

Ground Rules



FTSE NSE Kenya Index Series

v2.9

Contents

1.0	Introduction.....	3
2.0	Management Responsibilities.....	5
3.0	FTSE Russell Index Policies	7
4.0	Eligible Securities	9
5.0	Index Qualification Criteria	10
6.0	Periodic Review of Constituent Companies	12
7.0	Changes to Constituent Companies	15
8.0	Corporate Actions and Events.....	16
9.0	Index Calculation	18
	Appendix A: Index Opening and Closing Hours	19
	Appendix B: Capping Methodology	20
	Appendix C: Status of Index	21
	Appendix D: Further Information	22

Section 1

Introduction

1.0 Introduction

- 1.1 This document sets out the Ground Rules for the construction and management of the FTSE NSE Kenya Index Series. Copies of the Ground Rules are available from FTSE at www.ftserussell.com.
- 1.2 The FTSE NSE Kenya Index Series is designed to represent the performance of Kenyan companies listed on Nairobi Securities Exchange providing investors with a comprehensive and complementary set of indexes which measure the performance of the major capital and industry segments of the Kenyan stock market.
- 1.3 The FTSE NSE Kenya Index Series is made up of following indexes:
- FTSE NSE Kenya 15 Index
 - FTSE NSE Kenya 25 Index
- 1.4 The FTSE NSE Kenya Index Series is calculated in Kenyan Shillings (KES). Price and Total Return versions will be calculated for each Index. Price Indexes are calculated in real-time. Total Return indexes are calculated at the end of each working day. The Total Return Indexes include income based on ex dividend adjustments.
- 1.5 FTSE NSE Kenya Index Series will also be provided in US Dollar on an end of day basis.
- 1.6 The FTSE NSE Kenya Index Series has been designed based on industry best practice and on FTSE's experience of design characteristics which are attractive to a broad range of investors and intermediaries seeking to develop structured products based on indexes. As such the series represents a standard, transparent basis for investors to assess, measure and gain access to the Kenyan equity market.
- 1.7 **FTSE Russell**
- FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and MTSNext Limited), Mergent, Inc., FTSE Fixed Income LLC and The Yield Book Inc.

- 1.8 FTSE Russell hereby notifies users of the index series that it is possible that circumstances, including external events beyond the control of FTSE Russell, may necessitate changes to, or the cessation, of the index series and therefore, any financial contracts or other financial instruments that reference the index series or investment funds which use the index series to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index series.
- 1.9 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index's rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell (or any person concerned with the preparation or publication of these Ground Rules) for any losses, damages, claims and expenses suffered by any person as a result of:
- any reliance on these Ground Rules, and/or
 - any errors or inaccuracies in these Ground Rules, and/or
 - any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
 - any errors or inaccuracies in the compilation of the Index or any constituent data.

Section 2

Management Responsibilities

2.0 Management Responsibilities

2.1 FTSE International Limited (FTSE) and NSE

2.1.1 FTSE is the benchmark administrator of the index series.¹

2.1.2 FTSE is responsible for the daily calculation, production and operation of the Index Series and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the Index Series and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- disseminate the indexes.

2.1.3 FTSE is also responsible for monitoring the performance of the FTSE NSE Kenya Index Series throughout the day and will, on advice from NSE, determine whether the status of each index should be Firm, Indicative or Held.

2.2 Status of these Ground Rules

These Ground Rules set out the methodology and provide information about the publication of the FTSE NSE Kenya Index Series.

2.3 Amendments to these Ground Rules

2.3.1 These Ground Rules shall be subject to regular review by FTSE Russell to ensure that they continue to best reflect the aims of the index series. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Product Governance Board before approval is granted.

¹ The term administrator is used in this document in the same sense as it is defined in [Regulation \(EU\) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds](#) (the European Benchmark Regulation).

2.3.2 As provided for in the Statement of Principles for FTSE Russell Equity Indexes, where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but FTSE Russell will consider whether the Rules should subsequently be updated to provide greater clarity.

