NSE 66TH ANNUAL GENERAL MEETING

GEOFFREY O. ODUNDO, NSE CHIEF EXECUTIVE

Overview – About NSE

NSE is a demutualized entity with Dec 2019 shareholding as

- Foreign institutions - 50.87%
- Foreign individuals –1.47%
- EAC institutions – 35.22%
- EAC individuals – 12.43%

NSE market capitalization as at Dec 2019 of ~US$ 25 Bn

NSE products and services include

- Equities
- REITs
- ETFs
- Data
- IBUKA
- Bonds
- Derivatives
- M-AKIBA
- Training

62+ equity listings spread across key sectors including:

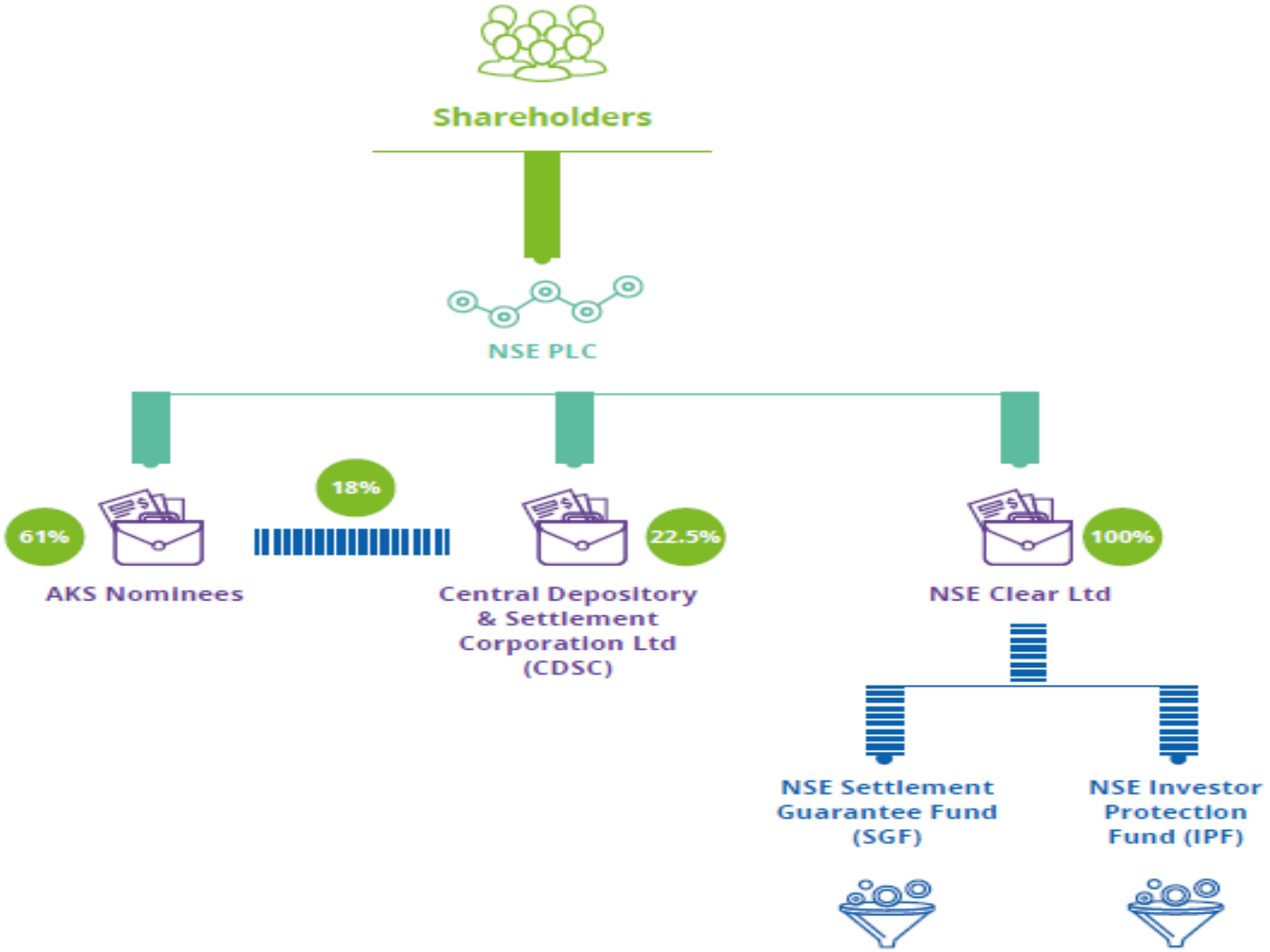
- Agriculture
- Automobile
- Banking
- Commercial Services
- Construction
- Energy & Petroleum
- Insurance
- Investment
- Manufacturing
- Telecoms

NSE Key memberships and partnerships

WFE World Federation of Exchanges; AFM Association of Futures Markets; ASEA; EASEA; SSE Sustainable Stock Exchanges Initiative

Placing the NSE among the top 5 out of ~30 exchanges in Sub-Saharan Africa

Group Structure



** The Board of Directors of NSE Clear Limited appoints Trustees of the SGF and IPF who manage and administer the funds.*

Governance - Executive Committee

Kuria Waithaka

Company Secretary and Chief Legal Officer

Terrence Adembesa

Chief Officer - Derivatives Markets

Irungu Waggema

Head, Business Development

Geoffrey Odundo

Chief Executive

David Wainaina

Chief Operating Officer

Paul Ngaragari

Chief Internal Auditor

Jane Kiarie

Chief Finance Officer

Loise Wangui

Head, Regulatory Affairs

Lucy Kamar

Head Human Resources

2015 – 2019 Strategic Plan - Review

Pillar 1

Drive revenue growth and diversification

- Achieve 40% YoY revenue growth
- Achieve 88 equity listing (69 on MIMS and 19 on GEMS
- Launch and scale new products including REITS, ETF's, derivatives (from 5% to 12& of total revenues by 2017)
- Achieve 40% and 25% CAGR in equities and bonds turnover between 2015 - 2019
- Launch technological innovation for day trading, mobile and online trading

Pillar 2

Build reputation as a trusted company and investment destination of choice

- Transform relationship with CMA and Treasury
- Develop and execute strategic communications campaign on NSE transformation (Q1 2015)
- Expand regional and global engagement, including WFE member status, MSCI ranking by Q1 2016

