

**KENYA PORTS AUTHORITY PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

RECEIVED
31 MAR 2017
Retirement Benefits
Authority

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SCHEME INFORMATION

TRUSTEES

1. Mr. Vincent Mnyika Wa-Kayanda - Chairman
2. Mr. Harrison Lusigi
3. Mr. Moses Otieno
4. Mr. Maurice Munyao
5. Mr. J.O. Nyarandi (Resigned on 29 February 2016)
6. Ms. Catherine Mturi-wairi
7. Mr. Amani Y. Komora
8. Mr. Valentine Mwakamba (Appointed on 31 March 2016)
9. Mr. Yobesh Oyaro (Appointed on 31 March 2016)

CUSTODIAN TRUSTEE

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

Mr. Stephen Kyandih
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. Britam Asset Manager (K) Limited
P. O. Box 30375 - 00100
Nairobi
2. African Alliance Kenya Investment Bank Limited
P. O. Box 27639 - 00506
Nairobi
3. Stanlib Kenya Limited
P. O. Box 30550 - 00100
Nairobi

SCHEME INFORMATION (CONTINUED)

INDEPENDENT AUDITOR

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

PROPERTY MANAGEMENT AGENTS

- | | |
|---|--|
| 1. Tyson Limited
P. O. Box 40228 - 00100
Nairobi | 3. Kiragu & Mwangi Ltd
P. O. Box 10169 - 00100
Nairobi |
| 2. Lustman & Company (1990) Limited
P. O. Box 46849 - 00100
Nairobi | 4. 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. Kenya
P. O. Box 83615 - 80100
Mombasa | 3. KCB Bank Kenya Limited
P. O. Box 90254 - 80100
Mombasa |
| 2. CfC Stanbic Bank Limited
P. O. Box 90131 - 80100
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 2016.

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

	2016 Number	2015 Number
Total Members		
Contributing members	1,296	1,373
Non-contributing members	3,074	3,187
Pensioners	4,078	3,912
Pension beneficiaries	729	713
	<u>9,177</u>	<u>9,185</u>
 Contributing members		
At start of year	1,373	1,529
Less: Retired with pension	(67)	(143)
Died in service	(8)	(11)
Other secessionists	(2)	(2)
	<u>1,296</u>	<u>1,373</u>
 Pensioners and pension beneficiaries		
At start of year	4,625	4,729
Add: Contributing members who retired	190	176
Widows, widowers and dependants pension becoming payable	147	(108)
Less: Ceased pensions after five year - widows and widowers	(155)	(172)
	<u>4,807</u>	<u>4,625</u>

REPORT OF THE TRUSTEES (CONTINUED)

FINANCIAL REVIEW

	2016 Shs '000	2015 Shs '000
Net assets		
At start of year	23,214,213	24,237,696
Increase/(decrease) in net assets during the year	<u>2,792,763</u>	<u>(1,023,483)</u>
At end of year	<u>26,006,976</u>	<u>23,214,213</u>

INVESTMENT OF FUNDS

Under the terms of their appointment the fund managers Britam Asset Manager (K) Limited, Stanlib Kenya Limited, African Alliance Kenya Investment Bank Limited are responsible for the investment of 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 continue in accordance with the Section 34 (3) of the Retirement Benefits Act, 1997.

BY ORDER OF THE BOARD OF TRUSTEES



CHAIRMAN
MOMBASA

29th March 2017

STATEMENT OF TRUSTEES' RESPONSIBILITIES

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

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

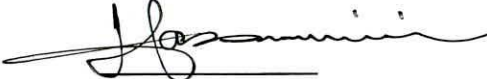
- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.

The Trustees are of the opinion that the financial statements give a true and fair view of the net assets available for benefits and changes in net assets available for benefits for the year then ended in accordance with the International Financial Reporting 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 29th March 2017 and signed on its behalf by:


CHAIRMAN


TRUSTEE

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

Opinion

We have audited the accompanying financial statements of Kenya Ports Authority Pension Scheme set out on pages 8 to 29 which comprise the statement of net assets available for benefits as at 31 December 2016 and the statement of changes in net assets available for benefits, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of Matter - Project balances

Included in receivables and payables are amounts of Shs 296,943,000 and Shs 136,171,000 respectively relating to completed property development projects undertaken by the scheme. On finalisation of the project audit reports, these balances would be extinguished and profit or loss arising from the projects recognised in the statement of changes in net assets available for benefits.

