

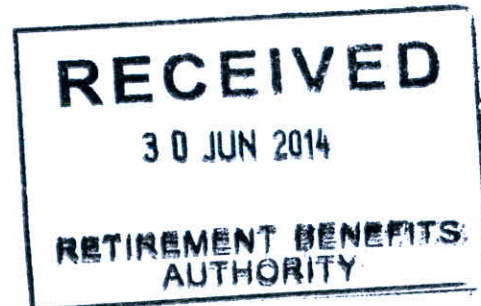
PKF 2013/11

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(1-20)

**KENYA PORTS AUTHORITY PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**



PKF 2013/2

Kenya Ports Authority Pension Scheme
Annual report and financial statements
For the year ended 31 December 2013

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SCHEME INFORMATION

TRUSTEES

- | | |
|------------------------------------|-----------------------|
| 1. Mr. V. M. Wa-Kayanda - Chairman | 7. Mr. J. O. Nyarandi |
| 2. Mr. F. G. Ndua | 8. Ms. F. Mutiso |
| 3. Mrs. K. Karim | |
| 4. Mr. M. Wa-Katana Wara | |
| 5. Mr. A. O. Alouch | |
| 6. Mrs. C. Mcharo | |

CUSTODIAN TRUSTEE

Kenya Commercial Bank Nominees Limited
c/o Kenya Commercial Bank Limited
P. O. Box 30664 - 00100
Nairobi

CUSTODIANS

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

EMPLOYER/SPONSOR

Kenya Ports Authority
P. O. Box 95009-80104
Mombasa

ADMINISTRATOR

Mr. M. M. Amahwa
Kenya Ports Authority
Pension Office
Old Cannon Towers, 7th Floor
Moi Avenue
P. O. Box 1019 - 80100
Mombasa

SECRETARY

Ms. Muthoni Gatere
Kenya Ports Authority
P. O. Box 95009 - 80104
Mombasa

ACTUARY

Alexander Forbes Financial Services (East Africa) Limited
P. O. Box 52439 - 00200
Nairobi

FUND MANAGERS

- | | |
|---|--|
| 1. Old Mutual Asset Managers (E. A.) Limited
P. O. Box 11589 - 00400
Nairobi | 2. Genesis Kenya Investment Management Limited
P. O. Box 79217 - 00200
Nairobi |
| 3. PineBridge Investments East Africa Limited
P. O. Box 67262 - 00200
Nairobi | |

SCHEME INFORMATION (CONTINUED)

INDEPENDENT AUDITOR

PricewaterhouseCoopers
PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P.O. Box 43963 - 00100
Nairobi

PROPERTY MANAGEMENT AGENTS

- | | |
|---|--|
| 1. N. W. Realite Limited
P. O. Box 2211 - 00202
Nairobi | 4. Kiragu & Mwangi Ltd
P. O. Box 10169 - 00100
Nairobi |
| 2. Lustman & Company (1990) Limited
P. O. Box 46849 - 00100
Nairobi | 5. Gimco Ltd
P. O. Box 61551 - 00200
Nairobi |

LAWYERS

- | | |
|--|--|
| 1. Muciimi Mbaka and Company
P. O. Box 15541 - 00100
Nairobi | 3. Kaplan and Stratton Advocates
P. O. Box 40111 - 00100
Nairobi |
| 2. Cootow and Associates
P. O. Box 16858 - 80100
Mombasa | 4. Nyiha, Mukoma and Company Advocates
P. O. Box 47122 - 00100
Nairobi |

BANKERS

- | | |
|--|---|
| 1. Citibank N. A.
P. O. Box 83615 - 80100
Mombasa | 2. CFC Stanbic Bank Kenya Limited
P. O. Box 90131 - 80100
Mombasa |
| 3. Kenya Commercial Bank Limited
P. O. Box 90254 - 80100
Mombasa | |

REGISTERED OFFICE

Kenya Ports Authority
Pension Office
Old Cannon Towers, 7th Floor
Moi Avenue
P. O. Box 1019 - 80100
Mombasa

Kenya Ports Authority Pension Scheme
Annual report and financial statements
For the year ended 31 December 2013

REPORT OF THE TRUSTEES

The trustees present their report together with the audited financial statements for the year ended 31 December 2013.

