Kenya Ports Authority
Retirement Benefits Scheme 2012
P. O. Box 1019 - 80100,
Mombasa, Kenya.
Tel: 2313460 / 1
Fax: 2313462
Email: info@kpa.co.ke
Website: www.kpa.co.ke

Ref: RBS2012/CON/1/01

28th March, 2019

The Chief Executive Officer
Retirements Benefits Authority
Rahimtulla Tower, 13th Floor,
Upper Hill Road,
Opposite United Kingdom High Commission
P. O. Box 57733-00200
NAIROBI

RECEIVED
29 MAR 2019
Retirement Benefits Authority

Dear Sir,

SUBMISSION OF AUDITED FINANCIAL STATEMENTS AND ACCOUNTS FOR THE YEAR 2018

This has reference to the above mentioned subject.

Attached herewith please find the audited financial statements and accounts for the year 2018 record.

The financial statements and accounts were approved for submission by the Board of Trustees at its 54th meeting held on 27th March, 2019.

Kindly acknowledge receipt on the attached copy of this letter.

Thank you for your continued support and guidance.

Yours faithfully,
For: KPA RETIREMENT BENEFITS SCHEME 2012

CKodo

Caroline W. Kodo(Mrs.)
HEAD OF PENSION

PKF KENYA
Certified Public Accountants

Ref: K257/C/1196 – 2019

28 March 2019

The Trustees
Kenya Ports Authority Retirement Benefits Scheme 2012
P.O. Box 1019 - 80100
Mombasa

Dear Sirs

Financial Statements

We have pleasure in enclosing herewith 6 **(Six)** sets of the audited financial statements for the year ended 31 December 2018 for your retention.

Yours faithfully

Erick Njuguna
Partner

/jm

Encls

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

PKF

KENYA PORTS AUTHORITY
RETIREMENT BENEFITS SCHEME 2012

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS **PAGE**

SCHEME INFORMATION

TRUSTEES	: Mr. Salim Kumaka - Chairman : Ms. Mary Wairimu Ngari (Appointed on 12 September 2018) : Mr. Kennedy Ogeto (Resigned on 13 February 2018) : Mr. Patrick Nyoike : Ms. Addraya Dena : Mr. Jorum Kiilu : Ms. Joan Zawadi Karema
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	: Ms. Caroline Kodo : 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 2018.

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:	**2018 Members**	**2017 Members**
a) **Total members**		
Active members	5,933	5,616
Deferred members	236	182
Total	6,169	5,798
b) **Active members**		
At start of year	5,616	5,212
Joiners	464	503
Leavers	(147)	(99)
At end of year	5,933	5,616
c) **Deferred members**		
At start of year	182	165
Joiners	84	17
Fully paid deferred members	(30)	-
At end of year	236	182
Deferred members split as follows:-		
Members whose benefits were locked in	236	182

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) 1,768,426 (2017: Shs (thousands) 2,239,456) and statement of net assets available for benefits on page 8 shows the Scheme's net assets as Shs (thousands) 8,540,932 (2017: Shs (thousands) 6,722,506).

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

27 MARCH **2019**

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. It 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 Retirment 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 27TH MARCH 2019 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 26 which comprise the Scheme's the statement of net assets available for benefits as at 31 December 2018 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 2018, 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

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

PKF

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.

PKF Kenya

Certified Public Accountants
Mombasa
CPA Erick Mbuthia Njuguna P/No. 2061
Signing partner responsible for the independent audit

28-March-**2018**

0105/2019

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Notes	2018 Shs '000	2017 Shs '000
Income from dealings with members			
Contributions received	2 (a)	1,657,662	1,461,486
Outgoings from dealings with members			
Benefits to leavers	2 (b)	(148,384)	(62,693)
Death benefits lumpsum	2 (c)	-	212,623
		(148,384)	149,930
Net increase from dealings with members		1,509,278	1,611,416
Return on investment			
Investment income	3	674,400	515,455
Loss on disposal of financial assets	4	(21,620)	(36,572)
Changes in fair value of plan investment	8	(320,316)	349,968
Impairment of plan investment	8	-	(51,000)
Investment management expenses	5	(25,404)	(20,221)
Net return on investments		307,060	757,630
Administrative expenses	6	(26,224)	(107,668)
Tax charge	7 (a)	(21,688)	(21,922)
		(47,912)	(129,590)
Increase in net assets for the year		1,768,426	2,239,456
Assets available for benefits			
At start of year		6,772,506	4,533,050
Increase in net assets for the year		1,768,426	2,239,456
At end of year		8,540,932	6,772,506