Pillar 3

Strengthen Organizational Capabilities and Talent management

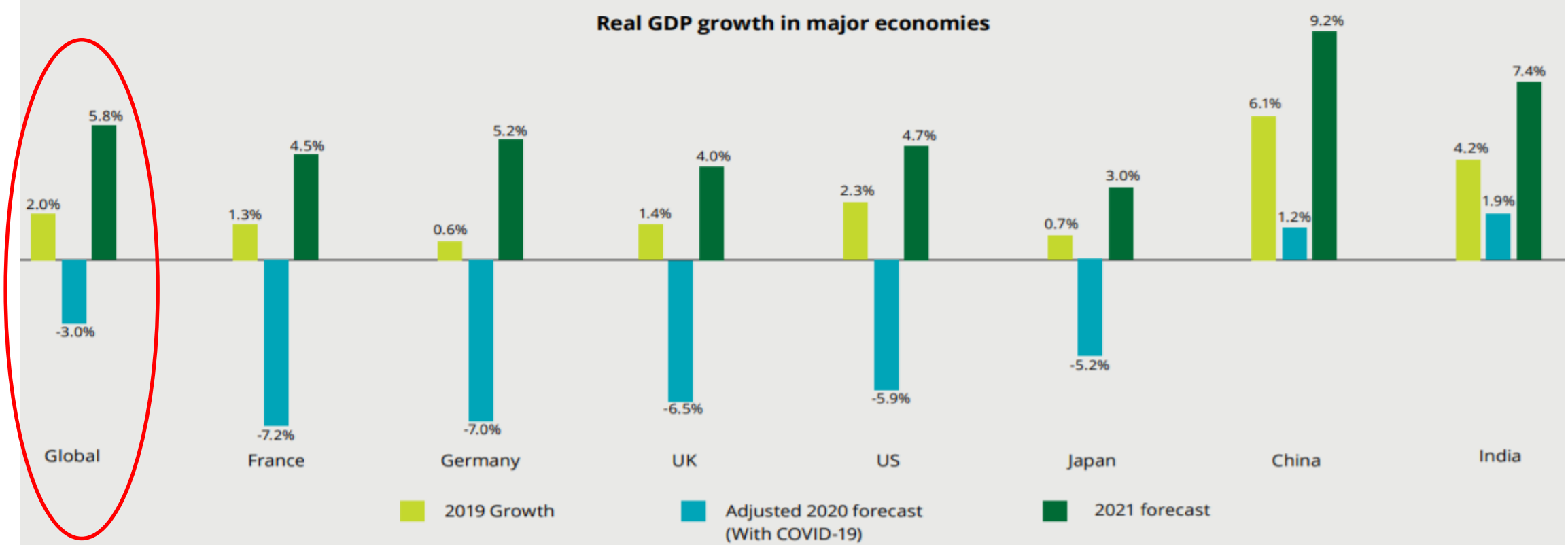
- Invest in key sources gaps - recruit business development and senior external affairs by Q4 2015
- Strengthen governance and develop full SRO capability by Q3 2016
- Strengthen our people value proposition including remuneration and management review
- Build a culture based on excellence, transparency and inclusivity

The following were some of the major milestones achieved.

- Launched new products within the strategic period to offer investors more avenues for deployment of capital
- For example, the REITs, Exchange Traded Funds (ETFs), Derivatives and the Green Bond Market)
- Launched M-Akiba- The world's first mobile traded Government Infrastructure Bond.
- Completed Equities Trading System upgrade offering a more reliable trading system to investors.

Global Economy

In 2019 and 2020/21 Forecasts (Source : IMF)



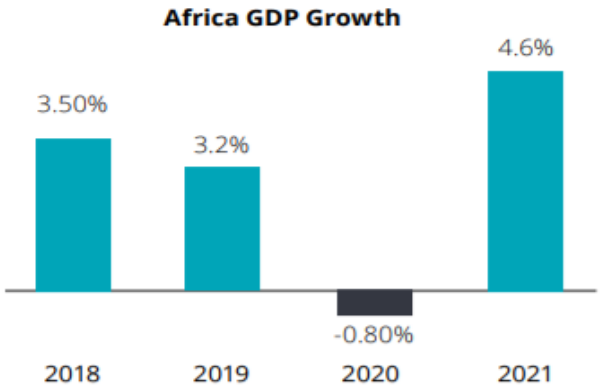
Impact

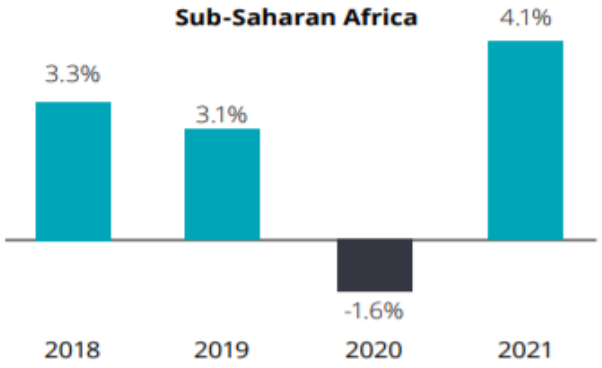
- The cumulative loss to global GDP over 2020 and 2021 from the pandemic crisis could be around USD 9tn, greater than the economies of Japan and Germany, combined.
- More than 170 countries are set to experience a lower GDP per capita compared to their 2019 average values

Market uncertainties

- The global stock markets have suffered uncertainties due to the outbreak, and the Dow Jones having 3 market halts in March 2020 with major market having circuit breakers including NSE
- Global oil prices estimated to decline by 42% in comparison to the 2019 average price