Section 3

FTSE Russell Index Policies

3.0 FTSE Russell Index Policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below:

3.1 Corporate Actions and Events Guide

- 3.1.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

3.2 Statement of Principles for FTSE Russell Equity Indexes (the Statement of Principles)

- 3.2.1 Indexes need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Ground Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by the FTSE Russell Product Governance Board.

The Statement of Principles can be accessed using the following link:

[Statement of Principles.pdf](#)

3.3 Queries and Complaints

- 3.3.1 FTSE Russell's complaints procedure can be accessed using the following link:

[Benchmark Determination Complaints Handling Policy.pdf](#)

3.4 Index Policy for Trading Halts and Market Closures

- 3.4.1 Guidance for the treatment of index changes in the event of trading halts or market closures can be found using the following link:

[Index Policy for Trading Halts and Market Closures.pdf](#)

3.5 Index Policy in the Event Clients are Unable to Trade a Market

- 3.5.1 Details of FTSE Russell's treatment can be accessed using the following link:

[Index Policy in the Event Clients are Unable to Trade a Market.pdf](#)

3.6 **Recalculation Policy and Guidelines**

- 3.6.1 The FTSE NSE Kenya Index Series is recalculated whenever inaccuracies or distortions occur that are deemed to be significant. Users of the FTSE NSE Kenya Index Series are notified through appropriate media.

For further information please refer to the FTSE Russell Recalculation Policy and Guidelines document which is available from the FTSE Russell website using the link below or by contacting info@ftserussell.com.

[Recalculation Policy and Guidelines Equity Indexes.pdf](#)

3.7 **Policy for Benchmark Methodology Changes**

- 3.7.1 Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[Policy for Benchmark Methodology Changes.pdf](#)

Section 4

Eligible Securities

4.0 Eligible Securities

4.1 The universe of eligible constituents is all the companies that have a listing on Nairobi Securities Exchange. Ordinary shares are only considered for Index inclusion.

4.2 Foreign shares whose only listing is on Nairobi Securities Exchange (exclusive listing) are considered as domestic.

4.3 Multiple Lines

Where there are multiple lines of equity capital in a company, all are included and priced separately, provided that

- A. Both the lines pass all screens (see Rules 5.1 to 5.2).
- B. The secondary line's full market value (i.e. before the application of any investability weightings) is greater than 25% of the full market capital of the company's main line. Should the market value of a secondary line that is already a constituent of the Index Series fall below 20% at the next review, the secondary line is deleted from the Index.

4.4 Companies whose business is that of holding equity and other investments (e.g. Investment Trusts) which are assumed by the Industry Classification Benchmark as Subsector equity investment instruments and Non-equity investment instruments which are assumed by the Industry Classification Benchmark as Subsector non-equity investment instruments will not be eligible for inclusion. For further details on the Industry Classification Benchmark (ICB), please visit the FTSE Russell website.

Section 5

Index Qualification Criteria

5.0 Index Qualification Criteria

Constituents of the FTSE NSE Kenya Index are adjusted for free float. To be included in the Index, a stock must pass free float and liquidity criteria.

5.1 Initial Weighting

- A. Free float is calculated using available published information rounded to 12 decimal places.
- B. Securities with a free float of 5% or below are excluded from the index.
- C. A security that has a free float greater than 5% but less than or equal to 15% will be eligible for the Index providing the security's full market capitalisation (before the application of any investability weight) is greater than or equal to 1% of the full market capitalisation of universe at periodic review.

Further details on free float restrictions can be accessed using the following link:

[Free Float Restrictions.pdf](#)

5.2 Liquidity

- 5.2.1 Each security will be tested for liquidity semi-annually by calculation of its monthly weighted average median of daily trading volume.

When calculating the weighted average median of daily trading volume of any security for a particular month a minimum of 5 trading days in that month must exist, otherwise the month will be excluded from the test.