Our opinion is not qualified in respect of this matter.

Other information

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

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

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

Responsibilities of Trustees for the Financial Statements

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

.....continued on page 7

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

Responsibilities of Trustees for the Financial Statements (continued)

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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


Certified Public Accountants
Mombasa

30-Membh 2017

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

114/2017



KENYA PORTS AUTHORITY PENSION SCHEME
www.kpa.co.ke

**Kenya Ports Authority Pension Scheme Annual
report and financial statements
For the year ended 31 December 2016**

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Notes	2016 Shs '000	2015 Shs '000
Income from dealings with members			
Contributions received in the year	2	293,558	310,619
Additional contributions received from the sponsor to reduce actuarial deficit	3	-	100,000
		293,558	410,619
Outgoings from dealings with members			
Benefits payable and paid	4	(1,462,640)	(1,321,226)
Net reduction from dealings with members		(1,169,082)	(910,607)
Returns on investments			
Investment income	5	799,092	896,406
(Loss)/gain on disposal of financial assets	6	(31,442)	193,208
Fair value gain on investment properties	9	3,790,637	-
Changes in fair value of financial assets	11	(364,017)	(1,082,258)
Investment management expenses	7	(35,482)	(63,597)
Net return on investments		4,158,788	(56,241)
Administrative expenses	8	(196,943)	(56,635)
Increase/(decrease) in net assets for the year		2,792,763	(1,023,483)
Net assets available for benefits			
At start of year		23,214,213	24,237,696
Increase/(decrease)		2,792,763	(1,023,483)
At end of year		26,006,976	23,214,213

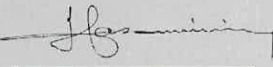
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STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

Assets			
Investment properties	9	12,539,212	8,748,575
Motor vehicle and equipment	10	9,459	3,804
Financial assets	11	12,161,877	12,954,831
Receivables and accrued income	12	621,646	662,910
Cash and cash equivalents	13	930,703	1,073,598
Total assets		26,262,897	23,443,718
Less: liabilities			
Payables and accrued expenses	14	255,921	229,505
Net assets available for benefits		26,006,976	23,214,213

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CHAIRMAN


TRUSTEE



STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Notes	2016 Shs '000	2015 Shs '000
Income from dealings with members			
Contributions received in the year	2	293,558	310,619
Additional contributions received from the sponsor to reduce actuarial deficit	3	-	100,000
		<u>293,558</u>	<u>410,619</u>
Outgoings from dealings with members			
Benefits payable and paid	4	<u>(1,462,640)</u>	<u>(1,321,226)</u>
Net reduction from dealings with members		<u>(1,169,082)</u>	<u>(910,607)</u>
Returns on investments			
Investment income	5	799,092	896,406
(Loss)/gain on disposal of financial assets	6	(31,442)	193,208
Fair value gain on investment properties	9	3,790,637	-
Changes in fair value of financial assets	11	(364,017)	(1,082,258)
Investment management expenses	7	<u>(35,482)</u>	<u>(63,597)</u>
Net return on investments		<u>4,158,788</u>	<u>(56,241)</u>
Administrative expenses	8	<u>(196,943)</u>	<u>(56,635)</u>
Increase/(decrease) in net assets for the year		<u><u>2,792,763</u></u>	<u><u>(1,023,483)</u></u>
Net assets available for benefits			
At start of year		23,214,213	24,237,696
Increase/(decrease)		<u>2,792,763</u>	<u>(1,023,483)</u>
At end of year		<u><u>26,006,976</u></u>	<u><u>23,214,213</u></u>

The notes on pages 10 - 29 form an integral part of these financial statements.

