PKF

KENYA PORTS AUTHORITY
RETIREMENT BENEFITS SCHEME 2012

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

SCHEME INFORMATION

TRUSTEES	: Mr. Patrick Nyoike (Appointed on 31 March 2016)
	: Mr. Harry John Paul Arigi
	: Mr. Kennedy Ogeto
	: Ms. Muthoni Gatere (Resigned on 29 February 2016)
	: Ms. Joan Zawadi Karema
	: Ms. Addraya Dena (Appointed on 31 March 2016)
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
BANKER	: CfC Stanbic Bank Kenya Limited
	: P. O. Box 90131 - 80100
	: Mombasa

FUND MANAGERS

1. Britam Asset Manager (K) Limited
   P. O. Box 30375 - 00100
   Nairobi

2. African Alliance Kenya Investment Bank Limited
   P. O. Box 27639 - 00506
   Nairobi

LAWYERS

1. COOTOW and Associates
   P. O. Box 16858 - 80100
   Mombasa

REPORT OF THE TRUSTEES

The Trustees present their report together with the audited financial statements for the year ended 31 December 2016.

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:	**2016 Members**	**2015 Members**
a) **Total members**		
Active members	5,213	5,138
Deferred members	165	150
Total	5,378	5,288
b) **Active members**		
At start of year	5,138	5,267
Joiners	168	106
Leavers		
- above 50	(36)	(22)
- resignations	(2)	(1)
- dismissals	(7)	(139)
- death	(31)	(24)
- others (unpaid leave and study leave)	(17)	(49)
At end of year	5,213	5,138
c) **Deferred members**		
At start of year	150	9
Joiners	15	141
At end of year	165	150
Deferred members split as follows:-		
Members whose benefits were locked in	20	8
Members who have not collected their benefits	145	142
	165	150

REPORT OF THE TRUSTEES (CONTINUED)

FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 7 shows an increase in net assets of the Scheme for the year of Shs '000' 1,330,314 (2015: Shs '000' 1,231,363) and statement of net assets available for benefits on page 8 shows the Scheme's net assets as Shs '000' 4,533,050 (2015: Shs 000' 3,202,736).

INVESTMENT OF FUNDS

Under the terms of their appointment, Britam Asset Manager (K) Limited and African Alliance Kenya Investment Bank Limited are responsible for the investment of members funds.

The overall responsibilty 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 34 (3) of the Retirement Benefits Act, 1997.

BY ORDER OF THE BOARD OF TRUSTEES

TRUSTEE
MOMBASA

21st March **2017**

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 Standards.

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 24th March 2017 and signed on its behalf by:

TRUSTEE **TRUSTEE**

PKF KENYA
Certified Public Accountants

PKF

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

Opinion
We have audited the accompanying financial statements of Kenya Ports Authority Retirement Benefits Scheme 2012 set out on pages 7 to 24 which comprise the Scheme's the statement of net assets available for benefits as at 31 December 2016 and the the statement of changes in net assets available for benefits, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Kenya Ports Authority Retirement Benefits Scheme 2012 as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Retirement Benefits Act, 1997 and the scheme's trust deed.

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

Emphasis of Matter - Death in service benefits
On 18 October 2016 the trustees resolved to pay lump-sum of death benefits to the beneficiaries of deceased members. In the absence of an established reserve account or a life assurance benefit, these payments amounting to Shs 212,622,840 were made out of the scheme's investment income. The disclosures in respect of this is made in note 2 (c) of the financial statements.

Emphasis of Matter - Fair valuation of Investments in Financial Assets
In forming our opinion, we have considered the trustees' judgement in fair valuation of investment in corporate bonds issued by companies that have been placed under statutory management. The net carrying value of these investments as at 31 December 2016 was Shs 52,878,350 (2015: Shs 92,519,645). It is not possible to predict with certainty the recoverability of these investments. The disclosures in respect of this is made in note 8 of the financial statements.

