



CENTRAL DEPOSITORY &
SETTLEMENT CORPORATION
Invested in Progress

The background of the slide is a dark blue grid with a faint, light blue line chart and candlestick patterns. Several numerical values are scattered across the chart, including 44.291, 26.417, 31.012, 48.991, 44.870, 20.556, 12.002, and 06.381.

EARNING ADDITIONAL RETURN FROM THE STOCK MARKET THROUGH SECURITIES LENDING AND BORROWING (SLB)

JESSE KAGOMA

GENERAL MANAGER, BUSINESS
SUPPORT SERVICES - CDSC

INDUSTRY OUTLOOK

Global Revenues

\$756M	\$196M
Global Securities Finance Lending Revenues As at July 2021 (an increase of 8% YoY from \$702M)	Broker-Broker activity - Where Brokers and Dealers lend and borrow securities from each other As at July 2021



Global Securities Lending Revenue in H1, 2021



Value of Lendable Equities in South Africa H1, 2021



2021 H1 EMEA Equity Securities Lending Revenues



Total 2020 EMEA Equity Lending Revenues

Source: Data Lend (Market Data Division of Fintech, EQUILEND), IHS Markit securities finance update: H1, 2021.

Overview of Securities Lending and Borrowing

Securities Lending and Borrowing (SLB) is the temporary transfer of shares from one party (*lender*) to another (*borrower*), with an agreement to return the shares either on demand, or at a future date. The lender can be an individual or an institution that holds shares on a long term basis.

How to Lend

- 1 Contact an SLB Agent.
- 2 Submit your lending instructions (The shares you are willing to lend, the lending fees and the period you wish to lend)
- 3 The SLB Agent upon confirmation of the availability of shares in your account, shall capture the lending request in the CDS
- 4 The securities shall then be reserved and your lending request added to the lending pool or matched with an existing borrowing request

How to Borrow

- 1 Contact an SLB Agent.
- 2 Submit your borrowing request (The shares you are want to borrow and the borrowing period)
- 3 The SLB Agent upon receiving your collateral and 10% initial margin, shall capture the borrowing request in the CDS
- 4 The request is added to the pool or matched with an existing lending request

In case matching does not happen within the set time (expiry date), the requests will be automatically removed from the pool and the shares and collateral released.

Overview of Securities Lending and Borrowing

Benefits of SLB to Participants

Lenders

- ❖ Additional Income through Lending Fees
- ❖ Automated transfer of Securities
- ❖ Lender receives all corporate actions that take place during an SLB transaction

Borrowers

- ❖ Additional income in bear market conditions
- ❖ Supports investment strategies like short selling
- ❖ With screen based model, borrowers can view securities on offer and take advantage of opportunities that arise

Lenders and Borrowers

- ❖ No Counterparty risk as transactions are guaranteed by CDSC
- ❖ Lenders and borrowers transact in a common platform (Central Depository System)

Investment Opportunities in Securities Lending and Borrowing

Making money as a Lender in SLB

CASE STUDY: If an investor was to lend 1 million shares trading at KES 40 at the NSE for a period of 90 days at a Lending Fee of 8% p.a.

BELOW IS AN ILLUSTRATION OF HOW THE LENDER WOULD MAKE MONEY:

- ❑ [Share Amount X Price] $(1,000,000 \times 40) = 40,000,000$
- ❑ [Lending Rate X Days/365] $(8\% \times 90/365) = 1.9726\%$
- ❑ [(S X P) (R X D/365)] $(40,000,000 \times 1.9726\%) = 789,040$
- ❑ SLB Lending Commission $(16\% \times 789,040) = 126,246.4$
- ❑ Net Lending Fee = $789,040 - 126,246.4 = \underline{\text{KES } 662,793.60}$

If lending period was one year, then the lending fee would be KES 2,668,000 net i.e. 6.7% p. a investment return FROM SHARES favorably *comparable to investing funds in fixed deposits earning 8% less*
WITHHOLDING TAX OF 15% TO EARN 6.8%

Key Figures

KES 40M

Share Value

8% p.a.

Lending Rate

**KES
662.8K**

Potential
Income
(90 Days)

Sampled Opportunities in HI for SLB

Making money as a Borrower in SLB

CASE STUDY: If an investor was to borrow 1 million shares trading at KES 40 at the NSE for a period of 90 days at a Lending Fee of 8% p.a.

- ❑ Borrowing Cost $[(1,000,000 \times 40) \times (8\% \times 90/365)] + [(0.55\% \times 90/365) \times 40,000,000]$
- ❑ Total Borrowing Cost: $(789,040 + 54,246.58) = \text{KES } 843,286.58$

BELOW IS AN ILLUSTRATION OF HOW THE BORROWER WOULD MAKE MONEY:

Should share price fall by KES 3 to KES 37 during the contract period

- ❑ [Share Amount X Price] $(1,000,000 \times 37) = 37,000,000$
- ❑ Transaction Gross Profit $(40,000,000 - 37,000,000) = 3,000,000$
- ❑ Net Profit = $3,000,000 - [843,286.58 + (\text{Transaction levies at NSE } (40,000,000 \times 1.8\% + 37,000,000 \times 1.8\%))]$
- ❑ Therefore Profit will be $3,000,000 - [843,286.58 + (720,000 + 666,000)]$
- ❑ Profit = $\text{KES } 770,713.42 + \text{interest earned from 110\% cash collateral } (6\% \times 44\text{M} \times 90/365) - \text{Collateral Management Fee of 1\% } (108,493.15)$
- ❑ **TOTAL RECEIVED** $770,713.42 + 444,822 = \underline{\text{KES } 1,215,535.42}$

Key Figures

KES 40M

Share Value

8% p.a.