Report of the independent auditor - page 6 - 7.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

	Notes	As at 31 December	
		2016 Shs '000	2015 Shs '000
Assets			
Investment properties	9	12,539,212	8,748,575
Motor vehicle and equipments	10	9,459	3,804
Financial assets	11	12,161,877	12,954,831
Receivables and accrued income	12	621,646	662,910
Cash and cash equivalents	13	930,703	1,073,598
Total assets		<u>26,262,897</u>	<u>23,443,718</u>
Less: liabilities			
Payables and accrued expenses	14	<u>255,921</u>	<u>229,505</u>
Net assets available for benefits		<u>26,006,976</u>	<u>23,214,213</u>

The financial statements on pages 7 to 29 were approved and authorised for issue by the Board of Trustees on 29th March 2017 and were signed on its behalf by:


 CHAIRMAN


 TRUSTEE

The notes on pages 10 - 29 form an integral part of these financial statements.

Report of the independent auditor - page 6 - 7.

STATEMENT OF CASH FLOWS

	Notes	2016 Shs '000	2015 Shs '000
Operating activities			
Reconciliation of increase/(decrease) in net assets to cash from operating activities:			
(Decrease)/increase in net assets (excluding fair value changes)		(633,857)	58,775
Adjustments for:			
Depreciation of motor vehicles and equipment	10	3,543	1,685
Loss/(gain) on disposal of financial assets	6	31,442	(193,208)
		(598,872)	(132,748)
Changes in:			
Receivables and accrued income		41,264	(89,780)
Payables and accrued expenses		26,416	(5,774)
Net cash used in operating activities		(531,192)	(228,302)
Investing activities			
Cash paid for purchase of motor vehicle and equipments	10	(9,198)	(2,875)
Purchase of financial assets	11	(2,978,081)	(4,821,077)
Proceeds from sale/maturity of financial assets	6	3,375,576	4,785,913
Net cash from/(used in) investing activities		388,297	(38,039)
Decrease in cash and cash equivalents		(142,895)	(266,341)
Movement in cash and cash equivalents			
At start of year		1,073,598	1,339,939
Decrease		(142,895)	(266,341)
At end of year	13	930,703	1,073,598

The notes on pages 10 - 28 form an integral part of these financial statements.

Report of the independent auditor - page 6 - 7.

NOTES

1. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

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

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

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

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

Going concern

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

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

New and amended standards adopted by the scheme

A number of new and revised Standards and Interpretations have been adopted in the current year. Their adoption has had no material impact on the amounts reported in these financial statements.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

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:

- Amendments issued in January 2016 to IAS 7 'Statement of Cash Flows' to improve information provided about an entity's changes in liabilities from financing activities through disclosure (as applicable) of: (i) changes from financing cash flows; (ii) changes from obtaining cash flows; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair value; and (v) other charges. These amendments are effective for annual periods beginning on or after 1 January 2017.
- IFRS 9 'Financial Instruments' (Issued in July 2014) will replace IAS 39 and will be effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de-recognition.
- IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
- In respect of financial liabilities, the most significant effect of IFRS 9 where the fair value option is taken will be in respect of the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
- In respect of impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract.
- In respect of hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risks.
- IFRS 15 'Revenue from Contracts with Customers' (issued in May 2014) effective for annual periods beginning on or after 1 January 2018, replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition based on a five-step model to be applied to all contracts with customers, enhanced disclosures, and new or improved guidance.
- IFRS 16 'Leases' (issued in January 2016) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

NOTES (CONTINUED)

b) Key sources of estimation uncertainty

In the application of the accounting policies, the trustees are required to make the judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

In the application of the accounting policies, the trustees are required to make the judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The trustees have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- **Impairment of receivables and accrued income**- the scheme reviews their portfolio of receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cashflows expected.

