Final for 2014 (paid)		-	-	(15,000,000)	(15,000,000)
At end of year		175,000,000	(826,894)	273,395,101	447,568,207
Year ended 31 December 2016					
At start of year		175,000,000	(826,894)	273,395,101	447,568,207
Total comprehensive income for the year		-	(1,114,339)	14,094,618	12,980,279
Transactions with owners:					
- Final for 2015 (paid)	6	-	-	(20,000,000)	(20,000,000)
At end of year		175,000,000	(1,941,233)	267,489,719	440,548,486

The notes on pages 32 to 53 form an integral part of these financial statements.

Report of the independent auditor - pages 20 to 23.

COMPANY STATEMENT OF CHANGES IN EQUITY

		Share Capital	Retained Earnings	Total
	Note	Shs	Shs	Shs
Year ended 31 December 2015				
At start of year		175,000,000	184,003,596	359,003,596
Total comprehensive income for the year		-	96,257,110	96,257,110
Transactions with owners				
- Final for 2014 (paid)		-	(15,000,000)	(15,000,000)
At end of year		175,000,000	265,260,706	440,260,706
Year ended 31 December 2016				
At start of year		175,000,000	265,260,706	440,260,706
Total comprehensive income for the year		-	12,665,632	12,665,632
Transactions with owners:				
- Final for 2015 (paid)	6	-	(20,000,000)	(20,000,000)
At end of year		175,000,000	257,926,338	432,926,338

The notes on pages 32 to 53 form an integral part of these financial statements.

Report of the independent auditor - pages 20 to 23.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2016 Shs	2015 Shs
Operating activities			
Cash (used in)/from operations	15	(216,948,556)	325,960,512
Interest received		(15,298,316)	(37,473,848)
Tax paid		(34,940,518)	(73,128,750)
Net cash (used in)/from operating activities		(267,187,390)	215,357,914
Investing activities			
Purchase of property and equipment	8	(5,204,085)	(10,769,922)
Purchase of intangible assets	9	(5,593,028)	(92,036,667)
Proceeds on disposal of property and equipment		-	24,759
Net cash (used in) investing activities		(10,797,113)	(102,781,830)
Financing activities			
Dividends paid	6	(20,000,000)	(14,850,000)
Net cash (used in) financing activities		(20,000,000)	(14,850,000)
(Decrease) / increase in cash and cash equivalents		(297,984,503)	97,726,084
Movement in cash and cash equivalents			
At start of year		421,658,007	323,823,214
(Decrease)/increase		(297,984,503)	97,726,084
Exchange differences on translation of foreign operations		(738,341)	108,709
At end of year	12	122,935,163	421,658,007

The notes on pages 32 to 53 form an integral part of these financial statements.

Report of the independent auditor - pages 20 to 23.

COMPANY STATEMENT OF CASH FLOWS

	Note	2016 Shs	2015 Shs
Operating activities			
Cash (used in)/from operations	15	(204,178,969)	323,545,343
Interest received		(15,298,316)	(37,473,848)
Tax paid		(34,741,838)	(72,430,126)
Net cash (used in)/from operating activities		(254,219,123)	213,641,369
Investing activities			
Purchase of property and equipment	8	(5,204,086)	(10,769,922)
Purchase of intangible assets	9	(5,593,028)	(92,036,677)
Net cash (used in) investing activities		(10,797,114)	(102,806,599)
Financing activities			
Dividends paid	6	(20,000,000)	(15,000,000)
Net cash (used in) financing activities		(20,000,000)	(15,000,000)
(Decrease) / increase in cash and cash equivalents		(285,016,237)	95,834,770
Movement in cash and cash equivalents			
At start of year		404,169,430	308,334,660
(Decrease)/increase		(285,016,237)	95,834,770
At end of year	12	119,153,193	404,169,430

The notes on pages 32 to 53 form an integral part of these financial statements.

Report of the independent auditor - pages 20 to 23.

NOTES

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets.

The financial performance of the group is set out in the report of the directors and in the consolidated statement of profit or loss and other comprehensive income. The financial position of the group is set out in the consolidated statement of financial position and the company statement of financial position. Disclosures in respect of risk management and capital management are set out in Note 18 and Note 19 respectively.

These financial statements comply with the requirements of the Kenyan Companies Act , 2015. The statement of profit or loss and other comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

Going concern

Based on the financial performance and position of the group and its risk management policies, the directors are of the opinion that the group is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

i) New and amended Standards adopted by the group

A number of new and revised Standards and Interpretations have been adopted in the current year. Their adoption has had no material impact on the amounts reported in these financial statements.

ii) New Standards, amendments and Interpretations issued but not effective

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective for the year presented:

- Amendments issued in January 2016 to IAS 7 ' Statement of Cash Flows ' to improve information provided about an entity's changes in liabilities from financing activities through disclosure (as applicable) of: (i) changes from financing cash flows; (ii) changes from obtaining cash flows; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair value; and (v) other charges. There amendments are effective for annual periods beginning on or after 1 January 2017.