The notes on pages 10 to 26 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 2018 Shs '000	2017 Shs '000
Assets			
Plan investment	8	8,293,190	6,525,570
Receivables and accrued income	9	168,306	291,031
Cash and cash equivalents	10	148,200	25,042
Total assets		8,609,696	6,841,643
Less: liabilities			
Payables and accrued expenses	12	28,763	50,601
Tax payable	7 (b)	40,001	18,536
Total liabilities		68,764	69,137
Net assets available for benefits		8,540,932	6,772,506

The financial statements on pages 7 to 26 were approved and authorised for issue by the Board of Trustees on 27TH MARCH 2019 and were signed on its behalf by:

TRUSTEE

TRUSTEE

The notes on pages 10 to 26 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 6.

STATEMENT OF CASH FLOWS

	Notes	2018 Shs '000	2017 Shs '000
Cash flows from operating activities			
Contributions received	2 (a)	1,657,662	1,461,486
Administrative expenses paid		(26,224)	(34,664)
Receivables and accrued income		122,726	(9,275)
Payables and accrued expenses		(148,872)	(298,151)
Changes in restricted cash balances	10	-	(21,351)
Tax paid		(223)	(11,100)
Net cash from operating activities		1,605,069	1,086,945
Investing activities			
Purchase of plan investment	8	(3,197,900)	(3,423,001)
Proceeds from sale/maturity of plan investment	8	1,443,454	1,512,574
Investment income received		674,400	515,455
Investment management expenses paid		(25,404)	(14,803)
Net cash used in investing activities		(1,105,450)	(1,409,775)
Increase/(decrease) in cash and cash equivalents		499,619	(322,830)
Movement in cash and cash equivalents			
At start of year		89,148	411,978
Increase/(decrease)		499,619	(322,830)
At end of year	10	588,767	89,148

The notes on pages 10 to 26 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 6.

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 trustees' 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

All new and amended standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2018 have been adopted by the scheme. Of those, the following has had an effect on the scheme's financial statements:

International Financial Reporting Standards 9 (IFRS 9): Financial Instruments

IFRS 9 requires all financial assets to be measured at fair value on initial recognition and subsequently at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flows characteristics.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

New and amended standards adopted by the scheme (continued)

International Financial Reporting Standards 9 (IFRS 9): Financial Instruments (continued)

For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in statement of changes in net asset available for benefits), unless this creates an accounting mismatch.

For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" (ECL) model based on the concept of providing for expected losses at the inception of a contract; this will require judgement in quantifying the impact of forecast economic factors. For financial assets for which there has not been a significant increase in credit risk since initial recognition, the loss allowance should represent ECLs that would result from probable default events within 12 months from the reporting date (12-month ECLs). For financial assets for which there has been a significant increase in credit risk, the loss allowance should represent lifetime ECLs.

A simplified approach is allowed for receivables and accrued income, whereby lifetime ECLs can be from inception.

The trustees have determined that adoption of IFRS 9 has no material impact on the amount reported in the financial statements.

The accounting for plan investments is guided by IAS 26 which requires that all plan investments be carried at fair value and where the fair value determination is not possible, disclosure shall be made why fair value was not being used.

The scheme has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies. No adjustments to the amounts recognised in the financial statements were made as the amounts involved were not material. The scheme did not early adopt IFRS 9 in previous periods.

Consequently, for notes and disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes and disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

New standards, amendments and interpretations issued but not effective

At the date of authorisation of these financial statements the following standards and interpretations which not been applied in these financial statements were in issue but not yet effective for the year presented:

- Amendments to IAS 12 'Income Taxes' effective for annual periods beginning on or after 1 January 2019 clarifying on the recognition of income tax consequences of dividends.