- **Fair value measurement and valuation process** - In estimating the fair value of an asset or a liability, the trustees uses market-observable data to the extent it is available. Where level 1 inputs are not available, the trustees makes use of financial models or engages third party qualified values to perform the valuation and provide inputs to the model.

c) Significant judgements made by management in applying the scheme's accounting policies

Trustees have made the following judgements that are considered to have the most significant effect on the amounts recognised in the financial statements:

- **Held to maturity financial assets** - The trustees have reviewed the scheme's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the scheme's positive intention and ability to hold those assets to maturity.

d) Contributions receivable

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

e) Benefits payable

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

f) Income from investments

i) Interest income is recognised for all interest bearing instruments on a accrual basis. Interest income includes coupons earned on fixed income investments and accrued discounts and premium on treasury bills and other discounted instruments.

ii) Dividends are recognised as income in the period in which the right to receive payment is established.

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) 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 translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of changes in net assets available for benefits.

h) 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
Computer and equipments	- over 5 years

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

i) 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.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) 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.

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.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments (continued)

- Financial assets (continued)

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.

- 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.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments (continued)

- Financial liabilities (continued)

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.

k) 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.

l) Taxation

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

m) Comparatives

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

NOTES (CONTINUED)

2. Contributions received	2016 Shs '000	2015 Shs '000
Employer's contributions at 22.5%	195,705	232,964
Employees' contributions at 7.5%	97,853	77,655
	<u>293,558</u>	<u>310,619</u>
3. Additional contributions received from the sponsor to reduce actuarial deficit		
Contributions in cash	<u>-</u>	<u>100,000</u>
(4) Benefits payable and paid		
Monthly pensions	941,721	863,389
Lump sum	517,777	429,094
Death benefits	29,817	27,464
Reversal of death benefits paid to DC members	(26,675)	-
Court attachments	-	1,279
	<u>1,462,640</u>	<u>1,321,226</u>
5. Investment income		
Gross rental income	352,608	360,387
Less: direct rental expenses*	(144,601)	(135,757)
- cannon towers after fire repairs**	(160,040)	(211,250)
- residential house repairs***	(402,172)	(372,933)
- VAT on residential house repairs	(124,016)	-
Net rental loss	(478,221)	(359,553)
Dividends receivable on quoted shares (Kenya and offshore)	215,628	181,767
Interest and discounts receivable on Kenya Government securities, commercial paper and corporate bonds, and loans and receivables	1,058,047	1,073,276
Miscellaneous income	3,638	916
	<u>799,092</u>	<u>896,406</u>

* Relates to property manager's charges and expenses incurred.

** Relates to repairs of Cannon towers II which was gutted by fire in 2013.

*** Relates to repairs of residential houses sourced by the scheme.

Kenya Ports Authority Pension Scheme
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NOTES (CONTINUED)

	2016 Shs '000	2015 Shs '000
6. (Loss)/gain on disposal of financial assets		
Sale proceeds on disposal of financial assets	3,375,576	4,785,913
Fair value of financial assets disposed	<u>(3,407,018)</u>	<u>(4,592,705)</u>
Net (loss)/gain	<u>(31,442)</u>	<u>193,208</u>
7. Investment management expenses		
Fund managers' fees	27,451	41,473
Custodian's fees	<u>8,031</u>	<u>22,124</u>
	<u>35,482</u>	<u>63,597</u>
8. Administrative expenses		
Meetings and allowances	13,195	10,124
✓ Trustees' travelling	9,752	5,998
Education	8,544	5,254
Staff travelling	1,868	1,212
Administration and processing:		
- printing and stationery, postage, internet and telephone	1,869	2,349
- pensioners' bank cheques, charges and commissions	1,068	1,827
- fund master license and system upgrades	359	4,513
✓ Audit fees	2,420	2,200
* Legal and professional fees	<u>27,782</u>	8,208
* Repairs and maintenance	1,803	1,410
Tender evaluation fees	-	2,109
Census	6,194	-
Actuarial fees	3,683	-
Energy audit	850	-
Property valuation fees	9,281	-
Specific provision for bad debts	<u>36,197</u>	-
General provision for bad debts	<u>30,786</u>	-
Auctioneer fees	104	86
RBA levy	5,000	5,000
Depreciation on motor vehicle and equipments	3,543	1,686
Advertising	2,772	1,319
Land rates	<u>18,470</u>	1,656
Security	<u>10,194</u>	1,234
Subscription fees	1,041	335
Motor vehicle expenses	<u>168</u>	<u>115</u>
	<u>196,943</u>	<u>56,635</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:

	2016 Shs '000	2015 Shs '000
Pension staff remuneration	49,987	44,926
Office administration expenses	<u>5,550</u>	<u>1,975</u>
	<u>55,537</u>	<u>46,901</u>

NOTES (CONTINUED)

9. Investment properties

	2016 Shs '000	2015 Shs '000
At start of year	8,748,575	8,748,575
Fair value gain	<u>3,790,637</u>	<u>-</u>
At end of year	<u><u>12,539,212</u></u>	<u><u>8,748,575</u></u>

Majority of the Investment properties were professionally valued in November and December 2016 by Gimco Limited, Kiragu and Mwangi Limited, Tyson 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.

The fair valuation of property, plant and equipment is considered to represent a level 3 valuation based on significant non-observable inputs being the location and condition of the assets and replacement costs for plant & machinery. Management does not expect there to be a material sensitivity to the fair values arising from the non-observable inputs. There were no transfers between level 1, 2 or 3 fair values during the year.

In accordance with the requirements of the Retirement Benefits Act, valuations of investment properties are to be carried out every 3 years. The next valuation is therefore due in 2019.

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 2016

	Computers Shs '000	Equipments Shs '000	Motor vehicles Shs '000	Total Shs '000
Cost				
At start of year	3,468	1,236	3,051	7,755
Additions	<u>439</u>	<u>8,759</u>	<u>-</u>	<u>9,198</u>
At end of year	<u>3,907</u>	<u>9,995</u>	<u>3,051</u>	<u>16,953</u>
Depreciation				
At start of year	1,249	1,177	1,525	3,951
Charge for the year	<u>781</u>	<u>1,999</u>	<u>763</u>	<u>3,543</u>
At end of year	<u>2,030</u>	<u>3,176</u>	<u>2,288</u>	<u>7,494</u>
Net book value	<u><u>1,877</u></u>	<u><u>6,819</u></u>	<u><u>763</u></u>	<u><u>9,459</u></u>

NOTES (CONTINUED)

10. Motor vehicles and equipment (continued)

Year ended 31 December 2015

	Computers Shs '000	Equipments Shs '000	Motor vehicles Shs '000	Total Shs '000
Cost				
At start of year	593	1,236	3,051	4,880
Additions	2,875	-	-	2,875
At end of year	3,468	1,236	3,051	7,755
Depreciation				
At start of year	555	948	763	2,266
Charge for the year	694	229	762	1,685
At end of year	1,249	1,177	1,525	3,951
Net book value	<u>2,219</u>	<u>59</u>	<u>1,526</u>	<u>3,804</u>

11. Financial assets

Year ended 31 December 2016

	Value at start of year Shs '000	Purchases at cost Shs '000	Disposals/ maturity Shs '000	Gain on disposal Shs '000	Change in fair value Shs '000	Value at end of year Shs '000
Shares						
- unquoted investments	278,740	-	-	-	-	278,740
- quoted shares (Kenya and Uganda)	4,177,914	152,711	(711,054)	(54,664)	(578,589)	2,986,318
- quoted shares (offshore)	281,014	-	(275,157)	(5,857)	-	-
Kenya government securities	6,550,432	2,825,370	(2,280,355)	30,835	216,209	7,342,491
Commercial paper and corporate bonds	1,666,731	-	(109,010)	(1,756)	(1,637)	1,554,328
	<u>12,954,831</u>	<u>2,978,081</u>	<u>(3,375,576)</u>	<u>(31,442)</u>	<u>(364,017)</u>	<u>12,161,877</u>

Year ended 31 December 2015

Shares						
- unquoted investments	215,118	63,622	-	-	-	278,740
- quoted shares (Kenya and Uganda)	4,775,561	186,048	(176,342)	55,680	(663,033)	4,177,914
- quoted shares (offshore)	611,308	560,094	(965,287)	92,809	(17,910)	281,014
Kenya government securities	6,500,200	3,701,407	(3,298,949)	43,111	(395,337)	6,550,432
Commercial paper and corporate bonds	1,706,531	309,906	(345,336)	1,608	(5,978)	1,666,731
	<u>13,808,718</u>	<u>4,821,077</u>	<u>(4,785,914)</u>	<u>193,208</u>	<u>(1,082,258)</u>	<u>12,954,831</u>

Included in unquoted investments is an amount of Shs 200,000,000 in respect of investment in the Bellevue development project. No interest has been accrued on this investment.