Our opinion is not qualified in respect of both the above matters.

Other information
The trustees are responsible for the other information. The other information comprises the report of the trustees' but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of Trustees for the Financial Statements
The trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Retirement Benefits Act 1997, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

..................continued on page 6

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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF KENYA PORTS AUTHORITY RETIREMENT BENEFITS SCHEME 2012 (CONTINUED)

Responsibilities of Trustees for the Financial Statements (continued)
In preparing the financial statements, the trustees are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Scheme's financial reporting process.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

PKF Kenya

Certified Public Accountants
Mombasa

30-March - **2017**

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

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STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Notes	2016 Shs '000	2015 Shs '000
Dealings with members			
Contributions for the year	2 (a)	1,315,950	1,200,307
Leavers	2 (b)	(52,296)	(25,806)
Net addition from dealings with members		1,263,654	1,174,501
Return on investment			
Investment income	3	340,836	210,833
Gains on disposal of financial assets	4	23,524	38,867
Changes in fair value of financial assets	8	17,334	(135,633)
Impairment of financial assets	8	(39,641)	-
Investment management expenses	5	(10,556)	(9,099)
Death benefits lumpsum	2 (c)	(212,623)	-
Net return on investments		118,874	104,968
Administrative expenses	6	(36,771)	(39,218)
Tax charge	7	(15,443)	(8,888)
		(52,214)	(48,106)
Increase in net assets for the year		1,330,314	1,231,363
Assets available for benefits			
At start of year		3,202,736	1,971,373
Increase in net assets for the year		1,330,314	1,231,363
At end of year		4,533,050	3,202,736

The notes on pages 10 to 24 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 6.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

	Notes	As at 31 December 2016 Shs '000	2015 Shs '000
Assets			
Financial assets	8	4,267,290	2,205,291
Receivables and accrued income	9	89,806	405,821
Cash and cash equivalents	10	411,978	616,881
Intangible assets	11	1,869	3,739
Total assets		4,770,943	3,231,732
Less: liabilities			
Payables and accrued expenses	12	230,179	23,411
Tax payable		7,714	5,585
Total liabilities		237,893	28,996
Net assets available for benefits		4,533,050	3,202,736

The financial statements on pages 7 to 24 were approved and authorised for issue by the Board of Trustees on 24th March 2017 *and were signed on its behalf by:*

TRUSTEE **TRUSTEE**

The notes on pages 10 to 24 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 6.

STATEMENT OF CASH FLOWS

	Notes	2016 Shs '000	2015 Shs '000
Cash flows from operating activities			
Contributions received	2 *(a)*	1,315,950	1,200,307
Administrative expenses paid		(29,137)	(36,406)
Receivables and accrued income		308,070	(312,633)
Payables and accrued expenses		(65,586)	(32,528)
Tax paid		(3,938)	(6,528)
Net cash from operating activities		1,525,359	812,212
Investing activities			
Purchase of financial assets	8	(3,025,715)	(1,148,304)
Proceeds from sale/maturity of financial assets	8	964,933	394,808
Investment income received		340,836	210,833
Investment management expenses paid		(10,316)	(8,644)
Purchase of intangible assets	11	-	(5,609)
Net cash used in investing activities		(1,730,262)	(556,916)
(Decrease)/increase in cash and cash equivalents		(204,903)	255,296
Movement in cash and cash equivalents			
At start of year		616,881	361,585
(Decrease)/increase		(204,903)	255,296
At end of year	10	411,978	616,881

The notes on pages 10 to 24 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 6.

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.

Going concern

The financial performance of the scheme is set out in the trustee's report and in the statement of changes in net assets available for benefits. The financial position of the scheme is set out in the statement of net assets available for benefits. Disclosures in respect of risk management are set out in note 16.