For each month, the daily trading volume for each security is calculated as a percentage of the shares in issue for that day adjusted by the free float at the end review cut off date. These daily values are then ranked in descending order and the median is taken by selecting the value for the middle ranking day if there is an odd number of days and the mean of the middle two if there is an even number of days.

Daily totals with zero trades are included in the ranking; therefore a security that fails to trade for more than half of the days in a month will have a zero median trading volume for that month.

Any period of suspension will not be included in the test.

The liquidity test will be applied on a pro-rata basis where the testing period is less than 12 months.

5.2.2 Monthly weighted median liquidity = $\sum_{i=1}^n W_i * M_i$, where -:

n = Number of stocks in the universe;

W_i = Float Market Cap of Stock i /Total Float Market Cap of the Universe;

M_i = Monthly median trade of stock i

5.2.3 Count number of months the monthly median of each stock is greater than 20% of the weighted monthly median liquidity.

A. For new constituent if 20% of the weighted monthly median liquidity is greater than 0.015%, the median value will be 0.015%.

B. For existing constituent if 20% of the weighted monthly median liquidity is greater than 0.01%, the median value will be 0.01%.

5.2.4 Non constituent whose monthly median of daily liquidity of that stock is not greater than 20% of the weighted monthly median liquidity for ten of the twelve months prior to a full market review, are not eligible for inclusion in the FTSE NSE Kenya Index Series.

5.2.5 An existing constituent whose monthly median liquidity is not greater than 20% of the weighted monthly median liquidity for eight of the twelve months prior to a full market review, will not be eligible for inclusion in the FTSE NSE Kenya Index Series.

5.2.6 New issues which do not have a twelve month trading record must have a minimum three months trading record when reviewed. They must turnover greater than 20% of the weighted monthly median liquidity in each month since their listing.

5.3 The FTSE NSE Kenya Index Series will be made up of the following indexes:

- **FTSE NSE Kenya 15 Index**

The Index will consist of the top 15 stocks trading on the Nairobi Securities Exchange ranked by company full market capitalisation i.e. before the application of any investability weightings subject to conforming to all other rules of eligibility, free float and liquidity. The Index will consist of the FTSE Kenya 15 Index with constituents capped at 20% and 15% semi-annually.

- **FTSE NSE Kenya 25 Index**

The Index will capture the performance of the 25 most liquid stocks trading on the Nairobi Securities Exchange.

Section 6

Periodic Review of Constituent Companies

6.0 Periodic Review of Constituent Companies

6.1 Review Dates

- 6.1.1 The FTSE NSE Kenya Index Series is reviewed semi-annually in June and December. The Index constituents will be compiled using market data as at the close of the second Friday in May and November respectively.
- 6.1.2 Changes arising from the reviews will be implemented after the close of business on the third Friday (i.e. effective Monday) of June and December.
- 6.1.3 FTSE will be responsible for publicising the outcome of the periodic review.

6.2 Steps for Conducting a Review for the FTSE NSE Kenya 15 Index

- 6.2.1 Eligible universe for the FTSE NSE Kenya 15 Index is all the companies that have a listing on Nairobi Securities Exchange.
- 6.2.2 After free float and liquidity screening has taken place the remaining stocks are ranked in descending order by their full market capitalisation.
- 6.2.3 Buffers are implemented when reviewing the FTSE NSE Kenya 15 Index to provide stability and reduce turnover in the selection of constituents while ensuring that the Index continue to be representative of the market by including or excluding those securities which have risen or fallen significantly in value.
 - A. A company will be inserted at the periodic review if it rises to 12th position or above in the Index universe when the eligible companies in the Index are ranked by full market capitalisation i.e. before the application of any investability weightings.
 - B. A company will be deleted at the periodic review if it falls to 19th position or below in the Index universe when the eligible companies of the Index are ranked by full market capitalisation i.e. before the application of any investability weightings.
- 6.2.4 Constituents in the FTSE NSE Kenya 15 Index are weighted by their investable market capitalisation (free float adjusted).
- 6.2.5 A constant number of constituents will be maintained for the FTSE NSE Kenya 15 Index.

