



Kenya Ports Authority Pension Scheme

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Ref: PEN/CON/1/01

28th March, 2019

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

Dear Sir,

SUBMISSION OF AUDITED FINANCIAL STATEMENTS AND ACCOUNTS FOR THE YEAR 2018

This has reference to the above mentioned subject.

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

The financial statements and accounts were approved for submission by the Board of Trustees at its 207th meeting held on 26th March, 2019.

Kindly acknowledge receipt on the attached copy of this letter.

Thank you for your continued support and guidance.

Yours faithfully,

For: KPA PENSION SCHEME

Caroline W. Kodo(Mrs.)
HEAD OF PENSION



**KENYA PORTS AUTHORITY PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

RECEIVED

29 MAR 2019

**Retirement Benefits
Authority**

TABLE OF CONTENTS

PAGE

Scheme information	1 - 2
Report of the trustees	3 - 5
Statement of trustees' responsibilities	6
Report of the independent auditor	7 - 9
Financial statements:	
Statement of changes in net assets available for benefits	10
Statement of net assets available for benefits	11
Statement of cash flows	12
Notes: significant accounting policies	13 - 20
Notes	21 - 34

The following page does not form an integral part of these financial statements

Listing of investment properties	35
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SCHEME INFORMATION

TRUSTEES

- 1 Mr. Salim Chingabwi - Chairman
- 2 Mrs. Catherine Mturi-Wairi (Resigned on 30 May 2018)
- 3 Dr. Architect Daniel Manduku (Appointed on 30 May 2018)
- 4 Mr. Harrison Lusigi
- 5 Mr. Moses Otieno
- 6 Mr. Maurice Munyao
- 7 Dr. Amani Y. Komora (Ceased to attend board meetings)
- 8 Mr. Valentine Mwakamba (Term ended on 01 November 2018)
- 9 Mr. Yobesh Oyaro
- 10 Mr. Alex Ole Leteipan

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

Mrs. Caroline Kodo
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

Zamara Actuaries, Administrators and Consultants 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 | |

BANKERS

- | | |
|---|---|
| 1. Citibank N. A.
P. O. Box 83615 - 80100
Mombasa | 3. KCB Bank Kenya Limited
P. O. Box 90254 - 80100
Mombasa |
| 2. Stanbic Bank Kenya 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 Kenya Ports Authority Pension Scheme (the "scheme") for the year ended 31 December 2018.

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% (2017: 7.5%) of their respective basic salaries. The employer contributes at rates based on periodic advice of the actuary. The employer's current contribution rate is 14.7% (2017: 7.5%) of employees' pensionable salaries.

SCHEME MEMBERSHIP	2018 Number	2017 Number
Total Members		
Contributing members	963	1,095
Non-contributing members	2,714	3,069
Pensioners	4,175	4,122
Pension beneficiaries	<u>1,079</u>	<u>907</u>
	<u><u>8,931</u></u>	<u><u>9,193</u></u>
 Contributing members		
At start of year	1,095	1,156
Less: Retired with pension	(117)	(30)
Died in service	(9)	(26)
Other secessionists	<u>(6)</u>	<u>(5)</u>
At end of year	<u><u>963</u></u>	<u><u>1,095</u></u>
 Pensioners and pension beneficiaries		
At start of year	5,029	4,807
Add: Contributing members who retired	117	30
Widows, widowers and dependants pension becoming payable	255	329
Less: Ceased pensions after five year - widows and widowers	<u>(147)</u>	<u>(137)</u>
At end of year	<u><u>5,254</u></u>	<u><u>5,029</u></u>
 FINANCIAL REVIEW	 2018	 2017
	Shs '000	Shs '000
Net assets		
At start of year	25,420,879	26,006,976
Decrease in net assets during the year	<u>(1,494,633)</u>	<u>(586,097)</u>
At end of year	<u><u>23,926,246</u></u>	<u><u>25,420,879</u></u>

REPORT OF THE TRUSTEES (CONTINUED)

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.

ACTUARIAL POSITION

The last actuarial valuation was carried out as at 31 December 2017 in August 2018 by Zamara Actuaries, Administrators and Consultants 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:

	2017 Shs billion	2016 Shs billion
Vested benefits	9.701	8.138
Non vested benefits	<u>17.487</u>	<u>18.953</u>
Total	<u><u>27.188</u></u>	<u><u>27.091</u></u>

The fair value of the net assets available for benefits was Shs 25.421 (2016 :Shs 26.007) billion resulting in a of Shs 1.768 (2016 :Shs 1.084) billion.

