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**KENYA PORTS AUTHORITY PENSION SCHEME  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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## **SCHEME INFORMATION**

### **TRUSTEES**

1. Mr. V. M. Wa-Kayanda - Chairman
2. Mr. F. G. Ndua
3. Mrs. K. Karim
4. Mr. Harrison Lusigi
5. Mr. Moses Otieno
6. Mr. Maurice Munyao
7. Mr. J. O. Nyarandi
8. Ms. Catherine Mturi-wairi
9. Mr. Amani Y. Komora

### **CUSTODIAN TRUSTEE**

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

### **CUSTODIANS**

CfC Stanbic Custody Division  
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**

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

**PROPERTY MANAGEMENT AGENTS**

- |   |  |
|---|--|
| 1. N. W. Realite Limited<br>P. O. Box 2211 - 00202<br>Nairobi             | 3. Kiragu & Mwangi Ltd<br>P. O. Box 10169 - 00100<br>Nairobi |
| 2. Lustman & Company (1990) Limited<br>P. O. Box 46849 - 00100<br>Nairobi | 4. Gimco Ltd<br>P. O. Box 61551 - 00200<br>Nairobi           |

**LAWYERS**

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

**BANKERS**

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

**REGISTERED OFFICE**

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

**REPORT OF THE TRUSTEES**

The trustees present their report together with the audited financial statements for the year ended 31 December 2014.

**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 a tax 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 22.5% of employees' pensionable salaries.

**SCHEME MEMBERSHIP**

	<b>2014 Number</b>	<b>2013 Number</b>
<b>Total Members</b>		
Contributing members	1,534	1,619
Non-contributing members	3,207	3,234
Pensioners	3,954	4,157
Pension beneficiaries	<u>775</u>	<u>836</u>
	<u>9,470</u>	<u>9,846</u>
 <b>Contributing members</b>		
At start of year	1,619	1,647
Add: Joiners	-	-
Less: Retired with pension	(57)	(28)
Died in service	(4)	-
Other secessionists	<u>(24)</u>	<u>-</u>
At end of year	<u>1,534</u>	<u>1,619</u>
 <b>Pensioners and pension beneficiaries</b>		
At start of year	4,993	4,970
<b>Add:</b> Contributing members who retired	93	17
Widows, widowers and dependants pension becoming payable	(127)	200
<b>Less:</b> Ceased pensions after five year - widows and widowers	<u>(230)</u>	<u>(194)</u>
At end of year	<u>4,729</u>	<u>4,993</u>

**REPORT OF THE TRUSTEES (CONTINUED)**

**FINANCIAL REVIEW**

	2014 Shs '000	2013 Shs '000
<b>Net assets</b>		
At start of year	23,026,644	15,755,267
Increase in net assets during the year	<u>1,211,052</u>	<u>7,271,377</u>
At end of year	<u><u>24,237,696</u></u>	<u><u>23,026,644</u></u>

**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 funds. The overall responsibility for investment and performance of funds lies with the trustees.

**TRUSTEES**

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

**EXPENSES**

Some costs of administration and management of the scheme are borne by Kenya Ports Authority.

**TAXATION**

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

**INDEPENDENT AUDITOR**

The scheme's auditor, PKF Kenya was appointed during the year and continues in accordance with the Section 29 of the Retirement Benefit Act.

**BY ORDER OF THE BOARD OF TRUSTEES**

  
CHAIRMAN  
MOMBASA

29 June - 2015

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**STATEMENT OF TRUSTEES' RESPONSIBILITIES**

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


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

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

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

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

Approved by the board of trustees on 29 June 2015 and signed on its behalf by:

  
CHAIRMAN

  
TRUSTEE

**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 set out on pages 7 to 25 which comprise the statement of net assets available for benefits as at 31 December 2014 and the statement of changes in net assets available for benefits, statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

**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 requirements of the Retirement Benefits Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

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

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

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

**Opinion**

In our opinion, proper books of account have been kept and the financial statements which are in agreement therewith give a true and fair view of the financial transactions of the scheme during the year ended 31 December 2014 and of the disposition at that date of its assets and liabilities and are in compliance with International Financial Reporting Standards and the Retirement Benefits Act 1997.