6.3 **Steps for Conducting a Review for the FTSE NSE Kenya 25 Index**

- 6.3.1 The eligible universe for the FTSE NSE Kenya 25 Index is all the companies that have a listing on Nairobi Securities Exchange, subject to conforming to all other rules of eligibility, free float and liquidity.
- 6.3.2 Rank companies in descending order by their full market capitalisation (i.e. before the application of investability weightings).
- 6.3.3 Following the eligibility criteria, select the top 25 companies ranked by company full market capitalisation.
- 6.3.4 If after the application of Rule 6.3.3 the number of companies passing the liquidity test is less than 25 follow Rules 6.3.5 to 6.3.9.
- 6.3.5 Rank those companies failing the liquidity screening by the number of months that they pass the liquidity test.
- 6.3.6 Buffers are then implemented to provide stability and reduce turnover in the selection of constituents.
 - A. A company will be inserted at the periodic review if it passes a minimum of 5 liquidity months.
 - B. A company will be deleted at the periodic review if it fails to pass a minimum of 2 liquidity months.
- 6.3.7 Where 2 or more companies pass the same number of liquidity months the existing Index constituent is selected.
- 6.3.8 Where 2 or more non-constituent companies pass the same number of liquidity months the largest company by full market capitalisation is selected.
- 6.3.9 This process is repeated, where possible, to select up to a maximum of 25 constituents.
- 6.3.10 A constant number of constituents will not be maintained for the FTSE NSE Kenya 25 Index.

6.4 **Reserve List**

- 6.4.1 FTSE is responsible for publishing the three highest ranking non-constituents for the FTSE NSE Kenya 15 Index following each semi-annual review. This Reserve List will be used in the event that one or more constituents are deleted from the FTSE NSE Kenya 15 Index during the period up to the next semi-annual review of the Index.

6.5 **Capping Methodology for the FTSE NSE Kenya 15 Index**

- 6.5.1 The constituents of the FTSE NSE Kenya 15 Index are capped semi-annually.
- 6.5.2 The calculation of the constituent capping factors (c) will be based on prices at close on the second Friday of the review month using shares in issue and investability weights as designated to take effect after close on the third Friday of the review month (i.e. taking effect on the review effective date).
- 6.5.3 The calculation will take into account any corporate actions/events that take effect after close on the second Friday of the review month up to and including the review effective date if they have been announced and confirmed by the second Friday of the review month.
- 6.5.4 Corporate actions / events announced after the second Friday of the review month that become effective up and including the review effective date will not result in any further adjustment.
- 6.5.5 If in the FTSE NSE Kenya 15 Index weights, there are any constituents that are greater than 20% they are capped at 20%. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they are greater than 15% they will be capped at 15%. The process will be repeated until no threshold is breached

i.e. the process is repeated until the constituents whose individual weights is greater than 15% are capped at 15%.

- 6.5.6 The constituents of the Index are capped only at the time of the semi-annual review. Following capping, the weight of each constituent in each Index moves freely in line with price movements.

Section 7

Changes to Constituent Companies

7.0 Changes to Constituent Companies

7.1 New Issues

- 7.1.1 There will be no intra review additions for the FTSE NSE Kenya Index Series. If a constituent is added to the underlying universe (Section 4.0), it will only be considered for inclusion at the next semi-annual review.

7.2 Deletions and Replacements

- 7.2.1 If a constituent is delisted from the Nairobi Securities Exchange, ceases to have a firm quotation, is subject to a takeover offer which has been declared wholly unconditional or has, in the opinion of FTSE Russell, ceased to be a viable constituent as defined by these rules, it will be removed from the relevant Index. If a constituent is removed from the FTSE NSE Kenya 15 Index a vacancy will be created. This vacancy will be filled by selecting the highest ranking security by full market capitalisation from the reserve list as at the close of the Index calculation two days prior to the deletion.
- 7.3 In the event where a company has been deleted from the index but retains a listing with a float greater than 5% it will be considered for index eligibility as a new issue following a period of 12 months.