Lending Rate

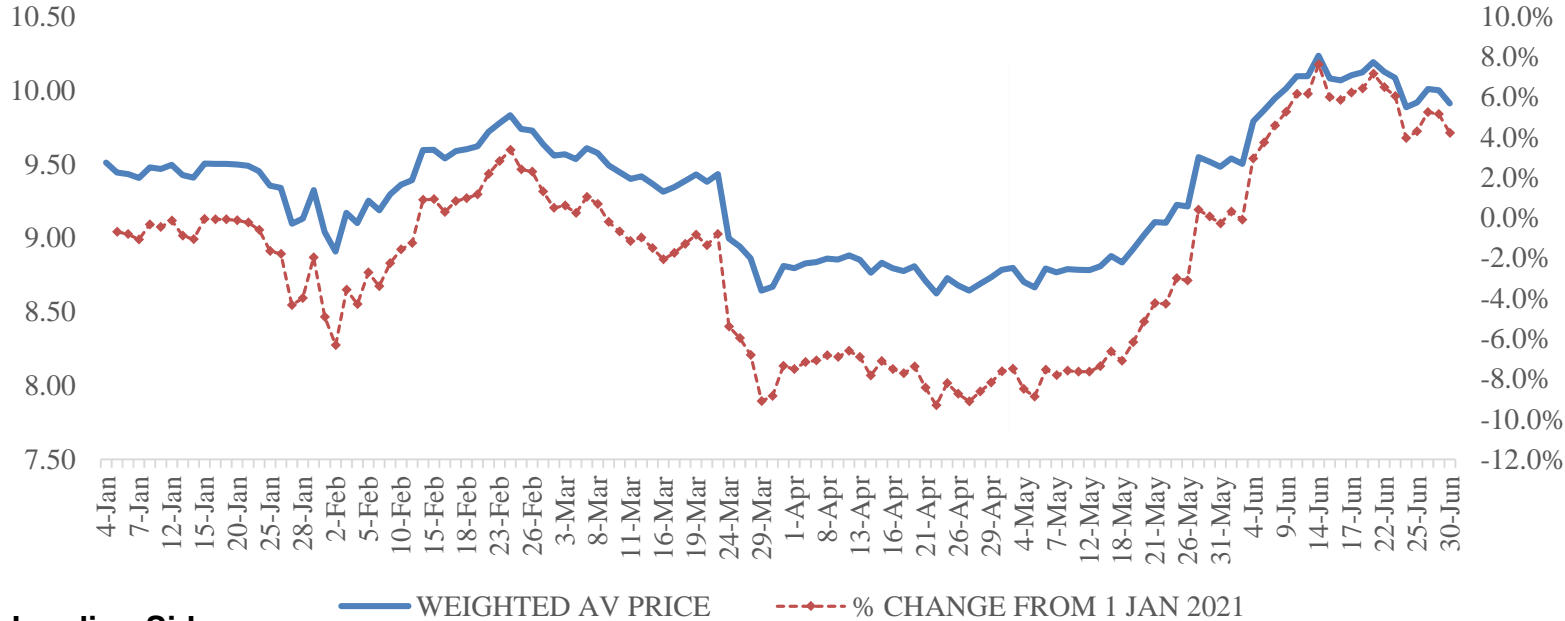
**KES
770.7K**

Potential
Return Less
*Net interest
earned on
collateral
(90 Days)*

Sampled Opportunities in HI for SLB

A Case of ABSA

ABSA PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period	Corporate Action	Net Returns (KES)
1,000,000	8	02/23/2021	9.8	9,830,000	04/22/2021	58	-	104,968

