



**KENYA PORTS AUTHORITY
RETIREMENT BENEFITS SCHEME 2012
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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SCHEME INFORMATION

TRUSTEES : Mr. Patrick Nyoike
: Mr. Harry John Paul Arigi (Resigned on 30 September 2017)
: Mr. Kennedy Ogeto
: Ms. Joan Zawadi Karema
: Ms. Addraya Dena
: Mr. Jorum Kiilu (Appointed on 30 September 2017)
: Mr. Salim Kumaka (Appointed on 30 September 2017)

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 : Mrs. Caroline Kodo (Appointed on 7 July 2017)
: Mr. Maurice Amahwa (Retired on 1 August 2017)
: Keny Ports Authority - Pension Office
: Old Cannon Towers, 7th floor
: Moi Avenue
: P. O. Box 1019 - 80100
: Mombasa

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

BANKER : 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 |
|---|---|

ACTUARY : Zamara Actuaries, Administrators and Consultants
: P. O. Box 52439 - 00200
: Nairobi

LAWYERS : 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 Kenya Ports Authority Retirement Benefits Scheme 2012 (the "scheme") for the year ended 31 December 2017.

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 (KPA). 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:

| | 2017 Members | 2016 Members |
|---|-------------------------|-------------------------|
| a) Total members | | |
| Active members | 5,585 | 5,150 |
| Deferred members | 182 | 165 |
| Dormant members | 31 | 63 |
| | <u>5,798</u> | <u>5,378</u> |
| b) Active members | | |
| At start of year | 5,150 | 5,053 |
| Joiners | 503 | 168 |
| Leavers | | |
| - above 50 | (33) | (34) |
| - resignations | (14) | (2) |
| - dismissals | (3) | (7) |
| - death | (18) | (28) |
| | <u>5,585</u> | <u>5,150</u> |
| c) Deferred members | | |
| At start of year | 165 | 150 |
| Joiners | 17 | 15 |
| | <u>182</u> | <u>165</u> |
| Deferred members split as follows:- | | |
| Members whose benefits were locked in | 23 | 20 |
| Members who have not collected their benefits | 159 | 145 |
| | <u>182</u> | <u>165</u> |
| d) Dormant members | | |
| At start of year | 23 | 14 |
| Joiners | 8 | 9 |
| | <u>31</u> | <u>23</u> |

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 (thousands) 2,239,456 (2016: Shs (thousands) 1,330,314) and statement of net assets available for benefits on page 8 shows the Scheme's net assets as Shs (thousands) 6,722,506 (2016: Shs (thousands) 4,533,050).

INVESTMENT OF FUNDS

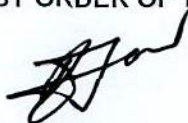
Under the terms of their appointment, Britam Asset Manager (K) Limited and African Alliance Kenya Investment Bank Limited are responsible for the investment of members funds.

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

BY ORDER OF THE BOARD OF TRUSTEES



TRUSTEE
MOMBASA

28TH MARCH 2018

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:

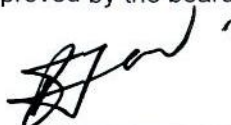
- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.

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 and the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000.

In preparing these financial statements the trustees have assessed the scheme's ability to continue as a going concern. 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.

The trustees acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of trustees on 28TH MARCH 2018 and signed on its behalf by:



TRUSTEE



TRUSTEE

**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 2017 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 2017, and of its financial performance and cash flows for the year then ended in accordance with the 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.

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.

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.

.....continued on page 6

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

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 trustees' 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.