- Amendments issued in January 2017 to IAS 12 ' Income Taxes' that are effective for annual periods beginning on or after 1 January 2017 clarify that unrealised losses on debt instruments that are carried at fair value give rise to a deductible temporary difference on which deferred tax arises where they are carried as cost for tax purposes.

- Amendments issued in June 2016 to IFRS 2 ' Share - based Payment ' which are effective for annual periods beginning on or after 1 January 2018 clarify the effects of vesting conditions on cash settled schemes, treatment of net settled schemes and modifications for equity settled schemes.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

ii) New Standards, amendments and Interpretations issued but not effective (continued)

- IFRS 9 'Financial Instruments'(Issued in July 2014) will replace IAS 39 and will be effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de-recognition.

IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

In respect of financial liabilities, the most significant effect of IFRS 9 where the fair value option is taken will be in respect of the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

In respect of impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract.

In respect of hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risks.

- IFRS 15 'Revenue from Contracts with Customers' (issued in May 2014) effective for annual periods beginning on or after 1 January 2018, replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and their interpretations (SIC-31 and IFRIC 13,15 and 18). It establishes a single and comprehensive framework for revenue recognition based on a five-step model to be applied to all contracts with customers, enhanced disclosures, and new or improved guidance.
- IFRS 16 'Leases' (issued in January 2016) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

The directors do not expect that the adoption of the Standards and Interpretations above will have a material impact on the financial statements, other than the future adoption of IFRS 9 and IFRS 15 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The group plans to apply the changes above from their effective dates noted above.

b) Key sources of estimation uncertainty

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Management have made the following estimate that has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- Useful lives of property and equipment and intangible assets

Management reviews the useful lives and residual values of the items of property and equipment and intangible assets on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Significant judgements made by management in applying the group's accounting policies

Management have made the following judgements that are considered to have the most significant effect on the amounts recognised in the consolidated financial statements:

- Impairment of trade and other receivables

The group reviews its portfolio of trade and other receivables at the reporting date. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.

- Impairment of balances held with banks under receivership

The group has reassessed the need for impairment of balances held with banks that are under receivership. In determining whether these bank balances are impaired, the management has made judgements which have been disclosed in Note 12 of these consolidated financial statements.

d) Consolidation

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies. Control is achieved when the group has power over the investee; is exposed or has right to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

The group also assesses the existence of control where it does not have a majority of the voting rights power but is able to govern the financial and operating policies of a subsidiary. Control may arise in certain circumstances where including the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies, where potential voting rights are held by the company and rights from other contractual arrangements etc.

When the company has assessed and has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of controls listed above.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit and loss and other comprehensive income from the date the company gains control until the date the company ceases to control the subsidiary.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition and up to the effective date of disposal as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Intra-group balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary adjustments are made to financial statements of subsidiary to bring their accounting policies into line with the groups accounting policy.

e) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the performance of services, in the ordinary course of business and is stated net of rebates and discounts.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

i) Income from services are recognised upon performance of the transactions and recognition in the Central Depository System;

ii) Interest income is accounted for in the period in which it is earned.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at the rates ruling at the transaction dates.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

g) Property and equipment

All property and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Depreciation is calculated on the straight line basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate %
Leasehold improvements	12.5
Motor vehicles	25
Office equipment	25
Furniture, fittings and equipment	12.5
Computer, faxes and copiers	25

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax.

h) Intangible assets - Computer software

Computer software and licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software is amortised over its estimated useful life which is estimated to be at four years and eight years in respect of the CDS software.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of intangible assets are determined by reference to their carrying amount and are taken into account in determining profit before tax.

i) Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument. Management determines the classification of financial assets at initial recognition.

- Financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

The group's financial assets which include cash and bank balances, trade and other receivables and tax recoverable fall into the following category:

- Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the profit or loss.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

- Financial assets (continued)

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in the profit or loss under administrative expenses when there is objective evidence that the group will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

The amount of the impairment loss is calculated at the difference between the assets carrying

amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate.

Subsequent recoveries of amounts previously written off/ impaired are credited to profit or loss in the year in which they occur.

- Financial liabilities

The group's financial liabilities which include trade and other payables fall into the following category:

- **Financial liabilities measured at amortised cost:** These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

All financial liabilities are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Financial liabilities are derecognised when, and only when, the group's obligations are discharged, cancelled or expired.

- Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

j) Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss.

Current tax

Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax

Deferred 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 tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

k) Accounting for leases

The group as a lessee:

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

l) Retirement benefit obligations

The group operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The group's contributions to the defined contribution retirement benefit scheme are charged to profit or loss in the year to which they relate. The company has no further payment obligations once the contributions have been paid.

The group and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The group's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

m) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

Restricted cash balances are those balances that the group cannot use for working capital purposes.

n) Share capital

Ordinary shares are classified as equity.

o) Dividends

Proposed dividends are disclosed as a separate component of equity until declared.
Dividends are recognised as a liability in the year in which they are approved by the group's shareholders.

p) Translation reserve

The translation reserve represents translation gains and losses arising from consolidation of foreign operations.

q) Comparatives

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

> “Team work is the ability to work together toward a common vision. The ability to direct individual accomplishments towards organizational objectives. It is the fuel that allows common people to attain uncommon results. **Andrew Carnegie**”

	Group		Company	
	2016	2015	2016	2015
	Shs	Shs	Shs	Shs
1. Revenue				
Transaction levy	220,841,719	251,293,338	220,841,719	251,293,338
Depository levy	20,019,473	23,854,047	20,019,473	23,854,047
Registry fees	10,495,171	11,753,363	-	-
Bond levy	17,339,469	12,203,968	17,339,469	12,203,968
Others	20,875,548	24,161,762	20,875,548	15,519,663
	289,571,380	323,266,478	279,076,209	302,871,016
2. Other operating income				
Interest income	15,298,316	37,473,848	15,298,316	37,235,334
Other income	12,107,765	4,123,402	12,107,765	4,123,402
	27,406,081	41,597,250	27,406,081	41,358,736
3. Profit before tax				
The following items have been charged in arriving at profit before tax				
Depreciation on property and equipment (Note 8)	5,539,191	4,384,794	5,525,209	4,384,793
Amortisation of intangible assets (Note 9)	2,170,783	1,895,490	2,106,811	4,384,793
Auditors' remuneration				
current year	2,250,404	1,219,757	2,063,159	981,095
underprovision in prior years	18,071	-	-	-
Operating lease rentals	18,318,922	15,738,439	18,023,423	13,761,122
Staff costs (Note 4)	125,499,347	124,610,800	120,576,624	117,682,415
Repairs and maintenance	1,578,192	6,404,171	1,564,736	1,380,749
4. Staff costs				
Salaries and wages	105,255,907	102,913,689	100,860,974	97,108,079
Other staff costs	12,667,271	14,787,761	12,170,266	14,025,361
Pension costs:				
National Social Security Fund	143,000	168,668	138,200	135,320
Defined contribution pension scheme	7,433,169	6,740,682	7,407,184	6,413,655
	125,499,347	124,610,800	120,576,624	117,628,415

	Group		Company	
	2016	2015	2016	2015
	Shs	Shs	Shs	Shs
5. Tax				
Current tax	6,537,382	41,214,626	6,347,064	40,560,157
Deferred tax charge (Note 10)	874,840	337,051	850,107	848,054
	7,412,222	41,551,677	7,197,171	41,408,211

The tax on the group's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:

	Group		Company	
	2016	2015	2016	2015
	Shs	Shs	Shs	Shs
Profit before tax	21,506,840	136,958,175	19,862,803	137,665,321
Tax calculated at a tax rate of 30% (2015: 30%)	6,452,052	41,087,453	5,958,841	41,299,596
Tax effect of:				
- expenses not deductible for tax purposes	3,624,284	464,224	3,363,071	108,615
- income not subject to tax	(1,602,171)	-	(1,602,171)	-
- (over) provision of deferred tax in prior years	(1,057,894)	-	(522,570)	-
- decrease in accrued leave provision	(4,049)	-	-	-
Tax charge	7,412,222	41,551,677	7,197,171	41,408,211
Effective rate of tax	34.46%	30.34%	36.23%	30.08%

The increase in the effective rate of tax was caused by an increase in expenses not deductible for tax purposes.

6. Dividends

The directors do not propose a final dividend for the year (2015: Shs. 11.43 per share amounting to a total Shs. 20,000,000).

In accordance with the Companies Act, these financial statements reflect this dividend paid which is accounted for in the shareholders' funds as an appropriation of retained profits in the year ended 31 December 2016.

Payment of dividend is subject to a withholding tax at the rate of 5% for residents and 10% for non-residents. Payment of dividends to shares held by resident limited entities in excess of 12.5% of the shareholding are exempt from withholding tax.