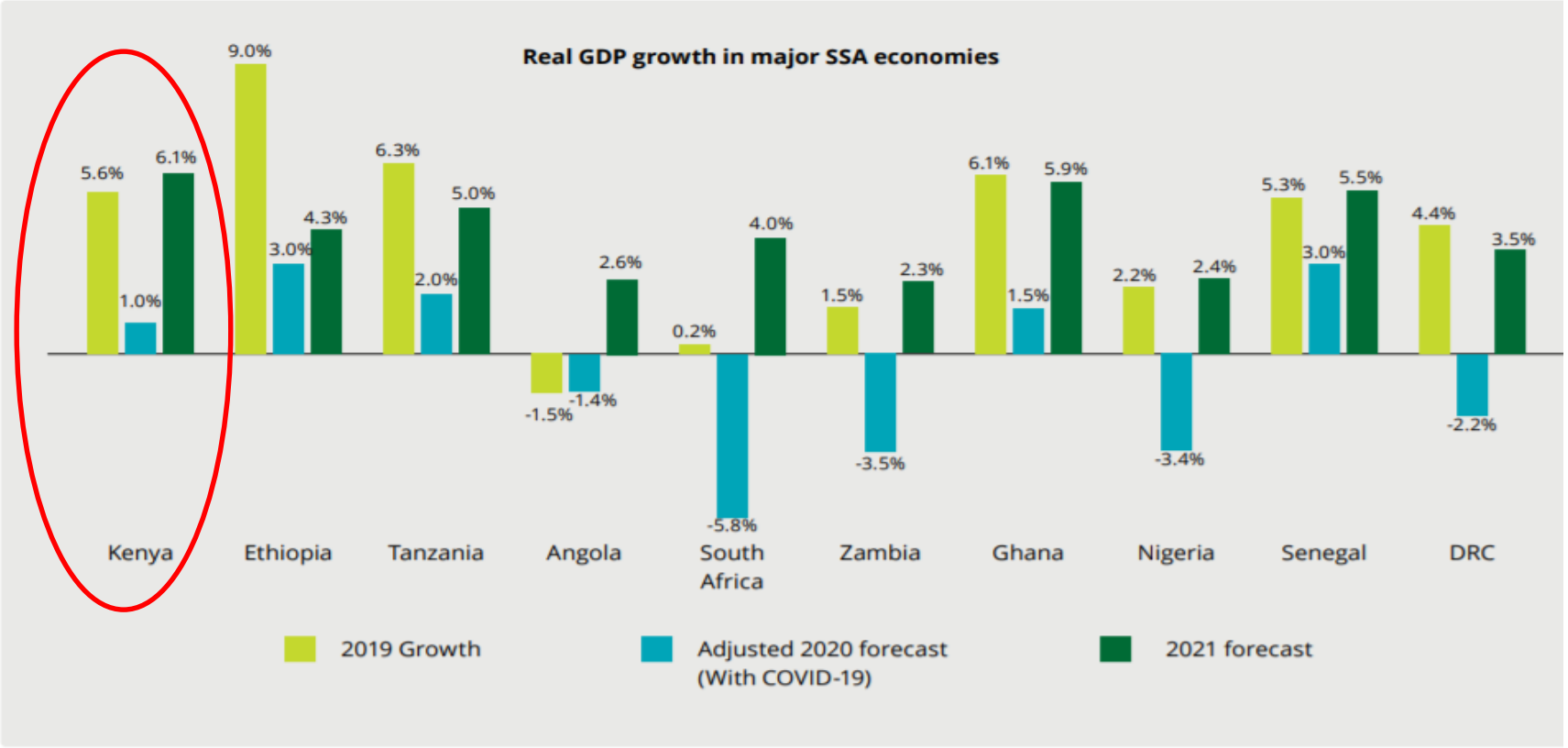
African Context 2019/20-21





- Developments in Asia, Europe and the United States have seen several African countries act decisively in closing down their economies. South Africa, Nigeria, Kenya, Rwanda and Uganda have all enforced either a partial or full lockdown.
- Previously, high growth economies in East and West Africa such as Ghana, Côte d'Ivoire, Senegal, Ethiopia, Kenya and Tanzania are expected to see considerably slower GDP expansion in 2020 but still with positive growth rates primarily because these countries are less or non-resource intensive and as such more resilient.

Source: IMF, World Bank, African Union



- **USD 6bn** estimated loss in passenger revenue in 2020. Job losses in aviation and related industries could grow to **3.1m.**
- At least **USD 50bn** in revenue losses projected for the tourism and travel sector.
- More than **2m** jobs at risk in the tourism/travel sector
- Export revenue from fuel estimated to fall at around **USD 101bn.** Total exports projected to drop by **35%** (**USD 270bn** loss).

- **FDIs** estimated to drop at between **5%** to **15%.**
- Africa could lose up to **20** to **30%** of its fiscal revenue, estimated at **USD 500bn** in 2019.
- Spending in infrastructural development estimated to drop by at least **25%.**
- Approximately **20m** jobs to be lost both in the formal and informal sectors.
- Remittance flows expected to fall across Sub-Saharan Africa by **23.1%** from **USD 59.1bn to USD 48bn**, Middle East and North Africa by **19.6%** from **USD 56bn to USD 47bn.**

Kenyan Macros 2019/20

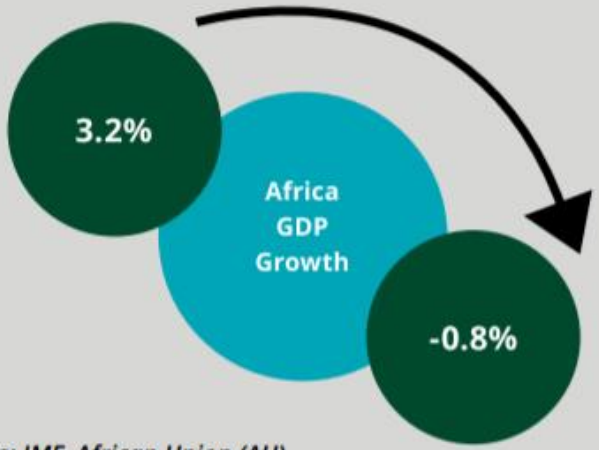
Global and Africa Economy

Global GDP Growth

Source: IMF, Fitch Solutions

Africa GDP Growth

Africa's projected GDP growth of 3.2% for 2020 is now expected to recess to -0.8%.



Source: IMF, African Union (AU)

Kenya's GDP Growth

Source: IMF, Fitch Solutions

Kenya's Inflation

Source: IMF, Fitch Solutions

- **USD 658m** drop in revenue collections in the remaining 3 months to the 2019/20 fiscal year end.
- **Lending rates, Savings and Deposit rates remain largely unaffected** and currently average 12.24%, 4.02% and 7.11% respectively.
- **3.1% (USD 545m)** estimated decline in total import value and a 36.6% decline in Chinese imports.
- A minimum of **25% (USD 1.5bn)** decline in export revenue expected.
- Tourism and travel contributes about **1.6m jobs** (**8.5%** of total employment). Most of these jobs are at risk due to closure of hotels and shut-down of global aviation.

