



Accountants &
business advisers

**KENYA PORTS AUTHORITY
RETIREMENT BENEFITS SCHEME 2012**

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

*Kenya Ports Authority Retirement Benefits Scheme 2012
Annual report and financial statements
For the year ended 31 December 2015*

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SCHEME INFORMATION

TRUSTEES : Mr. Fredrick O. Oyugi - Chairperson (Resigned on 24 September 2015)
: Ms. Muthoni Gatere
: Ms. Joy K. Asiemu (Resigned on 1 September 2015)
: Ms. Joan Z. Karema
: Mr. Harry J.P. Arigi
: Mr. Juma R. Thoya (Resigned on 2 July 2015)
: Mr. Kennedy Ogeto (Appointed on 24 September 2015)

REGISTERED OFFICE : Old Cannon Towers, 7th floor
: Moi Avenue
: P. O. Box 1019 - 80100
: Mombasa

INDEPENDENT AUDITOR : PKF Kenya
: Certified Public Accountants
: P. O. Box 90553 - 80100
: Mombasa

SCHEME ADMINSTRATOR : Mr. M. M. Amahwa
: Keny Ports Authority - Pension Office
: Old Cannon Towers, 7th floor
: Moi Avenue
: P. O. Box 1019 - 80100
: Mombasa

CUSTODIAN : CFC Stanbic Custody Division
: CFC Stanbic Centre, 1st floor, Chiromo Road
: P. O. Box 30550 - 00100
: Nairobi

BANKERS : CFC Stanbic Bank Kenya Limited
: P. O. Box 90131 - 80100
: Mombasa

FUND MANAGERS

1. British - American Asset Managers Limited
P. O. Box 30375 - 00100
Nairobi (Appointed 1 August 2015)
2. Genesis Kenya Investment Management Limited
P. O. Box 79217 - 00200
Nairobi (Resigned 31 July 2015)
3. African Alliance Kenya Investment Bank Limited
P. O. Box 27639 - 00506
Nairobi (Appointed 1 August 2015)

LAWYERS

1. COOTOW and Associates
P. O. Box 16858 - 80100
Mombasa
2. Tindika and Company Advocates
P.O. Box 714 - 80100
Mombasa

REPORT OF THE TRUSTEES

The Trustees present their report together with the audited financial statements for the year ended 31 December 2015.

ESTABLISHMENT, NATURE AND THE STATUS OF THE SCHEME

The Scheme was established, and is governed by a trust deed dated 24 October 2012. It is a defined contribution scheme and provides, under the rules of the Scheme, retirement benefits for the staff of Kenya Ports Authority. It is a tax exempt approved scheme, upto the statutory limit, under the Income Tax Act. The Scheme is registered with the Retirement Benefits Authority.

CONTRIBUTIONS

As per the rules of the Scheme, the employer and the employees each contribute 20% and 10%, respectively, of the individual members' basic salary.

MEMBERSHIP

The following is the movement in the number of members in the scheme:

| | 2015 Members | 2014 Members |
|---------------------------|-------------------------|-------------------------|
| Members at start of year | 5,340 | 4,403 |
| Additions during the year | 76 | 945 |
| Leavers during the year | <u>(61)</u> | <u>(8)</u> |
| Members at end of year | <u><u>5,355</u></u> | <u><u>5,340</u></u> |

FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 5 shows an increase in net assets of the Scheme for the year of Shs 1,231,363,000 (2014: Shs 1,199,112,000) and statement of net assets available for benefits on page 6 shows the Scheme's net assets as Shs 3,202,736,000 (2014: Shs 1,971,373,000).

INVESTMENT OF FUNDS

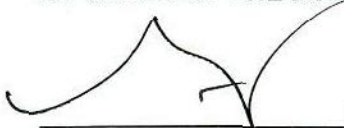
During the year, members funds were invested through Genesis Kenya Investments Management Limited, Britam Asset Manager (K) Limited and African Alliance Kenya Investment Bank Limited.

The overall responsibility for investment and performance lies with the Trustees.