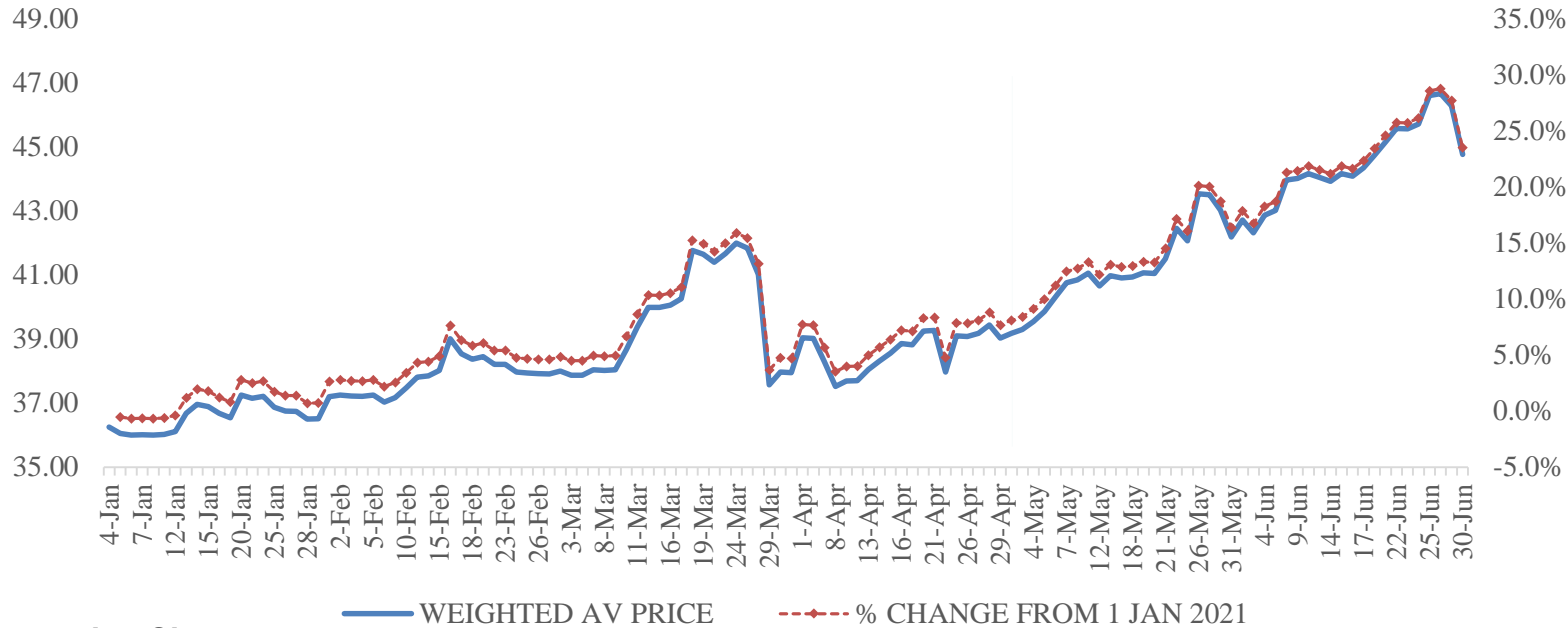
Borrowing Side

Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	02/23/2021
Return Date	04/22/2021
Borrowing Period (Days)	58
Borrowing Price	9.8
Return Price	8.62
Price Change	(1.2)
SLB Net Gain (KES)	744,347
Earnings From Collateral	70,447
Total Borrower Earnings (KES)	814,794

Sampled Opportunities in HI for SLB

A Case of EQUITY

EQUITY BANK PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period	Corporate Action	Net Returns (KES)
1,000,000	8	03/24/2021	42.0	41,990,000	04/22/2021	29	-	224,192

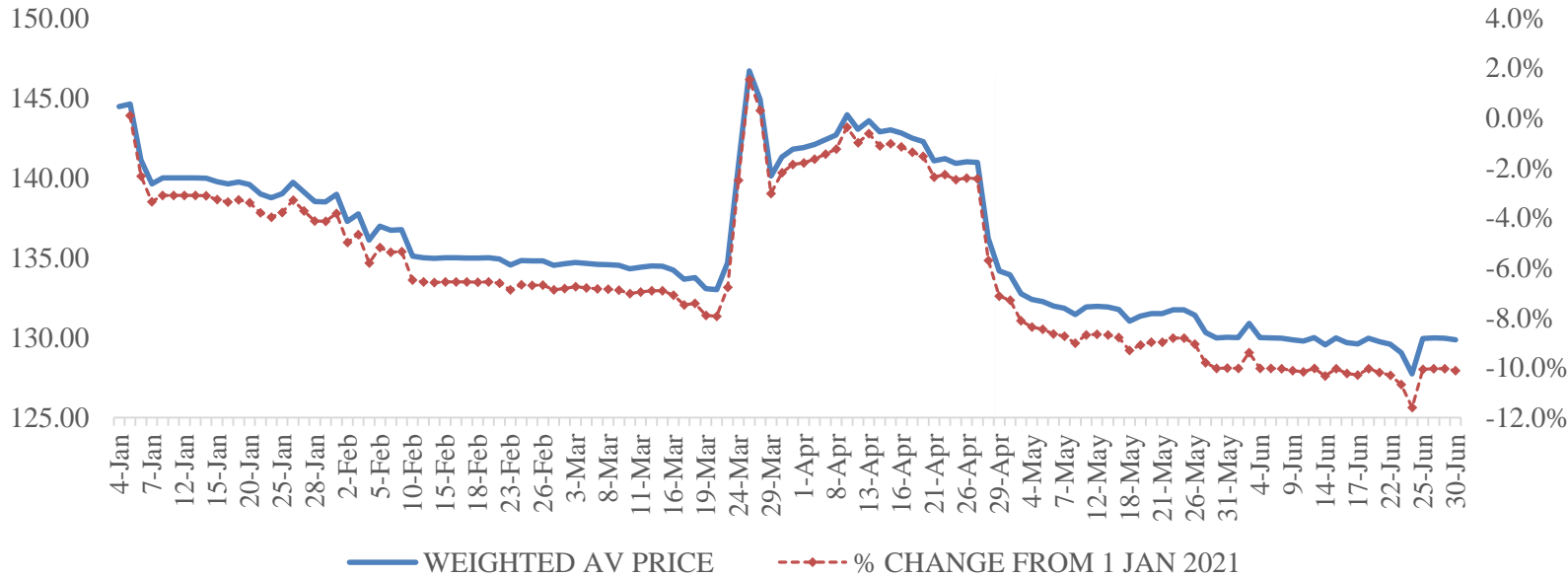
Borrowing Side

Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	03/24/2021
Return Date	04/22/2021
Borrowing Period (Days)	29
Borrowing Price	42
Return Price	37.97
Price Change	(4.0)
SLB Net Gain (KES)	2,295,476
Earnings From Collateral	150,462
Total Borrower Earnings (KES)	2,445,938