- **Kenya shilling** is under pressure due to reduced forex earnings mainly on account of reduced exports and **stood at KES 106.00: USD 1 as of 08 May 2020,** down from **KES 100.9: USD 1 as of 01 January 2020.**
- The flower sector is losing approximately **KES 250m** per day and is estimated to lose half of its value (**KES 60bn**) by end of 2020. Approximately **30,000 temporary workers laid off** and another **40,000 permanent staff sent on unpaid leave.**
- Downside risks remain evident on FX reserves that currently stand at **USD 7.7bn (4.7 months of import cover)** as at 30 April 2020.
- Current account deficit estimated to worsen to between **5%** to **6%** of GDP in 2020.

Covid-19 Impact on the Market

IMPACT ON THE MARKET

Global Markets

Global markets, as tracked by MSCI World Index, dipped 21.4% in Q1 2020. In the same period, emerging (MSCI EM Index) and frontier (MSCI FM Index) markets faltered 23.9% and 27.7%, respectively

Local Market

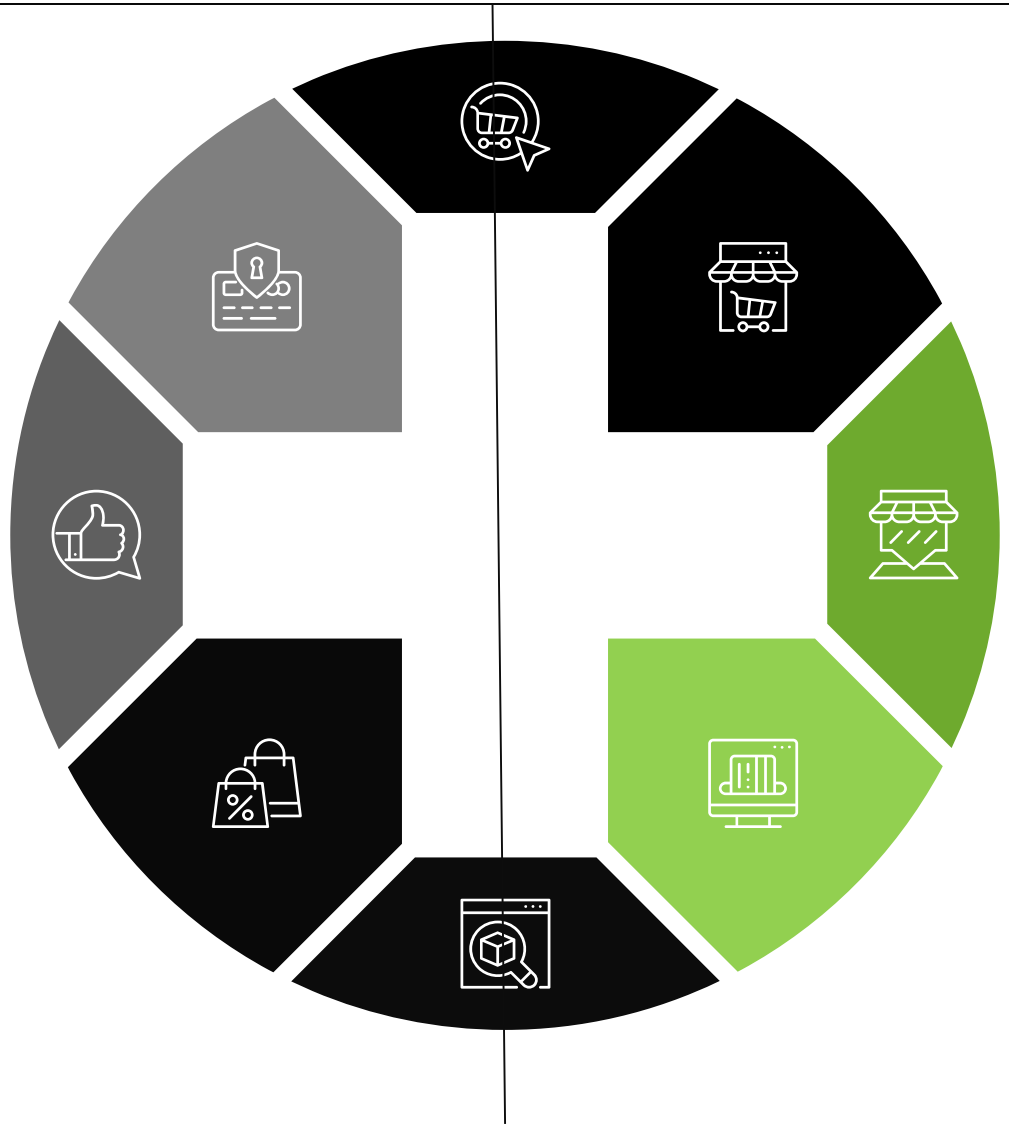
The benchmark NSE 20 equity index retreated 25.9% in Q1 2020 to close below the psychological 2,000 level (1,966.12) with a market halt on 16th March 2020 when first case was reported in Kenya

Investor Participation

Overall decreased participation by foreign investors with local investors taking up more positions. Reallocation of assets into bonds and gold

Economic Sectors Hit

Companies in sectors such as transport, tourism, manufacturing and agriculture have been hardest hit with their stock prices falling



SOME OF OUR INTERVENTIONS

Remote Trading/Working

institution of our business continuity programs including supporting our employees to work from home

Facilitating Brokers & Investors

Enabling brokers execute trades and access support during this pandemic.