7. Share capital

	Group & Company	
	2016	2015
	Shs	Shs
Authorised share capital: 2,000,000 (2015: 2,000,000) ordinary shares of Shs. 100 each	200,000,000	200,000,000
Issued and fully paid: 1,750,000 (2015: 1,750,000) ordinary shares of Shs. 100 each	175,000,000	175,000,000

8. Property and equipment

Year ended 31 December 2016

Group	Leasehold improvements	Motor vehicles	Office equipment	Furniture, fittings and equipment	Computers, faxes and copiers	Total
	Shs	Shs	Shs	Shs	Shs	Shs
Cost						
At start of year	12,668,017	-	8,212,587	4,632,275	43,776,135	69,289,014
Additions	-	130,900	3,367,607	1,146,515	559,064	5,204,085
Impairment	-	-	(7,027,487)	-	(5,502,731)	(12,530,218)
Translation difference	-	-	-	(25,386)	(5,760)	(31,146)
At end of year	12,668,017	130,900	4,552,707	5,753,404	38,826,708	61,931,735
Depreciation						
At start of year	10,916,676	-	7,325,323	3,307,472	32,691,694	54,241,165
Charge for the year	1,259,226	24,544	787,680	493,454	2,974,287	5,539,191
Impairment	-	-	(6,625,261)	-	(4,305,850)	(10,931,111)
Translation difference	-	-	-	(49,014)	20,017	(28,997)
At end of year	12,175,902	24,544	1,487,742	3,751,912	31,380,148	48,820,248
Net book value	492,115	106,356	3,064,965	2,001,492	7,446,560	13,111,487

NOTES (CONTINUED)

8. Property and equipment (continued)

Year ended 31 December 2015

Group	Leasehold improvements	Motor vehicles	Office equipment	Furniture, fittings and equipment	Computers, faxes and copiers	Total
	Shs	Shs	Shs	Shs	Shs	Shs
Cost						
At start of year	12,668,017	-	8,183,213	4,580,197	33,310,530	58,741,957
Additions	-	-	29,374	274,943	10,465,605	10,769,922
Disposals	-	-	-	(222,865)	-	(222,865)
At end of year	12,668,017	-	8,212,587	4,632,275	43,776,135	69,289,014
Depreciation						
At start of year	9,657,450	-	6,832,495	3,033,563	30,436,762	49,960,270
Charge for the year	1,259,226	-	492,828	377,808	2,254,932	4,384,794
Disposals	-	-	-	(113,272)	-	(113,272
Translation difference	-	-	-	9,373	-	9,373
At end of year	10,916,676	-	7,325,323	3,307,472	32,691,694	54,241,165
Net book value	1,751,341	-	887,264	1,324,803	11,084,441	15,047,849

All the additions made during the year were made through cash payments.

8. Property and equipment (continued)

Year ended 31 December 2016

Company	Leasehold improvements	Motor vehicles	Office equipment	Furniture, fittings and equipment	Computers, faxes and copiers	Total
	Shs	Shs	Shs	Shs	Shs	Shs
Cost						
At start of year	12,668,017	-	8,212,587	4,855,140	43,406,460	69,142,204
Additions	-	130,900	3,367,607	1,146,515	559,064	5,204,086
Impairment	-	-	(7,027,487)	-	(5,502,731)	(12,530,218)
At end of year	12,668,017	130,900	4,552,707	6,001,655	38,462,793	61,816,072
Depreciation						
At start of year	10,916,676	-	7,325,323	3,411,371	32,474,120	54,127,490
Charge for the year	1,259,226	24,544	787,680	483,957	2,969,802	5,525,209
Impairment	-	-	(6,625,261)	-	4,305,850)	(10,931,111)
At end of year	12,175,902	24,544	1,487,742	3,895,328	31,138,072	48,721,588
Net book value	492,115	106,356	3,064,965	2,106,327	7,324,721	13,094,484

All the additions made during the year were made through cash payments.

Impairment losses amounting to Shs. 1,599,108 (2015:Shs. Nil) have been recognised in profit or loss under establishment expenses.

8. Property and equipment (continued)

Year ended 31 December 2015

Company	Leasehold improvements	Motor vehicles	Office equipment	Furniture, fittings and equipment	Computers, faxes and copiers	Total
	Shs	Shs	Shs	Shs	Shs	Shs
Cost						
At start of year	12,668,017	-	8,183,213	4,580,197	32,940,855	58,372,282
Additions	-	-	29,374	274,943	10,465,605	10,769,922
At end of year	12,668,017	-	8,212,587	4,855,140	43,406,460	69,142,204
Depreciation						
At start of year	9,657,450	-	6,832,495	3,033,563	30,219,188	49,742,696
Charge for the year	1,259,226	-	492,828	377,808	2,254,932	4,384,794
At end of year	10,916,676	-	7,325,323	3,411,371	32,474,120	54,127,490
Net book value	1,751,341	-	887,264	1,443,769	10,932,340	15,014,714

