

KENYA PORTS AUTHORITY RETIREMENT BENEFITS SCHEME 2012
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

Mokua Onwonga & Co
Certified Public Accountants

Kenya Ports Authority Retirement Benefits Scheme 2012
Annual report and financial statements
For the year ended 31 December 2021

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SCHEME INFORMATION

TRUSTEES

- : Mr. Salim Kumaka - Chairman
- : Ms. Mary Wairimu Ngari - Resigned on 30th May 2021
- : Mr. Geoffrey Kavate - Appointed on 14th May 2019
- : Ms. Addraya Dena - Resigned on 4th June 2021
- : Ms. Emma Okello - Appointed on 18th December 2020
- : Mr. Musa Huka - Appointed on 18th December 2020

REGISTERED OFFICE

- : Old Cannon Towers, 7th floor
- : Moi Avenue
- : P. O. Box 1019 - 80100
- : Mombasa

INDEPENDENT AUDITOR

- : Mokuwa Onwonga & Company
- : Certified Public Accountants
- : P. O. Box 43085 - 80100
- : Mombasa

SCHEME ADMINISTRATOR

- : Caroline Kodo (Mrs.)
- : Kenya Ports Authority - Pension Office
- : Old Cannon Towers, 7th floor
- : Moi Avenue
- : P. O. Box 1019 - 80100
- : Mombasa

CUSTODIAN

- : The Co-operative Bank of Kenya Limited
- : Custody Division
- : P. O. Box 48231 - 00100
- : Nairobi

BANKERS

- : Stanbic Bank Kenya Limited
- : P. O. Box 90131 - 80100
- : Mombasa
- : The Co-operative Bank of Kenya Limited
- : P. O. Box 48231 - 00100
- : Nairobi

SCHEME INFORMATION (CONTINUED)

FUND MANAGERS

- | | |
|---|---|
| 1. Britam Asset Manager (K) Limited
P. O. Box 30375 - 00100
Nairobi | 2. Genafrica Asset Managers Limited
P. O. Box 79217 - 00200
Nairobi |
|---|---|

ACTUARY

- : Zamara Actuaries, Administrators and Consultants
: P. O. Box 52439 - 00200
: Nairobi

LAWYERS

- | | |
|--|--|
| 1. MMC Africa Law
P. O. Box 90282 - 80100
Mombasa | 2. Miller & Co. Advocates
P.O Box 90088 - 80100
Mombasa, Kenya |
| 3. Munyao, Muthama & Kashindi Advocates
P. O. Box 2419 - 80100
Mombasa | |

REPORT OF THE TRUSTEES

The Trustees present their report together with the audited financial statements for the Kenya Ports Retirement Benefits Scheme 2012 (the "scheme") for the year ended 31 December 2021.

ESTABLISHMENT, NATURE AND THE STATUS OF THE SCHEME

The Scheme was established, and is governed by a trust deed dated 24 October 2012 and was amended on 13 February 2018.

It is a defined contribution scheme and provides, under the rules of the Scheme, retirement benefits for the staff of Kenya Ports Authority (KPA). It is a tax exempt approved scheme, upto the statutory limit, under the Income Tax Act.

The Scheme is registered with the Retirement Benefits Authority.

CONTRIBUTIONS

As per the rules of the Scheme, the employer and the employees each contribute 20% and 10%, respectively, of the individual members' basic salary.

MEMBERSHIP

The following is the movement in the number of members in the scheme:

	2021 Members	2020 Members
a) Total members		
Active members	5,746	5,857
Deferred members	235	235
Total	<u>5,981</u>	<u>6,092</u>
b) Active members		
At start of year	5,746	5,857
Joiners	14	18
Leavers	(148)	(129)
At end of year	<u>5,612</u>	<u>5,746</u>
c) Deferred members		
At start of year	235	219
Joiners	123	19
Fully paid deferred members	(2)	(3)
At end of year	<u>356</u>	<u>235</u>
Deferred members split as follows:-		
Members whose benefits were locked in	<u>356</u>	<u>235</u>
Total at the end of the year	<u>5,968</u>	<u>5,981</u>

REPORT OF THE TRUSTEES (CONTINUED)

FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 10 shows an increase in net assets of the Scheme for the year of Shs (thousands) 3,084,461 (2020: Shs (thousands) 2,467,139) and statement of net assets available for benefits on page 11 shows the Scheme's net assets as Shs (thousands) 17,293,463 (2020: Shs (thousands) 14,209,002).

The increase was attributed to the pension contributions, investment income earned and increase in fair values of the plan investments during the year.

The total real rate of return as per the investment policy statement is set to be at least 3.0% per annum over the overall inflation rate, net of investment costs. The overall inflation rate for the year was 6.1%.