ESTABLISHMENT, NATURE, AND STATUS OF THE SCHEME

The scheme was established, and is governed by a trust deed with effect from 1 January 1998. It is a defined benefit scheme and provides, under the rules of the scheme, retirements benefits for the staff of Kenya Ports Authority. It is an exempt approved scheme under the Income Tax Act and is registered with the Retirement Benefits Authority. Employees contribute to the fund at the rate of 7.5% of their respective pensionable salaries. The employer contributes at rates based on periodic advice of the actuary. The employer's current contribution rate is 42% of employees' pensionable salaries.

SCHEME MEMBERSHIP

	2013 Number	2012 Number
Total Members		
Contributing members	4,655	4,683
Pensioners	3,939	4,186
Pension beneficiaries	836	709
	<u>9,430</u>	<u>9,578</u>
Contributing members		
At start of year	4,683	4,716
Add: Joiners	-	31
Less: Retired with pension	(28)	(16)
Died in service	-	(11)
Other secessionists	-	(37)
At end of year	<u>4,655</u>	<u>4,683</u>
Pensioners and pension beneficiaries		
At start of year	4,895	5,078
Add: Contributing members who retired	17	16
Widows, widowers and dependants pension becoming payable	200	203
Less: Ceased pensions after five year - widows and widowers	(194)	(402)
At end of year	<u>4,918</u>	<u>4,895</u>

REPORT OF THE TRUSTEES (CONTINUED)

FINANCIAL REVIEW	2013	2012
	Shs '000	Shs '000
Net assets		
At start of year	15,755,267	12,241,508
Increase in net assets during the year	7,271,377	3,513,759
	<hr/>	<hr/>
At end of year	23,026,644	15,755,267
	<hr/> <hr/>	<hr/> <hr/>

INVESTMENT OF FUNDS

Under the terms of their appointment, Genesis Kenya Investment Management Limited, Old Mutual Asset Management (E. A.) Limited and PineBridge Investments East Africa Limited are responsible for the investment of funds. The overall responsibility for investment and performance of funds lies with the trustees.

EXPENSES

Some costs of administration and management of the fund are borne by the sponsor, Kenya Ports Authority.

TRUSTEES

The trustees who held office to the date of this report are shown on page 1.

TAXATION

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

BY ORDER OF THE BOARD OF TRUSTEES


CHAIRMAN

30 JUNE 2014

Statement of trustees' responsibilities

The Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations, 2000 made under Retirement Benefits Act, 1997 requires the Trustees to prepare financial statements in a prescribed form for each financial year. It also requires the trustees to ensure that the Fund 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 Fund.

The Trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations, 2000.


They also accept responsibility for:

- (i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.
- (ii) Selecting and applying appropriate accounting policies;
- (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 in accordance with International Financial Reporting Standards.

The Trustees certify that to the best of their knowledge and belief the information furnished to the auditor for the purposes of the audit was correct and complete in every respect.

Approved by the trustees on 30 JUNE 2014 and signed on its behalf by:



Trustee: W. Nyarandi



Trustee:

PKF J23/6



REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF KENYA PORTS AUTHORITY PENSION SCHEME

Report on the financial statements

We have audited the accompanying financial statements of Kenya Ports Authority Pension Scheme (the "Scheme") set out on pages 8 to 29. These financial statements comprise the statement of changes in net assets available for benefits, the statement net assets available for benefits and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Trustees' responsibility for the financial statements

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000 and for such internal control, as the Trustees determine necessary, to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers CPA. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963 – 00100 Nairobi, Kenya
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PKF 2013/7



**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF KENYA PORTS AUTHORITY
PENSION SCHEME (continued)**

Opinion

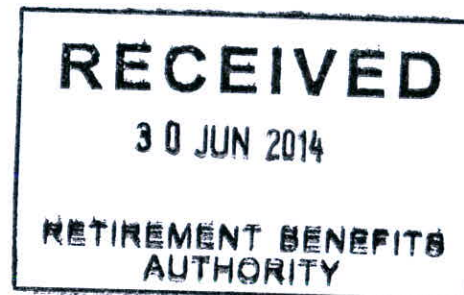
In our opinion the accompanying financial statements give a true and fair view of the Schemes' net assets available for benefits at 31 December 2013 and of the changes in net assets and cash flows for the year then ended in accordance with International Financial Reporting Standards.