9. Intangible assets

Year ended 31 December 2016

Group	Computer software	Work in progress	Total
	Shs	Shs	Shs
Cost			
At start of year	58,404,223	89,738,300	148,142,523
Additions	1,044,000	4,549,028	5,593,028
Translation difference	(110,974)	-	(110,974)
At end of year	59,448,223	94,287,328	153,624,577
Amortisation			
At start of year	54,340,941	-	54,340,941
Charge for the year	2,170,783	-	2,170,783
Translation difference	(108,561)	-	(108,561)
At end of year	56,403,163	-	56,403,163
Net book value	3,045,060	94,287,328	97,221,414

Amortisation costs of Shs. 2,170,783 (2015. Shs.1,895,491) are included under other operating expenses in profit or loss.

NOTES (CONTINUED)

9. Intangible assets (continued)

Year ended 31 December 2015

Group	Computer Software	Work in progress	Total
	Shs	Shs	Shs
Cost			
At start of year	56,105,847	-	56,105,847
Additions	2,298,376	89,738,300	92,036,676
At end of year	58,404,223	89,738,300	148,142,523
Amortisation			
At start of year	52,448,348	-	52,448,348
Charge for the year	1,895,491	-	1,895,491
Translation difference	(2,898)	-	(2,898)
At end of year	54,340,941	-	54,340,941
Net book value	4,063,282	89,738,300	93,801,582

Year ended 31 December 2016

Company	Computer Software	Work in progress	Total
	Shs	Shs	Shs
Cost			
At start of year	57,753,817	89,738,300	147,492,117
Additions	1,044,000	4,549,028	5,593,028
At end of year	58,797,817	94,287,328	153,085,145
Amortisation			
At start of year	53,756,920	-	53,756,920
Charge for the year	2,106,811	-	2,106,811
At end of year	55,863,731	-	55,863,731
Net book value	2,934,086	94,287,328	97,221,414

9. Intangible assets (continued)

Year ended 31 December 2015

	Computer Software	Work in progress	Total
Company	**Shs**	**Shs**	**Shs**
Cost			
At start of year	55,455,441	-	55,455,441
Additions	2,298,376	89,738,300	92,036,676
At end of year	57,753,817	89,738,300	147,492,117
Amortisation			
At start of year	51,868,845	-	51,868,845
Charge for the year	1,888,075	-	1,888,075
At end of year	53,756,920	-	53,756,920
Net book value	3,996,897	89,738,300	93,735,197

10. Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2015: 30%). The movement on the deferred tax account is as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	Shs	**Shs**	**Shs**	**Shs**
At start of year	(8,441,933)	(8,773,551)	(6,362,364)	(7,210,418)
Charge to profit or loss (Note 5)	874,840	331,618	850,107	848,054
Translation difference	380,486	-	-	-
At end of year	(7,186,607)	(8,441,933)	(5,512,257)	(6,362,364)

Deferred tax (assets) and deferred tax charge to profit or loss are attributable to the following items:

Group	At start of year	(Credit) / Charge to profit or loss	Translation difference	At end of year
	Shs	**Shs**	**Shs**	**Shs**
Deferred tax (assets)				
Accumulated tax losses	(666,103)	(606,302)	-	(1,272,405)
Leave pay provision	(269,221)	53,964	-	(215,257)
General bad debt provision	(1,879,374)	764,839	-	(1,114,535)
Gratuity provision	(870,471)	706,582	-	(163,889)
Property and equipment	(4,728,254)	(44,243)	380,486	(4,392,011)
Audit fee provision	(28,510)	-	-	(28,510)
Deferred tax (asset)	(8,441,933)	874,840	380,486	(7,186,607)

Deferred tax assets on tax losses carried forward are only recognised to the extent of certainty of availability of sufficient future taxable profits to utilise such losses against.

NOTES (CONTINUED)

10. Deferred tax (continued)

Company	At start of year	(Credit) / Charge to profit or loss	At end of year
Deferred tax (assets)	**Shs**	**Shs**	**Shs**
Property and equipment	(3,598,934)	(419,642)	(4,018,576)
Leave pay provision	(269,221)	53,964	(215,257)
General bad debt provision	(1,623,738)	509,203	(1,114,535)
Gratuity provision	(870,471)	706,582	(163,889)
Deferred tax (asset)	(6,362,364)	850,107	(5,512,257)