INDEPENDENT AUDITOR

The scheme's auditor, PKF Kenya has indicated willingness to continue in office in accordance with Section 29 (I) of the Retirement Benefit Act.

BY ORDER OF THE BOARD OF TRUSTEES



CHAIRPERSON

24/3 | 2016

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Retirement Benefit (Occupational Retirement Benefit Schemes) Regulations, 2000 made under Retirement Benefits Act, 1997 require the trustees to prepare financial statements in a prescribed form for each financial year. They also require the trustees to ensure that the scheme keeps proper accounting records of its income, expenditure, liabilities and assets, and that contributions are remitted to the custodian in accordance with the rules of the scheme.


The Trustees accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.


The Trustees are of the opinion that the financial statements give a true and fair view of the net assets available for benefits and changes in net assets available for benefits for the year then ended in accordance with the International Financial Reporting Standard.

Nothing has come to the attention of the trustees to indicate that the scheme will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the board of trustees on 24/3/ 2016 and signed on its behalf by:



TRUSTEE



TRUSTEE

**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF KENYA PORTS AUTHORITY RETIREMENT BENEFITS SCHEME 2012**

Report on the financial statements

We have audited the accompanying financial statements set out on pages 5 to 20 of Kenya Ports Authority Retirement Benefits Scheme 2012, which comprise the statement of net assets available for benefits as at 31 December 2015 and the statement of changes in net assets available for benefits, a summary of significant accounting policies and other explanatory notes. 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.

Trustees' responsibility for the financial statements

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, proper books of account have been kept and the financial statements which are in agreement therewith give a true and fair view of the financial transactions of the scheme during the year ended 31 December 2015 and of the disposition at that date of its assets and liabilities and are in compliance with International Financial Reporting Standards and the Retirement Benefits Act 1997.

PKF Kenya

Certified Public Accountants
Mombasa

29-03- 2016

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Erick Mbuthia Njuguna P/No. 2061

81/2016

Tel +254 41 2226422/3 • 2314007 • 2313269 • 2315846/97 • Mobile +254 724 / 733 563668 • Email pkfmsa@ke.pkfea.com • www.pkfea.com
PKF KENYA • 1st Floor • Pereira Building • Pramukh Swami Maharaj Road • P O Box 90553 - 80100 • Mombasa • Kenya

Partners: Rajan Shah, Atul Shah, Alpesh Vadher, Piyush Shah, Ritesh Mirchandani*, David Kabeberi, Ketan Shah**, Nishith Shah, Larian Abreu, Jalpesh Shah, Erick Njuguna, Michael Mburugu, Asif Chaudhry, Salim Alibhai, Patrick Kuria, Darshan Shah, Gurmit Santokh (*Indian, **British)

PKF Kenya is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

| | Notes | 2015 Shs '000 | 2014 Shs '000 |
|--|-------|------------------|------------------|
| Dealings with members | | | |
| Contributions for the year | 2 (a) | 1,200,307 | 1,075,326 |
| Leavers | 2 (b) | <u>(25,806)</u> | <u>(13,738)</u> |
| Net addition from dealings with members | | <u>1,174,501</u> | <u>1,061,588</u> |
| Return on investment | | | |
| Investment income | 3 | 210,833 | 97,190 |
| Gains on disposal of financial assets | 4 | 38,867 | 4,429 |
| Changes in fair value of financial assets | 8 | (135,633) | 59,036 |
| Investment management expenses | 5 | <u>(9,099)</u> | <u>(6,552)</u> |
| Net return on investments | | <u>104,968</u> | <u>154,103</u> |
| Administrative expenses | 6 | (39,218) | (13,409) |
| Tax expense | 7 | <u>(8,888)</u> | <u>(3,170)</u> |
| | | <u>(48,106)</u> | <u>(16,579)</u> |
| Increase in net assets for the year | | <u>1,231,363</u> | <u>1,199,112</u> |
| Assets available for benefits | | | |
| At start of year | | 1,971,373 | 772,261 |
| Increase in members' balances during the year | | <u>1,231,363</u> | <u>1,199,112</u> |
| At end of year | | <u>3,202,736</u> | <u>1,971,373</u> |

The notes on pages 8 to 20 form an integral part of these financial statements.