*PKF Kenya*

**Certified Public Accountants  
Mombasa**

29-06- 2015

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

373/2015

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

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

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

	Notes	2014 Shs '000	2013 Shs '000
<b>Income from dealings with members</b>			
Contributions received in the year	2	309,981	326,982
Additional contributions received from the sponsor to reduce actuarial deficit	3	<u>240,000</u>	<u>948,209</u>
		<u>549,981</u>	<u>1,275,191</u>
<b>Outgoings from dealings with members</b>			
Benefits payable and paid	4	<u>(1,326,858)</u>	<u>(833,768)</u>
<b>Net (reduction)/addition from dealings with members</b>		<u>(776,877)</u>	<u>441,423</u>
<b>Returns on investments</b>			
Investment income	5	1,349,819	1,141,309
Profit on disposal of financial assets	6	12,070	94,119
Changes in fair value of investment property		-	* 4,548,166 *
Changes in fair value of financial assets	11	739,007	* 1,149,220 *
Investment management expenses	7	(64,016)	(51,590)
Gain on disposal of motor vehicle		<u>716</u>	<u>-</u>
Net return on investments		<u>2,037,596</u>	<u>6,881,224</u>
Administrative expenses	8	<u>(49,667)</u>	<u>(51,270)</u>
<b>Increase in net assets for the year</b>		<u>1,211,052</u>	<u>7,271,377</u>
<b>Net assets available for benefits</b>			
At start of year		23,026,644	15,755,267
Increase in net assets for the year		<u>1,211,052</u>	<u>7,271,377</u>
At end of year		<u>24,237,696</u>	<u>23,026,644</u>

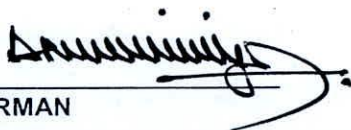
The notes on pages 10 - 25 form an integral part of these financial statements.

Report of the independent auditor - page 6.

**STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**

	Notes	As at 31 December	
		2014 Shs '000	2013 Shs '000
<b>Assets</b>			
Investment properties	9	8,748,575	8,748,575
Motor vehicle and equipments	10	2,613	295
Financial assets	11	13,808,718	12,686,590
Contributions receivable	12	-	22,073
Receivables and accrued income	13	573,130	521,095
Cash and cash equivalents	14	1,339,939	1,256,181
<b>Total assets</b>		<u>24,472,975</u>	<u>23,234,809</u>
<b>Less: liabilities</b>			
Payables and accrued expenses	15	<u>235,279</u>	<u>208,165</u>
<b>Net assets available for benefits</b>		<u>24,237,696</u>	<u>23,026,644</u>

The financial statements on pages 7 to 25 were approved and authorised for issue by the Board of Trustees on 29 June - 2015 and were signed on its behalf by:

  
 CHAIRMAN

  
 TRUSTEE

The notes on pages 10 - 25 form an integral part of these financial statements.

Report of the independent auditor - page 6.

**STATEMENT OF CASH FLOWS**

	Notes	2014 Shs '000	2013 Shs '000
<b>Operating activities</b>			
Reconciliation of increase in net assets to cash from operating activities:			
Increase in net assets (excluding fair value changes)		472,045	1,573,991
<b>Adjustments for:</b>			
Assets transferred from the sponsor		-	(708,209)
Depreciation of motor vehicles and equipment	10	1,128	120
Irrecoverable amounts expensed		-	300
Gain on disposal of motor vehicle		(716)	-
Gain on disposal of financial assets	6	(12,070)	(94,119)
		<u>460,387</u>	<u>772,083</u>
<b>Changes in:</b>			
Contributions receivable		22,073	79,335
Receivables and accrued income		(52,035)	(543,492)
Non-cash movements in other receivables		-	384,091
Payables and accrued expenses		<u>27,114</u>	<u>(15,394)</u>
Net cash from operating activities		<u>457,539</u>	<u>676,623</u>
<b>Investing activities</b>			
Cash paid for purchase of motor vehicle and equipments	10	(3,446)	-
Proceeds from disposal of motor vehicle		716	-
Purchase of financial assets	11	(3,325,001)	(4,389,798)
Proceeds from sale/maturity of financial assets	6	<u>2,953,950</u>	<u>3,452,447</u>
Net cash used in investing activities		<u>(373,781)</u>	<u>(937,351)</u>
<b>Increase/(decrease) in cash and cash equivalents</b>		<u><u>83,758</u></u>	<u><u>(260,728)</u></u>
<b>Movement in cash and cash equivalents</b>			
At start of year		1,256,181	1,516,909
Increase/(decrease)		<u>83,758</u>	<u>(260,728)</u>
At end of year	14	<u><u>1,339,939</u></u>	<u><u>1,256,181</u></u>