11. Trade and other receivables

	Group		Company	
Current	**2016**	**2015**	**2016**	**2015**
	Shs	**Shs**	**Shs**	**Shs**
Trade receivables	16,838,131	38,863,596	14,822,884	29,629,129
Less: impairment provisions	(3,715,119)	(6,264,551)	(3,715,119)	(5,412,432)
Net trade receivables	13,123,012	32,599,045	11,107,765	24,216,697
Other receivables	18,801,665	9,964,191	17,623,817	8,822,549
Receivable from related parties (Note 16)	5,921,162	17,320,663	24,797,505	41,081,685
	37,845,839	59,883,899	53,529,087	74,120,931

Movement in impairment provisions

	Group		Company	
	2016	**2015**	**2016**	**2015**
Additions	4,803,471	4,027,242	4,803,471	3,175,123
Recoveries	(7,352,903)	(5,861,966)	(6,500,784)	(5,861,966)
At end of year	3,715,119	6,264,551	3,715,119	5,412,432

The group and company's credit risk arises primarily from trade receivables. Trade receivables relate primarily to contracted payments due for Nairobi Securities Exchange transactions from the Central Depository Agents. The directors are of the opinion that the group's exposure is limited because the debt is widely held. There is also no significant concentration of credit risk.

In the opinion of the directors, the carrying amounts of trade and other receivables approximate to their fair value. The carrying amounts of the company's trade and other receivables are denominated in the following currencies:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	Shs	**Shs**	**Shs**	**Shs**
Kenya Shillings	37,565,995	50,407,134	53,529,087	74,120,931
Rwandese Francs	279,844	9,476,765	-	-
	37,845,839	59,883,899	53,529,087	74,120,931

11. Trade and other receivables (continued)

Trade receivables that are aged past 30 days are considered past due but not impaired.

As of 31 December 2016, trade receivables of the group amounting to Shs. 5,695,181 (2015: Shs.11,235,947) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. These balances have also been subsequently received. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2016	2015	2016	2015
	Shs	Shs	Shs	Shs
Older than 30 days	5,695,181	11,235,947	5,348,392	7,231,789

No classes within trade and other receivables contain impaired assets.
The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

12. Cash and cash equivalents

	Group		Company	
	2016	2015	2016	2015
	Shs	Shs	Shs	Shs
Cash at bank and in hand	122,935,163	421,658,007	119,153,193	404,169,430
Restricted bank balances	131,227,340	-	131,227,340	-
	254,162,503	421,658,007	250,380,533	404,169,430
For the purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the following:				
Cash at bank and in hand	122,935,163	421,658,007	119,153,193	404,169,430

The carrying amounts of the group's and company's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2016	2015	2016	2015
Kenya Shillings	252,108,271	405,559,767	249,929,466	402,540,227
United States Dollars	451,066	1,629,203	451,067	1,629,203
Rwandese Francs	1,603,166	14,469,037	-	-
	254,162,503	421,658,007	250,380,533	404,169,430

Restricted bank balances relate to balances held with Chase Bank Kenya Limited (In Receivership) which was placed under receivership in April 2016.
In determining the basis of measurement of the balances held with Chase Bank Kenya Limited (In Receivership), the directors have assessed whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected, the period of such cash flows and referred to guidance issued by the Capital Markets Authority to its licensees. The bank was placed under statutory management and subsequently opened for operations, even though access to funds deposited remains restricted. The directors acknowledge the lack of observable data in market but do recognise the positive indications publicly made by the regulator. In the opinion of the directors, recovery of these balances is likely to take place over a protracted period which the directors have used in developing a discounted cash flow model. The discount rate applied in the model is based on the current market interest rate on such deposits. Based on this model, the principal balances of Shs. 197,320,868 have been discounted to a re-measured carrying amount of Shs. 131,227,340. Remeasurement loss has been charged to profit or loss of Shs. 66,093,528.

13. Trade and other payables

	Group		Company	
Current	**2016**	**2015**	**2016**	**2015**
	Shs	**Shs**	**Shs**	**Shs**
Trade payables	5,424,064	47,443,296	2,510,175	41,878,640
Other payables	11,634,791	22,575,037	10,244,949	22,375,982
Dividends payable	-	150,000	-	150,000
Payable to related parties (Note 16)	-	100,764,036	21,602,777	107,888,999
	17,058,855	170,932,369	34,357,901	172,293,621

The maturity analysis of trade and other payables is as follows:

Group	**0 to 1 month**	**2 to 3 months**	**4 to 12 months**	**Total**
	2016	**2016**	**2016**	**2016**
Year ended 31 December 2016	**Shs**	**Shs**	**Shs**	**Shs**
Trade payables	4,865,657	-	558,407	5,424,064
Other payables	3,412,128	8,222,663	-	11,634,791
	8,277,785	8,222,663	558,407	17,058,855
Year ended 31 December 2015				
Trade payables	45,251,392	692,340	1,499,564	47,443,296
Other payables	1,873,409	17,800,059	2,901,569	22,575,037
Dividends payable	150,000	-	-	150,000
Payable to related parties	100,000,000	764,036	-	100,764,036
	147,274,801	19,256,435	4,401,133	170,932,369