BOARD OF TRUSTEES

The trustees of the scheme who held office during the year and to the date of this report are shown on page 1. The composition remains compliant with the requirement of the Retirement Benefits Act.

INVESTMENT OF FUNDS

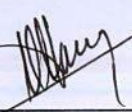
Under the terms of their appointment, Britam Asset Manager (K) Limited and Genafrika Asset Managers Limited are responsible for the investment of members funds.

The overall responsibility for investment and performance lies with the Trustees.

INDEPENDENT AUDITOR

Mokua Onwonga & Company were in office during the year as the scheme's auditor in accordance with Section 34 (3) of the Retirement Benefits Act, 1997.

BY ORDER OF THE BOARD OF TRUSTEES



TRUSTEE
MOMBASA

9/3/2022

SCHEME GOVERNANCE DISCLOSURE STATEMENT

1. Trustees in office during the year

Name of trustee	Age	Category (Member-elected/Sponsor-nominated/Professional)	No. of meetings attended	Certified (Yes/No)	Highest qualification	Membership of other boards (Provide organisation's name)
Salim Kumaka	53	Member elected	8	YES	Diploma	None
Mary Ngari	65	Sponsor Nominated	4	YES	Masters Degree	Funguo Investment Ltd
Addraya Dena	51	Sponsor Nominated	3	YES	Bachelor's Degree	None
Geofrey Kavate	49	Sponsor Nominated	8	YES	Masters Degree	Kenya National Shipping Line
Musa Huka	37	Member elected	8	YES	Diploma	None
Emma Okello	37	Member elected	8	YES	Masters Degree	None

2. The board of trustees held **Eight (8)** meetings during the year ending the 31.12.2021

The meetings were held on the dates set out hereunder:

15.02.2021
16.03.2021
21.04.2021
18.05.2021
13.08.2021
03.11.2021
29.11.2021
23.12.2021

3. The composition of the board of trustees is as hereunder:

- (a) Gender balance: Female **50%** Male **50%**
(b) Skills mix: No of trustees with financial skills **ONE(1)**
(c) Age mix: Number of trustees who are younger than 35 years **NONE**

Number of trustees who are older than 35 years **SIX(6)**.

4. Committees of the board

Committee name	No. of meetings held	Any external advisors, invitees to meetings (Yes/No) (if yes, mention the purpose)	Allowances paid (Ksh.)
Finance and Investment	3	NO	120,000
Audit and Risk Management	3	NO	120,000
Administration and Communication	4	NO	160,000

SCHEME GOVERNANCE DISCLOSURE STATEMENT(Continued)

5. Fiduciary responsibility statement

The board of trustees is the governing body of the Kenya Ports Authority Retirement Benefits Scheme 2012 and is responsible for the corporate governance of the scheme. The trustees are responsible for ensuring that the administration of the scheme is conducted in the best interests of the scheme's members and the sponsor. To achieve this, the trustees embraced their fiduciary responsibility by:

- a) Acting honestly and did not improperly use inside information or abuse their position;
- b) Exercising the highest degree of care and diligence in the performance of their duties that a reasonable person in a like position would exercise in the circumstances; and
- c) Performing their duties with the requisite degree of skill.

The scheme has complied with the laws, regulations and guidelines that govern retirement benefits schemes and the scheme's business operations.

The trustees have ensured that the fund manager has carried out all scheme investments and that all scheme assets and funds are held by the custodian.

The board charter for the scheme has been developed.

6. Responsible corporate citizenship

The scheme has participated in socially responsible investments and operations and has not been involved in any activity that may undermine the well-being of the sponsor, members or the community in which it operates.

7. Key outcomes

The board of trustees seeks to achieve the following:

- a) Building trust with the members and sponsor of the scheme so that they are satisfied with the administration of the scheme;
- b) Supporting innovation and developing solutions that meet the members' and sponsor's needs; and
- c) Ensuring that the scheme's administrative processes remain transparent and accessible to members and the sponsor.

The board of trustees will measure the progress towards these outcomes through:

- a) Triennial members' survey score. The latest score was **NONE%**
- b) Regular reports and feedback from the sponsor. No. of reports **2 REPORTS**

8. Annual general meeting

The board of trustees held the annual general meeting on the **17th December 2021** which **1,862** members, making up **31%** of scheme members attended. The board adequately addressed the members' concerns.