Revamping our NSE App

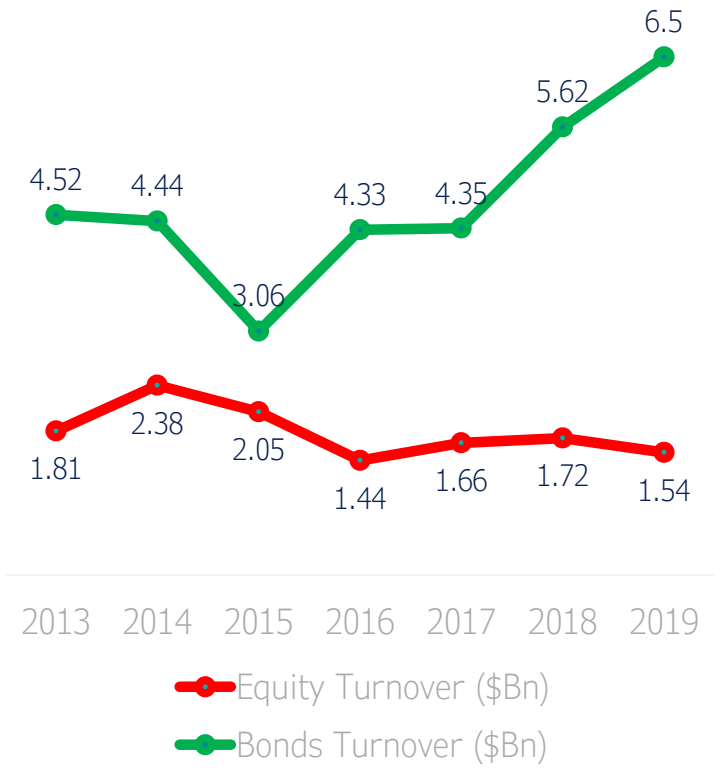
Enhancing capabilities for investors to access their trading participants from a single front and implementing a virtual communication environment for the Board.

Adoption of Technology

Adopting technology for key corporate initiatives such as Annual General Meetings as well as Board Meetings, Webinars and E-learning system

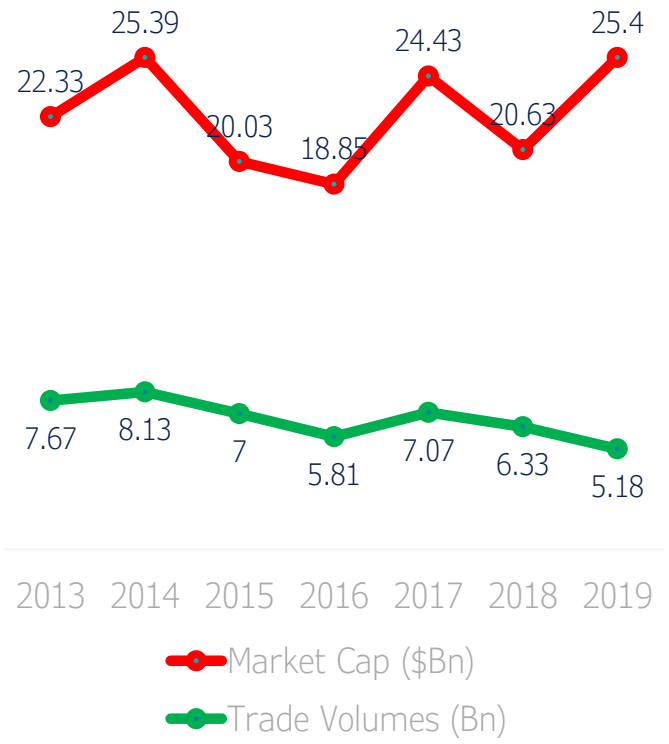
7 Year Market Performance

Key Performance Indicators Trend



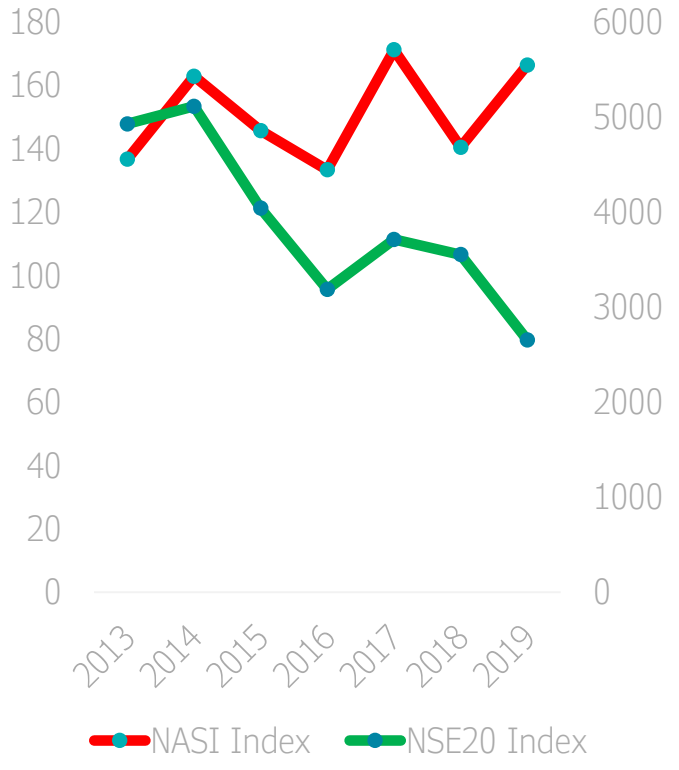
Market Turnover Trend

Bonds turnover gained 15.8% in 2019 while equity turnover dropped 12%



Market Cap/Volumes

Market cap gained 23.3% in 2019 while trade volumes dropped 13.4%.