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



**Certified Public Accountants
Mombasa**

28. March 2018

101/2018

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

| | Notes | 2017 Shs '000 | 2016 Shs '000 |
|--|-------|------------------|------------------|
| Income from dealings with members | | | |
| Contributions received | 2 (a) | <u>1,461,486</u> | <u>1,315,950</u> |
| Outgoings from dealings with members | | | |
| Benefits to leavers | 2 (b) | <u>(62,693)</u> | <u>(52,296)</u> |
| Death benefits lumpsum | 2 (c) | <u>212,623</u> | <u>(212,623)</u> |
| | | <u>149,930</u> | <u>(264,919)</u> |
| Net increase from dealings with members | | <u>1,611,416</u> | <u>1,051,031</u> |
| Return on investment | | | |
| Investment income | 3 | 515,455 | 340,836 |
| (Loss)/gain on disposal of financial assets | 4 | (36,572) | 23,524 |
| Changes in fair value of financial assets | 8 | 349,968 | 17,334 |
| Impairment of financial assets | 8 | (51,000) | (39,641) |
| Investment management expenses | 5 | <u>(20,221)</u> | <u>(10,556)</u> |
| Net return on investments | | <u>757,630</u> | <u>331,497</u> |
| Administrative expenses | 6 | (107,668) | (36,771) |
| Tax charge | 7 (a) | <u>(21,922)</u> | <u>(15,443)</u> |
| | | <u>(129,590)</u> | <u>(52,214)</u> |
| Increase in net assets for the year | | <u>2,239,456</u> | <u>1,330,314</u> |
| Assets available for benefits | | | |
| At start of year | | 4,533,050 | 3,202,736 |
| Increase in net assets for the year | | <u>2,239,456</u> | <u>1,330,314</u> |
| At end of year | | <u>6,772,506</u> | <u>4,533,050</u> |

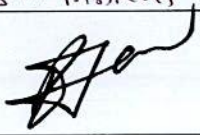
The notes on pages 10 to 24 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 6.


STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

| | Notes | As at 31 December | |
|--|-------|-------------------------|-------------------------|
| | | 2017 Shs '000 | 2016 Shs '000 |
| Assets | | | |
| Financial assets | 8 | 6,440,113 | 4,267,290 |
| Receivables and accrued income | 9 | 291,031 | 89,806 |
| Cash and cash equivalents | 10 | 110,499 | 411,978 |
| Intangible assets | 11 | - | 1,869 |
| Total assets | | <u>6,841,643</u> | <u>4,770,943</u> |
| Less: liabilities | | | |
| Payables and accrued expenses | 12 | 50,601 | 230,179 |
| Tax payable | 7 (b) | 18,536 | 7,714 |
| Total liabilities | | <u>69,137</u> | <u>237,893</u> |
| Net assets available for benefits | | <u><u>6,772,506</u></u> | <u><u>4,533,050</u></u> |

The financial statements on pages 7 to 24 were approved and authorised for issue by the Board of Trustees on 28TH MARCH, 2018 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 | 2017 Shs '000 | 2016 Shs '000 |
|---|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Contributions received | 2 (a) | 1,461,486 | 1,315,950 |
| Administrative expenses paid | | (34,664) | (29,137) |
| Receivables and accrued income | | (9,275) | 308,070 |
| Payables and accrued expenses | | (296,702) | (65,586) |
| Changes in restricted cash balances | 10 | (22,800) | - |
| Tax paid | | (11,100) | (3,938) |
| Net cash from operating activities | | <u>1,086,945</u> | <u>1,525,359</u> |
| Investing activities | | | |
| Purchase of financial assets | 8 | (3,423,001) | (3,025,715) |
| Proceeds from sale/maturity of financial assets | 8 | 1,512,574 | 964,933 |
| Investment income received | | 515,455 | 340,836 |
| Investment management expenses paid | | (14,803) | (10,316) |
| Net cash used in investing activities | | <u>(1,409,775)</u> | <u>(1,730,262)</u> |
| Decrease in cash and cash equivalents | | <u>(322,830)</u> | <u>(204,903)</u> |
| Movement in cash and cash equivalents | | | |
| At start of year | | 411,978 | 616,881 |
| Decrease | | (322,830) | (204,903) |
| At end of year | 10 | <u>89,148</u> | <u>411,978</u> |

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)

- 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.

The trustees expect that the future adoption of IFRS 9 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 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)

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:

| | <u>Rate %</u> |
|-----------|---------------|
| 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 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.

NOTES (CONTINUED)

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

g) **Financial instruments (continued)**

- Financial assets (continued)

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.

NOTES (CONTINUED)

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 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.

- 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.