SCHEME GOVERNANCE DISCLOSURE STATEMENT(Continued)

9. Members' sensitization

The board conducted the following sensitization activities (Name of sensitization forum)	Date held	No. of members who attended	Remarks
Retirement planning seminar	None	None	None
Members' day	19/11/2021-07/12/2021	1,100	

During the sensitization activity, members were reminded of the Retirement Benefits Authority Whistle Blower portal to report any unusual occurrences in the management of scheme affairs.

10. Trustees' remuneration policy

During the year under review, the trustees were paid a gross sum of Ksh. 4,720,000. The payments complied with the trustee's remuneration policy of the scheme which was approved by members at the annual general meeting held on the 17/12/2021

11. Board of trustee's evaluation

The board and individual trustees undertook board evaluation in the year under review. The board review process was facilitated *externally*, and the process took the form of *questionnaire*. The board was rated as good with a mean score of **81.33%**

Signed Dated
(Chairperson)

STATEMENT OF TRUSTEES' RESPONSIBILITIES

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

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

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

The Trustees are of the opinion that the financial statements give a true and fair view of the net assets available for benefits and changes in net assets available for benefits for the year then ended in accordance with the International Financial Reporting Standards and the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000.

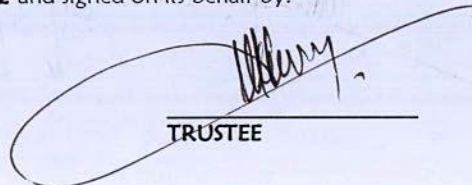
In preparing these financial statements the trustees have assessed the scheme's ability to continue as a going concern. Nothing has come to the attention of the trustees to indicate that the scheme will not remain a going concern for at least the next twelve months from the date of this statement.

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

Approved by the board of trustees on 4th March 2022 and signed on its behalf by:



TRUSTEE



TRUSTEE

Mokua Onwonga & Co.

Certified Public Accountants

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REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF KENYA PORTS AUTHORITY RETIREMENT BENEFITS SCHEME 2012

Opinion

We have audited the accompanying financial statements of Kenya Ports Authority Retirement Benefits Scheme 2012 set out on pages 10 to 30 which comprise the statement of net assets available for benefits as at 31 December 2021 and the the statement of changes in net assets available for benefits, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Kenya Ports Authority Retirement Benefits Scheme 2012 as at 31 December 2021, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the requirements of the Retirement Benefits Act, 1997 and the scheme's trust deed.

Basis for Opinion

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

Other information

The trustees are responsible for the other information. The other information comprises the report of the trustees but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of Trustees for the Financial Statements

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

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

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF KENYA PORTS AUTHORITY RETIREMENT BENEFITS SCHEME 2012 (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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 company's internal control.

- *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- *Conclude on the appropriateness of management'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 company'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 the auditor's report. However, future events or conditions may cause the company 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.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA George Mokuu, Practicing Certificate No. 1356.



For and on behalf of Mokuu Onwonga & Co.
Certified Public Accountants
Mombasa

25/03/2022

Kenya Ports Authority Retirement Benefits Scheme 2012
Annual report and financial statements
For the year ended 31 December 2021

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Notes	2021 Shs '000	2020 Shs '000
Income from dealings with members			
Contributions received	2 (a)	<u>1,819,066</u>	<u>1,793,619</u>
Outgoings from dealings with members			
Benefits to leavers	2 (b)	<u>(350,251)</u>	<u>(201,088)</u>
Net increase from dealings with members		<u>1,468,815</u>	<u>1,592,531</u>
Return on investment			
Investment income	3	1,489,321	1,201,737
Gain/(loss) on disposal of financial assets	4	83,429	27,902
Changes in fair value of plan investment	8	283,690	(214,636)
Investment management expenses	5	<u>(40,073)</u>	<u>(33,801)</u>
Net return on investments		<u>1,816,367</u>	<u>981,203</u>
Administrative expenses	6	(118,503)	(56,322)
Tax charge	7 (a)	<u>(82,218)</u>	<u>(50,273)</u>
		<u>(200,721)</u>	<u>(106,595)</u>
Increase in net assets for the year		<u>3,084,461</u>	<u>2,467,139</u>
Assets available for benefits			
At start of year		14,209,002	11,741,863
Increase in net assets for the year		<u>3,084,461</u>	<u>2,467,139</u>
At end of year		<u>17,293,463</u>	<u>14,209,002</u>

The notes on pages 13 to 30 form an integral part of these financial statements.

Report of the independent auditor - pages 8 to 9.

