KENYA POWER
PENSION FUND
Defined Benefits

2017

ANNUAL REPORT

& FINANCIAL STATEMENTS


SAKILE
PROPERTIES
A6

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KENYA POWER
PENSION FUND
Defined Benefits

SCHEME INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017

Trustees

Sammy Oduori	-	Chairman
Ken Tarus PhD		
Beatrice Meso		
Abubakar Swaleh		
Ernest Nadome		
Kosgey Kolil		
Dr. Ben Chumo	-	Retired on 28 February 2017

CEO & Trust Secretary
Henry Kyanda

Registered Office
Retirement Benefits Scheme Trustees
P. O. Box 1548 - 00600
Nairobi

Investment Managers
ICEA Lion Asset Management Limited
P. O. Box 46143 - 00100
Nairobi

Sanlam Investments East Africa
P. O. Box 67262 - 00200
Nairobi

Custodians
Standard Chartered Bank Kenya Limited
Standard Chartered Securities Services Kenya
P. O. Box 40984 - 00100
Nairobi

Stanbic Bank Limited
P. O. Box 30550 - 00100
Nairobi

Banker
Co-operative Bank of Kenya Limited
P. O. Box 48231 -00100
Nairobi

Principal Legal Advisor
Kaplan & Stratton Advocates
P. O. Box 40111 - 00100
Nairobi

Auditor
Ernst & Young LLP
Certified Public Accountants
P. O. Box 44286 - 00100
Nairobi

Actuary
Actuarial Services East Africa Ltd
P. O. Box 10472 - 00100
Nairobi

ABOUT THE FUND

The Kenya Power & Lighting Company Limited Staff Retirement Benefits Scheme ('the Fund") was established by a Trust Deed dated 1 January 1970. The Fund is a defined benefit occupational pension fund and was formed for the employees of The Kenya Power & Lighting Company Limited ('the Sponsor'), then known as East Africa Power and Lighting Company Limited. The Fund is governed by a Trust Deed and Rules which have been approved by the Retirement Benefits Authority (RBA). The main purpose of the Fund is the provision of lump sum benefits and pensions to the members upon attainment of the retirement age, and where applicable, benefits for dependents of deceased members.

The Fund is approved by Kenya Revenue Authority as a retirement benefits scheme for the purposes of the Income Tax (Retirement Benefits) Rule No. 4 and is treated as an 'exempt approved scheme' for the purposes of that Act (1st Schedule 14).

01

VISION

To be the best-in-class occupational pension scheme in whole of Africa.

02

MISSION

To deliver value and quality of life in retirement for our members.

03

CORE VALUES

- Integrity
- Accountability
- Courtesy
- Efficiency
- Stewardship

Fund Benefits

The Fund closed to new members and ceased receiving contributions from existing members with effect from 30th June 2006. The closed Fund continues being a defined benefit registered Scheme, whereby a member who retires on his normal retirement date receives a pension calculated as 1/400 of his final pensionable emoluments for each complete month of pensionable service to 31 December 1999 and 1/600 of final pensionable emoluments for each month of pensionable service from 1 January 2000 up to closing date. (A member who leaves before normal retirement date can elect to receive 50% of his accrued benefits or transfer the benefits to another pension Fund). Where a member dies, the eligible beneficiaries of the deceased member are entitled to a lump sum and monthly pension benefits.

Members

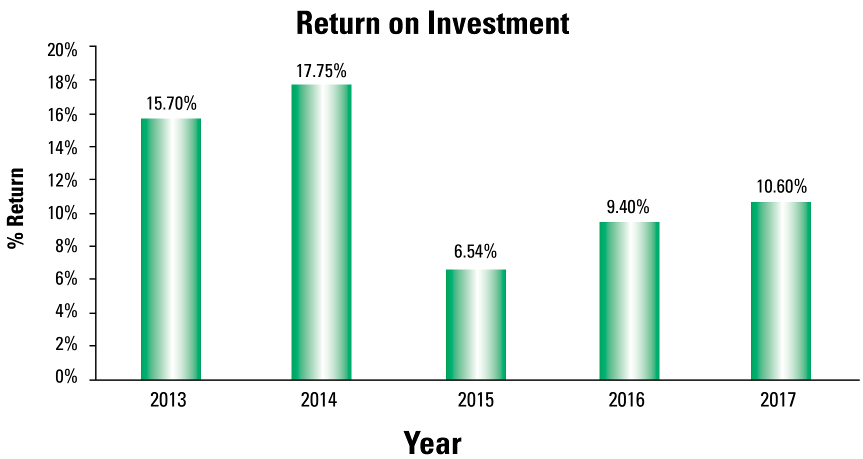
The members of the Fund comprise of employees who were pensionable and in service of the Sponsor as at June 2006, deferred members, retirees, widows/widowers and orphans.