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

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:

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

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

- 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 at is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

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

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

- IFRS 15 'Revenue from Contracts with Customers' (issued in May 2014) effective for annual periods beginning on or after 1 January 2018, replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and their interpretations (SIC-31 and IFRIC 13,15 and 18).It establishes a single and comprehensive framework for revenue recognition based on a five-step model to be applied to all contracts with customers, enhanced disclosures, and new or improved guidance.

- IFRS 16 'Leases' (issued in January 2016) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

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 relavant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

NOTES (CONTINUED)

b) ***Key sources of estimation uncertainty (continued)***

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.

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.

f) **Income from investments**

i) Interest income is recognised for all interest bearing instruments on a 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:

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

g) **Financial instruments (continued)**

- Financial assets (continued)

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.

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.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

g) **Financial instruments (continued)**

- Financial assets (continued)

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 amoritised 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.

- 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 atleast 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.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 financial assets with maturities of less than 91 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

	2016 Shs '000	2015 Shs '000
(a) Contributions for the year		
Employer - registered	595,577	586,967
Employer - unregistered scheme	279,791	213,238
Employees - registered	435,661	397,528
Employees - unregistered scheme	2,905	2,574
Transfers in	2,016	-
	1,315,950	1,200,307

Transfers in relates to benefits of members who opted to have their benefits transferred into the scheme after joining sponsor.

	2016 Shs '000	2015 Shs '000
(b) Leavers (retirees, dismissals, death and resignations)		
Withdrawal benefits (contribution and interest)	(52,296)	(25,806)
Net additions from dealings with members	1,263,654	1,174,501
(c) Death benefits lumpsum		
Death benefits payable to KPA Pension Scheme	26,675	-
Death lumpsum payable	185,948	-
	212,623	-

On 18 October 2016 the trustees resolved to pay lump-sum of death benefits to the beneficiaries of deceased members. In the absence of an established reserve account or a life assurance benefit, these payments amounting to Shs 212,622,840 were made out of the scheme's investment income.

3. Investment income

Year ended 31 December 2016

	Registered scheme *Shs '000*	Unregistered scheme *Shs '000*	Total *Shs '000*
Dividend receivable	30,956	7,848	38,804
Interest and discount receivable	248,601	51,630	300,231
Other miscellaneous income	1,609	192	1,801
	281,166	59,670	340,836

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
	171,572	39,261	210,833

4. **Gain on disposal of financial assets**	**2016 Shs '000**	**2015 Shs '000**
Sale proceeds on disposal of financial assets	964,933	394,808
Fair value of financial assets disposed	(941,409)	(355,941)
Gain on disposal of financial assets	23,524	38,867

5. **Investment management expenses**

Management expenses	6,885	5,635
Custodian expenses	3,671	3,464
	10,556	9,099

6. **Administrative expenses**

Meetings and allowances	4,611	6,592
Travelling	1,960	3,477
Education	4,675	5,007
Newsletter meetings	-	223
Benchmarking exercise	311	-
IT expenses	1,164	-
Tender evaluation	-	1,060
RBA levy	5,000	3,966
Professional and legal fees	11,351	14,681
Acturial fees	843	1,240
Bank charges	62	52
Audit fees	626	551
Impairment of receivables and accrued income*	2,876	-
Amortisation of intangible assets (Note 11)	1,870	1,870
Election expenses	709	-
Printing and stationery	468	307
Staff travelling	245	192
	36,771	39,218

* Relates to fencing, valuation costs of Kikambala land and accrued interest of Chase Bank unrecoverable written off.