Kenya Ports Authority Retirement Benefits Scheme 2012
Annual report and financial statements
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STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

		As at 31 December	
	Notes	2021 Shs '000	2020 Shs '000
Assets			
Plan investment	8	17,210,080	14,202,271
Receivables and accrued income	9	77,285	-
Cash and cash equivalents	10	64,106	42,700
Property & equipment	11	1,976	-
Intangible assets	12	4,478	-
Total assets		<u>17,357,925</u>	<u>14,244,971</u>
Less: liabilities			
Payables and accrued expenses	12	48,727	28,895
Tax payable	7 (b)	<u>15,735</u>	<u>7,074</u>
Total liabilities		<u>64,462</u>	<u>35,969</u>
Net assets available for benefits		<u><u>17,293,463</u></u>	<u><u>14,209,002</u></u>

The financial statements on pages 10 to 30 were approved and authorised for issue by the Board of Trustees on 4/3/ 2022 and were signed on its behalf by:


 TRUSTEE


 TRUSTEE

The notes on pages 13 to 30 form an integral part of these financial statements.

Report of the independent auditor - pages 8 to 9.

Kenya Ports Authority Retirement Benefits Scheme 2012
Annual report and financial statements
For the year ended 31 December 2021

STATEMENT OF CASH FLOWS

	Notes	2021 Shs '000	2020 Shs '000
Cash flows from operating activities			
Contributions received	2 (a)	1,819,066	1,793,619
Administrative expenses paid	6	(118,503)	(56,322)
Depreciation on property & equipment	11	494	-
Impairment of real people bond	8	35,000	-
Expected credit loss on fixed deposits	8	2,852	-
Benefits paid to leavers	2(b)	(350,251)	(201,088)
Receivables and accrued income		(77,285)	149,318
Payables and accrued expenses		19,832	(7,209)
Underprovision of tax in prior year		15	-
Tax paid	7 (b)	(73,572)	(57,949)
Net cash from operating activities		<u>1,257,648</u>	<u>1,620,369</u>
Investing activities			
Purchase of plan investment	8	(5,157,220)	(3,782,117)
Proceeds from sale/maturity of plan investment	8	2,286,007	946,317
Investment income received	3	1,489,321	1,201,737
Purchase of property & equipment	11	(2,469)	-
Purchase of intangible assets	12	(4,478)	-
Investment management expenses paid	5	(40,073)	(33,801)
Net cash used in investing activities		<u>(1,428,913)</u>	<u>(1,667,864)</u>
Increase in cash and cash equivalents		<u>(171,265)</u>	<u>(47,494)</u>
Movement in cash and cash equivalents			
At start of year		610,610	658,104
Increase		<u>(171,265)</u>	<u>(47,494)</u>
At end of year	10	<u>439,345</u>	<u>610,610</u>

The notes on pages 13 to 30 form an integral part of these financial statements.

Report of the independent auditor - pages 8 to 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.

These financial statements comply with the requirements of the Retirement Benefits Act, 1997 as amended, and with the Retirement Benefits (Occupational Retirement Benefit). The statement of profit or loss represents the profit or loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

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). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received 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 company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

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

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

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

Going concern

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

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

New and amended standards adopted by the scheme

All new and amended standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2019 have been adopted by the scheme. Of those, the following has had an effect on the scheme's financial statements:

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New and amended standards adopted by the scheme (continued)

International Financial Reporting Standard 16 (IFRS 16): Financial Instruments

From 1 January 2019, to comply with IFRS 16, Leases, which replaced IAS 17, Leases, the company now recognises lease liabilities relating to leases under which the company is the lessee that had previously been classified as operating leases (other than leases with less than 12 months to run from 1 January 2019 and leases of low value items). Such liabilities have been measured at 1 January 2019 at the present value of the remaining lease payments discounted using the company's incremental borrowing rate as at 1 January 2019.

Corresponding right-of-use assets have been recognised, measured as if the company's new accounting policy (see Note 1(r)) had been applied since the commencement of each lease but discounted using the company's incremental borrowing rate as at 1 January 2019.

As permitted by the transition provisions in the new standard, comparative amounts have not been restated. The company's accounting policy for leases under which the company was lessee was, up to 31 December 2018, as follows:

Leases of property, plant and equipment including hire purchase contracts where the company assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease Property, plant and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

The measurement of assets and liabilities that were recognised as finance leases under the previous accounting policy has continued unchanged. Right-of-use assets and lease liabilities in respect of operating leases (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) in force at 1 January 2019 have been recognised in accordance with the transition requirements of IFRS 16, as described above.

The trustees have determined that adoption of IFRS 16 has no impact on the amounts reported in the statements as the scheme has no leased assets.

Other standards and amendments

The following, which became effective from 1 January 2019, have been adopted but have not had a significant impact on the company's financial statements.