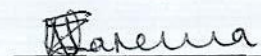
Report of the independent auditor - page 4.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

| | Notes | As at 31 December | |
|--|-------|-------------------|------------------|
| | | 2015 Shs '000 | 2014 Shs '000 |
| Assets | | | |
| Financial assets | 8 | 2,205,291 | 1,548,560 |
| Receivables and accrued income | 9 | 405,821 | 86,660 |
| Cash and cash equivalents | 10 | 616,881 | 361,585 |
| Intangible assets | 11 | 3,739 | - |
| Total assets | | <u>3,231,732</u> | <u>1,996,805</u> |
| Less: liabilities | | | |
| Payables and accrued expenses | 12 | 23,411 | 22,206 |
| Tax payable | | 5,585 | 3,226 |
| Total liabilities | | <u>28,996</u> | <u>25,432</u> |
| Net assets available for benefits | | <u>3,202,736</u> | <u>1,971,373</u> |

The financial statements on pages 5 to 20 were approved and authorised for issue by the Trustees on 24/3/2016 and were signed on its behalf by:


 CHAIRMAN


 TRUSTEE

The notes on pages 8 to 20 form an integral part of these financial statements.

Report of the independent auditor - page 4.

STATEMENT OF CASH FLOWS

| | Notes | 2015 Shs '000 | 2014 Shs '000 |
|---|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Contributions received | 2 (a) | 1,200,307 | 1,075,326 |
| Administrative expenses paid | | (36,406) | (8,950) |
| Receivables and accrued income | | (312,633) | (84,236) |
| Payables and accrued expenses | | (32,528) | (1,867) |
| Tax paid | | (6,528) | (455) |
| Net cash from operating activities | | <u>812,212</u> | <u>979,818</u> |
| Investing activities | | | |
| Purchase of financial assets | 8 | (1,148,304) | (1,063,818) |
| Proceeds from sale/maturity of financial assets | 8 | 210,833 | 110,049 |
| Investment income received | | 394,808 | 93,738 |
| Investment management expenses paid | | (8,644) | (5,436) |
| Purchase of intangible assets | 11 | (5,609) | - |
| Net cash used in investing activities | | <u>(556,916)</u> | <u>(865,467)</u> |
| Increase in cash and cash equivalents | | <u>255,296</u> | <u>114,351</u> |
| Movement in cash and cash equivalents | | | |
| At start of year | | 361,585 | 247,234 |
| Increase | | <u>255,296</u> | <u>114,351</u> |
| At end of year | 10 | <u>616,881</u> | <u>361,585</u> |

The notes on pages 8 to 20 form an integral part of these financial statements.

Report of the independent auditor - pages 4.

NOTES

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these 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 financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS), Retirement Benefits Act, 1997 as amended, and with the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000. Historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the scheme takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

The financial statements summarise the transactions of the scheme and deal with the net assets available for benefits disposal of the trustees. They do not take account of obligations to pay pensions and benefits that fall due after the end of scheme year.

These financial statements are presented in Kenyan Shillings (Shs), rounded to the nearest thousand. The measurement applied is the historical cost basis, except where otherwise stated in the accounting policies.

New and amended standards adopted by the scheme

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.

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 December 2014 to IAS 1 'Presentation of Financial Statements' which will be effective for annual accounting periods beginning on or after 1 January 2016 clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
- Amendments issued in June 2014 to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' which will be effective for annual periods beginning on or after 1 January 2016 define bearer plants and include them within IAS 16's scope while the produce growing on bearer plants remain within the scope of IAS 41.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective (continued)