The engagement leader responsible for the audit resulting in this independent auditor's report is CPA Moses Nyabanda - P/No. 2047.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

30 JUNE 2014



Kenya Ports Authority Pension Scheme
Annual report and financial statements
As at 31 December 2013

Statement of changes in net assets available for benefits

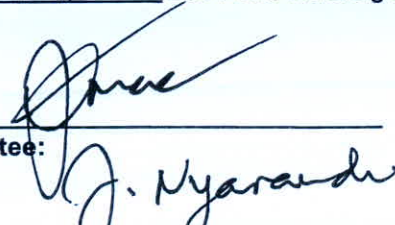
	Notes	2013 Shs '000	2012 Shs '000
Income from dealings with members			
Contributions received	4	326,982	1,243,154
Additional contributions received and receivable	5	948,209	650,000
		1,275,191	1,893,154
Outgoings from dealings with members			
Benefits paid and payable	6	(833,768)	(859,398)
		441,423	1,033,756
Net additions from dealings with members			
Returns on investments			
Investment income	7	1,141,309	1,124,656
Profit/(loss) on disposal of financial assets	8	94,119	(11,469)
Changes in fair value of investment property	11	4,548,166	-
Changes in fair value of financial assets	13	1,149,220	1,458,769
Less: Investment management expenses	9	(51,590)	(52,986)
		6,881,224	2,518,970
Net return on investments			
Administrative expenses	10	(51,270)	(38,967)
		7,271,377	3,513,759
Increase in net assets for the year			
Net assets available for benefits at start of the year		15,755,267	12,241,508
		23,026,644	15,755,267
Net assets available for benefits at end of the year			

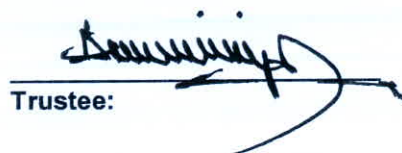
The notes on pages 11 to 29 are an integral part of these financial statements.

Statement of net assets available for benefits

	Notes	As at 31 December	
		2013 Shs '000	2012 Shs '000
Assets			
Investment properties	11	8,748,575	3,876,591
Motor vehicles and equipment	12	295	415
Financial assets	13	12,546,590	10,365,901
Contributions receivable	14	22,073	101,408
Rent and other receivables	15	661,095	117,603
Cash and cash equivalents	16	1,256,181	1,516,909
Total assets		23,234,809	15,978,827
Less: liabilities			
Benefits payable		31,644	11,157
Other payables and accrued expenses	17	176,521	212,403
Total liabilities		208,165	223,560
Net assets available for benefits		23,026,644	15,755,267

The financial statements on pages 8 to 29 were approved and authorised for issue by the Board of Trustees on 30 JUNE 2014 and were signed on its behalf by:

Trustee: 

Trustee: 

The notes on pages 11 to 29 are an integral part of these financial statements.

Kenya Ports Authority Pension Scheme
Annual report and financial statements
For the year ended 31 December 2013

Statement of cash flows

	Notes	2013 Shs '000	2012 Shs '000
Operating activities			
Reconciliation of increase in net assets to cash from operating activities:			
Increase in net assets (excluding fair value changes)		1,573,991	2,054,990
Adjustments for:			
Assets transferred from the sponsor	11	(708,209)	-
Depreciation of motor vehicles and equipment	12	120	587
Irrecoverable amounts expensed		300	-
Profit/(loss) on disposal of financial assets	8	(94,119)	11,469
		<u>772,083</u>	<u>2,067,046</u>
Changes in:			
Contributions receivable		79,335	(4,210)
Rent and other receivables		(543,492)	(60,763)
Non-cash movements in other receivables		384,091	-
Benefits payable		20,487	44,346
Payables and accrued expenses		(35,881)	-
		<u>676,623</u>	<u>2,046,419</u>
Investing activities			
Purchase of computer and equipment	12	-	(215)
Purchase of financial assets	13	(4,389,798)	(3,591,347)
Proceeds from sale/maturity of financial assets		3,452,447	1,836,060
		<u>(937,351)</u>	<u>(1,755,502)</u>
Net cash generated from operating activities			
Net cash used in investing activities			
(Decrease)/increase in cash and cash equivalents		<u>(260,728)</u>	<u>290,917</u>
Movement in cash and cash equivalents			
At start of year		1,516,909	1,225,992
(Decrease)/ increase		(260,728)	290,917
		<u>1,256,181</u>	<u>1,516,909</u>
At end of year	16		

The notes on pages 11 to 29 are an integral part of these financial statements.

Notes

1 Summary of 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 years presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards, the Retirement Benefits Act, 1997 as amended, and with the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary and and these financial statements should be read in conjunction therewith. The last actuarial valuation was made as at 31 December 2012.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Scheme

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2014 that would be expected to have a material impact on the scheme.

The scheme adopted IFRS 13 Fair value measurement (applicable for financial years beginning on/after 1 January 2013) in the year.

IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or, place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market is the market with the greatest volume and level of activity for the asset or liability that can be for the scheme accessed by the entity. The guidance includes enhanced disclosure requirements for the scheme. The requirements are similar to IFRS 7, 'Financial instruments: Disclosures' but apply to all assets and liabilities measured at fair value, not just financial ones.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Scheme

A number of new standards and amendments to standards and interpretations are effective for annual periods and have not been applied in preparing these financial statements.

IFRS 9, part 1, Financial instruments, was issued in November 2009 and replaces those parts of IAS 39 relating to beginning after 1 January 2014, the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. For the scheme all financial assets will be carried at fair value. All debt instruments are to be measured at fair value through statement of changes in net assets available for benefits.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through statement of changes in net assets available for benefits. Dividends are to be presented in statement of changes in net assets available for benefits, as long as they represent a return on investment.

Notes (continued)

1 Summary of significant accounting policies (continued)

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Scheme

IFRS 9, part 2 was issued in October 2010 and includes guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation of financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and Measurement', without change except for financial liabilities that are designated at fair value through statement of changes in net assets available for benefits. Under the new standard, entities with financial liabilities at fair value through statement of changes in net assets available for benefits recognise changes in the liability's credit risk directly in statement of changes in net assets available for benefits.

While adoption of IFRS 9 is mandatory, earlier adoption is permitted. The Trustees are considering the implications of the Standard, the impact on the Scheme and the timing of its adoption by the Scheme.

b) Contributions receivable

Current service and other contributions are accounted for in the period in which they fall due.

c) Benefits payable

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

d) 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.
- iii) Rental income from operating leases is recognised on a straight-line basis over the lease term.

e) Motor vehicles and equipment

All motor vehicles and equipment are initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the scheme and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Notes (continued)

1 Summary of significant accounting policies (continued)

e) Motor vehicles and equipment (continued)

Depreciation is calculated on the straight line basis to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

Motor vehicles	- over 4 years
Equipment	- over 5 years

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of motor vehicles and equipment are determined by reference to their carrying amount and are taken into account in determining net return on investments.

f) Income Tax expense

The scheme has been approved by the Kenya Revenue Authority and is exempt from income tax on its investment income.

g) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, are classified as investment properties.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the Scheme and the cost can be reliably measured. This is usually the day when all risks are transferred.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the Scheme and the cost can be reliably measured. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. After initial recognition investment property is carried at fair value. Fair value is based on open market value, necessary for any adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

Valuations are performed every three years as required as required by the Retirement Benefits Act by professional independent valuers who hold recognised and relevant professional qualifications.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Notes (continued)

1 Summary of significant accounting policies (continued)

Investment property (continued)

Changes in fair values are recognised in the statement of changes in net assets available for for benefit in the year in which they arise. Investment properties are derecognised when they have been disposed. disposed.

Where the Scheme disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded the statement of changes in net assets available for benefit.

h) Foreign currency translation

Functional and presentation currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the Scheme operates (the "functional currency"). The financial statements are presented in Kenya Shillings (Shs) which is the Scheme's functional currency.

Transactions and balances

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of changes in net assets available for benefits.

i) Financial instruments

The Scheme classifies its financial assets in the following categories: financial assets at fair value through provisions of the instrument. Management determines all classification of financial assets at initial recognition.

Financial assets carried at fair value through statement of changes in net assets available for benefits are initially recognised at fair value, and transaction costs are expensed. These financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the scheme has transferred substantially all risks and rewards of ownership.

Gains and losses arising from of the financial assets through statement of changes in net assets available for benefits are recognised in the statement of changes in net assets available for benefits.

The fair values of quoted investments are based on current market prices. If the market for an (and for unlisted securities), the trustees establish fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are other instruments that are substantially the same and discounted cash flow analysis refined to reflect the issuer's specific circumstances.

Receivables are carried at amortised cost using the effective interest rate method.

Notes (continued)

1 Summary of significant accounting policies (continued)

i) Financial instruments (continued)

Financial liabilities

The scheme's financial liabilities which includes payables fall into the category: financial liabilities measured at amortised cost. They are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

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

Financial liabilities are derecognised when, and only when, the scheme's obligations are discharged, cancelled or expired. Benefits payable and other liabilities are classified as financial liabilities.