- 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.
- 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.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

Other standards and amendments (continued)

- Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.
- Amendments to IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2019 clarifying that specific borrowings remaining unpaid at the time the related asset is ready for its intended use or sale will comprise general borrowings.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' effective for annual periods beginning on or after 1 January 2019 clarifying that IFRS 9 is only applicable to investments to which the equity method is not applied.
- Amendments to IFRS 11 'Joint Arrangements' effective for annual periods beginning on or after 1 January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure its previously held interests.
- 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.

Amendments to IFRS 3 'Definition of a Business' (issued in October 2018) applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

- Amendments to IAS 1 and IAS 8 'Definition of Material' (issued in October 2018) applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS.

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 to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (issued in September 2014) applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business,

IFRS 17 'Insurance Contracts' (issued in May 2017) effective for annual periods beginning on or after 1 January 2021 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The scheme does not issue insurance contracts.

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The assumptions and judgements set-out below do not consider the full potential impact of the recent coronavirus outbreak as it is too early at this stage to predict the full potential impact of this on the financial statements of the scheme.

- Measurement of Expected Credit Losses (ECL) - Trade receivables

In recognising the expected credit losses on trade receivables, the company has adopted the simplified approach. The company has adopted the provision matrix to measure expected credit losses where by a default rate is applied on debtors depending on the number of days that a trade receivable is past due. The default rate is estimated based on the company's historical default rate and reviewed and adjusted for forward looking information on a periodical basis.

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.

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.

- Measurement of Expected Credit Losses (ECL) - Cash and cash equivalents

An expected credit loss model for deposits and call balances placed with banks will be based on the default rate assigned by global credit rating bodies S&P and GCR.

The S&P ranking has assigned a risk/default rate of 0.00% for financial institutions rated AAA, 0.02% for AA rated, 0.07% A rated, 0.29% for BBB rated, 0.76% for BB rated, 2.93% for B rated and 15.79% for CCC/C rated financial institutions (Source 2017 Annual Global Corporate Default Study, Standard & Poor). GCR has carried out a credit rating of Kenyan banks but has not assigned risk/default rates for the various ratings given. On the other hand, S&P has not done a rating specific to Kenyan financial institutions but has risk rates assigned to various ratings as documented above whose description we have reviewed and came up with the risk rates applicable to Kenyan banks.

In the GCR rating of Kenyan financial institutions falling into tier one are described as consistently having a stable outlook which is what is similar to the S&P description of financial institutions rated BB. Hence a default rate of 0.76% has been considered for deposits held with Tier one banks. Tier two banks such are described as having a stable or positive outlook in the GCR rating which can be equated to the S&P rating of B with a default rate of 2.93%. Whilst Tier three banks such as stable or positive or watch outlook by GCR which bear similar descriptions as the CCC/C rating by S&P with a risk/default rate of 15.79%.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Critical accounting estimates and judgements (continued)

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

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

- Useful lives and residual values of intangible assets

Management reviews the useful lives and residual values of the items of intangible assets on a regular basis. During the financial year, the trustees determined no significant changes in the useful lives and residual values.

c) Contributions receivable

Contribution from the employees and employer are accounted for in the period in which they fall due.

The rates used are as follows:	Rate %
Employer	20
Employees	10

d) Benefits payable

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

e) Income from investments

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

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

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) 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 fair 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 measured 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)

g) 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.

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.

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)

g) Financial instruments (continued)

Impairment (continued)

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.

h) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives which is estimated to be 3 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

i) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash at bank, deposits held at call with banks and financial assets with maturities of less than 91 days.

j) Taxation

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

k) Comparatives

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

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NOTES (CONTINUED)

2. Dealings with members	2021 Shs '000	2020 Shs '000
(a) Contributions received		
Registered:		
- Employer	689,871	*717,954
- Employees	603,118	597,082
Unregistered:		
- Employer	522,839	474,440
- Employees	3,237	4,144
	<u>1,819,066</u>	<u>1,793,620</u>

* Included in 2020 registered employer contributions is an amount of Shs.1,688,563 being transfers from other schemes.

(b) Benefit to Leavers (retirees, dismissals and resignations)

Withdrawal benefits (contribution and interest)	<u>(350,251)</u>	<u>(201,088)</u>
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3. Plan Investment income

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

Year ended 31 December 2021

	Registered Shs '000	Unregistered Shs '000	Total Shs '000
Dividend	91,515	27,351	118,866
Interest and discount receivable	1,063,717	302,580	1,366,297
Other miscellaneous income	-	4,158	4,158
	<u>1,155,232</u>	<u>334,089</u>	<u>1,489,321</u>

Year ended 31 December 2020

Dividend receivable	80,268	27,568	107,836
Interest and discount receivable	875,124	218,777	1,093,902
	<u>955,392</u>	<u>246,345</u>	<u>1,201,737</u>