- Amendments issued in May 2014 to IAS 16 and IAS 38 'Intangible Assets' which will be effective for annual periods beginning on or after 1 January 2016 add guidance and clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate; however, this presumption can be rebutted in certain limited circumstances.
- Amendment (Annual improvements to IFRSs 2012- 2014 Cycle, issued in September 2014) to IAS 19 'Employee Benefits' which will be effective for annual periods beginning on after 1 January 2016, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
- Amendments issued in August 2014 to IAS 27 'Separate Financial Statements' which will be effective for annual periods beginning on or after 1 January 2016 reinstate the equity method option to account for investments in subsidiaries, joint venture and associates in separate financial statements.
- Amendment (Annual Improvements to IFRSs 2012-2014 Cycle, issued in September 2014) to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' which will be effective for annual periods beginning on or after 1 January 2016 adds specific guidance when an entity reclassifies an asset (or group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued.
- Amendment (Annual Improvements to IFRSs 2012-2014 Cycle, issued in September 2014) to IFRS 7 'Financial Instruments: Disclosures' which will be effective for annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.
- 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.
- Amendments issued in September 2014 to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associated and Joint Ventures' which will be effective for annual periods beginning on or after 1 January 2016 address a current conflict between the two standards and clarify that gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

NOTES (CONTINUED)

a) **Basis of preparation (continued)**

New standards, amendments and interpretations issued but not effective (continued)

- Amendments issued in December 2014 to IFRS 10, IFRS 12 'Disclosure of Interests on Other Entities' and IAS 28 which will be effective for annual periods beginning on or after 1 January 2016, clarify guidance the application of the consolidation exception for investment entities and their subsidiaries.
- Amendments issued in May 2014 to IFRS 11 'Joint Arrangements' which will be effective for annual periods beginning on or after 1 January 2016, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 'Business Combinations') to apply all of the business combinations accounting principles and disclosures in IFRS 3 and other IFRSs, except for those principles that conflict with with guidance in IFRS 11.
- IFRS 14 'Regulatory Deferral Accounts' (issued in January 2014) which will be effective for annual periods beginning on or after 1 January 2016 defines a regulatory deferral account balance and allows entities continue apply their existing policy for regulatory deferral account balances, but requires certain disclosures.
- 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 trustees expect that the future adoption of IFRS 9, IFRS 15 and IFRS 16 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 trustees do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity 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 trustees are required to make the judgments, 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.

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

- **Impairment of receivables and accrued income-** the scheme reviews their portfolio of receivables on an annual basis. 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 cashflows expected.
- **Fair value measurement and valuation process** - *In estimating the fair value of an asset or a liability, the trustees uses market-observable data to the extent it is available. Where level 1 inputs are not available, the trustees makes use of financial models or engages third party qualified values to perform the valuation and provide inputs to the model.*

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

- **Held to maturity financial assets** - The trustees have reviewed the scheme's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the scheme's positive intention and ability to hold those assets to maturity.

d) Contributions

Contribution from the employees and employer are accounted for in the period in which they fall due.

The rates used are as follows: Rate %

| | |
|-----------|----|
| Employer | 20 |
| Employees | 10 |

e) Benefits payable

Pensions and other benefits payable are accounted for in the period in which they fall due. Interest payable to leavers is accounted for in the period in which it is paid.

f) Income from investments

i) Interest income is recognised for all interest bearing instruments on an accrual basis. Interest income includes coupons earned on fixed income investments and accrued discounts and premium on treasury bills and other discounted instruments.

ii) Dividends are recognised as income in the period in which the right to receive payment is established.

g) Financial instruments

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

- Financial assets

The scheme's financial assets which include quoted shares, government securities and corporate bonds and commercial paper and loans and receivables are carried at fair value and fall into the following categories:

Held-to-maturity: financial assets with fixed or determinable payments and fixed maturity where the management have the positive intent and ability to hold to maturity. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the statement of changes in net assets available for benefits.

Available-for-sale: financial assets that are held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate. Such assets are carried at fair value where fair value gains or losses are recognised directly in statement of changes in net assets available for benefits.