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.

j) Cash and cash equivalents

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

Notes (continued)

2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. In particular, critical estimates are made by the Trustees in determining the fair value of investments that are not traded in an active market. The scheme has invested in unquoted shares and offshore funds that are not traded in an active market. The carrying value of the unquoted shares is Shs 4,295,695,000 (2012: 3,281,586,000) and the carrying value of the offshore funds is Shs 570,493,000 (2012: 284,143,000). The trustees establish fair value by using recent arm's length transactions and market value basis for unquoted shares and offshore funds respectively.

IFRS requires that the Scheme adopts accounting policies and estimation techniques that the Trustee believes are most appropriate in the circumstances for the purpose of giving a true and fair view of the state of the Scheme's financial affairs, its change in net assets and cash flows. However, different policies, estimation techniques and assumptions in critical areas could lead to materially different results.

The following are estimates which are considered to be complex and involve significant amount of management valuation judgements, often in areas that are inherently uncertain.

(i) Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Scheme's financial instruments are carried at fair value.

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. These models use as their basis independently sourced market parameters including for example interest rate yield curves. Most market parameters are either directly observable or are implied from instrument prices. However, where no observable price is available then instrument fair value will include provision for the uncertainty in the market parameter based on sale price or subsequent traded levels.

(ii) Valuation of investment property

Investment property comprises buildings. It is carried at fair value. Fair value is based on annual valuations performed by independent valuation experts. The valuation experts use valuation methods such as cost approach, comparable sales approach and income or investment approach to value methods. These methods require judgement as to the various assumptions e.g. continued high demand for rental space, rent will continue to increase for the foreseeable future and the buildings will continue to attract high quality tenants with a good ability to pay the rents demanded.

Notes (continued)

2 Critical accounting estimates and judgements

Statistical assumptions

The principal statistical assumptions used in the valuation concern age and take into account age, rates of withdrawal from service, retirement on grounds of age or ill-health, mortality both in service and after retirement and salary increases awarded on grounds of increasing age and responsibility.

Financial assumptions

The principal financial assumptions which are required in order to carry out the valuation calculation are the valuation rate of interest, the assumed general rate at which salaries will increase and the allowance to be made for future pension increases. In carrying out an actuarial valuation, the relationship between these economic assumptions is more important than the absolute level.

3 Financial risk management objectives and policies

The Scheme's activities expose it to a variety of financial risks, market risk (including foreign exchange risk, 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 its financial performance, but the Fund does not hedge any risks.

Market risk

(i) Foreign exchange risk

The Scheme is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to investments in offshore funds and equities denominated in US dollars and Uganda shilling.

At 31 December 2013, if the Kenya Shilling had weakened/strengthened by 10% (2012: 10%) against the US dollar with all other variables held constant, the 'increase in net assets available for benefits' for the year would have been Shs 57,049,242 (2012: Shs 15,707,991) higher/lower.

At 31 December 2013, if the Kenya Shilling had weakened/strengthened by 10% (2012: 10%) against the Uganda Shilling with all other variables held constant, the 'increase in net assets available for benefits' for the year would have been Shs 19,798,908 (2012: shs 29,573,670) higher/lower.

(ii) Interest rate risk

The Scheme's investments in variable rate corporate bonds and bank deposits expose it to cash flow interest rate risk and its 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, fixed rate int₂ and variable rate interest investments. The Scheme has no interest bearing liabilities.

At 31 December 2013, an increase/decrease in interest rates of 100 basis points (2012: 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 70,099,427 (2012: Shs 72,276,642), arising substantially from the change in market value of debt securities.

(iii) Price risk

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

Notes (continued)

Summary of significant accounting policies (continued)

3 Financial risk management objectives and policies (continued)

Market risk (continued)

(iii) Price risk (continued)

At 31 December 2013, 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 426,616,704 (2012: Shs 445,333,144) higher/lower.

Credit risk

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

No collateral is held for any of the above assets.

The amount that best represents the Scheme's maximum exposure to credit as at 31 December 2013 and 2012 is as disclosed in note 13,14,15 and 16.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated benefit payments. The trustees agree with the investment manager on the amount to be invested in assets that can be easily liquidated.

The maturity analysis of financial liabilities is disclosed in note 17.

Fair value estimation

The carrying amounts of all financial assets and liabilities at the reporting date approximate their fair values.