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

Basis of preparation (continued)

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

- *Amendments to IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January* 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amortised cost classification.

- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

The trustees do not expect that adoption of the above standards and interpretations will have a material impact on the financial statements in future periods. The scheme plans to apply the changes above from their effective dates noted above.

b) **Critical accounting estimates and judgements**

In the application of the accounting policies, the trustees are required to make judgements, 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.

- **Measurement of expected credit losses (ECL):**

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing schemes of similar financial assets for the purposes of measuring ECL

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs are based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD).

The ECL model applied for financial assets other than trade receivables and contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

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

b) **Critical accounting estimates and judgements (continued)**

- **Measurement of expected credit losses (ECL): (continued)**

- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

  - When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Assessment of significant increase in credit risk: The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The scheme uses these guidelines in determining the staging of its assets unless there is persuasive evidence available to rebut these presumptions.

For receivables and accrued income, the scheme has applied the simplified model under IFRS 9 where lifetime expected credit loss allowance is recognised on the basis of a provisioning matrix.

c) **Contributions receivable**

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

d) **Benefits payable**

Pensions and other benefits payable are accounted for in the period in which they fall due.

e) **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.

f) **Plan investments**

All plan investments are carried at fair value. For marketable securities, the fair value is the market value which is the most useful measure of the securities as at the report date and of the investment performance for the period.

Those securities that have a fixed redemption value and have been acquired to match the obligations of the scheme, or specific parts thereof, may be carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity.

NOTES (CONTINUED)

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

f) **Plan investments (continued)**

Those securities that have a fixed redemption value and have been acquired to match the obligations of the scheme, or specific parts thereof, may be carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity.

Plan investments have been carried at the ultimate redemption value. Any assets in operations of the scheme are accounted for in accordance with the applicable standards

g) **Financial instruments**

Financial instruments are recognised when, and only when, the scheme becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the scheme commits itself to the purchase or sale.

The scheme classifies its financial assets into the following categories:

i) **Amortised cost;**
Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and return (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost; The carrying amount of these assets is adjusted by any expected credit loss allowance recognised.

ii) **Fair Value Through Other Comprehensive Income (FVTOCI)**:
Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are classified and measured at value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, return revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

iii) **Fair Value Through Profit or Loss (FVTPL)**:
Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in increase/decrease in net assets available for benefits and presented in the statement of changes in net assets availabe for benefits.

Notwithstanding the above, the scheme may:

- on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it **at fair value through other comprehensive income**
- on initial recognition of a debt instrument, irrevocably designate it as classified and measured **at fair value through profit or loss** if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

NOTES (CONTINUED)

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

h) **Financial instruments (continued)**

At initial recognition of a financial asset, the trustees determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The trustees reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the scheme has not identified a change in its business models.

Operational account bank balances and receivables and accrued income are classified and measured amortised cost.

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the scheme has transferred substantially all risks and rewards of ownership, or the scheme has no reasonable expectations of recovering the asset.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to statement of changes in net assets availabe for benefits. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred equity.

Financial instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Impairment

The scheme recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost:

- Cash and cash equivalents
- Receivables and accrued income

The trustees have determined that adoption of IFRS 9 has no material impact on the amount reported in the financial statements.

There no impairment loss recognised on investments measured at FVTPL.

The loss allowance is measured at an amount equal to the lifetime expected credit losses for contributions due and for financial instruments for which:

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

If, at the reporting date, the credit risk on a financial asset other than contributions due has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in statement of changes in net assets availabe for benefits as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

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

h) **Financial instruments (continued)**

Impairment (continued)

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from statement of net assets available for benefits date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

Financial liabilities

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market return rate are classified and measured at fair value through profit or loss. The scheme may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

All other financial liabilities are classified and measured at **amortised cost.**

All financial liabilities are classified as non-current except those held for trading, those expected to be settled in the Company's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the scheme does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Offsetting financial instruments

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

i) ***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.