Interest on available-for-sale securities is calculated using the effective interest method and is recognised in statement of changes in net assets available for benefits as part of investment income. Dividends on available-for-sale equity instruments are also recognised in statement of changes in net assets available for benefits as part of investment income when the scheme's right to receive payments is established.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial instruments (continued)

- Financial assets (continued)

Loans and receivables: financial assets that are created by the scheme by providing money directly to a debtor are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the statement of changes in net assets available for benefit.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the scheme's fund managers commit 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 company has transferred substantially all risks and rewards of ownership.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in profit or loss under administrative expenses when there is objective evidence that the company 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. Impairment losses are recognised in profit or loss. For available for sale assets cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

Subsequent recoveries of amounts previously written off/impaired are credited to profit or loss and for available for sale assets in other comprehensive income in the year in which they occur.

Gains and losses on disposal of assets whose changes in fair value were initially recognised in profit or loss are determined by reference to their carrying amount and are taken into account in determining operating profit/(loss). On disposal of assets whose changes in fair value were initially recognised in equity, the gains/losses are recognised in the reserve, where the fair values were initially recognised. Any resultant surplus/deficit after the transfer of the gains/losses are transferred to retained earnings.

Trustees classify investments as follows:

Quoted investments are classified as 'available for sale' financial instruments. The fair values of quoted investments are based on current bid prices at the reporting date.

Government securities, corporate bonds and commercial paper are classified as held to maturity as the scheme has the intention and ability to hold these to maturity. These are carried at amortised cost.

Cash with financial institutions are classified as loans and receivables and are carried at amortised cost. Receivables are classified as loans and receivables and are carried at amortised cost.

Management classify the fair values of financial assets based on the qualitative characteristics of the fair valuation as at the financial year end. The three hierarchy levels used by management are:

- **Level 1:** where fair values are based on non-adjusted quoted prices in active markets for identical financial.
- **Level 2:** where fair values are based on adjusted quoted prices and observable prices of similar financial assets.
- **Level 3:** where fair values are not based on observable market data.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial instruments (continued)

- Financial liabilities

The scheme's financial liabilities which includes payables fall into the following category:

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

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs.

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

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

Benefits payable and other liabilities are classified as financial liabilities. Benefits payable to leaving members are taken into account as they fall due for payment.

Offsetting financial instruments

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

h) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives which is estimated to be 3 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

i) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash at bank, deposits held at call with banks and fixed and time deposits maturing within 90 days.

j) Taxation

The scheme is exempt from income tax under the Income Tax (Cap. 470) up to the statutory limit.

k) Comparatives

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

NOTES (CONTINUED)

| | | | |
|---|---|---|---------------------------|
| 2. Dealings with members | 2015 | 2014 | |
| | Shs '000 | Shs '000 | |
| (a) Contributions for the year | | | |
| Employer | 800,205 | 716,884 | |
| Employees | 400,102 | 358,442 | |
| | <u>1,200,307</u> | <u>1,075,326</u> | |
| (b) Leavers (retirees, dismissals, death and resignations) | | | |
| Withdrawal benefits | <u>(25,806)</u> | <u>(13,738)</u> | |
| Net additions from dealings with members | <u><u>1,174,501</u></u> | <u><u>1,061,588</u></u> | |
| | | | |
| 3. Investment income | | | |
| Year ended 31 December 2015 | Registered scheme Shs '000 | Unregistered scheme Shs '000 | Total Shs '000 |
| Dividend receivable | 14,291 | 3,177 | 17,468 |
| Interest and discount receivable | 157,212 | 36,084 | 193,296 |
| Other miscellaneous income | 69 | - | 69 |
| | <u>171,572</u> | <u>39,261</u> | <u>210,833</u> |
| | | | |
| Year ended 31 December 2014 | | | |
| Dividend receivable | 10,146 | 2,389 | 12,535 |
| Interest and discount receivable | 69,860 | 13,430 | 83,290 |
| Other miscellaneous income | 1,365 | - | 1,365 |
| | <u>81,371</u> | <u>15,819</u> | <u>97,190</u> |
| | | | |
| 4. Gain on disposal of financial assets | 2015 | 2014 | |
| | Shs '000 | Shs '000 | |
| Sale proceeds on disposal of financial assets | 394,808 | 110,049 | |
| Fair value of financial assets disposed | <u>(355,941)</u> | <u>(105,620)</u> | |
| Gain on disposal of financial assets | <u>38,867</u> | <u>4,429</u> | |
| | | | |
| 5. Investment management expenses | | | |
| Management expenses | 5,635 | 4,576 | |
| Custodian expenses | 3,464 | 1,976 | |
| | <u>9,099</u> | <u>6,552</u> | |