The notes on pages 10 - 25 form an integral part of these financial statements.

Report of the independent auditor - page 6.

## NOTES

### 1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

#### a) Basis of preparation

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

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

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

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

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

#### **New and amended standards adopted by the scheme**

The following new and revised Standards and Interpretations have been adopted in the current year. Unless otherwise disclosed, their adoption has had no material impact on the amounts reported in these financial statements:

- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities clarifying the meaning of current legal enforceable right of set off and simultaneous realisation and settlement.

#### **New standards, amendments and interpretations issued but not effective**

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

- IFRS 5 in respect of guidance on reclassifications which will be effective for the accounting periods beginning on or after 1 July 2016.

**NOTES (CONTINUED)**

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

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

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

- IFRS 7 in respect of guidance on service contracts representing continuing involvement in a transferred asset which will be effective for the accounting periods beginning on or after 1 July 2016.
- IFRS 9 in respect of Financial Instruments which will be effective for the accounting periods beginning on or after 1 January 2018.
- IFRS 14 in respect of Regulatory Deferral Accounts which will be effective for accounting periods beginning on or after 1 January 2016.
- IFRS 15 in respect of Revenue from Contracts with Customers which will be effective for accounting periods beginning on or after 1 January 2017.
- Amendments to IAS 16 and IAS 38 in respect of Clarification of Acceptable Methods of Depreciation and Amortisation which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 41 in respect of Bearer Plants which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IAS 19 in respect of Defined Benefit Plans: Employee Contributions which will be effective for accounting periods beginning on or after 1 July 2014.
- Annual improvements to IFRS's which will be effective for accounting periods beginning on or after 1 July 2014 as follows:
  - IFRS 2 - Definition of vesting conditions
  - IFRS 3 - accounting for contingent consideration in a business combination
  - IFRS 8 - Aggregation of operating segments and reconciliation of total reportable segment assets to entity's assets
  - IFRS 13 - Carrying of short term receivables and payables at invoiced amounts
  - IAS 16 and IAS 38 - Proportionate restatement of depreciation/amortisation accumulated on revaluation
  - IAS 24 - Management fee paid to a management entity
  - IFRS 3 - Scope exclusions for joint ventures
  - IAS 40 - Application of IAS 40 vs. IFRS 3 on acquisition of investment property

The trustees expect that the future adoption of IFRS 9 and IFRS 15 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The trustees do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates noted above.

**b) 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.

**NOTES (CONTINUED)**

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

**d) 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.
- iii) Rental income is recognised in the period in which it is earned.

**e) Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at rates ruling at the transaction dates. At the end of each reporting period, items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are in the statements of changes in net assets available for benefits.

**f) Motor vehicle and equipments**

All motor vehicle and equipments 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 company 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.

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 vehicle	- over 4 years
Equipments	- over 5 years

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

**NOTES (CONTINUED)**

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

**g) Investment property**

Investment property is carried at fair value representing open market value. Fair value is determined every three years by external independent valuers as required by the Retirement Benefits Act. Investment properties are not subject to depreciation. Changes in the carrying amount between reporting dates are processed through the statement of changes in net assets.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of changes in net assets.

Repairs and maintenance expenses in respect of investment property are charged to income in the period in which the expense is incurred.

**h) Financial instruments**

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

**- Financial assets**

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

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

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

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

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

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the scheme's fund managers commit to purchase or sell the asset.

Financial assets 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 in the statement of changes in net assets.