NOTES (CONTINUED)

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 | 2017 Shs '000 | 2016 Shs '000 |
|---|------------------|------------------|
| (a) Contributions received | | |
| Registered: | | |
| - Employer | 650,909 | 595,577 |
| - Employees | 483,934 | 435,661 |
| Unregistered: | | |
| - Employer | 323,415 | 279,791 |
| - Employees | 3,228 | 2,905 |
| Transfers in | - | 2,016 |
| | <u>1,461,486</u> | <u>1,315,950</u> |
| (b) Benefit to Leavers (retirees, dismissals and resignations) | | |
| Withdrawal benefits (contribution and interest) | <u>(62,693)</u> | <u>(52,296)</u> |
| (c) Death benefits lumpsum | | |
| Death benefits payable to KPA Pension Scheme | - | 26,675 |
| Death lumpsum payable | - | 185,948 |
| Death lumpsum reversal (receivable from KPA) | <u>(212,623)</u> | <u>-</u> |
| | <u>(212,623)</u> | <u>212,623</u> |

3. Investment income

The investment income allocated to registered and unregistered pools for taxation purposes can be analysed as follows:-

Year ended 31 December 2017

| | Registered Shs '000 | Unregistered Shs '000 | Total Shs '000 |
|----------------------------------|------------------------|--------------------------|-------------------|
| Dividend receivable | 52,822 | 10,927 | 63,749 |
| Interest and discount receivable | 366,653 | 84,715 | 451,368 |
| Other miscellaneous income | 338 | - | 338 |
| | <u>419,813</u> | <u>95,642</u> | <u>515,455</u> |

Year ended 31 December 2016

| | | | |
|----------------------------------|----------------|---------------|----------------|
| 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 |
| | <u>281,166</u> | <u>59,670</u> | <u>340,836</u> |

4. (Loss)/gain on disposal of financial assets

| | 2017 Shs '000 | 2016 Shs '000 |
|---|--------------------|------------------|
| Sale proceeds on disposal of financial assets | 1,512,574 | 964,933 |
| Fair value of financial assets disposed | <u>(1,549,146)</u> | <u>(941,409)</u> |
| | <u>(36,572)</u> | <u>23,524</u> |

NOTES (CONTINUED)

| 5. Investment management expenses | 2017 Shs '000 | 2016 Shs '000 |
|---|------------------|------------------|
| Management expenses | 11,831 | 6,885 |
| Custodian expenses | 8,390 | 3,671 |
| | <u>20,221</u> | <u>10,556</u> |
| | | |
| 6. Administrative expenses | | |
| Meetings and allowances | 3,230 | 4,611 |
| Travelling | 795 | 1,960 |
| Education | 2,551 | 4,675 |
| Tender Valuation | 451 | 311 |
| IT expenses | 1,521 | 1,164 |
| RBA levy | 5,000 | 5,000 |
| Professional and legal fees | 14,014 | 11,351 |
| Actuarial fees | 758 | 843 |
| Bank charges | 87 | 62 |
| Audit fees | 700 | 626 |
| Impairment of receivables and accrued income* | 75,351 | 2,876 |
| Amortisation of intangible assets | 1,870 | 1,870 |
| Election expenses | 993 | 709 |
| Printing and stationery | 152 | 468 |
| Staff travelling | 195 | 245 |
| | <u>107,668</u> | <u>36,771</u> |

* Relates to write off of deposit for purchase of Kikambala land and related legal fees incurred deemed irrecoverable.

| 7. Taxation | 2017 Shs '000 | 2016 Shs '000 |
|---|------------------|------------------|
| a) Tax charge | | |
| Tax is charged on investment income earned from the unregistered contribution net of associated expenses at the rate of 30% (2016: 30%) as follows: | | |
| Investment income - unregistered | 84,715 | 59,670 |
| Deductible expenses - unregistered | <u>(11,641)</u> | <u>(8,195)</u> |
| Taxable income | <u>73,074</u> | <u>51,475</u> |
| Tax thereon at 30% (2016: 30%) | <u>21,922</u> | <u>15,443</u> |
| Tax charge | <u>21,922</u> | <u>15,443</u> |
| b) Tax payable | | |
| At start of year | 7,714 | 5,585 |
| Tax charge for the year | 21,922 | 15,443 |
| Tax paid during the year | <u>(11,100)</u> | <u>(13,314)</u> |
| At end of year | <u>18,536</u> | <u>7,714</u> |

NOTES (CONTINUED)