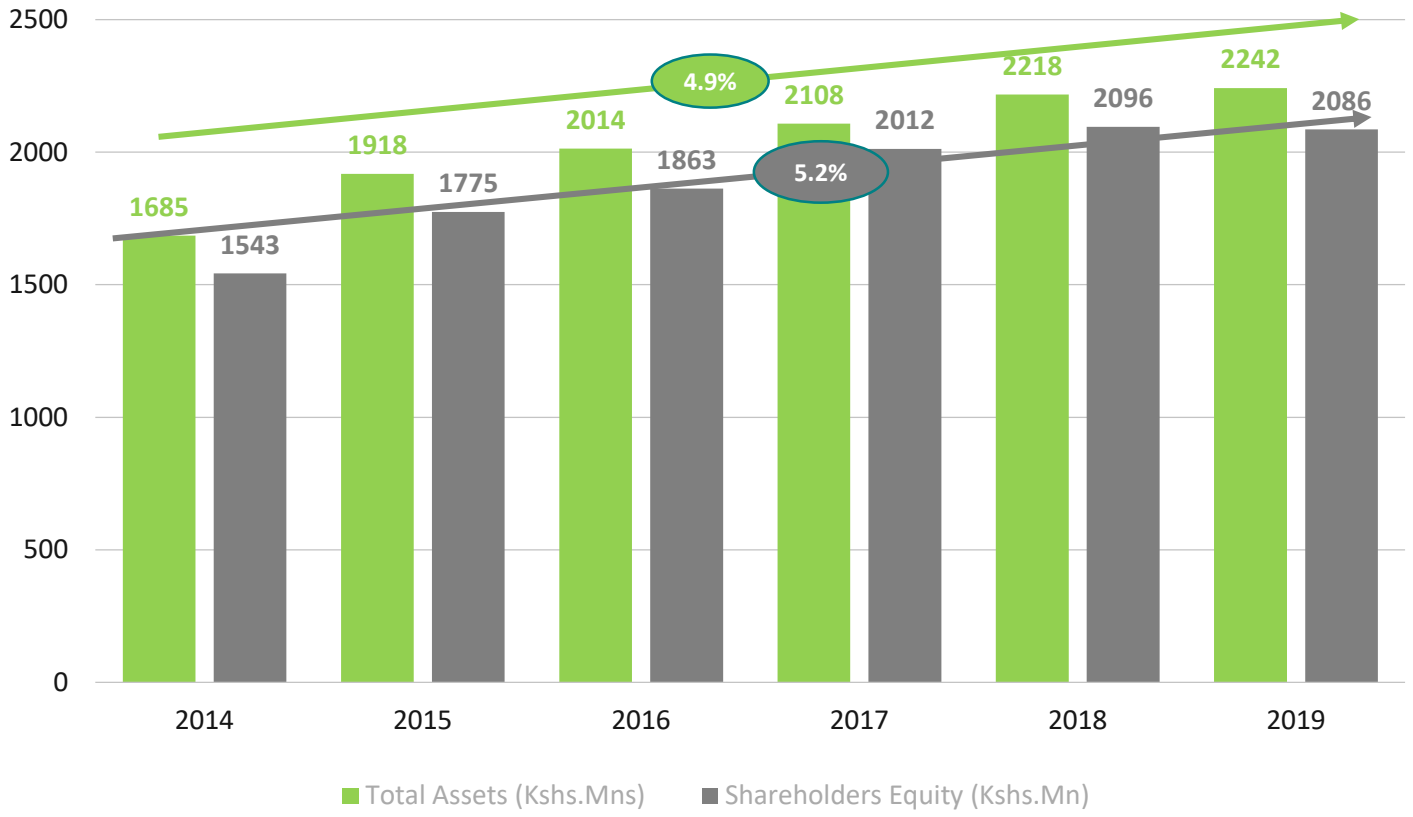


Indices Movement

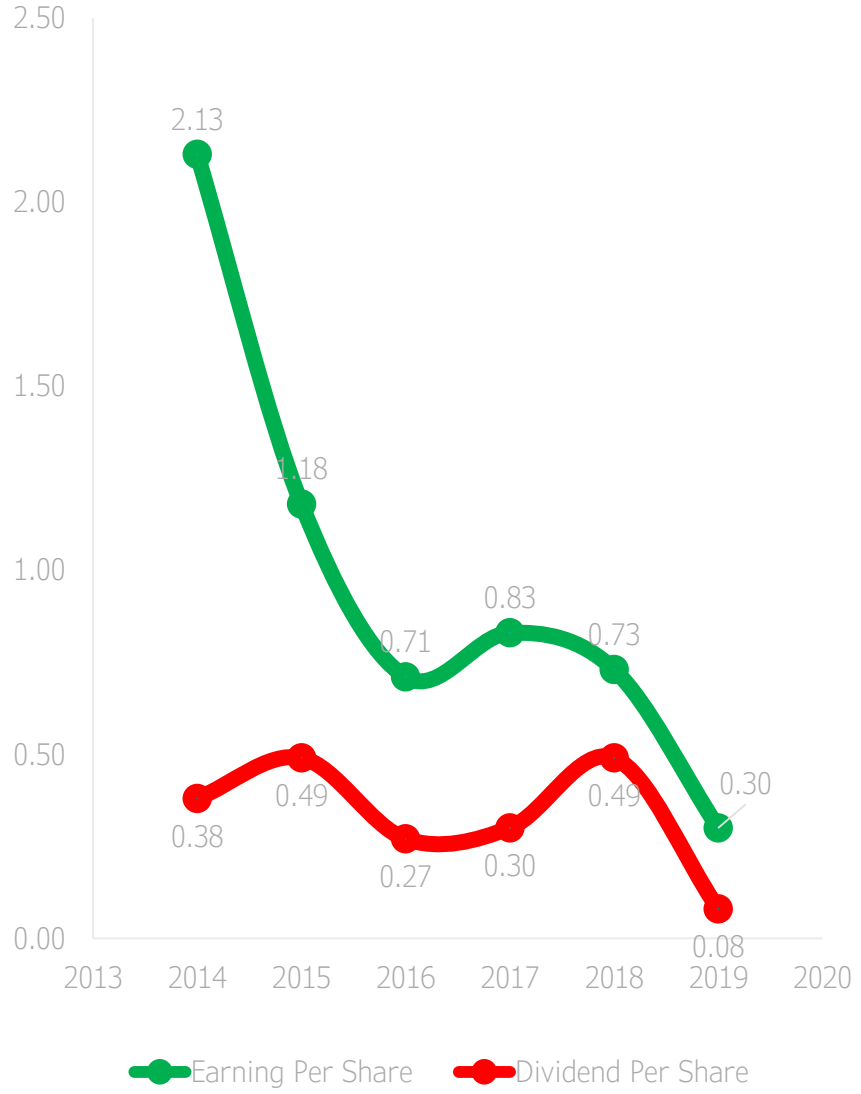
NSE All Share Index recorded a 17.19% gain and NSE 20 Share Index was down 6.33%

Historical Company Performance

Total Assets and Shareholders Equity (Kshs.Mns) with CAGR Trends



Earning Per Share & Dividends Per Share (Kshs)