Financial assets are derecognised when the rights to receive cash and cash flows from the investments have expired or have been transferred and the scheme has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

**NOTES (CONTINUED)**

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

**h) Financial instruments (continued)**

**- Financial assets (continued)**

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in statement of changes in net assets available for benefits under administrative expenses when there is objective evidence that the company will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

The amount of the impairment loss is calculated at the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Impairment losses are recognised in statement of changes in net assets available for benefits.

Subsequent recoveries of amounts previously written off/impaired are credited to changes in net assets available for benefits.

Gains and losses on disposal of assets whose changes in fair value were initially recognised in statement of changes in net assets available for benefits are determined by reference to their carrying amount and are taken into account in determining changes in net assets available for benefits.

Trustees classify investments as follows:

Quoted shares, government securities, corporate bonds and commercial paper are classified as available-for-sale financial instruments. The fair values of quoted shares are based on current bid prices at the reporting date.

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

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Impairment losses are taken into account for determining increase/decrease in net assets for the year.

Trustees classify investments as follows:

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

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

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

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

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

**NOTES (CONTINUED)**

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

**h) Financial instruments (continued)**

**- Financial liabilities**

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

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

Payables are initially recognised at fair value and are subsequently stated at amortised cost.

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

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

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

**Offsetting financial instruments**

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

**i) 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.

**j) Taxation**

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

**k) Comparatives**

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

**NOTES (CONTINUED)**

2. Contributions received	2014 Shs '000	2013 Shs '000
Employer's contributions at 22.5%	232,486	245,237
Employees' contributions at 7.5%	<u>77,495</u>	<u>81,745</u>
	<u>309,981</u>	<u>326,982</u>
<b>3. Additional contributions received from the sponsor to reduce actuarial deficit</b>		
Analysed as follows:		
Contributions in cash	240,000	240,000
Transfer of investment properties	<u>-</u>	<u>708,209</u>
	<u>240,000</u>	<u>948,209</u>
In line with the remedial plan agreed between the scheme, the employer and the Retirement Benefits Authority, the employer has made additional contributions during the year.		
4. Benefits payable and paid	2014 Shs '000	2013 Shs '000
Monthly pensions	1,283,124	741,270
Lump sum	24,795	52,299
Death benefits	<u>18,939</u>	<u>40,199</u>
	<u>1,326,858</u>	<u>833,768</u>
<b>5. Investment income</b>		
Gross rental income	358,783	307,009
Less: direct rental expenses	<u>(182,709)</u>	<u>(181,006)</u>
	176,074	126,003
Dividends receivable on quoted shares (Kenya and offshore)	150,107	140,839
Interest and discounts receivable on Kenya Government securities, commercial paper and corporate bonds, and loans and receivables	993,098	877,807
Miscellaneous income/(expense)	<u>30,540</u>	<u>(3,340)</u>
	<u>1,349,819</u>	<u>1,141,309</u>
<b>6. Gain on disposal of financial assets</b>		
Sale proceeds on disposal of financial assets	2,953,950	3,452,447
Fair value of financial assets disposed	<u>(2,941,880)</u>	<u>(3,358,328)</u>
	<u>12,070</u>	<u>94,119</u>

**NOTES (CONTINUED)**

<b>7. Investment management expenses</b>	<b>2014 Shs '000</b>	<b>2013 Shs '000</b>
Fund managers' fees	34,773	42,287
Custodian's fees	29,243	9,303
	<u>64,016</u>	<u>51,590</u>

<b>8. Administrative expenses</b>		
Trustees' fees and meeting expenses	16,804	25,592
Administration and processing:		
- Printing and stationery, postage, internet and telephone	1,794	1,705
- Pensioners' bank cheques, charges and commissions	445	318
- Fund master license and system upgrades	332	-
- Census	-	3,788
Audit fees:		
- current year	2,000	2,196
- underprovision in prior year	153	-
Legal and professional fees	8,852	4,769
Accountancy fees	2,681	-
Repairs and maintenance	9,297	4,316
Actuarial fees	-	964
RBA levy	5,000	5,000
Depreciation on motor vehicle and equipments	1,128	120
Advertising	792	1,430
Other expenses	159	300
Motor vehicle expenses	230	772
	<u>49,667</u>	<u>51,270</u>

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

	<b>2014 Shs '000</b>	<b>2013 Shs '000</b>
Pension staff remuneration	47,981	47,281
Office administration expenses	2,011	3,975
	<u>49,992</u>	<u>51,256</u>