7. **Tax charge - unregistered scheme**	**2016 Shs '000**	**2015 Shs '000**
Income tax charge	15,443	8,888

Tax is charged on investment income earned from the unregistered contribution net of associated expenses at the rate of 30% (2015: 30%) as follows:

Investment income - unregistered	59,670	39,261
Deductible expenses - unregistered	(8,195)	(9,634)
Taxable income	51,475	29,627
Tax calculated at a tax rate of 30% (2015: 30%)	15,443	8,888

8. **Financial assets (assets)**

Year ended 31 December 2016

	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	Impairment Shs '000	Value at end of year Shs '000
Quoted shares	558,308	230,954	(21,031)	5,227	(98,072)	-	675,386
Kenya government securities	1,288,967	2,600,020	(803,450)	18,297	109,264	-	3,213,098
Commercial paper and corporate bonds	358,016	194,741	(140,452)	-	6,142	(39,641)	378,806
	2,205,291	3,025,715	(964,933)	23,524	17,334	(39,641)	4,267,290

The financial assets of the scheme are split between registered and unregistered scheme which are managed by different fund managers.

Year ended 31 December 2016

	Quoted shares		Kenya government securities		Commercial paper and corporate bonds		Value at end of year
	Registered Shs '000	Unregistered Shs '000	Registered Shs '000	Unregistered Shs '000	Registered Shs '000	Unregistered Shs '000	Shs '000
Value at start of year	448,010	110,298	1,117,447	171,520	318,451	39,565	2,205,291
Purchases at cost	195,969	34,985	2,236,802	363,218	191,000	3,741	3,025,715
Sales proceeds	(13,844)	(7,187)	(724,094)	(79,356)	(136,711)	(3,741)	(964,933)
Gain on disposal	4,431	796	18,203	94	-	-	23,524
Change in fair value	(76,361)	(21,711)	94,033	15,231	5,089	1,053	17,334
Impairment	-	-	-	-	(37,832)	(1,809)	(39,641)
Value at end of year	558,205	117,181	2,742,391	470,707	339,997	38,809	4,267,290

8. **Financial assets (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	Impairment 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
	1,548,560	1,148,304	(394,808)	38,867	(135,633)	-	2,205,291

The financial assets of the scheme are split between registered and unregistered scheme which are managed by different fund managers.

Year ended 31 December 2015

	Quoted shares		Kenya government securities		Commercial paper and corporate bonds		Value at end of year
	Registered Shs '000	Unregistered Shs '000	Registered Shs '000	Unregistered Shs '000	Registered Shs '000	Unregistered Shs '000	Shs '000
Value at start of year	440,365	90,132	749,847	151,844	93,749	22,623	1,548,560
Purchases at cost	332,394	92,567	432,206	34,457	233,577	23,103	1,148,304
Sales proceeds	(274,450)	(59,664)	(32,500)	(4,500)	(18,955)	(4,738)	(394,808)
Gain on disposal	32,139	5,444	(20)	(3)	1,045	262	38,867
Change in fair value	(82,436)	(18,183)	(30,975)	(11,389)	9,034	(1,684)	(135,633)
Value at end of year	448,012	110,296	1,118,558	170,409	318,450	39,566	2,205,291

8. **Financial assets (continued)**

As at 31 December 2016, the following carrying values of commercial papers and corporate bonds were held with institutions that are under statutory management:

	2016 Shs	2015 Shs
Imperial Bank Limited		
Chase Bank Limited	72,704,110	72,704,110
	19,815,535	19,815,535
	92,519,645	92,519,645
Impairment provision	(39,641,295)	-
Net carrying value	52,878,350	92,519,645

The following table summarises the weighted average effective interest rates at the year end on the main interest bearing investments:

	2016 %	2015 %
Kenya government securities		
- Treasury bonds	8 - 15	11 - 22.9
- Corporate bonds and commercial paper	12.3 - 13.0	12.3 - 13.3

9. **Receivables and accrued income**

	2016 Shs '000	2015 Shs '000
Dividend receivable	357	908
Withholding tax	-	9,375
Land deposit	89,449	395,538
	89,806	405,821

Land deposit relates to acquisition costs of Kikambala Land plot CR.14107 Sub-Division No. 513. During the year an amount of Shs 280,000,000 which were held by the scheme's lawyers was refunded.