The sponsor commissions an actuarial valuation on an annual basis as agreed with the Retirement Benefits Authority (RBA) although the RBA requires an actuarial valuation at least once in every three years.

REMEDIAL PLAN

A remedial plan to reduce the actuarial deficit was agreed upon between the trustees, the employer and the Retirement Benefits Authority. This plan is being implemented and is expected to bring the scheme to financial balance.

The specific remedial actions that were agreed upon were as follows:

- i) The Sponsor has agreed to finance the actuarial deficit by making contributions amounting to approximately Shs 44.6 million per month for the next 72 months in order to cover the actuarial deficit over a period of 6 years. The amount has been arrived at by adjusting the actuarial deficit as at 31 December 2017 to 30 June 2018 and allowing for the payments to be made by the Sponsor for a period of 6 years from 1 July 2018
- ii) The Scheme Trustees will undertake annual actuarial valuations of the Scheme to monitor the change in the financial position with the aim of targeting a 100% funding level and the Scheme achieving compliance within 6 years from signing of this Plan. In the event an actuarial valuation discloses that the Scheme has attained a funding level of atleast 105% within the 6 years, the Sponsor will cease making the additional contributions mentioned in (i) above. The 5% above the minimum funding level of 100% is to provide a buffer to cater for adverse future experience.
- iii) The Scheme Trustees have resolved to reduce the exposure to property investments to 20% of the Scheme assets within a period of 10 years and invest the proceeds in fixed income instruments and quoted equities for the following reasons:
 - To improve the Scheme's liquidity position.
 - To enhance the Scheme's overall returns; and
 - To provide a better match of the Scheme's assets and liabilities over the long term.

REPORT OF THE TRUSTEES (CONTINUED)

REMEDIAL PLAN (CONTINUED)

On the basis of the above proposed remedial actions and the realisations of the assumptions the Scheme Actuary has used, the Scheme is expected to return to the minimum statutory solvency level of 100% by the end of the sixth year.

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 exempted from income tax on its investment income and has been approved by Kenya Revenue Authority.

INDEPENDENT AUDITOR

The scheme's auditor, PKF Kenya has indicated willingness to continue in office in accordance with Section 34 (3) of the Retirement Benefits Act, 1997.

BY ORDER OF THE BOARD OF TRUSTEES



CHAIRMAN
MOMBASA

28-03- 2019

STATEMENT OF TRUSTEES' RESPONSIBILITIES

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

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:

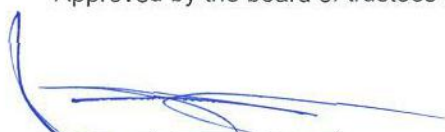
- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.

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

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

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

Approved by the board of trustees on 28-03- 2019 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 10 to 34 which comprise the statement of net assets available for benefits as at 31 December 2018 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, the accompanying financial statements give a true and fair view of the financial position of the scheme as at 31 December 2018, 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 scheme in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter:

We draw your attention to:

a) Project balances

Included in receivables and payables are amounts of Shs 296.943 million and Shs 136.171 million respectively relating to completed property development projects undertaken by the scheme. The scheme has difficulties in finalising the project audit reports due to lack of cooperation by the project manager.

b) Actuarial deficit

Note 20 in the notes to the financial statements which indicates that there was an actuarial deficit of Shs 1.768 billion as at 31 December 2017 and 1.084 billion as at 31 December 2016 and that a remedial plan to reduce the actuarial deficit was agreed upon between the trustees, the sponsor and the Retirement Benefits Authority which is being implemented and is expected to bring the scheme to financial balance.

c) Non-compliance with Retirement Benefits Act investment guidelines

Note 17 to the financial statements which indicates 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.

d) Scheme membership

Included in the other information is the scheme membership statistics which is materially inconsistent with the financial statements. We were not able to verify the accuracy and completeness of the scheme membership since the information was not provided in time.

Our opinion is not qualified in respect of this matters.

.....continued on page 8

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

Other information

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

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

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

Responsibilities of Trustees for the Financial Statements

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

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

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

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.

.....continued on page 9

**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF KENYA PORTS AUTHORITY PENSION SCHEME (CONTINUED)****Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

- 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.