<b>9. Investment properties</b>		
At start of year	8,748,575	3,876,291
Transfer from the sponsor	-	708,209
Reclassification of property under development to receivables	-	(384,091)
Fair value gain	-	4,548,166
At end of year	<u>8,748,575</u>	<u>8,748,575</u>

**NOTES (CONTINUED)**

**9. Investment properties (continued)**

Investment properties were professionally valued in 2013 by Gimco Limited, Kiragu and Mwangi Limited, NW Realite Limited and Mugi Property Consultants Limited, independent registered valuers. The properties were valued on the basis of open market value. The book values of the properties were adjusted to the revaluations and the resultant surplus was credited to the statement of changes in net assets available for benefits.

In accordance with the requirements of the Retirement Benefits Act, valuations of investment properties are to be carried out every 3 years. The trustees are aware that the next valuation was due in 2016 and have undertaken to carry out a valuation in 2016 to ensure that it complies with the Retirements Benefit Act.

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.

Amounts included under the statement of changes in net amounts available for benefits which comprise gross rental income less direct rental expenses in respect of the investment properties are disclosed in Note 5.

The scheme leases out all its investment property under operating leases.

**10. Motor vehicles and equipment**

Year ended 31 December 2014

	Computers Shs '000	Equipments Shs '000	Motor vehicles Shs '000	Total Shs '000
<b>Cost</b>				
At start of year	593	840	3,716	5,149
Disposals	-	-	(3,716)	(3,716)
Additions	-	396	3,050	3,446
At end of year	593	1,236	3,050	4,879
<b>Depreciation</b>				
At start of year	437	701	3,716	4,854
Disposals	-	-	(3,716)	(3,716)
Charge for the year	119	247	762	1,128
At end of year	556	948	762	2,266
<b>Net book value</b>	<u>37</u>	<u>288</u>	<u>2,288</u>	<u>2,613</u>

NOTES (CONTINUED)

10. Motor vehicles and equipment (continued)

Year ended 31 December 2013

	Computers Shs '000	Equipments Shs '000	Motor vehicles Shs '000	Total Shs '000
<b>Cost</b>				
At start and end of year	593	840	3,716	5,149
<b>Depreciation</b>				
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
<b>Net book value</b>	156	139	-	295

11. Financial assets

Year ended 31 December 2014

	Value at start of year Shs '000	Purchases at cost Shs '000	Disposals/ maturity Shs '000	Change in fair value Shs '000	Value at end of year Shs '000
<b>Shares</b>					
- unquoted investments	210,000	-	(50,000)	-	160,000
- quoted shares (Kenya)	4,295,695	311,269	(239,328)	463,043	4,830,679
- quoted shares (offshore)	570,493	151,696	(143,534)	32,653	611,308
Kenya government securities	6,375,221	1,989,962	(2,095,374)	230,391	6,500,200
Commercial paper and corporate bonds	1,235,181	872,074	(413,644)	12,920	1,706,531
	<u>12,686,590</u>	<u>3,325,001</u>	<u>(2,941,880)</u>	<u>739,007</u>	<u>13,808,718</u>

Year ended 31 December 2013

<b>Shares</b>					
- unquoted investments	-	210,000	-	-	210,000
- quoted shares (Kenya)	3,281,585	458,291	(475,411)	1,031,230	4,295,695
- quoted shares (offshore)	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
	<u>10,365,900</u>	<u>4,529,798</u>	<u>(3,358,328)</u>	<u>1,149,220</u>	<u>12,686,590</u>

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:

	2014 %	2013 %
Kenya government securities	11	10
Commercial paper and corporate bonds	7.6 - 13	7.60 - 9

**NOTES (CONTINUED)**

12. Contributions receivable	2014 Shs '000	2013 Shs '000
<b>Employer contribution receivable</b>		
Outstanding for not more than 30 days	<u>-</u>	<u>22,073</u>
13. Receivables and accrued income		
Rent receivable	127,635	75,600
Less: Provision for bad debts	<u>(30,807)</u>	<u>(30,807)</u>
Net rent receivable	96,828	44,793
Other receivables	12,504	12,504
Receivables under development properties	384,091	384,091
Deposits	3,300	3,300
Belle Vue project	<u>76,407</u>	<u>76,407</u>
	<u>573,130</u>	<u>521,095</u>

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

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

The scheme's credit risk arises primarily from rent receivable. The trustees are of the opinion that the scheme's exposure is limited because the debt is widely held.