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**

	2016 Shs '000	2015 Shs '000
Cash at bank	139,995	98,194
Short term deposits	271,983	518,687
	411,978	616,881

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

The weighted average effective interest rate on short term bank deposits at year end was:	2016 %	2015 %
Short term deposits	7.4 - 9	11.3 - 14

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**

	2016 Shs '000	2015 Shs '000
Cost		
At start of year	5,609	-
Additions	-	5,609
At end of year	5,609	5,609
Amortisation		
At start of year	1,870	-
Charge for the year	1,870	1,870
At end of year	3,740	1,870
Net book value	1,869	3,739

12. **Payables and accrued expenses**

	2016 Shs '000	2015 Shs '000
RBA levy	5,000	3,966
Other payables	14,326	7,654
Benefits payable	6,521	11,791
Death benefits payable to KPA Pension Scheme (Note 15 (i))	26,675	-
Death lumpsum payable	177,657	-
	230,179	23,411

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 the scheme. The table below shows the current investment in assets compared to the investment guidelines issued by the Retirement Benefits Authority.

Category of asset	**2016 %**	**2015 %**	**Maximum investment as per RBA %**
Cash and demand deposits	3	5	5
Fixed and time deposits	3	17	30
Commercial paper and corporate bonds	8	13	15
Kenya Government securities	71	45	70
Quoted shares - Kenya	15	20	70
Quoted shares - offshore	-	-	15
Immovable properties	-	-	30

The trustees are aware that investment in Kenya Government securities is more than that stipulated in the Retirement Benefits Act and that the situation arose during the year due to the dynamics in the stock market that included the devaluation of investment in corporate bonds held with companies placed under statutory management. The trustees are working towards regularing the scheme's investments portfolio to ensure that it complies with the Retirement Benefits Act.

NOTES (CONTINUED)

14. **Tax status of the scheme**

Kenya Ports Authority Retirement Benefits Scheme 2012 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), Kenya Ports Authority Pension Scheme and companies which are related to these parties through common *shareholdings or common directorships or through common directorships or through common control.*

The following transactions were carried out with related parties:	2016 Shs '000	2015 Shs '000
i) **Amount due to related party**		
Death benefits payable to KPA Pension Scheme	26,675	-

This amounts relates to Kenya Ports Authority Pension Scheme death lumpsum payments paid to Kenya Ports Authority Retirement Benefits Scheme 2012 members since the scheme's inception in 2013.

ii) **Key management compensation**	2016 Shs '000	2015 Shs '000
Meetings and allowances	4,611	6,592

Key management are the board of Trustees who are entitled to a sitting allowance for Board meetings attendance.

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 investement 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 investements. The Scheme has no interest bearing liabilities.

At 31 December 2016, 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 '000' 35,919(2015: Shs '000' 16,470) arising substantially from the change in market value of debt securities

NOTES (CONTINUED)

16. **Risk management objectives and policies (continued)**

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 2016, 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 67,538,600 (2015: 55,831,000) higher/lower.

c) **Credit risk**

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

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 liablities 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 2016	**Level 1 Shs '000**	**Level 2 Shs '000**	**Level 3 Shs '000**	**Totals Shs '000**
Financial assets				
Quoted shares	675,386	-	-	675,386
Kenya government securities	-	3,213,098	-	3,213,098
Commercial paper and corporate bonds	-	378,806	-	378,806
	675,386	3,591,904	-	4,267,290

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
	558,308	1,646,983	-	2,205,291

16. **Risk management objectives and policies (continued)**

e) **Fair value measurements (continued)**

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 noe based on observable market data (that is, unobservable data) (level 3).

The fair value of financial instruments traded in active markets is based on qouted market prices at the reporting date. A market is regarded as active if qouted 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 determine 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.

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.

18. **Presentation currency**

The financial statements are presented in Kenya Shillings thousands (Shs '000 or Shs ('000)), except where indicated otherwise.