8. Financial assets

Year ended 31 December 2017

| | Value at start of year Shs '000 | Purchases at cost Shs '000 | Sales proceeds Shs '000 | Loss on disposal Shs '000 | Change in fair value Shs '000 | Impairment Shs '000 | Value at end of year Shs '000 |
|--------------------------------------|--|----------------------------------|-------------------------------|---------------------------------|-------------------------------------|------------------------|-------------------------------------|
| Quoted shares | 675,385 | 1,131,298 | (98,980) | (35,088) | 285,852 | - | 1,958,467 |
| Kenya government securities | 3,213,098 | 2,120,803 | (1,408,584) | (1,119) | 51,336 | - | 3,975,534 |
| Commercial paper and corporate bonds | 378,807 | 170,900 | (5,010) | (365) | 12,780 | (51,000) | 506,112 |
| | <u>4,267,290</u> | <u>3,423,001</u> | <u>(1,512,574)</u> | <u>(36,572)</u> | <u>349,968</u> | <u>(51,000)</u> | <u>6,440,113</u> |

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

| | Quoted shares | | Kenya government securities | | Commercial paper and corporate bonds | | Value at end of year Shs '000 |
|------------------------|------------------------|--------------------------|-----------------------------|--------------------------|---|--------------------------|-------------------------------------|
| | Registered Shs '000 | Unregistered Shs '000 | Registered Shs '000 | Unregistered Shs '000 | Registered Shs '000 | Unregistered Shs '000 | |
| Value at start of year | 558,206 | 117,180 | 2,742,391 | 470,707 | 339,997 | 38,809 | 4,267,290 |
| Purchases at cost | 799,510 | 331,788 | 1,735,343 | 385,460 | 170,900 | - | 3,423,001 |
| Sales proceeds | (53,457) | (45,523) | (1,283,253) | (125,331) | (3,340) | (1,670) | (1,512,574) |
| Gain on disposal | (36,237) | 1,149 | (1,119) | - | (365) | - | (36,572) |
| Change in fair value | 258,993 | 26,859 | 34,600 | 16,736 | 12,154 | 626 | 349,968 |
| Impairment | - | - | - | - | (51,000) | - | (51,000) |
| Value at end of year | <u>1,527,015</u> | <u>431,453</u> | <u>3,227,962</u> | <u>747,572</u> | <u>468,346</u> | <u>37,765</u> | <u>6,440,113</u> |

NOTES (CONTINUED)

8. Financial assets (continued)

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 |
| | <u>2,205,291</u> | <u>3,025,715</u> | <u>(964,933)</u> | <u>23,524</u> | <u>17,334</u> | <u>(39,641)</u> | <u>4,267,290</u> |

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

| | Quoted shares | | Kenya government securities | | Commercial paper and corporate bonds | | Value at end of year Shs '000 |
|------------------------|------------------------|--------------------------|-----------------------------|--------------------------|---|--------------------------|-------------------------------------|
| | Registered Shs '000 | Unregistered Shs '000 | Registered Shs '000 | Unregistered Shs '000 | Registered Shs '000 | Unregistered 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 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(37,832)</u> | <u>(1,809)</u> | <u>(39,641)</u> |
| Value at end of year | <u>558,205</u> | <u>117,181</u> | <u>2,742,391</u> | <u>470,707</u> | <u>339,997</u> | <u>38,809</u> | <u>4,267,290</u> |

NOTES (CONTINUED)

8. Financial assets (continued)

As at 31 December 2017, the following carrying values of commercial papers and corporate bonds were held with institutions that are under statutory management:

| | 2017 Shs '000 | 2016 Shs '000 |
|-----------------------|--------------------------------|--------------------------------|
| Imperial Bank Limited | | |
| Chase Bank Limited | 35,000 | 72,704 |
| | <u>16,000</u> | <u>19,815</u> |
| Impairment provision | 51,000 | 92,519 |
| | <u>(51,000)</u> | <u>(39,641)</u> |
| Net carrying value | <u>-</u> | <u>52,878</u> |

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

| | 2017 % | 2016 % |
|--|-------------------------|-------------------------|
| Kenya government securities | | |
| - Treasury bonds | 9.3 - 15.04 | 8 - 15 |
| - Corporate bonds and commercial paper | <u>12.5 - 13.65</u> | <u>12.3 - 13.0</u> |