Section 8

Corporate Actions and Events

8.0 Corporate Actions and Events

8.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

A Corporate 'Action' is an action on shareholders with a prescribed ex date. The share price will be subject to an adjustment on the ex date. These include the following:

- Capital Repayments
- Rights Issues/Entitlement Offers
- Stock Conversion
- Splits (sub-division) / Reverse splits (consolidation)
- Scrip issues (Capitalisation or Bonus Issue)

A Corporate 'Event' is a reaction to company news (event) that may impact the index depending on the index rules. For example, a company announces a strategic shareholder is offering to sell their shares (secondary share offer) – this could result in a free float weighting change in the index. Where an index adjustment is required FTSE Russell will provide notice advising of the timing of the change.

8.2 Shares in Issue

Changes to the number of shares in issue for constituent securities are covered in the Corporate Actions and Events Guide.

8.3 Investability Weightings

8.3.1 Changes to free float for constituent securities are covered in the Corporate Actions and Events Guide.

8.4 Mergers, Restructuring and Complex Takeovers

8.4.1 Mergers / Takeovers between Constituents

If the effect of a merger or takeover is that one constituent in the Index series is absorbed by another constituent, then the existing constituent is deleted on the effective date of the acquisition and the resulting company will remain a constituent of the FTSE NSE Kenya Index Series. If such an event occurs in the FTSE NSE Kenya 15 Index, a vacancy will be created. This vacancy will be filled by selecting the highest ranking security by full market value in the Reserve List as at the close of the Index calculation two days prior to the deletion and the Index will be adjusted accordingly.

8.4.2 Mergers / Takeovers between a Constituent and a Non-Constituent

In the case of a constituent taken over by an ineligible non-constituent, the resultant entity will not be eligible for inclusion in the FTSE NSE Kenya Index Series. The eligibility of the resultant entity will be assessed in full at the next semi-annual review. If such an event occurs in the FTSE NSE Kenya 15 Index, a vacancy will be created. This vacancy will be filled by selecting the highest ranking security by full market value from the Reserve List.

8.4.3 If an existing constituent is acquired for cash, or ineligible paper, or by a non-quoted company in its own or another country, then the existing constituent is deleted on the effective date of the acquisition from the relevant Index. If such an event occurs in the FTSE NSE Kenya 15 Index, a vacancy will be created. This vacancy will be filled by selecting the highest ranking security by full market value from the Reserve List.

8.5 Splits / Demergers

8.5.1 If a constituent company is split so as to form two or more companies, then the resulting companies will be eligible for inclusion as index constituents in the FTSE NSE Kenya Index Series based on their respective full market capitalisations i.e. before the application of any investability weightings and if they qualify in all other respects, e.g. a FTSE NSE Kenya 15 Index constituent split into two companies may result in one or both of these companies remaining in the FTSE NSE Kenya 15 Index. Where both of these companies remain in the FTSE NSE Kenya 15 Index, the smallest FTSE NSE Kenya 15 Index constituent will be removed from the Index.

8.5.2 Index constituent changes resulting from the split will be determined based on market values at close on the day of the split. The changes will then be applied one day later (i.e. using prices as at close the following day). Consequently, the FTSE NSE Kenya 15 Index may have more than 15 companies for 2 days.

8.6 Suspension of Dealing

8.6.1 Suspension of dealing rules can be found within the Corporate Actions and Events Guide.

Section 9

Index Calculation

9.0 Index Calculation

9.1 Prices

9.1.1 The FTSE NSE Kenya Index Series uses actual trade prices for securities with local stock exchange quotations. Reuter's real-time spot currency rates are used in the Index calculation.