NOTES (CONTINUED)

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

j) **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.

k) **Taxation**

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

l) **Comparatives**

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

2. Dealings with members

	2018 Shs '000	2017 Shs '000
(a) Contributions received		
Registered:		
- Employer	704,445	650,909
- Employees	548,016	483,934
Unregistered:		
- Employer	400,703	323,415
- Employees	4,498	3,228
	1,657,662	1,461,486
(b) Benefit to Leavers (retirees, dismissals and resignations)		
Withdrawal benefits (contribution and interest)	(148,384)	(62,693)
(c) Death benefits lumpsum		
Death lumpsum reversal (receivable from KPA)	-	(212,623)

3. Plan Investment income

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

Year ended 31 December 2018

	Registered Shs '000	Unregistered Shs '000	Total Shs '000
Dividend receivable	86,023	24,186	110,209
Interest and discount receivable	484,465	78,362	562,827
Other miscellaneous income	1,364	-	1,364
	571,852	102,548	674,400

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
	419,813	95,642	515,455

4. Loss on disposal of plan investments

	2018 Shs '000	2017 Shs '000
Sale proceeds on disposal of plan investments	1,443,454	1,512,574
Fair value of plan investments disposed	(1,465,074)	(1,549,146)
	(21,620)	(36,572)

NOTES (CONTINUED)

5. **Investment management expenses**

	2018 Shs '000	2017 Shs '000
Management expenses	15,968	11,831
Custodian expenses	9,436	8,390
	25,404	20,221

6. **Administrative expenses**

	2018 Shs '000	2017 Shs '000
Meetings and allowances	6,994	3,230
Travelling	2,592	795
Trustees/Member Education	4,517	2,551
Tender Valuation	2,655	451
IT expenses	1,110	1,521
RBA levy	5,000	5,000
Professional and legal fees	533	14,014
Acturial fees	696	758
Bank charges	95	87
Audit fees	763	700
Benchmarking expenses	653	-
Impairment of receivables and accrued income*	-	75,351
Amortisation of intangible assets	-	1,870
Election expenses	-	993
Printing and stationery	362	152
Staff travelling	254	195
	26,224	107,668

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

7. **Taxation**

a) **Tax charge**

Tax is charged on investment income earned from the unregistered contribution net of associated expenses at the rate of 30% (2017: 30%) as follows:

	2018 Shs '000	2017 Shs '000
Investment income - unregistered	78,362	84,715
Deductible expenses - unregistered	(6,070)	(11,641)
Taxable income	72,292	73,074
Tax thereon at 30% (2017: 30%)	21,688	21,922
Tax charge	21,688	21,922

b) **Tax payable**

	2018 Shs '000	2017 Shs '000
At start of year	18,536	7,714
Tax charge for the year	21,688	21,922
Tax paid during the year	(223)	(11,100)
At end of year	40,001	18,536

NOTES (CONTINUED)

8. **Plan investments**

	2018 Shs '000	2017 Shs '000
Shares	2,080,292	1,958,467
Kenya government securities	5,466,888	3,975,534
Commercial paper and corporate bonds	305,443	506,112
Fixed term bank deposits (Note 10)	440,567	85,457
	8,293,190	6,525,570

Year ended 31 December 2018

	Value at start of year Shs '000	Purchases at cost Shs '000	Sales proceeds Shs '000	Gain/ (Loss) on disposal Shs '000	Change in fair value Shs '000	Impairment Shs '000	Value at end of year Shs '000
Quoted shares	1,958,467	744,431	(183,584)	(32,079)	(406,943)	-	2,080,292
Kenya government securities	3,975,534	2,453,469	(1,070,783)	12,805	95,863	-	5,466,888
Commercial paper and corporate bonds	506,112	-	(189,087)	(2,346)	(9,236)	-	305,443
	6,440,113	3,197,900	(1,443,454)	(21,620)	(320,316)	-	7,852,623