4. Profit on disposal of plan investments

	2021 Shs '000	2020 Shs '000
Sale proceeds on disposal of plan investments	1,975,857	946,317
Fair value of plan investments disposed	(1,892,428)	(918,415)
	<u>83,429</u>	<u>27,902</u>

5. Investment management expenses

Management expenses	31,444	26,598
Custodian expenses	8,629	7,203
	<u>40,073</u>	<u>33,801</u>

NOTES (CONTINUED)

	2021 Shs '000	2020 Shs '000
6. Administrative expenses		
Trustees, Meetings and Allowances	13,187	16,102
AGM expenses	2,280	-
Staff costs	41,002	17,137
Travelling	586	511
Trustees/Member Education	1,223	-
Tender evaluation	2,852	11
Advertising	932	-
IT expenses	566	1,140
RBA levy	5,000	5,000
Professional and legal fees	1,915	7,228
Actuarial fees	872	-
Bank charges	375	144
Audit fees	1,081	659
Printing and stationery	644	3
Staff training	3,841	-
Fund master licence	1,160	-
Motor vehicle running expenses	408	-
Asset tagging expenses	210	-
ERP and EDMS Cost	260	-
Telephone, Wifi, Internet, Postage & Courier	806	-
Pension office works & Furniture repairs	939	-
Depreciation	494	15
Expected credit loss	2,852	-
Write off of corporate bond (Real people)	35,000	-
Underprovision of tax in prior year	15	-
Loss of assets	-	135
Rounding errors	-	8,237
	<u>118,503</u>	<u>56,322</u>
7. Taxation		
a) Tax charge		
Tax is charged on investment income earned from the unregistered contribution net of associated expenses at the rate of 30% (2020: 25%) as follows:		
Investment income - unregistered	298,001	210,401
Deductible expenses - unregistered	<u>(23,941)</u>	<u>(9,309)</u>
Taxable income	<u>274,061</u>	<u>201,092</u>
Tax thereon at 30% (2020: 25%)	<u>82,218</u>	<u>50,273</u>
Tax charge	<u>82,218</u>	<u>50,273</u>
b) Tax payable		
At start of year	7,074	15,417
Underprovision/(overprovision) of tax in prior year	15	(667)
Tax charge for the year	82,218	50,273
Tax paid during the year	<u>(73,572)</u>	<u>(57,949)</u>
At end of year	<u>15,735</u>	<u>7,074</u>

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NOTES (CONTINUED)

8. Plan investments

	2021 Shs '000	2020 Shs '000
Shares	3,563,431	3,469,212
Kenya government securities	12,259,262	10,113,681
Commercial paper and corporate bonds	15,000	51,467
Fixed term bank deposits (Note 10)	375,239	567,910
Expected credit loss on fixed term bank deposits	(2,852)	-
Guaranteed Fund-Kenindia Insurance	1,000,000	-
	<u>17,210,080</u>	<u>14,202,271</u>

Year ended 31 December 2021

	Value at start of year Shs '000	Purchases at cost Shs '000	Sales proceeds Shs '000	Gain/(loss) on disposal Shs '000	Change in fair value Shs '000	Maturities & impairment Shs '000	Value at end of year Shs '000
Quoted shares	3,469,212	105,256	(567,553)	13,411	543,104	-	3,563,431
Kenya government securities	10,113,682	4,051,964	(1,408,304)	70,017	(257,947)	(310,150)	12,259,262
Commercial paper and corporate bonds	51,467	-	-	-	(1,466)	(35,000)	15,000
	<u>13,634,361</u>	<u>4,157,220</u>	<u>(1,975,857)</u>	<u>83,429</u>	<u>283,690</u>	<u>(345,150)</u>	<u>15,837,693</u>

The financial assets of the scheme are split between registered and unregistered scheme which are managed by different fund managers.

	Quoted shares		Kenya government securities		Commercial paper and corporate bonds		Value at end of year
	Registered Shs '000	Unregistered Shs '000	Registered Shs '000	Unregistered Shs '000	Registered Shs '000	Unregistered Shs '000	Shs '000
Value at start of year	2,746,819	722,394	7,902,198	2,211,484	51,466	-	13,634,361
Purchases at cost	31,897	73,359	3,040,634	1,011,330	-	-	4,157,220
Sales proceeds	(567,281)	(272)	(1,361,916)	(46,389)	-	-	(1,975,857)
Gain/(loss) on disposal	13,837	(426)	64,516	5,502	-	-	83,429
Impairment of real people bond	-	-	-	-	(35,000)	-	(35,000)
Change in fair value	428,073	115,030	(223,831)	(34,116)	(1,466)	-	283,690
Maturities	-	-	(110,650)	(199,500)	-	-	(310,150)
Value at end of year	<u>2,653,346</u>	<u>910,086</u>	<u>9,310,951</u>	<u>2,948,310</u>	<u>15,000</u>	<u>-</u>	<u>15,837,693</u>