Sampled Opportunities in HI for SLB

A Case of STANCHART

STANCHART BANK (KE) PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Borrowing Side

Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	03/25/2021
Return Date	06/24/2021
Borrowing Period (Days)	91
Borrowing Price	146.7
Return Price	127.73
Price Change	(19.0)
SLB Net Gain (KES)	412,745
Earnings From Collateral	1,649,623
Total Borrower Earnings (KES)	2,062,369

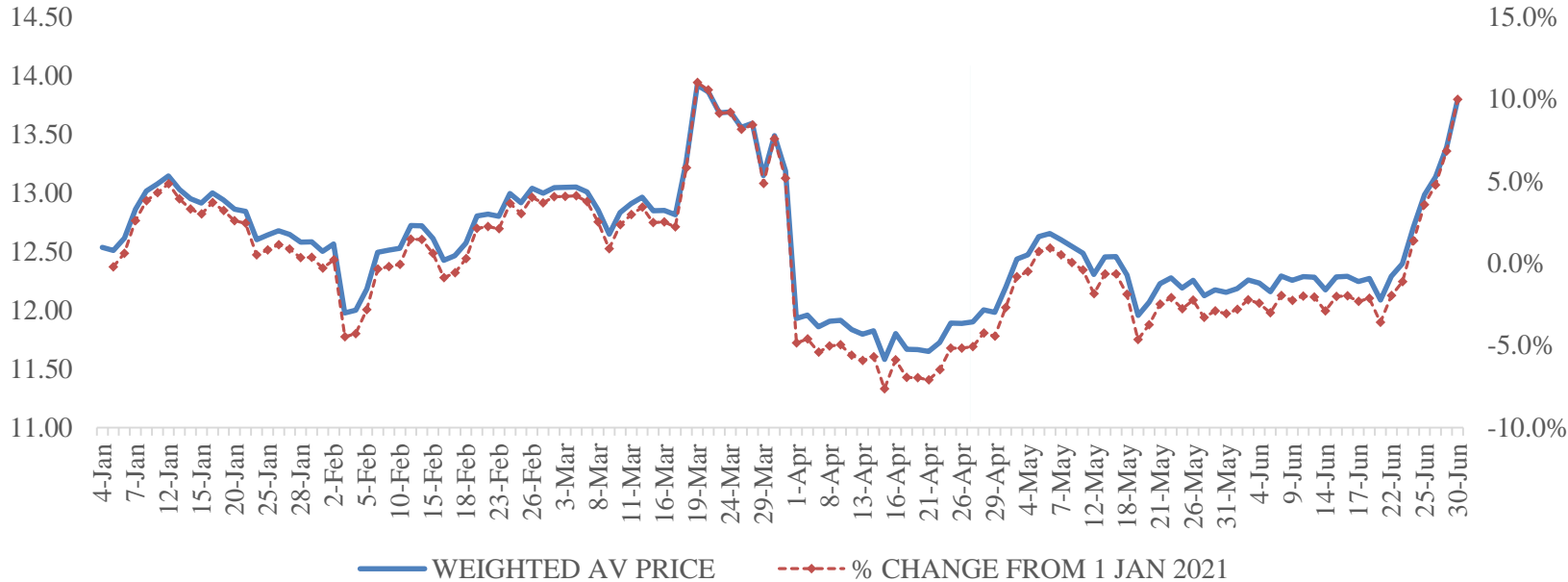
Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period	Corporate Action	Net Returns (KES)
1,000,000	8	03/25/2021	146.7	146,710,000	06/24/2021	91	10,500,000	12,957,975

Sampled Opportunities in HI for SLB

A Case of CO-OP Bank

CO-OP BANK PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period	Corporate Action	Net Returns (KES)
1,000,000	8	03/19/2021	13.9	13,920,000	06/21/2021	94	1,000,000	1,240,904