PKF Kenya

Certified Public Accountants
Mombasa

29 March 2019

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

0098/2019

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Notes	2018 Shs '000	2017 Shs '000
Income from dealings with members			
Contributions received in the year	2	438,083	146,441
Outgoings from dealings with members			
Benefits payable and paid	3	(2,266,812)	(2,056,881)
Net reduction from dealings with members			
		(1,828,729)	(1,910,440)
Returns on investments			
Income from investment	4	1,175,691	531,802
(Loss)/gain on disposal of plan investment	5	(1,262)	536,097
Fair value gain on investment properties	8	-	17,700
Changes in fair value of plan investment	11	(466,203)	423,698
Investment management expenses	6	(32,225)	(27,530)
Impairment of plan investment	11	(110,000)	-
Net return on investments			
		566,002	1,481,767
Administrative expenses	7	(231,905)	(157,424)
Decrease in net assets for the year			
		(1,494,633)	(586,097)
Net assets available for benefits			
At start of year		25,420,879	26,006,976
Decrease		(1,494,633)	(586,097)
At end of year			
		23,926,246	25,420,879

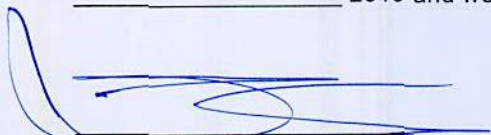
The notes on pages 13 - 34 form an integral part of these financial statements.

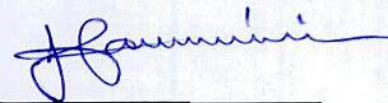
Report of the independent auditor - pages 7 - 9.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

	Notes	As at 31 December	
		2018 Shs '000	2017 Shs '000
Assets			
Investment properties	8	12,491,912	12,556,912
Motor vehicle and equipments	9	8,035	6,762
Assets classified as held for sale	10	65,000	-
Plan investment	11	10,618,556	12,239,820
Intangible assets	12	7,204	11,083
Receivables and accrued income	13	679,162	600,569
Cash and cash equivalents	14	280,991	256,153
Total assets		24,150,859	25,671,299
Less: liabilities			
Payables and accrued expenses	15	224,613	250,420
Net assets available for benefits		23,926,246	25,420,879

The financial statements on pages 9 to 34 were approved and authorised for issue by the Board of Trustees on _____ 2019 and were signed on its behalf by:


 CHAIRMAN


 TRUSTEE

The notes on pages 13 - 34 form an integral part of these financial statements.

Report of the independent auditor - pages 7 - 9.

STATEMENT OF CASH FLOWS

	Notes	2018 Shs '000	2017 Shs '000
Operating activities			
Reconciliation of decrease in net assets to cash from operating activities:			
Decrease in net assets (excluding fair value changes)		(1,028,430)	(1,027,495)
Adjustments for:			
Depreciation of motor vehicles and equipment	9	3,519	3,327
Amortisation of intangible assets	12	800	-
Impairment of plan investment	11	110,000	-
Loss/(gain) on disposal of plan investment	5	1,262	(536,097)
		<u>(912,850)</u>	<u>(1,560,265)</u>
Changes in:			
Receivables and accrued income		(78,593)	21,077
Payables and accrued expenses		<u>(25,807)</u>	<u>(5,501)</u>
Net cash used in operating activities		<u>(1,017,250)</u>	<u>(1,544,689)</u>
Investing activities			
Cash paid for purchase of motor vehicle and equipments	9	(1,137)	(630)
Cash paid for purchase of intangible asset	12	(576)	(11,083)
Purchase of plan investment	11	(2,106,424)	(2,690,097)
Proceeds from sale/maturity of plan investment	5	3,417,352	3,834,124
Net cash from investing activities		<u>1,309,216</u>	<u>1,132,314</u>
Increase/(decrease) in cash and cash equivalents		<u>291,966</u>	<u>(412,375)</u>
Movement in cash and cash equivalents			
At start of year		518,328	930,703
Increase/(decrease)		<u>291,966</u>	<u>(412,375)</u>
At end of year	14	<u>810,294</u>	<u>518,328</u>

The notes on pages 13 - 34 form an integral part of these financial statements.

Report of the independent auditor - pages 7 - 9.

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 19 and 20.