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
	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	1,527,015	431,453	3,227,962	747,572	468,346	37,765	6,440,113
Purchases at cost	502,284	242,147	1,939,865	513,604	-	-	3,197,900
Sales proceeds	(105,886)	(77,698)	(617,653)	(453,130)	(187,417)	(1,670)	(1,443,454)
(Gain)/loss on disposal	(24,359)	(7,720)	8,512	4,293	(2,272)	(74)	(21,620)
Change in fair value	(301,801)	(105,142)	92,442	3,421	(11,026)	1,790	(320,316)
Impairment	-	-	-	-	-	-	-
Value at end of year	1,597,253	483,040	4,651,128	815,760	267,631	37,811	7,852,623

8. **Plan Investment (continued)**

Year ended 31 December 2017

	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	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
	4,267,290	3,423,001	(1,512,574)	(36,572)	349,968	(51,000)	6,440,113

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
	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	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
	-	-	-	-	(51,000)	-	(51,000)
Value at end of year	1,527,015	431,453	3,227,962	747,572	468,346	37,765	6,440,113

8. ***Plan Investment (continued)***

As at 31 December 2018, the following carrying values of commercial papers and corporate bonds were held with institutions that are under statutory management:

	2018 Shs '000	2017 Shs '000
Imperial Bank Limited	-	35,000
Chase Bank Limited	-	16,000
	-	51,000
Impairment provision	-	(51,000)
Net carrying value	-	-

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

	2018 %	2017 %
Kenya government securities		
- Treasury bonds	8.79 - 14.5	9.3 - 15.04
- Corporate bonds and commercial paper	12.5 - 13	12.5 - 13.65

9. **Receivables and accrued income**

	2018 Shs '000	2017 Shs '000
Dividend receivable	4,074	955
Death benefits receivable from sponsor (Note 15)	164,232	164,232
Contributions receivable from sponsor (Note 15)	-	125,844
	168,306	291,031

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

10. **Cash and cash equivalents**

	2018 Shs '000	2017 Shs '000
Cash at bank	148,200	25,042

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

Cash at bank and short term bank deposits	148,200	25,042
Fixed term bank deposits (Note 8)	440,567	85,457
Less: bank deposits maturing after 91 days	-	(21,351)
	588,767	89,148

The weighted average effective interest rate on short term bank deposits at year end was:	2018 %	2017 %
Short term deposits	9 - 10	8.5 - 9.5

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.

11. **Intangible assets - Website and SMS platform**

	2018 Shs '000	2017 Shs '000
Cost		
At start and end	5,609	5,609
Amortisation		
At start of year	5,609	3,740
Charge for the year	-	1,869
At end of year	5,609	5,609
Net book value	-	-

12. **Payables and accrued expenses**

	2018 Shs '000	2017 Shs '000
RBA levy	5,000	5,000
Other payables	8,143	7,554
Benefits payable	15,620	11,372
Death benefits payable to KPA Defined Benefit Scheme (Note 15)	-	26,675
	28,763	50,601

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	2018 %	2017 %	Maximum investment as per RBA %
Cash and demand deposits	1	1	5
Fixed and time deposits	4	1	30
Commercial paper and corporate bonds	4	8	15
Kenya Government securities	66	60	70
Quoted shares - Kenya	25	30	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:

	2018 Shs '000	2017 Shs '000
Due from sponsor		
Death benefits receivable from sponsor (Note 9)	164,232	164,232
Contributions receivable from sponsor (Note 9)	-	125,844
	164,232	290,076
Due to KPA Defined Benefit Scheme		
Death benefits payable (Note 12)	-	26,675

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 2018, 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) 62,129 (2017: Shs (thousands) 45,326) arising substantially from the change in market value of debt securities

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 2018, 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 (thousands) 208,029 (2017: Shs (thousands) 195,847).

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 2018	**Level 1 Shs '000**	**Level 2 Shs '000**	**Level 3 Shs '000**	**Totals Shs '000**
Financial assets				
Quoted shares	2,080,292		-	2,080,292
Kenya government securities	-	5,466,888	-	5,466,888
Commercial paper and corporate bonds	-	305,443	-	305,443
	2,080,292	5,772,331	-	7,852,623

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
	1,958,467	4,481,646	-	6,440,113

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.