Company				
Year ended 31 December 2016	**Shs**	**Shs**	**Shs**	**Shs**
Trade payables	1,917,324	-	592,851	2,510,175
Other payables	2,051,125	8,193,824	-	10,244,949
Payable to related parties	-	480,105	21,122,672	21,602,777
	3,968,449	8,673,929	21,715,523	34,357,901
Year ended 31 December 2015				
Trade payables	39,721,180	692,340	1,465,120	41,878,640
Other payables	1,616,441	17,857,972	2,901,569	22,375,982
Dividends payable	150,000	-	-	150,000
Payable to related parties	100,000,000	1,235,024	6,653,975	107,888,999
	141,487,621	19,785,336	11,020,664	172,293,621

In the opinion of the directors, the carrying amounts of the group's and company's trade and other payables approximate to their fair value.

13. Trade and other payables (continued)

The carrying amounts of the company's trade and other payables are denominated in the following currencies:

	Group		Company	
	2016	2015	2016	2015
	Shs	Shs	Shs	Shs
Kenya Shillings	16,782,011	170,631,287	34,174,273	172,293,621
Rwandese Francs	276,844	301,082	-	-
	17,058,855	170,932,369	34,174,273	172,293,621

14. Investment in subsidiaries

Shares at cost			Company	
			2016	2015
	Country of incorporation	Holding	Shs	Shs
CDSC Registrars Kenya Limited	Kenya	100%	100,000	100,000
CDSC Registrars Rwanda Limited	Rwanda	100%	141,043	141,043
CDSC Nominees Limited	Kenya	100%	20,000	20,000
			261,043	261,043

The principle activities of the subsidiaries is to provide share registrar services to various companies listed on the Nairobi Securities Exchange and administration of financial markets, trusts, funds and similar financial services, security and commodity contract brokerage and holding of companies monetary intermediation.

15. Cash (used in)/from operations

	Group		Company	
	2016	2015	2016	2015
	Shs	Shs	Shs	Shs
Reconciliation of profit before tax to cash (used in) / from operations:				
Profit before tax	21,506,840	136,958,175	19,862,803	137,665,321
Adjustments for:				
Depreciation on property and equipment (Note 8)	5,539,191	4,384,794	5,525,209	4,384,794
Amortisation of intangible assets (Note 9)	2,170,783	1,895,490	2,106,811	1,888,076
Loss on disposal of property and equipment	-	84,834	-	-
Impairment of property and equipment	1,599,108	-	1,599,108	-
Interest income (Note 2)	15,298,316	37,473,848	15,298,316	37,473,848
Changes in working capital				
- trade and other receivables	22,038,060	7,994,816	20,591,844	6,363,392
- trade and other payables	(153,873,514)	137,168,555	(137,935,720)	135,769,912
- restricted bank balances	(131,227,340)	-	(131,227,340)	-
Cash (used in)/from operations	(216,948,556)	325,960,512	(204,178,969)	323,545,343

16. Related party transactions

The group transacts with other companies related to it by virtue of common shareholding.

The following transactions were carried out with related parties:

i) Outstanding balances arising from sale and purchase of services

	Group		Company	
Sale and Purchase of Services	2016	2015	2016	2015
	Shs	Shs	Shs	Shs
Receivable from related parties (Note 11)	5,921,162	17,320,663	24,797,505	41,081,685
Payable to related parties (Note 13)	-	100,764,036	21,602,777	107,888,999

ii) Key management compensation

	Group & Company	
	2016	2015
Salaries and other short-term employment benefits	Shs	Shs
Directors	14,794,075	13,683,128
Employees	72,193,639	62,804,894
	86,987,714	76,488,022

17. Commitments

Contractual commitments for the acquisition of intangible assets
At the reporting date these commitments were as follows:

	Group & Company	
	2016	2015
	Shs	Shs
Computer software	65,985,232	195,303,792
Operating lease commitments - the company as a lessee		
Not later than one year	9,566,353	7,885,440
Later than one year and not later than six years	44,266,643	16,973,400
	53,832,996	24,858,840

18. Risk management objectives and policies

Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk), credit risk and liquidity risk.

The group's overall risk management programme seeks to maximise the returns derived for the level of risk that it is exposed to and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the management under policies approved by the board of directors. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads.