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

New and amended standards adopted by the scheme

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

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

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New and amended standards adopted by the scheme (continued)

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

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

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

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

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

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

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

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

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

New standards, amendments and interpretations issued but not effective

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

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

NOTES (CONTINUED)

1. Significant accounting policies (continued)

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

- Amendments to IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amortised cost classification.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

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

b) Critical accounting estimates and judgements

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

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

- Measurement of expected credit losses (ECL):

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

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

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

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

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

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

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Critical accounting estimates and judgements (continued)

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

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

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

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

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) Contributions receivable

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

d) Benefits payable

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

e) Income from investments

- i) Interest income is recognised for all interest bearing instruments on a accrual basis. Interest income includes coupons earned on fixed income investments and accrued discounts and premium on treasury bills and other discounted instruments.
- ii) Dividends are recognised as income in the period in which the right to receive payment is established.
- iii) Rental income is recognised in the period in which it is earned.

f) Plan investments

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

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Plan investments (continued)

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

g) 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) Financial instruments

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

The scheme classifies its financial assets into the following categories:

i) Amortised cost;

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

ii) Fair Value Through Other Comprehensive Income (FVTOCI):

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

iii) Fair Value Through Profit or Loss (FVTPL):

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

Notwithstanding the above, the scheme may:

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

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

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

Derecognition/write off

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

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

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

Impairment

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

- Cash and cash equivalents
- Receivables and accrued income

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

There no impairment loss recognised on investments measured at FVTPL.

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

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

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

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

Impairment (continued)

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

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

Financial liabilities

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

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

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

Offsetting financial instruments

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

i) 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.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Motor vehicle and equipments (continued)

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

Motor 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.

j) 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.

k) Intangible assets - Software

Computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which is estimated to be 10 years.

l) 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.

m) Taxation

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

n) Comparatives

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

o) Non-current assets held-for-sale

Non-current assets are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated as the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

NOTES (CONTINUED)

2. Contributions received	2018 Shs '000	2017 Shs '000
Employer's contributions at 14.7% (2017: 7.5%)	171,953	79,026
Employees' contributions at 7.5% (2017: 7.5%)	87,730	67,415
Additional contribution	178,400	-
	<u>438,083</u>	<u>146,441</u>

Employer's contributions was revised from January 2018 to 14.7% from 7.5%.

3. Benefits payable and paid	2018 Shs '000	2017 Shs '000
Monthly pensions	1,356,889	1,004,621
Lump sum	876,809	1,023,124
Death benefits	19,531	20,298
Deferred pension	-	1,038
Burial allowance	13,583	7,800
	<u>2,266,812</u>	<u>2,056,881</u>

Monthly pension was revised upwards in November 2017 which carried on in 2018 leading to the increase in monthly pension during the year. The increase was also due to increase of retirees during the year.

4. Income from investment		
Rental income		
Gross rental income	367,905	356,703
Less: direct rental expenses*	(119,241)	(132,602)
- cannon towers after fire repairs**	-	(37,039)
- residential house repairs***	(86,175)	(800,784)
- VAT on residential house repairs	-	(10,000)
Net rental gain/(loss)	162,489	(623,722)
Plan Investment income		
Dividends receivable on quoted shares (Kenya and offshore)	163,198	197,555
Interest and discounts receivable on Kenya Government securities, commercial paper and corporate bonds, and loans and receivables	849,264	957,856
Miscellaneous income	740	113
	<u>1,175,691</u>	<u>531,802</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.

5. (Loss)/gain on disposal of plan investments	2018 Shs '000	2017 Shs '000
Sale proceeds on disposal of plan investments	3,417,352	3,834,124
Fair value of plan investments disposed	(3,418,614)	(3,298,027)
Net (loss)/gain	<u>(1,262)</u>	<u>536,097</u>

NOTES (CONTINUED)