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:

	2016 %	2015 %
Kenya government securities	8.7 - 15.0	7.6 - 22.5
Commercial paper and corporate bonds	<u>8.5 - 13.5</u>	<u>8.5 - 24.8</u>

NOTES (CONTINUED)

11. Financial assets (continued)

	2016	2015
	Shs '000	Shs '000
The carrying amounts of the scheme's financial assets are denominated in the following currencies:		
Kenya Shilling	12,081,755	12,560,577
Ugandan Shilling	80,122	113,240
US Dollar	-	281,014
	<u>12,161,877</u>	<u>12,954,831</u>

The following table analyses financial assets other than shares (which have no fixed maturity) into relevant maturity groupings based on the remaining period at 31 December 2016 to the contractual maturity date.

	Up to 1 year	1 - 5 years	Over 5 years	Total
	Shs '000	Shs '000	Shs '000	Shs '000
Kenya government securities	385,474	3,579,696	3,377,321	7,342,491
Commercial paper and corporate bonds	<u>389,918</u>	<u>1,070,258</u>	<u>94,152</u>	<u>1,554,328</u>
	<u>775,392</u>	<u>4,649,954</u>	<u>3,471,473</u>	<u>8,896,819</u>

12. Receivables and accrued income

	2016	2015
	Shs '000	Shs '000
Rent receivable	135,337	115,997
Less: specific provision for bad debts	(36,917)	-
Less: general provision for bad debts	<u>(60,873)</u>	<u>(30,807)</u>
Net rent receivable	37,547	85,190
Other receivables	15,059	12,504
Receivables under development properties	384,091	384,091
Deposits	3,300	3,300
Death benefits receivable from KPA Retirements Benefits 2012 Scheme	26,675	-
VAT receivable	66,731	97,885
Belle Vue project	<u>88,243</u>	<u>79,940</u>
	<u>621,646</u>	<u>662,910</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 trustees are in the process of compiling listings to support the rent receivable balance and reconciling differences with amounts shown in the property managers' reports. The trustees have identified certain specific bad debts from the property managers' reports and have made specific provisions against these balances. The trustees have also deemed it prudent to maintain a general provision for bad debts.

Belle Vue project balance relates to various expenditure incurred by the Scheme on the projects. The amounts will be repaid when the projects are completed.

NOTES (CONTINUED)

12. Receivables and accrued income (continued)

Receivables under development properties relates to parcels of land previously owned by the scheme transferred to property developers under a special purpose vehicle agreement with the objective of building housing units. Upon completion of the housing units, the scheme would be compensated the value of land at a premium.

The parcels of land under development is analysed as follows:

Project	Land Reference Number	Cost Shs
Bombolulu	MSA/123/MN/I LR. No. 209/12736 LR. No. 209/12737	31,400,000
Nairobi South C	LR. No. 209/12738	78,500,000
Bellevue phase 1	LR/209/10479	98,800,000
Bellevue phase 2	LR/209/10478	59,300,000
Bellevue phase 3	LR/209/10477	116,091,253
		<u>384,091,253</u>

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.

13. Cash and cash equivalents

	2016 Shs '000	2015 Shs '000
Cash at bank	84,489	126,886
Fixed and time deposits	846,214	946,712
	<u>930,703</u>	<u>1,073,598</u>

The weighted average effective interest rate on fixed and time deposits at year-end was between 7% - 9% (2015: 9% - 19%).

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.