(a) Market risk

- *Foreign exchange risk*

The group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollar and Rwandese Francs. The risk arises from future transactions, assets and liabilities in the statement of financial position.

The table below summarises the effect on post-tax profit had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant. If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

	Group & Company			
	2016	2015	2016	2015
	Shs	Shs	Shs	Shs
Effect of profit-(decrease)/increase	(691,181)	(704,124)	43,840	112,424

A 10% sensitivity rate is being used when reporting foreign risk internally to key management personnel and represents managements assessment of the reasonably possible change in foreign exchange rates.

18. Risk management objectives and policies (continued)

Financial risk management (continued)

(a) Market Risk (Continued)

- Interest rate risk

The group's exposure to interest rate risk arises from interest bearing financial assets.

The table below summarises the effect on post-tax profit had interest rates been 1% higher, with all other variables held constant. If the interest rates were lower by 1%, the effect would have been the opposite.

	Group & Company	
	2016	2015
	Shs	Shs
Effect on profit - increase	1,943,215	2,004,116

A 1% sensitivity rate is being used when reporting interest risk internally to key management personnel and represents managements assessment of the reasonablypossible change in interest rates.

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Due to the nature of the underlying business, the group's management maintains flexibility in funding by maintaining sufficient cash and cash equivalents.
Note 13 discloses the maturity analysis of trade and other payables.
The table below disclose the undiscounted maturity profile of the group's financial liabilities:

Year ended 31 December 2016

Non-interest bearing liabilities:

Group		Interest Rate	Between 1 to 3 months	Between 4 to 12 months	Total
		%	Shs	Shs	Shs
-	Trade and other payables	0%	16,500,448	558,407	17,058,855

Year ended 31 December 2015

Non-interest bearing liabilities:

-	Trade and other payables	0%	166,531,236	4,401,133	170,932,369

18. Risk management objectives and policies (continued)

Year ended 31 December 2016

Non-interest bearing liabilities:

Company		Interest Rate	Between 1 to 3 months	Between 4 to 12 months	Total
		%	Shs	Shs	Shs
-	Trade and other payables	0%	12,642,378	21,715,523	34,357,901

Year ended 31 December 2015

Non-interest bearing liabilities:

-	Trade and other payables	0%	161,272,957	11,020,664	172,293,621

19. Capital management

The group's objectives when managing capital are:
- to provide an adequate return to shareholders by pricing services commensurate with the level of risk;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong asset base to support the development of business; and
- to maintain an optimal capital structure to reduce the cost of capital.

The management sets the amount of capital in proportion to risk. The group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders or issue new shares.

20. Incorporation

Central Depository and Settlement Corporation Limited and its subsidiaries CDSC Registrars Kenya Limited and CDSC Nominees Limited, are incorporated in Kenya under the Companies Act, 2015 as private limited liability companies and are domiciled in Kenya. CDSC Registrars Rwanda Limited is a limited liability company incorporated and domiciled in the Republic of Rwanda in accordance with the Law relating to Companies No. 07/2009 of 27 April 2009.

21. Presentation currency

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

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SUNTRA INVESTMENTS LTD (B07)

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Website: www.oldmutual.co.ke

SBG SECURITIES LTD (B09)

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Website: www.apexafrica.com

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Tel: 243811/2/3 Fax:2 243814
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Website: www.fib.co.ke

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Web: www.nic-securities.com

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STANDARD INVESTMENT BANK LTD (B20)

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P.O. Box 13714-00800 Nairobi
Tel: 2220225 / 2228963/ 7/ 9
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RENAISSANCE CAPITAL (KENYA) LTD (B24)

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EQUITY INVESTMENT BANK LTD (B26)

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Website:www.primebank-kenya.co.ke

STBC- CFC STANBIC BANK LTD

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CDSC CENTRAL DEPOSITORY & SETTLEMENT CORPORATION

Invested in Progress

PRODUCT / SERVICE OFFERING

Depository Services

- Account opening
- Holding of securities in CDS
- Movement of securities within CDAs
- Transfer of Securities to beneficiaries or as gifts
- Investor can use shares to secure a loan with a lending institution

Settlement

- Settlement of equities, corporate bonds and M- Akiba bond

Client Services

- We send CDS account holders monthly statements via post office, if there is an activity in their account within that month.
- CDS account holders get statements conveniently via their email addresses every month. Visit your CDA (Stockbroker or Custodian) and update your email address.
- Visit our website - www.cdsckenya.com ; go to products and follow instructions to view your account.

Registry Services

Through our subsidiary company CDSCR, we offer;

- IPO processing and Register creation
- Administration of AGMs / EGMs
- Processing of Entitlement / Dividend payments
- Register Maintenance

CENTRAL DEPOSITORY &
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Invested in Progress

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