6. Investment management expenses	2018 Shs '000	2017 Shs '000
Fund managers' fees	24,474	19,634
Custodian's fees	7,751	7,896
	<u>32,225</u>	<u>27,530</u>
7. Administrative expenses		
Meetings and allowances	28,335	22,811
Trustees' travelling	10,808	16,505
Education	6,649	5,936
Staff travelling	616	938
Administration and processing:		
- printing and stationery, postage, internet and telephone	4,892	2,797
- pensioners' bank cheques, charges and commissions	3,671	5,390
- Software support license and system upgrades	2,314	2,088
Audit fees	2,625	2,420
Legal and professional fees	4,722	28,047
Consultancy fees	40,099	4,528
Repairs and maintenance	5,037	4,181
Tender evaluation fees	-	4,349
Actuarial fees	3,736	9,703
Energy audit	-	119
Property valuation fees	-	1,009
Specific provision for bad debts	60,540	10,866
Auctioneer fees	50	-
RBA levy	5,000	5,000
Depreciation on motor vehicle and equipments	3,519	3,327
Amortisation of intangible assets	800	-
Advertising	1,893	3,412
Land rates	8,050	6,479
Security	18,773	13,660
Subscription fees	1,025	1,828
Motor vehicle expenses	248	327
Election expenses	-	1,704
Fines and penalties	18,503	-
	<u>231,905</u>	<u>157,424</u>

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

	2018 Shs '000	2017 Shs '000
Imperial Bank Limited	10,000	10,000
Chase Bank Limited	100,000	100,000
Impairment of financial assets	<u>(110,000)</u>	<u>-</u>
Net carrying value	<u>-</u>	<u>110,000</u>

NOTES (CONTINUED)

7. Administrative expenses (continued)

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

	2018 Shs '000	2017 Shs '000
Pension staff remuneration	43,822	46,232
Office administration expenses	1,160	4,738
	<u>44,982</u>	<u>50,970</u>

8. Investment properties

	2018 Shs '000	2017 Shs '000
At start of year	12,556,912	12,539,212
Assets held for sale (Note 10)	(65,000)	-
Fair value gain	-	17,700
	<u>12,491,912</u>	<u>12,556,912</u>

Investment properties were professionally valued in November and December 2016 and in April 2017 by Gimco Limited, Kiragu and Mwangi Limited, N N 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.

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 4.

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

NOTES (CONTINUED)

9. Motor vehicles and equipment

Year ended 31 December 2018

	Computers Shs '000	Equipments Shs '000	Motor vehicles Shs '000	Total Shs '000
Cost				
At start of year	4,213	10,319	3,051	17,583
Additions	-	1,137	-	1,137
Transfers from intangible assets (Note 11)	-	3,655	-	3,655
At end of year	4,213	15,111	3,051	22,375
Depreciation				
At start of year	2,754	5,016	3,051	10,821
Charge for the year	744	2,775	-	3,519
At end of year	3,498	7,791	3,051	14,340
Net book value	715	7,320	-	8,035

The gross carrying amount of fully depreciated Motor vehicles and equipment amounted to Shs 3,050,638.

Year ended 31 December 2017

	Computers Shs '000	Equipments Shs '000	Motor vehicles Shs '000	Total Shs '000
Cost				
At start of year	3,907	9,995	3,051	16,953
Additions	306	324	-	630
At end of year	4,213	10,319	3,051	17,583
Depreciation				
At start of year	2,030	3,176	2,288	7,494
Charge for the year	724	1,840	763	3,327
At end of year	2,754	5,016	3,051	10,821
Net book value	1,459	5,303	0	6,762

10. Assets classified as held for sale

Scheme's investment property (Mwembe Tayari Flats) have been held for sale following approval by the board of trustees on 14th November 2018.

	2018 Shs '000	2017 Shs '000
Propert held for sale (Note 8)	65,000	-

NOTES (CONTINUED)

11. Plan investments

	2018 Shs '000	2017 Shs '000
Shares	3,445,088	4,256,355
Kenya government securities	5,516,880	6,345,717
Commercial paper and corporate bonds	1,091,785	1,324,620
Reits	35,499	50,953
Fixed term bank deposits (Note 14)	529,303	262,175
	<u>10,618,556</u>	<u>12,239,820</u>

The following table analyses the movement of plan investments during the year.