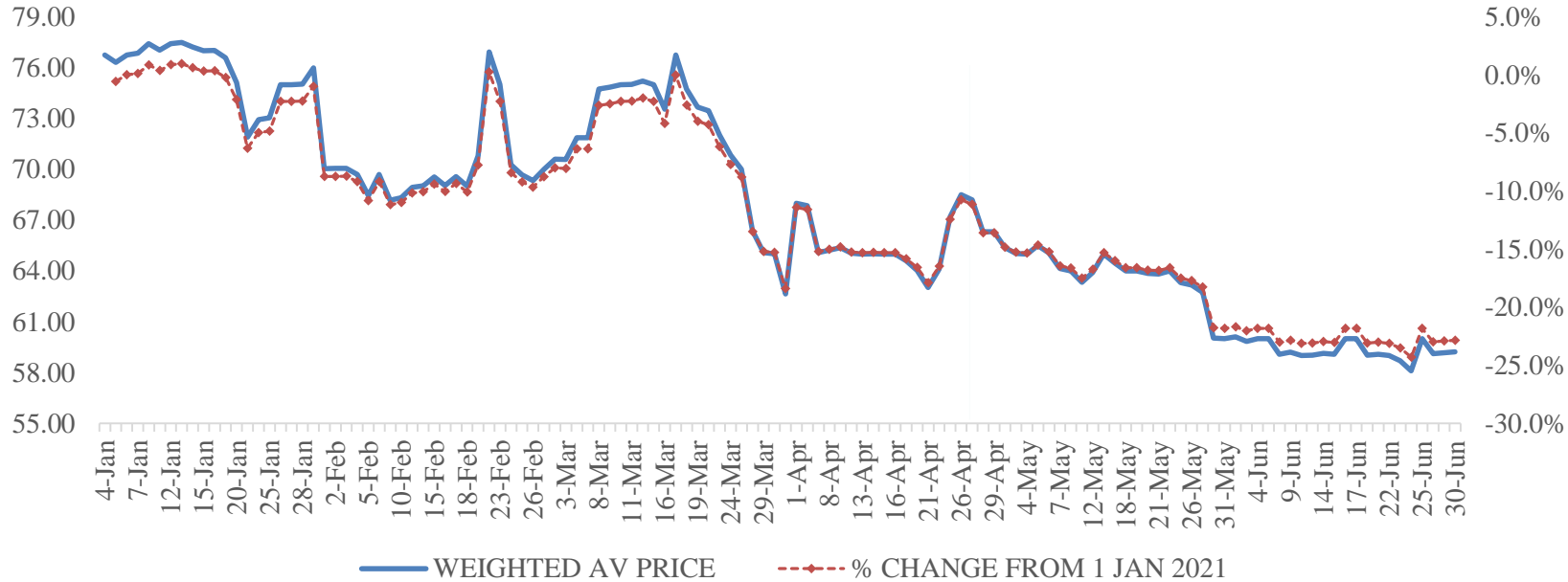
Borrowing Side

Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	03/19/2021
Return Date	06/21/2021
Borrowing Period (Days)	94
Borrowing Price	13.9
Return Price	12.09
Price Change	(1.8)
SLB Net Gain (KES)	55,313
Earnings From Collateral	161,678
Total Borrower Earnings (KES)	216,991

Sampled Opportunities in HI for SLB

A Case of DTB Kenya

DTB KENYA PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period	Corporate Action	Net Returns (KES)
1,000,000	8	03/17/2021	76.8	76,750,000	06/24/2021	99		1,398,911

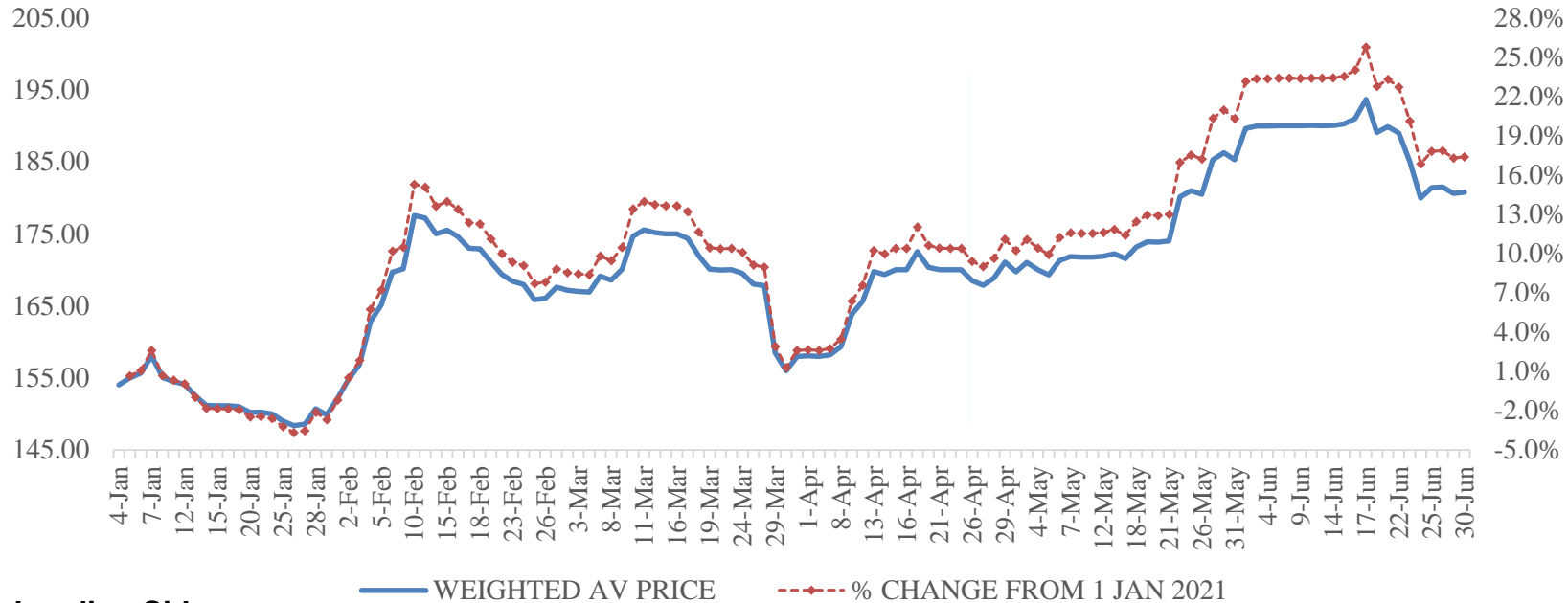
Borrowing Side

Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	03/17/2021
Return Date	06/24/2021
Borrowing Period (Days)	99
Borrowing Price	76.8
Return Price	58.10
Price Change	(18.7)
SLB Net Gain (KES)	14,442,836
Earnings From Collateral	938,852
Total Borrower Earnings (KES)	15,381,688