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Notes (continued)

3 Financial risk management objectives and policies (continued)

The following table presents the Scheme's assets that are measured at fair value at 31 December 2013:

Fair value estimation (continued)

	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Total Shs '000
Shares				
- Quoted shares	4,266,167	-	-	4,266,167
- Unquoted shares	-	29,528	70,000	99,528
- Offshore investments	-	570,493	-	570,493
Kenya government securities	-	6,375,221	-	6,375,221
Commercial paper and corporate bonds	-	1,235,181	-	1,235,181
	4,266,167	8,210,423	70,000	12,546,590

The following table presents the Fund's assets that are measured at fair value at 31 December 2012:

	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Total Shs '000
Shares				
- Quoted shares	-	35,700	-	35,700
- Unquoted shares	-	3,245,886	-	3,245,886
- Offshore investments	-	284,143	-	284,143
Kenya government securities	-	5,749,873	-	5,749,873
Commercial paper and corporate bonds	-	1,050,299	-	1,050,299
	-	10,365,901	-	10,365,901

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 an arm's length basis. The quoted market price used for financial assets held by the Fund is the current market price. These instruments are included in level 1.

Notes (continued)

3 Financial risk management objectives and policies (continued)

Fair value estimation (continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques such as discounted cash flow 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

The capital of the Scheme is represented by the net assets available for benefits. The Scheme's objective when managing capital is to safeguard the Scheme's ability to continue as a going concern in order to provide benefits for members and maintain a strong capital base to support the development of the investment activities of the Scheme.

In order to maintain or adjust the capital structure, the Scheme's policy is to monitor the level of monthly subscriptions and redemptions relative to the assets it expects to be able to liquidate.

The Trustees monitor capital on the basis of the value of net assets attributable to members. To achieve optimal return from the Scheme's assets, the Trustee has formulated investment policies which set benchmarks upon which the investment manager is monitored.

Capital risk management

The capital of the Scheme is represented by the net assets available for benefits. The Scheme's objective when managing capital is to safeguard the Scheme's ability to continue as a going concern in order to provide benefits for members and maintain a strong capital base to support the development of the investment activities of the Scheme.

In order to maintain or adjust the capital structure, the Scheme's policy is to monitor the level of monthly subscriptions and redemptions relative to the assets it expects to be able to liquidate.

The Trustees monitor capital on the basis of the value of net assets attributable to members. To achieve optimal return from the Scheme's assets, the Trustees has formulated investment policies which set benchmarks upon which the investment manager is monitored.

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Notes (continued)

4 Contributions received	2013 Shs '000	2012 Shs '000
Employer's contributions	245,237	1,034,361
Employees' contributions	81,745	208,793
	<u>326,982</u>	<u>1,243,154</u>

5 Additional contributions received and receivable

Analysed as follows:

Contributions in cash	240,000	650,000
Transfer of investment properties (Note 11)	708,209	-
	<u>948,209</u>	<u>650,000</u>

In line with the remedial plan agreed between the scheme, the sponsor and the Retirement Benefits Authority, the sponsor has made additional contributions during the year to reduce the actuarial deficit.

6 Benefits payable and paid	2013 Shs '000	2012 Shs '000
Monthly pension payments	741,270	787,798
Lump sum retirement benefits	52,299	40,214
Death benefits	40,199	31,386
	<u>833,768</u>	<u>859,398</u>

7 Investment income

Gross rental income	307,009	300,498
Less: direct rental expenses	(181,006)	(157,201)
	<u>126,003</u>	<u>143,297</u>
Dividends receivable on shares (Kenya and offshore)	140,839	124,428
Interest and discounts receivable on Government securities, Commercial paper and corporate bonds, and fixed deposits	877,807	853,292
Miscellaneous (expense)/ income	(3,340)	3,639
	<u>1,141,309</u>	<u>1,124,656</u>

Notes (continued)

8 Profit/(loss) on disposal of financial assets	2013	2012
	Shs '000	Shs '000
Sale proceeds on disposal of financial assets	3,452,447	280,093
Fair value of financial assets disposed (Note 13)	(3,358,328)	(291,562)
	<hr/>	<hr/>
Profit/(loss) on disposal of financial assets	94,119	(11,469)
	<hr/> <hr/>	<hr/> <hr/>
 9 Investment management expenses		
Fund managers fees	42,287	42,657
Custodian fees	9,303	10,329
	<hr/>	<hr/>
	51,590	52,986
	<hr/> <hr/>	<hr/> <hr/>
 10 Administrative expenses		
Trustees' fees and expenses	25,592	20,720
Administration expenses	5,811	1,228
Audit fees	2,196	2,014
Legal and professional fees	4,769	5,181
Actuarial fees	964	945
RBA levy	5,000	5,000
Repairs and maintenance	4,316	-
Depreciation on motor vehicle and equipment	120	587
Advertising expenses	1,430	1,083
Bad debts written off	-	1,654
Motor vehicle expenses	772	555
Other expenses	300	-
	<hr/>	<hr/>
	51,270	38,967
	<hr/> <hr/>	<hr/> <hr/>