Year ended 31 December 2018

	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	Impairment Shs '000	Value at end of year Shs '000
Shares							
- unquoted investments	266,929	-	-	-	(3,937)	-	262,992
- quoted shares (Kenya and Uganda)	3,989,426	355,743	(557,001)	9,257	(615,329)	-	3,182,096
Kenya government securities	6,345,717	1,750,680	(2,727,400)	(3,909)	151,791	-	5,516,880
Commercial paper and corporate bonds	1,324,620	-	(117,928)	(5,369)	462	(110,000)	1,091,785
Reits	50,953	-	(15,024)	(1,240)	810	-	35,499
	<u>11,977,645</u>	<u>2,106,424</u>	<u>(3,417,352)</u>	<u>(1,262)</u>	<u>(466,203)</u>	<u>(110,000)</u>	<u>10,089,253</u>

Year ended 31 December 2017

Shares							
- unquoted investments	270,866	-	-	(3,937)	-	-	266,929
- quoted shares (Kenya and Uganda)	2,938,716	952,677	(640,738)	399,091	339,681	-	3,989,426
Kenya government securities	7,336,643	1,652,320	(2,872,718)	144,067	85,405	-	6,345,717
Commercial paper and corporate bonds	1,560,176	85,100	(320,668)	1,400	(1,388)	-	1,324,620
Reits	55,477	-	-	(4,524)	-	-	50,953
	<u>12,161,878</u>	<u>2,690,097</u>	<u>(3,834,124)</u>	<u>536,097</u>	<u>423,698</u>	<u>-</u>	<u>11,977,645</u>

In the opinion of the trustees, the carrying value of plan investments are carried at ultimate redemption value.

Included in unquoted investments is an amount of Shs 200,000,000 in respect of investment Bellevue development project. The agreement was to charge interest at 8%, no interest has been accrued on this investment

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

	2018 %	2017 %
Kenya government securities	8.79 - 14.5	6 - 15.76
Commercial paper and corporate bonds	12.5 - 13	10.75 - 14.17
Fixed and time deposits	9 - 10	9 - 10

The carrying amounts of the scheme's financial assets are denominated in the following currencies:

Kenya Shilling	10,706,473	12,166,874
Ugandan Shilling	3,714	72,946
	<u>10,618,556</u>	<u>12,239,820</u>

NOTES (CONTINUED)

11. Plan investments (continued)

The following table analyses plan investments other than shares (which have no fixed maturity) into relevant maturity groupings based on the remaining period at 31 December 2018 to the contractual maturity date.

	Up to 1 year Shs '000	1 - 5 years Shs '000	Over 5 years Shs '000	Total Shs '000
Kenya government securities	422,942	3,637,444	1,456,391	5,516,778
Commercial paper and corporate bonds	290,325	893,193	-	1,183,518
	<u>713,268</u>	<u>4,530,637</u>	<u>1,456,391</u>	<u>6,700,296</u>

12. Intangible assets

Software costs	2018 Shs '000	2017 Shs '000
Cost		
At start of year	11,083	-
Additions	576	11,083
Transfers to motorvehicle and equipment (Note 9)	(3,655)	-
At end of year	<u>8,004</u>	<u>11,083</u>
Amortisation		
At start	-	-
Charge for the year	800	-
At end of year	<u>800</u>	<u>-</u>
Net book value	<u>7,204</u>	<u>11,083</u>

The software relates to electronic document management system.

13. Receivables and accrued income

	2018 Shs '000	2017 Shs '000
Rent receivable	101,679	87,378
Less: specific provision for bad debts	(92,038)	(47,803)
Net rent receivable	9,641	39,575
Other receivables	12,984	18,655
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	-	35,833
Bellevue project	269,146	92,440
	<u>679,162</u>	<u>600,569</u>
Movement in impairment provisions		
At start of year	47,803	36,198
Additions	44,235	13,226
Recoveries	-	(1,621)
	<u>92,038</u>	<u>47,803</u>

NOTES (CONTINUED)

13. Receivables and accrued income (continued)

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

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

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.

Trustees have made a provision for all receivables above 90 days and those receivables whose recovery is in doubt.

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

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	Status
Bombolulu	MSA/123/MN/I LR. No. 209/12736		
	LR. No. 209/12737	31,400,000	Project completed
Nairobi South C	LR. No. 209/12738	78,500,000	Project completed
Bellevue phase 1	LR/209/10479	98,800,000	Project completed
Bellevue phase 2	LR/209/10478	59,300,000	Ongoing
Bellevue phase 3	LR/209/10477	116,091,253	Ongoing
		<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.

14. Cash and cash equivalents

	2018 Shs '000	2017 Shs '000
Cash at bank	<u>280,991</u>	<u>256,153</u>

For the purposes of statement of cash flows, the year-end cash and fixed term bank deposits comprise the following:

Cash and bank	280,991	256,153
Fixed term bank deposits (Note 10)	<u>529,303</u>	<u>262,175</u>
	<u>810,294</u>	<u>518,328</u>

NOTES (CONTINUED)

14. Cash and cash equivalents (continued)

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.