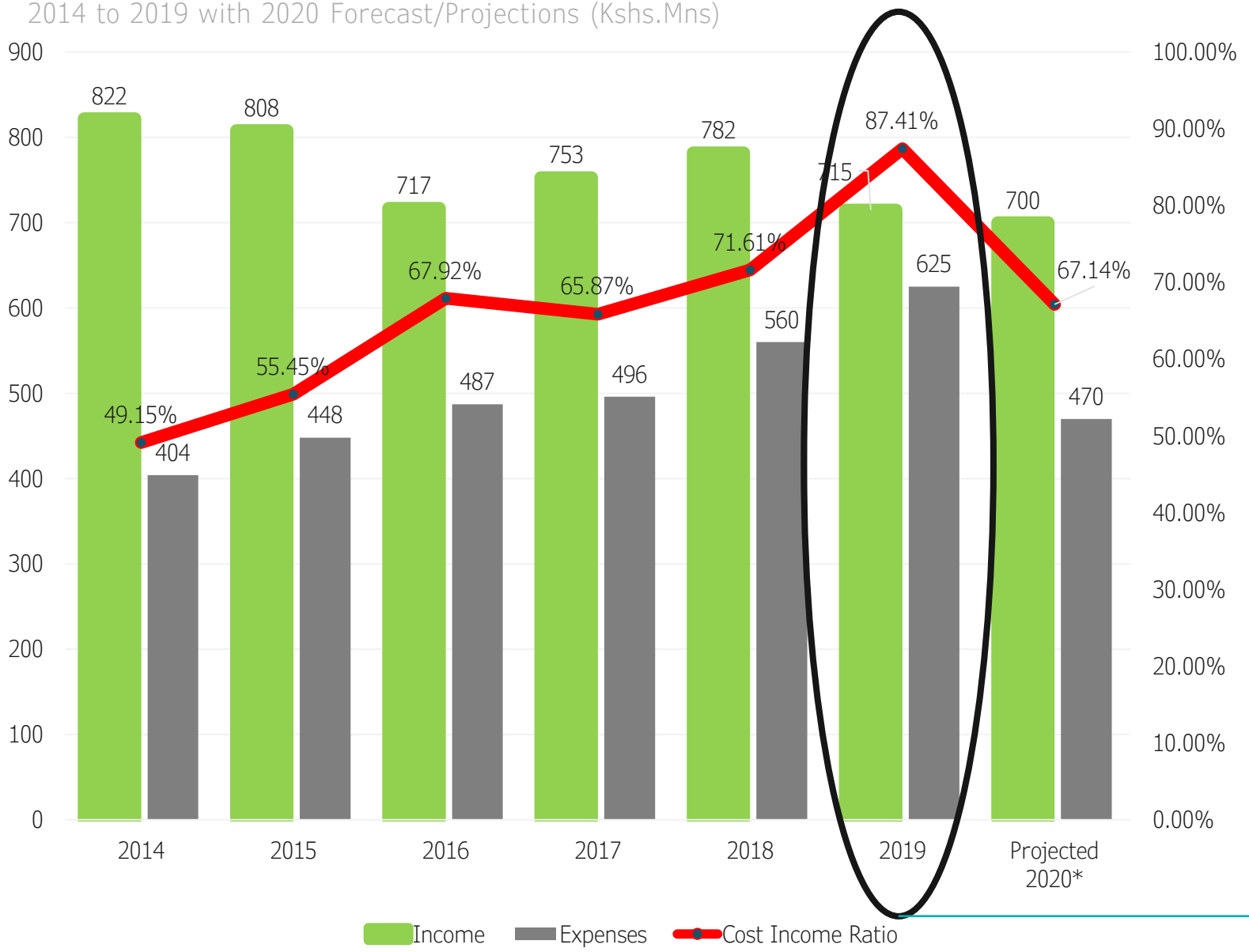


01 Total assets increased marginally, by 1% to settle at 2.24 Billion

02 Shareholders' equity decreased insignificantly by Kshs.10 Million

Historical Company Performance & 2020* Forecast

2014 to 2019 with 2020 Forecast/Projections (Kshs.Mns)



Income

Income's compounded annual growth rate was -2.3% majorly due to low new product uptake and 2019 impacted by reduced market activity

Expenses

Expenses' compounded annual growth rate was 7.54% majorly due to system, staff and products costs with 2019 by a one-off restructuring cost

Cost Income Ratio

Subsequently the cost income ratio has averaged 66.23% in the 2014-2019 period with our target being 65% in 2020

The 2019 financial summaries are explained in the next slides

2019 Financials Summary - Consolidated Income Statement

Description	Actual as at 31.12.2019	Actual as at 31.12.2018	Variance 2019 Actual Vs 2018	
	Kshs '000	Kshs '000	Kshs '000	%
REVENUE	567,382	626,191	(58,809)	(9%)
INTEREST INCOME	89,109	116,341	(27,232)	(23%)
OTHER INCOME	59,147	39,870	19,277	48%
TOTAL INCOME	**715,638**	**782,402**	**(66,764)**	**-9%**
ADMINISTRATION EXPENSES	(625,403)	(560,565)	(64,838)	12%
SHARE OF PROFIT OF ASSOCIATE	14,264	19,012	(4,748)	(25%)
PROFIT BEFORE TAXATION	**104,499**	**240,849**	**(136,350)**	(130%)
TAXATION CHARGE	**(24,346)**	**(50,171)**	25,825	(51%)
PROFIT AFTER TAX	**80,153**	**190,678**	**(110,525)**	**(138%)**
OTHER COMPREHENSIVE INCOME	(17,223)	(3,313)	(13,910)	420%
TOTAL COMPREHENSIVE INCOME	**62,930**	**187,365**	**(124,435)**	**(66%)**

Commentary

1. The Group reported a profit before tax of Kshs.104 Million in 2019 as compared to Kshs 241 Million recorded in the year 2018.
2. Net profit declined by 58% to Kshs. 80 Million over the same period in 2018. This was occasioned by:

- **a 9% decrease in revenues** mainly as a result of a decline **in equity trading turnover which declined by 12% from Kshs.351 Billion in 2018 to Kshs.307 Billion in 2019**. Equity trading levies equally declined by 12% from Kshs. 421.6 Million for the year ended 31 December 2018 to Kshs. 369.1 Million over the same period in 2019. The reduced trading activity was largely as a result of a weak local demand side which did not complement the international activity. Bonds turnover however edged up 15.80% to settle at Kshs. 1,303 Billion for the year 2019 as compared to Kshs. 1,125 Billion recorded in 2018.
- Interest income in the review period decreased by 23% to Kshs. 89.1 Million from Kshs. 116.3 Million recorded over a similar period in 2018 due to utilization of cash deposits on acquisition of strategic investments.
- Administrative expenses increased by 12% from Kshs. 560 Million in 2018 to Kshs. 625 Million in 2019 mainly arising from:
  - a one off staff restructuring cost of Kshs. 52 Million in 2019. This is not expected to recur in 2020.
  - The ATS system upgrade and the derivatives market were launched in the year. Both ATS and derivatives systems were capitalized in 2019 resulting in an increase in amortization and depreciation expenses by Kshs. 11.7 Million.
- The Group recorded other comprehensive loss of Kshs. 17.2 Million for the year under review mainly comprising of Kshs. 18.4 Million in unrealised loss on the fair value of a quoted equity investment acquired in 2019. This was passed through Other Reserves

2019 Financials Summary - Consolidated Balance Sheet

	December 2019	December 2018	Variance		Comment
	Ksh'000	Ksh'000	Ksh'000	%	
ASSETS					
Non current assets					
Property and equipment	219,783	228,942	(9,159)	(4.0%)	
Investment property	313,100	309,882	3,218	1.0%	
Intangible assets	162,021	159,257	2,764	1.7%	
Investment in associate	276,441	127,581	148,860	116.7%	Increase includes acquisition of shares in AKS Nominees Ltd of Kshs 77m
Quoted equity instrument	49,880		-		Relates to the purchase of a quoted equity instrument at a total cost of Ksh 72.9m.
Government securities - at amortised cost	79,548	91,643	(12,095)	(13.2%)	The decrease is due to maturity of infrastructure bond of Ksh12.5m.
Long-term restricted investments	199,298	156,521	42,777	27.3%	Increased on interest earned from investments in fixed deposits accounts for NSE Clear, SGF, IPF.
Deferred income tax	6,865	5,688	1,177	20.7%	
	1,306,936	**1,079,514**	**177,542**	**16.4%**	
Current assets					
Trade and other receivables	67,464	80,526	(13,062)	(16.2%)	The decrease due to decrease in payments
Government securities- at fair value through P& L	32,300	-	32,300	100.0%	The increase relates to an treasury bond purchased for trading
Tax recoverable	52,982	27,049	25,933	95.9%	
Fixed deposits	149,736	464,533	(314,797)	(67.8%)	Decreased mainly due to maturity of deposits to pay for quoted instrument of Ksh 62m, payment for AKS share for Ksh 77m and payment of NSE 2018 dividends of Ksh 120.6m and restructuring costs of Ksh 52m and investment in Government securities held for trading of Ksh 32.3m
Short-term restricted cash and investments	289,910	338,202	(48,292)	(14.3%)	Decreased from Ksh 338m in 2018 to Ksh 320m to reflect the 50% budgeted expenses for 2019 (minimium required liquidity networth by CMA).
Cash and cash equivalents	343,073	228,564	114,509	50.1%	Cash and cash equivalents represents all deposits less than 3 months maturity plus bank balances.
	935,465	**1,138,874**	**(203,409)**	**-17.9%**	
TOTAL ASSETS	**2,242,401**	**2,218,388**	**(25,867)**	(1.2%)	

2019 Financials Summary - Consolidated Balance Sheet...Continued

	December	December	Variance		Comment
	2019	2018			
	Kshs'000	Kshs'000	Kshs'000	%	
EQUITY AND LIABILITIES					
Equity					
Share capital	1,038,003	1,038,003	-	0%	
Share premium	277,185	277,185	-	0%	
Retained earnings	732,992	781,224	(48,232)	(6%)	The decrease is a net of profit of Ksh 78m against financial year 2018 dividend declared in 2019 of Ksh 127.2m.
Other reserves	(18,093)	(664)	(17,429)	Over 100%	Ksh 18m decrease relates to unrealised market share price and foreign currency valuation on the quoted investment.
	2,030,087	**2,095,748**	**(65,661)**	**-3%**	
Non-controlling interest	56,113	-	56,113	100%	Relates to non controlling interest on the acquistion of AKS Nominees Ltd
Total equity	**2,086,200**	**2,095,748**	**(9,548)**	**-0.5%**	
Non current liabilities					
Tenant deposits	1,829	2,711	(882)	(33%)	
SGF Members contributions	35,250	-	35,250	100%	Relates to SGF contribution received from clearing members
	37,079	**2,711**	**34,368**		
Current liabilities					
Trade and other payables	85,846	93,870	(8,024)	(9%)	
Dividend payable	30,876	23,859	7,017	29%	The increase is due to dividend declared for the financial year 2018 in 2019 not yet paid to 2 shareholders who are under statutory management: Discount Securities Limited and Nyaga Stockbrokers Ltd.
Trading members contributions	2,400	2,200	200	9%	This relates to NIC Capital Ltd Non Executing membership fees-IPF contribution
	119,122	**119,929**	**(807)**	**-1%**	
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES	**2,242,401**	**2,218,388**	**(32,100)**	**(1%)**	

2020/24 Strategic Plan *(Mission – Linking Capital to Opportunity)*

Integrity	Excellence	Team-Work	Sustainability	Accountability

Values

NSE 2020 - 2024 Strategic Pillars and Objectives

To execute on the 2024 vision, NSE has identified four strategic pillars and eight objectives it will focus on in the next strategic planning cycle. These strategic pillars and organize related initiatives that work together to deliver specific, valuable business objectives.

Sustainable Business Growth

Grow revenue and contribute towards achieving MSCI emerging market status

Operational Excellence

- Improve operational efficiencies
- Strengthen enterprise risk management and compliance
- Develop NSE as a center of innovation
- Cost optimization
- Effective market oversight

Strategic partnership

Build and maintain mutually beneficial strategic partnerships

People

Strategic talent management

Strategic Pillars & Objectives

Innovation and Technology driven Strategy

Underlying Pillar

nairobi securities exchange

Discover Opportunity

THANK YOU

Q & A

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