The other classes of receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The scheme does not hold any collateral as security.

14. Cash and cash equivalents	2014 Shs '000	2013 Shs '000
Cash at bank	163,406	132,058
Fixed and time deposits	<u>1,176,533</u>	<u>1,124,123</u>
	<u>1,339,939</u>	<u>1,256,181</u>

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

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

**NOTES (CONTINUED)**

15. Payables and accrued expenses	2014 Shs '000	2013 Shs '000
Rent deposits	19,900	18,614
Benefits payable	59,034	31,644
Accrued expenses	15,174	16,736
RBA levy	5,000	5,000
Nairobi project	87,951	87,951
Bombolulu project	48,220	48,220
<b>Total other payables and accrued expenses</b>	<b>235,279</b>	<b>208,165</b>

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

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

**Year ended 31 December 2014**

	3 to 12 months Shs '000	Over 1 year Shs '000	Total Shs '000
Rent deposits	-	19,900	19,900
Death benefits payable	59,034	-	59,034
Accrued expenses	15,174	-	15,174
RBA levy	5,000	-	5,000
Nairobi Project	-	87,951	87,951
Bombolulu project	-	48,220	48,220
	<b>79,208</b>	<b>156,071</b>	<b>235,279</b>

**Year ended 31 December 2013**

Rent deposits	-	18,614	18,614
Death benefits payable	31,644	-	31,644
Accrued expenses	16,736	-	16,736
RBA levy	5,000	-	5,000
Nairobi Project	-	87,951	87,951
Bombolulu project	-	48,220	48,220
	<b>53,380</b>	<b>154,785</b>	<b>208,165</b>

**16. Related party transactions and balances**

Related parties comprise the trustees, the administrator and the sponsor.

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

	2014 Shs '000	2013 Shs '000
- cash contributions received from the sponsor (for the year)	472,486	485,237
- contributions receivable from the sponsor (balance outstanding)	-	22,073
- investment properties transferred from the sponsor (during the year)	-	708,209
- administration expenses paid by the sponsor	49,992	51,256

**NOTES (CONTINUED)**

**17. Investments guidelines**

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

Category of asset	2014 %	2013 %	Maximum investment as per RBA %
Cash and demand deposits	1	1	5
Fixed and time deposits	5	5	30
Commercial paper and corporate bonds	7	5	15
Kenya Government securities	27	28	70
Shares - Kenya	20	20	70
Shares - offshore	3	2	15
Immoveable properties	<u>37</u>	<u>39</u>	<u>30</u>

The trustees are aware that investment in investment property is more than that stipulated in the Retirement Benefits Act and are working towards restructuring the scheme's investments portfolio to ensure that it complies with the Retirement Benefits Act.

**18. 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.

**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 2014, 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.

**NOTES (CONTINUED)**

**20. Actuarial position**

The last actuarial valuation was carried out as at 31 December 2013 in December 2014 by Alexander 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	6,511
Non vested benefits	<u>12,841</u>
<b>Total</b>	<u><u>19,352</u></u>

The fair value of the net assets available for benefits was Shs 23.027 resulting in a surplus of Shs 3.675 billion.

The principal actuarial assumptions used were as follows:

	% per annum
- discount rate	10
- future salary increases	8
- future pension increases	0

The sponsor commissions an actuarial valuation on an annual basis. The Retirement Benefits Authority requires an actuarial valuation at least once in every three years.

**21. Risk management objectives and policies**

**Financial risk management**

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 the scheme's financial performance.

Risk management is carried out by the fund managers appointed by the trustees. The trustees and fund managers identify, evaluate and hedge financial risks.

**a) Market risk**

*Foreign exchange risk*

A proportion of the scheme's financial assets are held in foreign currency. These comprise quoted shares held offshore as disclosed in Note 11.

Any fluctuation in the foreign exchange rate would have a direct impact on the carrying value of these financial assets.