15. Payables and accrued expenses

	2018 Shs '000	2017 Shs '000
Rent deposits	30,834	27,764
Benefits payable	1,487	1,722
Accrued expenses	45,067	79,710
Tender Security deposits	53	53
RBA levy	5,000	5,000
Investment property sale deposit	6,001	-
Nairobi South C project	87,951	87,951
Bombolulu project	48,220	48,220
Total other payables and accrued expenses	224,613	250,420

Included in the rent deposits is a brought forward amount of Shs 27 M relating to most tenants who had vacated the premises: the amounts are not payable.

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 2018

	3 to 12 months Shs '000	Over 1 year Shs '000	Total Shs '000
Rent deposits	-	30,834	30,834
Death benefits payable	1,487	-	1,487
Accrued expenses	45,067	-	45,067
Tender Security deposits	53	-	53
RBA levy	5,000	-	5,000
Investment property sale deposit	6,001	-	6,001
Nairobi Project	-	87,951	87,951
Bombolulu project	-	48,220	48,220
	57,608	167,005	224,613

NOTES (CONTINUED)

15. Payables and accrued expenses (continued)	3 to 12 months Shs '000	Over 1 year Shs '000	Total Shs '000
Year ended 31 December 2017			
Rent deposits	-	27,764	27,764
Death benefits payable	1,722	-	1,722
Accrued expenses	79,710	-	79,710
Tender Security deposits	53	-	53
RBA levy	5,000	-	5,000
Nairobi Project	-	87,951	87,951
Bombolulu project	-	48,220	48,220
	<u>86,485</u>	<u>163,935</u>	<u>250,420</u>

16. 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:	2018 Shs '000	2017 Shs '000
- administration expenses paid by the sponsor	<u>50,970</u>	<u>55,537</u>
i) Amount due from related party		
Death benefits receivable from KPA Retirements Benefits Scheme 2012	<u>-</u>	<u>26,675</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.

	2018 Shs '000	2017 Shs '000
ii) Key management compensation		
Meetings and allowances	<u>28,335</u>	<u>22,811</u>

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

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	2018 %	2017 %	Maximum investment as per RBA %
Cash and demand deposits	1.2	1	5
Fixed and time deposits	2.3	1.6	30
Commercial paper and corporate bonds	4.7	5.3	15
Kenya Government securities	23.5	25.2	70
Shares - Kenya	13.5	16.8	70
Private equity	0.00	0.02	15
Shares - unquoted	1.1	1.1	5
Reits	0.2	0.2	30
Immoveable properties	52.5	48.8	30

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 2018, except as disclosed below:

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

20. Actuarial position

The last actuarial valuation was carried out as at 31 December 2017 in August 2018 by Zamara Actuaries, Administrators and Consultants 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:

NOTES (CONTINUED)

20. Actuarial position (continued)

	2017 Shs billion	2016 Shs billion
Vested benefits	9.701	8.138
Non vested benefits	17.487	18.953
Total	27.188	27.091

The fair value of the net assets available for benefits was Shs 25.421 (2016 :Shs 26.007) billion resulting in a deficit of Shs 1.768 (2016 :Shs 1.084) billion.

A remedial plan to reduce the actuarial deficit was agreed upon between the trustees, the employer and the Retirement Benefits Authority. This plan is being implemented and is expected to bring the scheme to financial balance.

The specific remedial actions that were agreed upon were as follows:

- i) The Sponsor has agreed to finance the actuarial deficit by making contributions amounting to approximately Shs 44.6 million per month for the next 72 months in order to cover the actuarial deficit over a period of 6 years. The amount has been arrived at by adjusting the actuarial deficit as at 31 December 2017 to 30 June 2018 and allowing for the payments to be made by the Sponsor for a period of 6 years from 1 July 2018
- ii) The Scheme Trustees will undertake annual actuarial valuations of the Scheme to monitor the change in the financial position with the aim of targeting a 100% funding level and the Scheme achieving compliance within 6 years from signing of this Plan. In the event an actuarial valuation discloses that the Scheme has attained a funding level of at least 105% within the 6 years, the Sponsor will cease making the additional contributions mentioned in (i) above. The 5% above the minimum funding level of 100% is to provide a buffer to cater for adverse future experience.
- iii) The Scheme Trustees have resolved to reduce the exposure to property investments to 20% of the Scheme assets within a period of 10 years and invest the proceeds in fixed income instruments and quoted equities for the following reasons:
 - To improve the Scheme's liquidity position.
 - To enhance the Scheme's overall returns; and
 - To provide a better match of the Scheme's assets and liabilities over the long term.