NOTES (CONTINUED)

| 6. Administrative expenses | 2015 Shs '000 | 2014 Shs '000 |
|---|------------------|------------------|
| Meetings and allowances | 6,592 | 6,675 |
| Travelling | 3,477 | 1,140 |
| Education | 5,007 | - |
| Newsletter meetings | 223 | - |
| Tender evaluation | 1,060 | - |
| RBA levy | 3,966 | 2,724 |
| Legal fees | 14,681 | - |
| Acturial fees | 1,240 | 1,206 |
| Audit fees | 551 | 528 |
| Amortisation of intangible assets (Note 11) | 1,870 | - |
| Advertising | - | 902 |
| Printing and stationery | 359 | 234 |
| Staff travelling | 192 | - |
| | <u>39,218</u> | <u>13,409</u> |
| 7. Tax expense - unregistered scheme | | |
| Income tax charge | 8,888 | 3,226 |
| Overprovision in prior year | - | (56) |
| | <u>8,888</u> | <u>3,170</u> |

Tax is charged on investment income earned from the unregistered contribution net of associated expenses at the rate of 30% (2014: 30%).

8. Financial assets

Year ended 31 December 2015

| | Value at start of year Shs '000 | Purchases at cost Shs '000 | Sales proceeds Shs '000 | Gain on disposal Shs '000 | Change in fair value Shs '000 | Value at end of year Shs '000 |
|--------------------------------------|--|----------------------------------|-------------------------------|---------------------------------|-------------------------------------|-------------------------------------|
| Quoted shares | 530,497 | 424,961 | (334,114) | 37,584 | (100,619) | 558,308 |
| Kenya government securities | 901,691 | 466,663 | (37,000) | (23) | (42,364) | 1,288,967 |
| Commercial paper and corporate bonds | 116,372 | 256,680 | (23,693) | 1,307 | 7,350 | 358,016 |
| | <u>1,548,560</u> | <u>1,148,304</u> | <u>(394,808)</u> | <u>38,867</u> | <u>(135,633)</u> | <u>2,205,291</u> |

Year ended 31 December 2014

| | | | | | | |
|--------------------------------------|----------------|------------------|------------------|--------------|---------------|------------------|
| Quoted shares | 187,858 | 318,962 | (4,851) | 214 | 28,314 | 530,497 |
| Kenya government securities | 322,827 | 579,856 | (30,198) | 1,513 | 27,693 | 901,691 |
| Commercial paper and corporate bonds | 20,642 | 165,000 | (75,000) | 2,701 | 3,029 | 116,372 |
| | <u>531,327</u> | <u>1,063,818</u> | <u>(110,049)</u> | <u>4,428</u> | <u>59,036</u> | <u>1,548,560</u> |

As at 31 December 2015 a corporate bond with a nominal value of Shs 70,000,000 and accrued interest amounting to Shs 2,704,110 was held with an institution that was under statutory management. In the opinion of the trustees after taking appropriate advice from its fund manager, since the receiver manager and regulators have not issued any specific indication on the next steps, it is impractical to measure any likely impairment loss and therefore no provision for impairment has been recognised.