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NOTES (CONTINUED)

8. Plan Investment (continued)

Year ended 31 December 2020

	Value at start of year Shs '000	Purchases at cost Shs '000	Sales proceeds Shs '000	Gain/(loss) on disposal Shs '000	Change in fair value Shs '000	Value at end of year Shs '000
Quoted shares	2,587,445	1,259,753	(102,021)	(5,758)	(270,207)	3,469,212
Kenya government securities	8,311,570	2,522,364	(818,252)	32,744	65,256	10,113,682
Commercial paper and corporate bonds	86,279	-	(26,044)	916	(9,685)	51,467
	<u>10,985,294</u>	<u>3,782,117</u>	<u>(946,317)</u>	<u>27,902</u>	<u>(214,636)</u>	<u>13,634,361</u>

The financial assets of the scheme are split between registered and unregistered scheme which are managed by different fund managers.

	Quoted shares		Kenya government securities		Commercial paper and corporate bonds		Value at end of year
	Registered Shs '000	Unregistered Shs '000	Registered Shs '000	Unregistered Shs '000	Registered Shs '000	Unregistered Shs '000	Shs '000
Value at start of year	2,016,464	570,982	6,721,046	1,590,524	70,696	15,582	10,985,294
Purchases at cost	1,030,207	229,546	1,552,306	970,058	-	-	3,782,117
Sales proceeds	(102,021)	-	(428,252)	(390,000)	(10,737)	(15,307)	(946,317)
Gain/(loss) on disposal	(5,758)	-	6,852	25,892	1,192	(276)	27,902
Change in fair value	(192,073)	(78,134)	50,246	15,010	(9,685)	-	(214,636)
Value at end of year	<u>2,746,819</u>	<u>722,394</u>	<u>7,902,198</u>	<u>2,211,484</u>	<u>51,466</u>	<u>-</u>	<u>13,634,361</u>

NOTES (CONTINUED)

8. Plan Investment (continued)

As at 31 December 2021, the following carrying values of commercial papers and corporate bonds were held with institutions that are under statutory management:

	2021 Shs '000	2020 Shs '000
Imperial Bank Limited	70,000	70,000
Chase Bank Limited	16,000	16,000
	<u>86,000</u>	<u>86,000</u>
Impairment provision	<u>(86,000)</u>	<u>(86,000)</u>
Net carrying value	<u>-</u>	<u>-</u>

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

	2021 %	2020 %
Kenya government securities		
- Treasury bills and bonds	10.85 - 13.92	6.0 - 14.85
- Corporate bonds and commercial paper	<u>8.00 - 12.30</u>	<u>7.5 - 12.5</u>

9. Receivables and accrued income

	2021 Shs '000	2020 Shs '000
Dividend receivable	15,017	-
Prepayments	1,596	-
Accrued interest - guaranteed funds	<u>60,671</u>	<u>-</u>
	<u>77,285</u>	<u>-</u>

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

10. Cash and cash equivalents

	2021 Shs '000	2020 Shs '000
Cash at bank	<u>64,106</u>	<u>42,700</u>

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

Cash at bank and short term bank deposits	64,106	42,700
Fixed term bank deposits (Note 8)	<u>375,239</u>	<u>567,910</u>
	<u>439,345</u>	<u>610,610</u>

The weighted average effective interest rate on short term bank deposits at year end was:

	2021 %	2020 %
Short term deposits	<u>8.0 - 9.0</u>	<u>4.0 - 9.5</u>

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

NOTES (CONTINUED)

11. Property and equipment

	Computers & Accessories	Furniture & equipments	Total Shs '000
Cost			
At start of year	-	-	-
Additions	2,001	469	2,469
At end of year	2,001	469	2,469
Depreciation			
At start of year	-	-	-
Charge for the year	400	94	494
At end of year	400	94	494
Net book value			
As at 31 December 2021	1,600	375	1,976

12. Intangible assets

	ERP Software WIP	Website & SMS platform	Total Shs '000
Cost			
At start of year	-	5,609	5,609
Additions	4,478	-	4,478
At end of year	4,478	5,609	10,087
Amortisation			
At start of year	-	5,609	5,609
Charge for the year	-	-	-
At end of year	-	5,609	5,609
Net book value			
As at 31 December 2021	4,478	-	4,478
As at 31 December 2020	-	-	-

13. Payables and accrued expenses

RBA levy	5,000	5,000
Accruals and other payables	43,612	16,574
Benefits payable	114	7,321
	<u>48,727</u>	<u>28,895</u>

The maturity analysis of trade and other payables is within three months.