Sampled Opportunities in HI for SLB

A Case of EABL

EABL PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period	Corporate Action	Net Returns (KES)
1,000,000	8	06/07/2021	190	190,000,000	06/30/2021	23	-	804,559

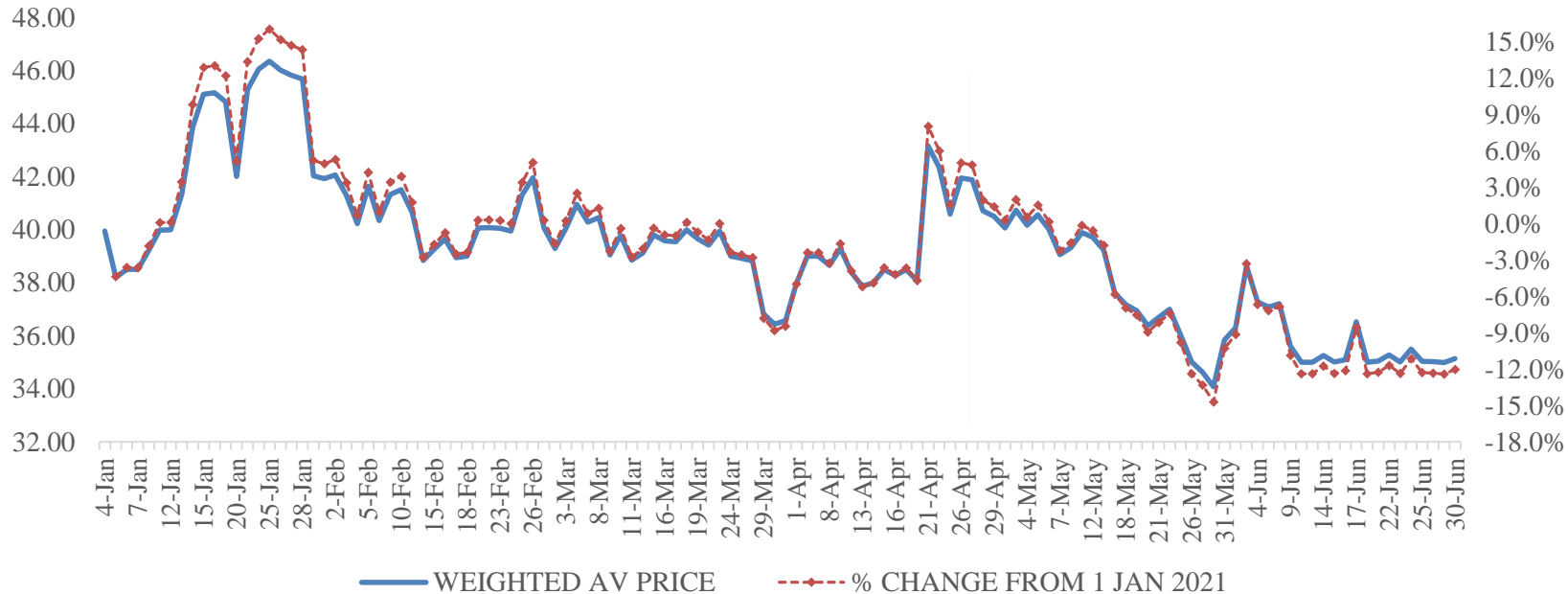
Borrowing Side

Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	06/07/2021
Return Date	06/30/2021
Borrowing Period (Days)	23
Borrowing Price	190
Return Price	180.78
Price Change	(8.2)
SLB Net Gain (KES)	1,522,302
Earnings From Collateral	539,964
Total Borrower Earnings (KES)	2,062,267

Sampled Opportunities in HI for SLB

A Case of BAMBURI

BAMBURI PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period	Corporate Action	Net Returns (KES)
1,000,000	8	01/25/2021	46.4	46,360,000	06/28/2021	154	-	1,314,439