NOTES (CONTINUED)

8. Financial assets (continued)

| The following table summarises the weighted average effective interest rates at the year end on the main interest bearing investments: | 2015 % | 2014 % |
|--|------------------|------------------|
| Kenya government securities | | |
| - Treasury bonds | 11 - 22.9 | 11 |
| - Corporate bonds and commercial paper | 12.3 - 13.3 | 7.6 - 13 |
| Fixed and call deposits | <u>11.3 - 14</u> | <u>10 - 14</u> |

9. Receivables and accrued income

| | 2015 Shs '000 | 2014 Shs '000 |
|---------------------|-------------------------|-------------------------|
| Dividend receivable | 908 | 1,111 |
| Withholding tax | 9,375 | 8,709 |
| Land deposit | <u>395,538</u> | <u>76,840</u> |
| | <u>405,821</u> | <u>86,660</u> |

Land deposit relates to acquisition costs of Kikambala Land plot CR.14107 Sub-Division No. 513. As at 31 December 2015, an amount of Shs 280,000,000 was held by the scheme's lawyers.

In the opinion of the trustees, the carrying amounts of receivables and accrued income approximate to their fair value.

The carrying amounts of the scheme's receivables and accrued income are denominated in Kenya Shillings.

10. Cash and cash equivalents

| | 2015 Shs '000 | 2014 Shs '000 |
|-------------------------|-------------------------|-------------------------|
| Cash at bank | 98,194 | 115,160 |
| Fixed and time deposits | <u>518,687</u> | <u>246,425</u> |
| | <u>616,881</u> | <u>361,585</u> |

For the purposes of cash flow statement cash and cash equivalents comprise the amounts above.

The scheme's cash and bank balances are held with major Kenyan financial institutions and, insofar as the trustees are able to measure any credit risk to these assets, it is deemed to be limited.

NOTES (CONTINUED)

| 11. Intangible assets - Website and SMS platform | 2015 Shs '000 | 2014 Shs '000 |
|--|------------------|------------------|
| Cost | | |
| At start of year | - | - |
| Additions | 5,609 | - |
| At end of year | 5,609 | - |
| Amortisation | | |
| At start of year | - | - |
| Charge for the year | 1,870 | - |
| At end of year | 1,870 | - |
| Carrying amount | | |
| At end of year | 3,739 | - |
| | | |
| 12. Payables and accrued expenses | 2015 Shs '000 | 2014 Shs '000 |
| RBA levy | 3,966 | 2,724 |
| Other payables | 7,654 | 3,693 |
| Benefits payable | 11,791 | 15,789 |
| | 23,411 | 22,206 |

In the opinion of the trustees, the carrying amounts of payables and accrued expenses approximate to their fair value.

The maturity analysis of trade and other payables is within three months.

13. Investments guidelines

The Retirement Benefits Authority has issued guidelines stating the maximum amount of investment that the scheme can invest in a particular asset as a percentage of the aggregate market value of net assets of scheme. The table below shows the current investment in assets compared to the investment guidelines issued by the Retirement Benefits Authority.

| Category of asset | 2015 % | 2014 % | Maximum investment as per RBA % |
|--------------------------------------|-----------|-----------|--|
| Cash and demand deposits | 5 | 6 | 5 |
| Fixed and time deposits | 17 | 13 | 30 |
| Commercial paper and corporate bonds | 13 | 6 | 15 |
| Kenya Government securities | 45 | 47 | 70 |
| Quoted shares - Kenya | 20 | 28 | 70 |
| Quoted shares - offshore | - | - | 15 |
| Immovable properties | - | - | 30 |

The scheme's investments portfolio complies with the Retirement Benefits Act.

NOTES (CONTINUED)

14. Tax status of the scheme

Kenya Ports Authority Pension Scheme has been approved by the Kenya Revenue Authority and is exempt from income tax on its investment income.

15. Related party transactions

Related parties comprise the trustees, the administrator, the sponsor (Kenya Ports Authority) and companies which are related to these parties through common shareholdings or common directorships or through common directorships or through common control.

Apart from contributions receivable from the sponsor, there were no other related party transactions in the year.

16. Risk management objectives and policies

Financial risk management

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

The scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the scheme's financial performance.

Risk management is carried out by the investment managers under policies and guidelines approved by the trustees.

a) Market risk

Interest rate risk

The Scheme investments in fixed rate government securities, corporate bonds and bank deposits expose it to fair value interest rate risk. The investment managers advise the trustees on the appropriate balance of the portfolio between equity and fixed rate interest investments. The Scheme has no interest bearing liabilities.