9.2 Index Calculation

9.2.1 The FTSE NSE Kenya Index Series will be displayed to two decimal points.

9.2.2 The FTSE NSE Kenya Index Series is calculated using the following formula:

$$\sum_{i=1}^N \frac{(p_i \times e_i \times s_i \times f_i \times c_i)}{d}$$

Where,

- $i=1,2,\dots,N$
- N is the number of securities in the index.
- p_i is the latest trade price of the component security (or the price at the close of the index on the previous day).
- e_i is the exchange rate required to convert the security's currency into the index's base currency.
- s_i is the number of shares in issue used by FTSE Russell for the security, as defined in these Ground Rules.
- f_i is the Investability Weighting Factor to be applied to a security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. This factor is published by FTSE Russell for each security in the underlying index.
- c_i is the Capping Factor to be applied to a security to correctly weight that security in the index. This factor maps the investable market capitalisation of each stock to a notional market capitalisation for inclusion in the index.
- d is the divisor, a figure that represents the total issued share capital of the index at the base date. The divisor can be adjusted to allow changes in the issued share capital of individual securities to be made without distorting the index.

Appendix A: Index Opening and Closing Hours

Index	Open	Close
FTSE NSE Kenya Index Series	09:30	15:00

Timings are local hours.

Appendix B: Capping Methodology

The algorithm is applied to each constituent of the FTSE NSE Kenya 15 Index, i.e. any constituent whose uncapped weight is greater than 20%.

The Constituent Capping Factor c_i is given by:

$$c_i = \frac{Z}{I \times (p_i \times s_i \times f_i)} \sum_{j \in J} (p_j \times s_j \times f_j)$$

Where,

- i denotes the security to be capped.
- j denotes an uncapped security.
- J is the subset of securities that are uncapped.
- p_k is the official closing price of the k^{th} security.
- s_k is the number of shares in issue of the k^{th} security.
- f_k is the free float factor of the k^{th} security.
- I is the percentage of the index represented by all uncapped constituents.
- Z is the percentage capping level.

Step 1 The constituents in the FTSE NSE Kenya 15 Index are ranked by investable market capitalisation and the weight for each constituent in the Index is calculated.

Step 2 If in the FTSE NSE Kenya 15 Index weights, there are any constituents that are greater than 20% they are capped at 20%. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they are greater or equal than 15% they will be capped at 15%. The process will be repeated until no threshold is breached i.e. the process is repeated until the constituents whose individual weights is greater than 15% are capped at 15%.

Appendix C: Status of Index

The FTSE NSE Kenya Index Series is calculated in real-time and may exist in the following states:

A) Firm

The Indexes are active and being calculated during Official Market Hours (see Appendix A). No message will be displayed against the Index values.

The Official Closing Prices for the FTSE NSE Kenya Index Series will be the Official Closing Prices (see Appendix A).

B) Closed

When the Indexes have ceased all calculations for the day, the message 'CLOSED' is displayed against the Index value calculated by FTSE Russell.

C) Held

During the firm period, the Index has exceeded pre-set operating parameters and calculation has been suspended pending resolution of the problem. The message 'HELD' is displayed against the last Index value calculated by FTSE Russell.

D) Indicative

If there is a system problem or a situation in the market that is judged to be affecting the quality of the constituent prices at any time when the Index is being calculated, the Index will be declared indicative. The message 'IND' will be displayed against the Index value.

The official opening and closing hours of the FTSE NSE Kenya Index Series is set out in Appendix A. Variations to the official hours of the Index will be published by FTSE Russell.

The FTSE NSE Kenya Index Series will not be calculated on Kenyan Public Holidays.

Appendix D: Further Information

A Glossary of Terms used in FTSE Russell's Ground Rule documents can be found using the following link:
[Glossary.pdf](#)

Further information on the FTSE NSE Kenya Index Series is available from FTSE Russell.

For contact details please visit the FTSE Russell website or contact FTSE Russell client services at
info@ftserussell.com.

Website: www.ftserussell.com

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