14. Payables and accrued expenses

	2016 Shs '000	2015 Shs '000
Rent deposits	27,415	21,740
Benefits payable	27,226	18,640
Accrued expenses	60,056	47,901
Tender Security deposits	53	53
RBA levy	5,000	5,000
Nairobi South C project	87,951	87,951
Bombolulu project	48,220	48,220
Total other payables and accrued expenses	<u>255,921</u>	<u>229,505</u>

NOTES (CONTINUED)

14. Payables and accrued expenses (continued)

Nairobi South C project and Bombolulu project relates to money deposited in the scheme's bank account by some third parties who purchased housing units.

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 2016

	3 to 12 months Shs '000	Over 1 year Shs '000	Total Shs '000
Rent deposits	27,415	-	27,415
Death benefits payable	27,226	-	27,226
Accrued expenses	60,056	-	60,056
Tender Security deposits	53	-	53
RBA levy	5,000	-	5,000
Nairobi Project	-	87,951	87,951
Bombolulu project	-	48,220	48,220
	<u>119,750</u>	<u>136,171</u>	<u>255,921</u>

Year ended 31 December 2015

Rent deposits	21,740	-	21,740
Death benefits payable	18,640	-	18,640
Accrued expenses	47,901	-	47,901
Tender Security deposits	53	-	53
RBA levy	5,000	-	5,000
Nairobi Project	-	87,951	87,951
Bombolulu project	-	48,220	48,220
	<u>93,334</u>	<u>136,171</u>	<u>229,505</u>

15. Related party transactions and balances

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

(i) The following transactions were carried out with related parties during the year:	2016 Shs '000	2015 Shs '000
- cash contributions received from the sponsor (for the year)	295,705	332,964
- administration expenses paid by the sponsor	55,537	46,901
- rent charged to the sponsor (for the year)	<u>56,267</u>	<u>46,256</u>
i) Amount due from related party		
Death benefits receivable from KPA Retirements Benefits Scheme 2012	<u>26,675</u>	<u>-</u>

This amounts relates to lump sum death benefits paid by Kenya Ports Authority Pension Scheme to Kenya Ports Authority Retirement Benefits Scheme 2012 members from 2013.

NOTES (CONTINUED)

15. Related party transactions and balances (continued)	2016	2015
	Shs '000	Shs '000
ii) Key management compensation		
Meetings and allowances	<u>13,195</u>	<u>10,124</u>

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

16. 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	2016	2015	Maximum investment as per RBA
	%	%	%
Cash and demand deposits	0.3	0.6	5
Fixed and time deposits	3.3	4.2	30
Commercial paper and corporate bonds	6.1	7.3	15
Kenya Government securities	28.6	28.7	70
Shares - Kenya	12.7	19.7	70
Shares - offshore	-	0.9	15
Shares - unquoted	1.1	0.9	5
Immoveable properties	<u>47.9</u>	<u>38.7</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.

17. 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.

18. Contingent liabilities

Other than the liability to pay future pensions and other benefits, there were no contingent liabilities of the scheme at 31 December 2016, 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)

19. Actuarial position

The last actuarial valuation was carried out as at 31 December 2014 in June 2015 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	7,079
Non vested benefits	<u>13,351</u>
Total	<u><u>20,430</u></u>

The fair value of the net assets available for benefits was Shs 24,238,000,000 resulting in a surplus of Shs 3,808,000,000.

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.

20. 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.

At 31 December 2016, if the Kenya Shilling had weakened 10 per cent against the US dollar and the Uganda Shilling with all other variables held constant, the increase in net assets available for benefits for the year would have been Shs 8,102,200 (2015: 39,425,400) higher/lower.

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.

At 31 December 2016, an increase/decrease in interest rates of 100 basis points with all other variables held constant would have resulted in a decrease/ increase in the increase in net assets available for benefits of Shs 88,968,000 (2015: Shs 82,172,000) arising substantially from the change in market value of debt securities

NOTES (CONTINUED)

20. Risk management objectives and policies (continued)

b) Price risk

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

At 31 December 2016, if the prices of all equity investments had increased/decreased by 10% with all other variables held constant, the increase in net assets available for benefits for the year would have been Shs 29,863,000 (2015: 44,589,000) higher/lower.

c) Credit risk

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

d) Liquidity risk

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

The 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 fair values of these assets and liabilities are determined.