At 31 December 2015, an increase/decrease in interest rates of 100 basis points with all other variables held constant would have resulted in a decrease/ increase in the increase in net assets available for benefits of Shs 16,470,000 (2014: Shs 10,181,000) arising substantially from the change in market value of debt securities

b) Price risk

The Scheme is exposed to equity price risk in respect of its investments in quoted shares. The exposure to price risk is managed primarily by setting limits on the percentage of the net assets available for benefits that may be invested in equity and by ensuring sufficient diversity of the investment portfolio.

At 31 December 2015, if the prices of all equity investments had increased/decreased by 10% with all other variables held constant, the increase in net assets available for benefits for the year would have been Shs 55,831,000 (2014: 53,050,000) higher/lower.

c) Credit risk

Credit risk arises from investments other than equity investments, contributions due, other receivables and cash and cash equivalents. The scheme does not have any significant concentrations of credit risk. The investment manager assesses the credit quality of each investment, taking into account its age and liability profile, past experience and other factors.

NOTES (CONTINUED)

16. Risk management objectives and policies (continued)

d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The trustees agree with the investment manager on the amounts to be invested in assets that can be easily liquidated.

The scheme is not exposed to liquidity risk as it maintains adequate amounts of cash and cash equivalents to pay off liabilities as they fall due.

No collateral is held for any of the above assets. None of the financial assets are either past due or impaired.

e) Fair value measurements

The carrying amounts of all financial assets and liabilities at the reporting date approximate their fair values. The table below shows an analysis of all assets and liabilities for which fair value is measured or disclosed in the financial statements by level hierarchy. The fair values are grouped into three levels as mentioned in Note 1 of these financials, based on the degree to which the fair value is observable. The table below gives information about how the the fair values of these assets and liabilities are determined.

Year ended 31 December 2015

| | Level 1 Shs '000 | Level 2 Shs '000 | Level 3 Shs '000 | Totals Shs '000 |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|
| Financial assets | | | | |
| Quoted shares | 558,308 | - | - | 558,308 |
| Kenya government securities | - | 1,288,967 | - | 1,288,967 |
| Commercial paper and corporate bonds | - | 358,016 | - | 358,016 |
| | <u>558,308</u> | <u>1,646,983</u> | <u>-</u> | <u>2,205,291</u> |

Year ended 31 December 2014

| | Level 1 Shs '000 | Level 2 Shs '000 | Level 3 Shs '000 | Totals Shs '000 |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|
| Financial assets | | | | |
| Quoted shares | 530,497 | - | - | 530,497 |
| Kenya government securities | - | 901,691 | - | 901,691 |
| Commercial paper and corporate bonds | - | 116,372 | - | 116,372 |
| | <u>530,497</u> | <u>1,018,063</u> | <u>-</u> | <u>1,548,560</u> |

The different level of fair value measurement hierarchy is described as follows:

- Quoted prices (unadjusted) in active markets for identical assets (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset that are not based on observable market data (that is, unobservable data) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group and those prices represent actual and regularly occurring market transactions on arm's length basis. The quoted market prices used for financial assets held by the Scheme is the current market price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques such as discounted cashflow analysis. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

NOTES (CONTINUED)

17. Fund management

The scheme's objectives when managing fund are:

- to comply with The Retirement Benefit (Occupational Retirement Benefit Schemes) Regulations, 2000 made under Retirement Benefit Act, 1997.
- to safeguard the scheme's ability to continue as a going concern, so that it can continue to provide *returns for members and benefits for other stakeholders*

The Retirement Benefits Act requires the scheme's trustees to invest members' funds using prudent investment policies that will get the members market rates on their investments. The scheme's compliance with this requirement has been disclosed in Note 13.

The trustees monitor capital on the basis of the value of net assets attributed to members. To achieve optimal return from the Schemes' assets, the trustee has formulated investment policies which set benchmarks upon which the investment manager is monitored.