*Interest rate risk*

A proportion of the scheme's financial assets which include Kenya Government securities, commercial papers and corporate bonds, and fixed and time deposits are interest earning assets.

If the interest rates varied during the year with other variables held constant, this would have a direct impact on the interest income earned during the year.

**NOTES (CONTINUED)**

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

**b) Price risk**

The scheme is exposed to equity securities price risk because of investments held by the scheme and classified on the statement of net assets available for benefits as 'Available-for-sale'.

To manage its price risk arising from investments in quoted equities, the fund managers diversify the portfolio. Diversification of the portfolio is done in accordance with the trustees and investment managers taking into account the investment guidelines set by the Retirement Benefits Authority.

**c) Credit risk**

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

**d) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities.

The scheme maintains adequate amounts of cash and cash equivalents to pay off liabilities (except for pension liabilities falling due after the balance sheet date) as they fall due. The actuarial position of the scheme which deals with the actuarial present value of promised benefits is disclosed in Note 20.

**e) Fair value measurements**

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

<b>Year ended 31 December 2014</b>	<b>Level 1 Shs '000</b>	<b>Level 2 Shs '000</b>	<b>Level 3 Shs '000</b>	<b>Totals Shs '000</b>
<b>Financial assets</b>				
<b>Shares</b>				
- unquoted investments	-	-	160,000	160,000
- quoted shares (Kenya)	4,830,679	-	-	4,830,679
- quoted shares (offshore)	-	611,308	-	611,308
Kenya government securities	-	6,500,200	-	6,500,200
Commercial paper and corporate bonds	-	1,706,531	-	1,706,531
	<u>4,830,679</u>	<u>8,818,039</u>	<u>160,000</u>	<u>13,808,718</u>

**NOTES (CONTINUED)**

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

Year ended 31 December 2013

	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Totals Shs '000
<b>Financial assets</b>				
Shares				
- unquoted investments	-	-	210,000	210,000
- quoted shares (Kenya)	4,295,695	-	-	4,295,695
- quoted shares (offshore)	-	570,493	-	570,493
Kenya government securities	-	6,375,221	-	6,375,221
Commercial paper and corporate bonds	-	1,235,181	-	1,235,181
	<u>4,295,695</u>	<u>8,180,895</u>	<u>210,000</u>	<u>12,686,590</u>

There have been no transfers between level 1, 2 and 3 in the year.

**21. 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 18.

The scheme sets the amount of the fund in proportion to risk. The scheme manages the fund structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The fund comprises members' funds.

**22. Presentation currency**

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

**23. 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.

Kenya Ports Authority Pension Scheme  
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**LISTING OF INVESTMENT PROPERTIES**

PROPERTY	LOCATION	2014 Shs '000	2013 Shs '000
Cannon Towers	Mombasa	688,000	688,000
Motor Mart Building	Mombasa	215,000	215,000
Rex House	Mombasa	145,000	145,000
Tudor Flats	Mombasa	140,400	140,400
Ganjoni Flats	Mombasa	105,000	105,000
Mwembe Tayari Flats	Mombasa	50,000	50,000
Plot XXV/86	Mombasa	140,000	140,000
Plot XXV/93	Mombasa	140,000	140,000
Bandari Plaza	Nairobi	550,000	550,000
Nyaku House	Nairobi	550,000	550,000
Siwaka Estate	Nairobi	652,000	652,000
Hurlingham Court	Nairobi	450,000	450,000
Plot L. R. No. 209/12015	Nairobi	110,000	110,000
Runda Plot	Nairobi	100,000	100,000
Tudor	Mombasa	92,875	92,875
Kizingo	Mombasa	497,000	497,000
Nyali	Mombasa	1,628,800	1,628,800
Mbaraki	Mombasa	335,200	335,200
Makande	Mombasa	268,200	268,200
Lotus Plot No Msa/62 & 63/XXVI	Mombasa	28,500	28,500
D. Kimathi Plot No Msa 185/XXVI	Mombasa	1,062,600	1,062,600
Belle Vue - Plot L. R. No. 209/12016	Nairobi	800,000	800,000
		<u>8,748,575</u>	<u>8,748,575</u>