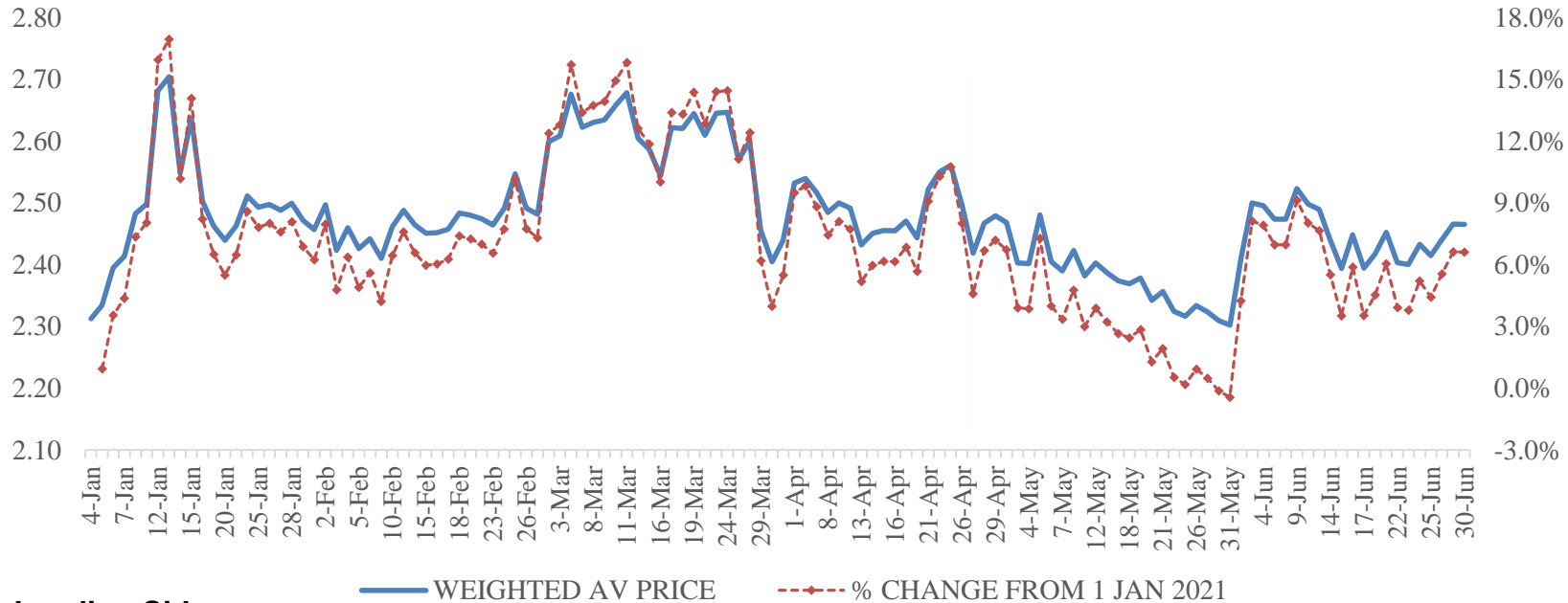
Borrowing Side

Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	01/25/2021
Return Date	06/28/2021
Borrowing Period (Days)	154
Borrowing Price	46.36
Return Price	35.02
Price Change	(11.3)
SLB Net Gain (KES)	8,202,771
Earnings From Collateral	882,161
Total Borrower Earnings (KES)	9,084,932

Sampled Opportunities in HI for SLB

A Case of KENYA-RE

KENYA RE PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period	Corporate Action	Net Returns (KES)
1,000,000	8	03/11/2021	2.7	2,680,000	05/31/2021	81	-	39,967