NOTES (CONTINUED)

14. Investments guidelines

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

Category of asset	2021 %	2020 %	Maximum %
Cash and demand deposits	0.01	0.01	5
Fixed and time deposits	2.18	4.00	30
Commercial paper and corporate bonds	0.09	0.36	30
Kenya Government securities	71.07	71.21	90
Quoted shares - Kenya	20.66	24.43	70
Quoted shares - offshore	-	-	15
Immovable properties	-	-	30

The scheme's investments portfolio complies with the Retirement Benefits Act.

15. Tax status of the scheme

Kenya Ports Authority Retirement Benefits Scheme 2012 has been approved by the Kenya Revenue Authority and is exempt from income tax on its investment income earned from the registered contribution.

The benefit scheme comprises a registered and an unregistered fund. The latter is registered with Retirement Benefits Authority but not registered for tax purposes.

Pension contributions received by the scheme up to a limit of Shs 20,000 (2020: Shs 20,000) per resident employee per month are invested in the registered fund, which is exempt from taxation. The remainder of the contributions are invested in an unregistered fund whose investment income is taxed at the corporate tax rate of 30% (2020;25%)

16. Risk management objectives and policies

Financial risk management

The scheme's investment activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk.

The scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the scheme's financial performance.

Risk management is carried out by the investment managers under policies and guidelines approved by the trustees.

NOTES (CONTINUED)

16. Risk management objectives and policies (continued)

a) Market risk

Interest rate risk

The Scheme investments in fixed rate government securities, corporate bonds and bank deposits expose it to fair value interest rate risk. The investment managers advise the trustees on the appropriate balance of the portfolio between equity and fixed rate interest investments. The Scheme has no interest bearing liabilities.

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.

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 trustees agree with the investment manager on the amounts to be invested in assets that can be easily liquidated.

The scheme is not exposed to liquidity risk as it maintains adequate amounts of cash and cash equivalents to pay off liabilities as they fall due.

No collateral is held for any of the above assets. None of the financial assets are either past due or impaired.

e) Fair value measurements

The carrying amounts of all financial assets and 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 2021

	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Totals Shs '000
Financial assets				
Quoted shares	3,563,431	-	-	3,563,431
Kenya government securities	-	12,259,262	-	12,259,262
Commercial paper and corporate bonds	-	15,000	-	15,000
Guaranteed funds - Kenindia insurance	-	1,000,000	-	1,000,000
	<u>3,563,431</u>	<u>13,274,262</u>	<u>-</u>	<u>16,837,693</u>

NOTES (CONTINUED)

16. Risk management objectives and policies (continued)

e) Fair value measurements (continued)

Year ended 31 December 2020	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Totals Shs '000
Financial assets				
Quoted shares	3,469,212	-	-	3,469,212
Kenya government securities	-	10,113,682	-	10,113,682
Commercial paper and corporate bonds	-	51,467	-	51,467
	<u>3,469,212</u>	<u>10,165,149</u>	<u>-</u>	<u>13,634,361</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

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

17. Fund management

The scheme's objectives when managing fund are:

- to comply with The Retirement Benefit (Occupational Retirement Benefit Schemes) Regulations, 2000 made under Retirement Benefit Act, 1997.
- to safeguard the scheme's ability to continue as a going concern, so that it can continue to provide returns for members and benefits for other stakeholders.

The Retirement Benefits Act requires the scheme's trustees to invest members' funds using prudent investment policies that will get the members market rates on their investments. The scheme's compliance with this requirement has been disclosed in Note 14.

The trustees monitor capital on the basis of the value of net assets attributed to members. To achieve optimal return from the Schemes' assets, the trustee has formulated investment policies which set benchmarks upon which the investment manager is monitored.

NOTES (CONTINUED)

18. Contingent assets

The scheme, through Ethics & Anti-corruption Commission is a plaintiff in a legal proceeding in The High Court Of Kenya which commenced by way of a Plaint on 21 June 2017 seeking recovery of Ksh 70 Million against Kikambala Development Company Ltd and other defendants jointly and severally being money allegedly obtained by the defedants out of Ports Authority Pension Scheme.

The full amount of Kshs 70 Million has since been deposited in an Escrow account jointly operated by Advocates of the EACC and the firm of Kanyi and Company Advocates. The matter is almost concluded save for costs and interest which have not been agreed.

19. Presentation currency

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