Year ended 31 December 2016	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Totals Shs '000
Financial assets				
Shares				
- unquoted investments	-	-	278,740	278,740
- quoted shares (Kenya)	2,986,318	-	-	2,986,318
- quoted shares (offshore)	-	-	-	-
Kenya government securities	-	7,342,491	-	7,342,491
Commercial paper and corporate bonds	-	1,554,328	-	1,554,328
	<u>2,986,318</u>	<u>8,896,819</u>	<u>278,740</u>	<u>12,161,877</u>

NOTES (CONTINUED)

20. Risk management objectives and policies (continued)

e) Fair value measurements (continued)

Year ended 31 December 2015

	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Totals Shs '000
Financial assets				
Shares				
- unquoted investments	-	-	278,740	278,740
- quoted shares (Kenya)	4,177,914	-	-	4,177,914
- quoted shares (offshore)	-	281,014	-	281,014
Kenya government securities	-	6,550,432	-	6,550,432
Commercial paper and corporate bonds	-	1,666,731	-	1,666,731
	<u>4,177,914</u>	<u>8,498,177</u>	<u>-</u>	<u>12,954,831</u>

The different level of fair value measurement hierarchy is described as follows:

- Quoted prices (unadjusted) in active markets for identical assets (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset that are not based on observable market data (that is, unobservable data) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group and those prices represent actual and regularly occurring market transactions on arm's length basis. The quoted market prices used for financial assets held by the Scheme is the current market price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques such as discounted cashflow analysis. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

NOTES (CONTINUED)

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 16.

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
Annual report and financial statements
For the year ended 31 December 2015

LISTING OF INVESTMENT PROPERTIES

PROPERTY	LOCATION	2016 Shs '000	2015 Shs '000
Cannon Towers	Mombasa	817,500	688,000
Motor Mart Building	Mombasa	180,000	215,000
Rex House	Mombasa	150,000	145,000
Tudor Flats	Mombasa	277,800	233,275
Ganjoni Flats	Mombasa	141,750	105,000
Mwembe Tayari Flats	Mombasa	65,000	50,000
Off Nkrumah Road Plot XXV/86	Mombasa	135,000	140,000
Off Nkrumah Road Plot XXV/93	Mombasa	120,000	140,000
Bandari Plaza	Nairobi	1,200,000	550,000
Nyaku House	Nairobi	900,000	550,000
Siwaka Estate	Nairobi	793,000	652,000
Hurlingham Court	Nairobi	800,000	450,000
Central Business District Plot L. R. No. 209/12015	Nairobi	163,500	110,000
Runda Massionates	Nairobi	200,000	100,000
Kizingo Massionates	Mombasa	910,000	497,000
Nyali Bungalows and Massionates	Mombasa	1,908,702	1,628,800
Mbaraki Bungalows	Mombasa	411,960	335,200
Makande plot	Mombasa	350,000	268,200
Lotus Plot No Msa/62 & 63/XXVI	Mombasa	65,000	28,500
D. Kimathi Plot No Msa 185/XXVI	Mombasa	1,350,000	1,062,600
Belle Vue - Plot L. R. No. 209/12016	Mombasa	1,600,000	800,000
		<u>12,539,212</u>	<u>8,748,575</u>

**KENYA PORTS AUTHORITY PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

RECEIVED
31 MAR 2017
Retirement Benefits
Authority

Ref: PEN/CON/1/01

30th March 2017

The Chief Executive Officer
Retirements Benefit Authority
P.O. Box 57733 – 00200
NAIROBI



Dear Sir,

**SUBMISSION OF AUDITED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31st DECEMBER 2016**

Attached herewith please find the Audited Financial Statements for the year ended 31st December 2016 for your record.

The Financial Statements were approved for submission by the Board of Trustees at its 181st meeting held on 29th March 2017.

Kindly acknowledge receipt on the attached copy of this letter.

Yours faithfully,

For: KPA PENSION SCHEME

M. M. Amahwa
PENSION ADMINISTRATOR