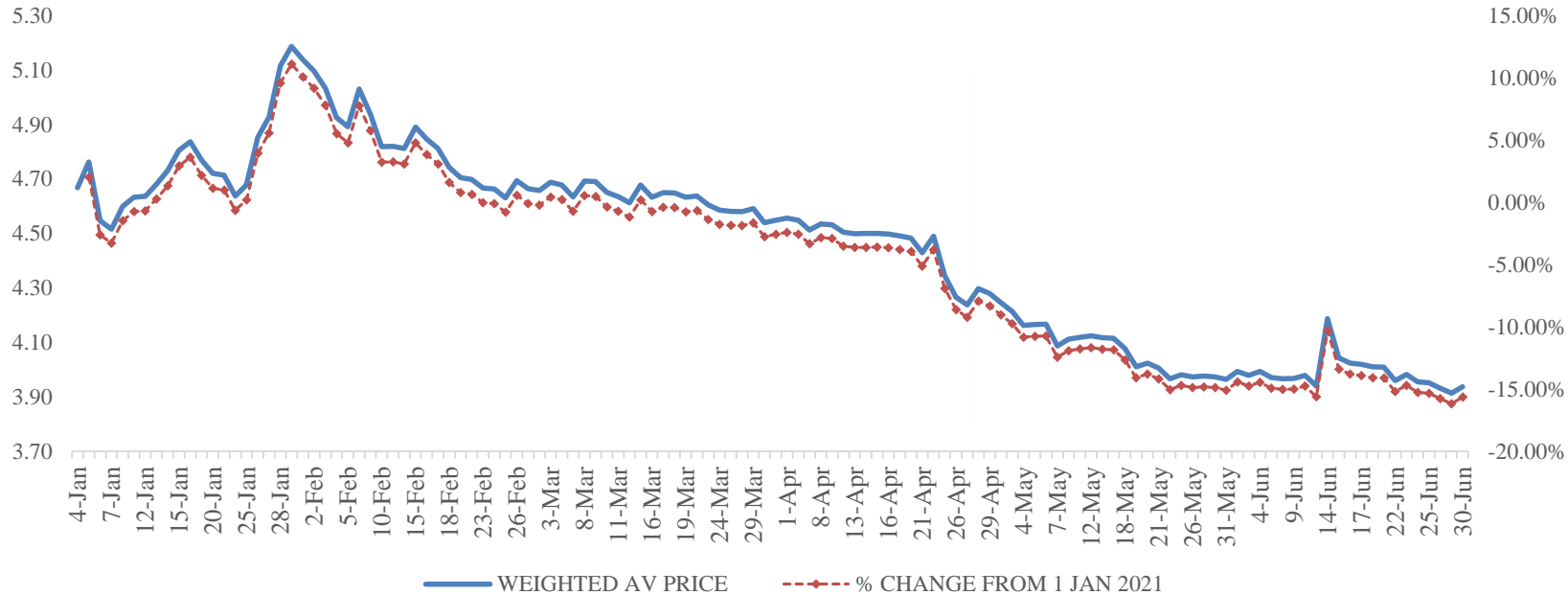
Borrowing Side

Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	03/11/2021
Return Date	05/31/2021
Borrowing Period (Days)	81
Borrowing Price	2.7
Return Price	2.3
Price Change	(0.4)
SLB Net Gain (KES)	239,510
Earnings From Collateral	26,823
Total Borrower Earnings (KES)	266,333

Sampled Opportunities in HI for SLB

A Case of KENGEN

KENGEN PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period	Corporate Action	Net Returns (KES)
1,000,000	8	02/02/2021	5.1	5,100,000	06/30/2021	148	300,000	438,966

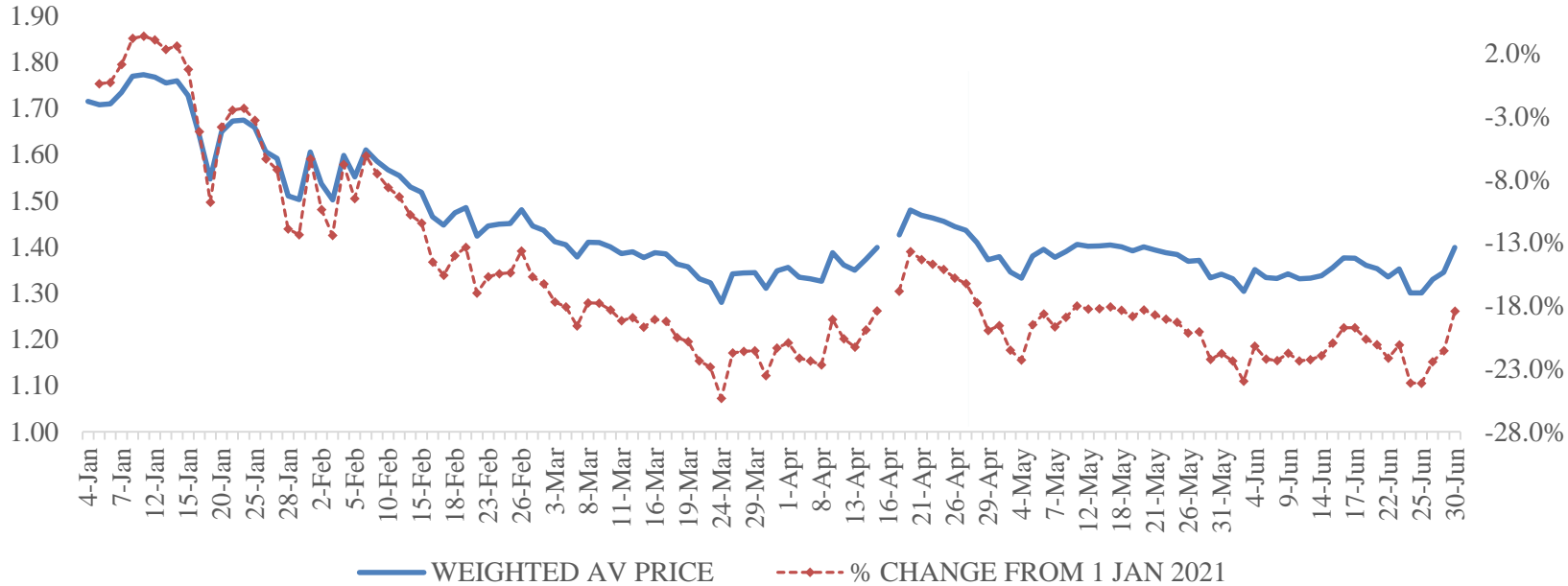
Borrowing Side

Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	02/02/2021
Return Date	06/30/2021
Borrowing Period (Days)	148
Borrowing Price	5.1
Return Price	3.91
Price Change	(1.2)
SLB Net Gain (KES)	551,011
Earnings From Collateral	93,264
Total Borrower Earnings (KES)	644,275

Sampled Opportunities in HI for SLB

A Case of KPLC

KPLC PRICE MOVEMENT (1 JAN 2021 - 30 JUNE 2021)



Lending Side

Units	Lending Rate (%)	Lending Date	Price at Lending Date	Lending Value	Return Date	Lending Period	Corporate Action	Net Returns (KES)
1,000,000	8	1/8/2021	1.8	1,770,000	06/25/2021	168	-	54,747

Borrowing Side

Units	1,000,000.00
Lending/Borrowing Rate (%)	8
Borrowing Date	01/08/2021
Return Date	06/25/2021
Borrowing Period (Days)	168
Borrowing Price	1.8
Return Price	1.3
Price Change	(0.5)
SLB Net Gain (KES)	345,084
Earnings From Collateral	36,742
Total Borrower Earnings (KES)	381,827

THANK YOU!