On the basis of the above proposed remedial actions and the realisations of the assumptions the Scheme Actuary has used, the Scheme is expected to return to the minimum statutory solvency level of 100% by the end of the sixth year.

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.

NOTES (CONTINUED)

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 plan assets are held in foreign currency. These comprise quoted shares held offshore as disclosed in Note 11.

At 31 December 2018, 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 371,000 (2017: 7,294,600) 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 2018, an increase/decrease in interest rates of 100 basis points with all other variables held constant would have resulted in a decrease/ increase in the increase in net assets available for benefits of Shs 67,029,600 (2017: Shs 76,703,000) arising substantially from the change in market value of debt securities

b) Price risk

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

At 31 December 2018, if the prices of all equity investments had increased/decreased by 10% with all other variables held constant, the increase in net assets available for benefits for the year would have been Shs 31,820,000 (2017: 39,832,000) 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 19.

21. Risk management objectives and policies (continued)

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.

Year ended 31 December 2018	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Totals Shs '000
Plan investments				
Shares				
- unquoted investments	-	-	262,992	262,992
- quoted shares (Kenya)	3,217,595	-	-	3,217,595
Kenya government securities	-	5,516,880	-	5,516,880
Commercial paper and corporate bonds	-	1,091,785	-	1,091,785
	<u>3,217,595</u>	<u>6,608,665</u>	<u>262,992</u>	<u>10,089,252</u>

Year ended 31 December 2017	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Totals Shs '000
Plan investments				
Shares				
- unquoted investments	-	-	273,140	273,140
- quoted shares (Kenya)	4,034,168	-	-	4,034,168
Kenya government securities	-	6,345,717	-	6,345,717
Commercial paper and corporate bonds	-	1,324,620	-	1,324,620
	<u>4,034,168</u>	<u>7,670,337</u>	<u>273,140</u>	<u>11,977,645</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.

NOTES (CONTINUED)

21. Risk management objectives and policies (continued)

e) Fair value measurements

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

22. Commitments

Contractual commitments for the acquisition of property, plant and equipment

At the reporting date these commitments were as follows:

	2018 Shs '000	2017 Shs '000
New software	-	4,568

23. 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 17.

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.

24. Presentation currency

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

25. 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.

LISTING OF INVESTMENT PROPERTIES

PROPERTY	LOCATION	2018 Shs '000	2017 Shs '000
Cannon Towers	Mombasa	817,500	817,500
Motor Mart Building	Mombasa	180,000	180,000
Rex House	Mombasa	150,000	150,000
Tudor Flats	Mombasa	287,800	287,800
Ganjoni Flats	Mombasa	141,750	141,750
Mwembe Tayari Flats	Mombasa	-	65,000
Off Nkrumah Road Plot XXV/86	Mombasa	135,000	135,000
Off Nkrumah Road Plot XXV/93	Mombasa	120,000	120,000
Bandari Plaza	Nairobi	1,200,000	1,200,000
Nyaku House	Nairobi	900,000	900,000
Siwaka Estate	Nairobi	793,000	793,000
Hurlingham Court	Nairobi	800,000	800,000
Central Business District Plot L. R. No. 209/12015	Nairobi	163,500	163,500
Runda Massionates	Nairobi	200,000	200,000
Kizingo Massionates	Mombasa	910,000	910,000
Nyali Bungalows and Massionates	Mombasa	1,916,400	1,916,400
Mbaraki Bungalows	Mombasa	411,960	411,960
Makande plot	Mombasa	350,000	350,000
Lotus Plot No Msa/62 & 63/XXVI	Mombasa	65,000	65,000
D. Kimathi Plot No Msa 185/XXVI	Mombasa	1,350,002	1,350,002
Belle Vue - Plot L. R. No. 209/12017	Mombasa	1,600,000	1,600,000
		<u>12,491,912</u>	<u>12,556,912</u>
ASSET HELD FOR SALE			
Mwembe Tayari Flats	Mombasa	<u>65,000</u>	<u>65,000</u>