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Notes (continued)

10 Administrative expenses (continued)

In accordance with the Trust Deed, some administrative expenses including pension staff remuneration, communication, stationery and other office facilities are provided for by the sponsor as below:

	2013 Shs '000	2012 Shs '000
Pension staff remuneration	47,281	29,768
Office administration expenses	3,975	7,892
	<hr/>	<hr/>
	51,256	37,660
	<hr/> <hr/>	<hr/> <hr/>

11 Investment properties

	2013 Shs '000	2012 Shs '000
At start of year	3,876,591	3,876,591
Transfer from the sponsor (Note 5)	708,209	-
Reclassification of property under development to receivables (Note 15)	(384,091)	-
Fair value gain	4,548,166	-
	<hr/>	<hr/>
At end of year	8,748,875	3,876,591
	<hr/> <hr/>	<hr/> <hr/>

Investment properties were professionally valued in 2013 by Gimco Ltd, Kiragu and Mwangi Ltd, NW Realite Ltd and Mugi Property Consultants Ltd, independent registered valuers. Valuations were based on open market value.

Titles to the properties transferred from the sponsor are registered in the scheme's name. All other documents of title are in the name of Kenya Commercial Bank Nominees Limited as custodian trustee of Kenya Cargo Handling Services Limited Staff Pension Scheme and are in the process of being transferred to Kenya Ports Authority Pension Scheme.

Notes (continued)

12 Motor vehicles and equipment

Year ended 31 December 2013

	Computer Shs '000	Equipment Shs '000	Motor vehicles Shs '000	Total Shs '000
Cost				
At start of year	593	840	3,716	5,149
At end of year	593	840	3,716	5,149
Depreciation				
At start of year	370	648	3,716	4,734
Charge for the year	67	53	-	120
At end of year	437	701	3,716	4,854
Net book value	156	139	-	295

Year ended 31 December 2012

	Computer Shs '000	Equipment Shs '000	Motor vehicles Shs '000	Total Shs '000
Cost				
At start of year	593	625	3,716	4,934
Additions	-	215	-	215
At end of year	593	840	3,716	5,149
Depreciation				
At start of year	303	595	3,249	4,147
Charge for the year	67	53	467	587
At end of year	370	648	3,716	4,734
Net book value	223	192	-	415

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Notes (continued)

13 Financial assets

Year ended 31 December 2013

	Value at start of year	Purchases at cost	Disposals/ maturity at carrying value	Change in fair value	Value at end of year
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Shares					
- Unquoted investments	-	70,000	-	-	70,000
- Local and foreign	3,281,585	458,291	(475,411)	1,031,230	4,295,695
- Offshore investments	284,143	552,309	(324,958)	58,999	570,493
Kenya government securities	5,749,873	2,996,461	(2,412,399)	41,286	6,375,221
Commercial paper and corporate bonds	1,050,299	312,737	(145,560)	17,705	1,235,181
	10,365,900	4,389,798	(3,358,328)	1,149,220	12,546,590

Year ended 31 December 2012

	Value at start of year	Purchases at cost	Disposals/ maturity at carrying value	Change in fair value	Value at end of year
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Shares					
- Local and foreign	1,967,914	563,693	(167,077)	917,056	3,281,586
- Offshore investments	252,942	119,031	(124,485)	36,655	284,143
Kenya government securities	4,080,583	2,678,164	(1,477,830)	468,956	5,749,873
Commercial paper and corporate bonds	861,875	230,459	(78,137)	36,102	1,050,299
	7,163,314	3,591,347	(1,847,529)	1,458,769	10,365,901

Fair value is determined by reference to quoted prices in active markets.

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

	2013 %	2012 %
Kenya government securities	10	14
Commercial paper and corporate bonds	9	13

The scheme does not hold any single financial asset exceeding 5% of the net assets of the scheme except for:

	2013 %	2012 %
Shares (Kenya and offshore)	22	23
Kenya government securities	28	36
Fixed and time deposits	5	9
Commercial paper and corporate bonds	5	7

14 Contributions receivable

Employer contribution receivable

Outstanding for not more than 30 days

	2013 Shs '000	2012 Shs '000
Outstanding for not more than 30 days	22,073	101,408

Notes (continued)