9. Receivables and accrued income

| | 2017 Shs '000 | 2016 Shs '000 |
|--|--------------------------------|--------------------------------|
| Dividend receivable | 955 | 357 |
| Land deposit | - | 89,449 |
| Death benefits receivable from sponsor (Note 15) | 164,232 | - |
| Contributions receivable from sponsor (Note 15) | <u>125,844</u> | <u>-</u> |
| | <u>291,031</u> | <u>89,806</u> |

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

10. Cash and cash equivalents

| | 2017 Shs '000 | 2016 Shs '000 |
|---------------------|--------------------------------|--------------------------------|
| Cash at bank | 25,042 | 139,995 |
| Short term deposits | <u>85,457</u> | <u>271,983</u> |
| | <u>110,499</u> | <u>411,978</u> |

For the purposes of cash flow statement cash and cash equivalents comprise the following:

| | | |
|--|-----------------|----------------|
| Cash at bank and short term bank deposits | 110,499 | 411,978 |
| Less: bank deposits maturing after 91 days | <u>(22,800)</u> | <u>-</u> |
| | <u>87,699</u> | <u>411,978</u> |

The weighted average effective interest rate on short term bank deposits at year end was:

| | 2017 % | 2016 % |
|---------------------|-------------------------|-------------------------|
| Short term deposits | <u>8.5 - 9.5</u> | <u>7.4 - 9</u> |

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 | 2017 Shs '000 | 2016 Shs '000 |
|--|------------------|------------------|
| Cost | | |
| At start and end | 5,609 | 5,609 |
| Amortisation | | |
| At start of year | 3,740 | 1,870 |
| Charge for the year | 1,869 | 1,870 |
| At end of year | 5,609 | 3,740 |
| Net book value | - | 1,869 |
| | | |
| 12. Payables and accrued expenses | | |
| RBA levy | 5,000 | 5,000 |
| Other payables | 7,554 | 14,326 |
| Benefits payable | 11,372 | 6,521 |
| Death benefits payable to KPA Defined Benefit Scheme (Note 15) | 26,675 | 26,675 |
| Death lumpsum payable | - | 177,657 |
| | 50,601 | 230,179 |

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 | 2017 % | 2016 % | Maximum investment as per RBA % |
|--------------------------------------|-----------|-----------|--|
| Cash and demand deposits | 1 | 3 | 5 |
| Fixed and time deposits | 1 | 3 | 30 |
| Commercial paper and corporate bonds | 8 | 8 | 15 |
| Kenya Government securities | 60 | 71 | 70 |
| Quoted shares - Kenya | 30 | 15 | 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 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.

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

The following outstanding related party balances existed at the end of the year:

| | 2017 Shs '000 | 2016 Shs '000 |
|---|------------------|------------------|
| Due from sponsor | | |
| Death benefits receivable from sponsor (Note 9) | 164,232 | - |
| Contributions receivable from sponsor (Note 9) | <u>125,844</u> | <u>-</u> |
| | <u>290,076</u> | <u>-</u> |
| Due to KPA Defined Benefit Scheme | | |
| Death benefits payable (Note 12) | <u>26,675</u> | <u>26,675</u> |

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 2017, 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 (thousands) 45,326 (2016: Shs (thousands) 35,919) 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 2017, 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 195,864,690 (2016: 67,538,600) 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 for 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 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 fair values of these assets and liabilities are determined.

Year ended 31 December 2017

| | Level 1 Shs '000 | Level 2 Shs '000 | Level 3 Shs '000 | Totals Shs '000 |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|
| Financial assets | | | | |
| Quoted shares | 1,958,467 | - | - | 1,958,467 |
| Kenya government securities | - | 3,975,534 | - | 3,975,534 |
| Commercial paper and corporate bonds | - | 506,112 | - | 506,112 |
| | <u>1,958,467</u> | <u>4,481,646</u> | <u>-</u> | <u>6,440,113</u> |

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 |
| | <u>675,386</u> | <u>3,591,904</u> | <u>-</u> | <u>4,267,290</u> |

NOTES (CONTINUED)

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 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.

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.