15 Receivables and accrued income	2013	2012
	Shs '000	Shs '000
Gross rent receivables	75,600	70,331
Less provision for bad debts	(30,807)	(30,807)
Net rent receivables	<u>44,793</u>	<u>39,524</u>
Bellevue project	76,407	68,393
Receivables under development properties (Note 11)	384,091	-
Advances to projects	140,000	-
Deposits	3,300	3,300
Other receivables	12,504	6,386
	<u>661,095</u>	<u>117,603</u>
	<u><u>661,095</u></u>	<u><u>117,603</u></u>

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

16 Cash and cash equivalents	2013	2012
	Shs '000	Shs '000
Cash at bank	132,058	154,795
Fixed and time deposits	1,124,123	1,362,114
	<u>1,256,181</u>	<u>1,516,909</u>
	<u><u>1,256,181</u></u>	<u><u>1,516,909</u></u>

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

17 Payables and accrued expenses	2013	2012
	Shs '000	Shs '000
Rent deposits	18,614	20,222
Accrued expenses	16,736	14,670
RBA levy	5,000	5,000
Nairobi project	87,951	87,951
Bombolulu project	48,220	48,220
Other payables	-	36,340
	<u>176,521</u>	<u>212,403</u>
Total other payables and accrued expenses	<u><u>176,521</u></u>	<u><u>212,403</u></u>

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

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Kenya Ports Authority Pension Scheme
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Notes (continued)

17 Payables and accrued expenses (continued)

The maturity analysis of other payables and accrued expenses is as follows:

Year ended 31 December 2013

	Less than 1 year Shs '000	Over 1 year Shs '000	Total Shs '000
Rent deposits		18,614	18,614
Accrued expenses	16,736	-	16,736
RBA levy	5,000	-	5,000
Other payables	-	136,171	136,171
	21,736	154,785	176,521
	21,736	154,785	176,521

Year ended 31 December 2012

	Less than 1 year Shs '000	Over 1 year Shs '000	Total Shs '000
Rent deposits	-	20,222	20,222
Accrued expenses	14,670	-	14,670
RBA levy	5,000	-	5,000
Other payables	36,340	136,171	172,511
	56,010	156,393	212,403
	56,010	156,393	212,403

18 Related party transactions and balances

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

The following transactions were carried out with related parties during the year:

	Shs '000	Shs '000
- cash contributions received from the sponsor (for the year)	485,237	1,684,361
- contributions receivable from the sponsor (balance outstanding)	22,073	101,408
- investment properties transferred from the sponsor (during the year)	708,209	-
- administration expenses paid by the sponsor	51,256	37,660
	1,266,775	1,823,429
	1,266,775	1,823,429

Notes (continued)

19 Contingent liabilities

Other than the liability to pay future pensions and other benefits, there were no contingent liabilities of the scheme at 31 December 2013, except as disclosed below:

The scheme is a defendant/plaintiff in various legal actions. Although there can be no absolute assurances, the trustees believe, based on information currently available, that the ultimate resolution of these legal proceedings is not likely to have a material adverse effect on the results of its operations, financial position or liquidity.

20 Actuarial position

The last actuarial valuation was carried out as at 31 December 2012 in November 2013 by Alexander Forbes Financial Services (East Africa) Limited, an independent firm of actuaries, using the projected unit credit method. According to the valuation at that date, the actuarial present value of promised benefits was as follows:

	Shs '000
Vested benefits	6,175
Non vested benefits	<u>12,004</u>
Total	<u><u>18,179</u></u>

The fair value of the net assets available for benefits at that date was Shs 15,755 million resulting in a deficit of Shs 2,808 million.

The principal actuarial assumptions used were as follows:

- discount rate	10%
- future salary increases	8%
- future pension increases	-

A statutory remedial plan to reduce the actuarial deficit that achieved a funding level of 84.9% expired in 2012. Based on this remedial plan, cash contributions of Shs 240 million (2012: Shs 650 million) and properties valued at Shs 708 million (2012: Nil) were made and transferred to the scheme by the sponsor.

A new remedial plan is to be put in place.

21 Tax status of the scheme

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

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Notes (continued)

22 General information

The Kenya Ports Authority Pension Scheme was established by an original Trust Deed which became operational on 1 January 1998. The original Trust Deed was amended effective from 1 July 2002. The scheme which is registered under the Income Tax (Retirement Benefits) Rules incorporates predecessor schemes, namely the East Africa Cargo Handling Services Limited Staff Pension Scheme and the Kenya Cargo Handling Services Limited Staff Pension Scheme in whose books of account, the assets and liabilities are maintained by the trustees. The trustees are in the process of effecting the necessary legal transfers of the assets and liabilities.