Fund Structure

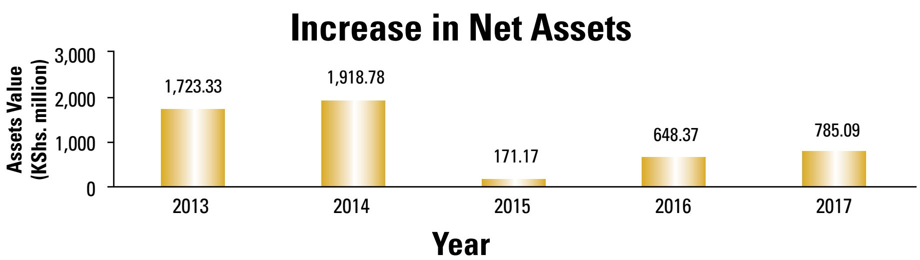
The Fund is managed by a Board of Trustees established under a Trust as required by the Retirement Benefits Act. The day to day running of the Fund is carried out by the Secretariat that supports the Board in meeting its objectives. The Secretariat headed by the CEO & Trust Secretary works in liaison with the Fund service providers i.e. fund managers custodians, actuaries, lawyers and auditors.

THE FUND STRUCTURE

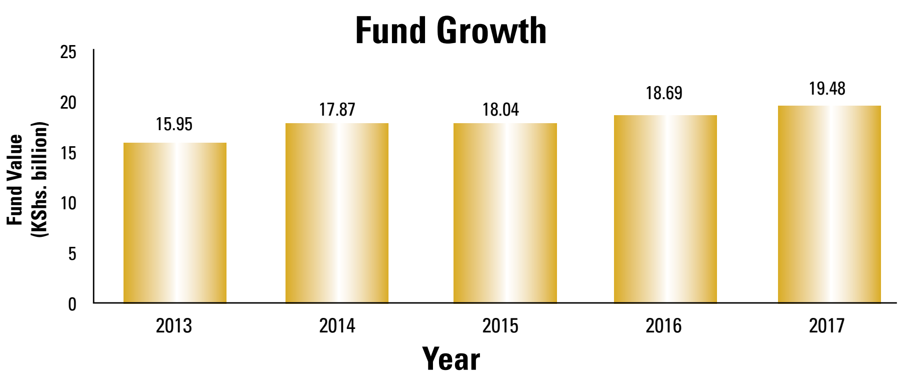
FUND HIGHLIGHTS

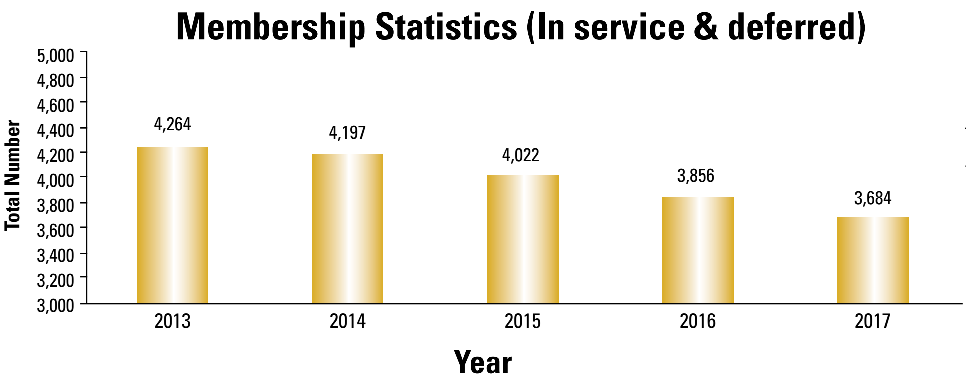


The Trustees have adopted an investment policy and strategies in pursuance of maximizing the long-term return on investments while mitigating against short-term volatility. The investment framework also take into consideration the maturity profile of the Fund to ensure that liquidity requirements are honored.

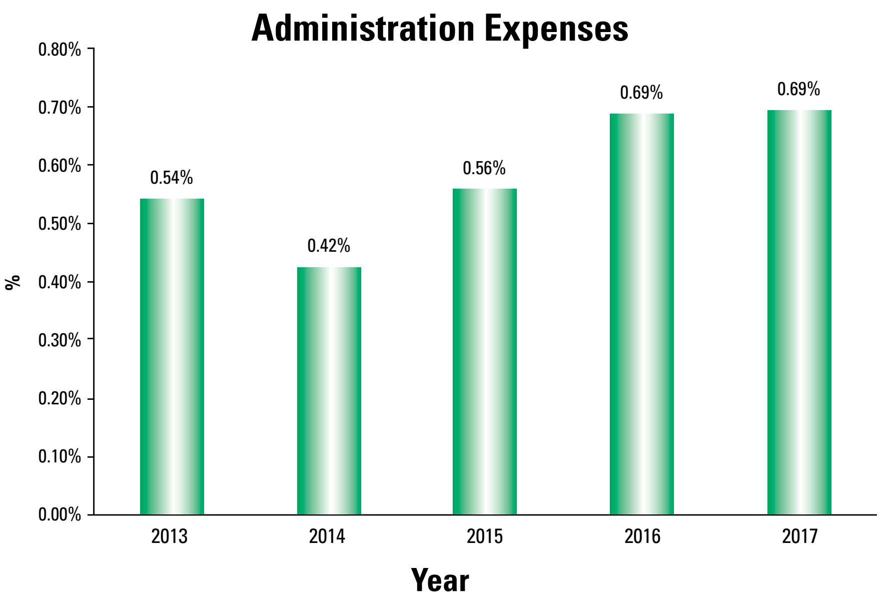


The growth of the fund is net movement of investment returns as well pay outs of the retirement benefits to members. Despite the increasing out flows owing to the age of the Fund, steady growth has been registered over the years. This is attributable to good returns on investments.

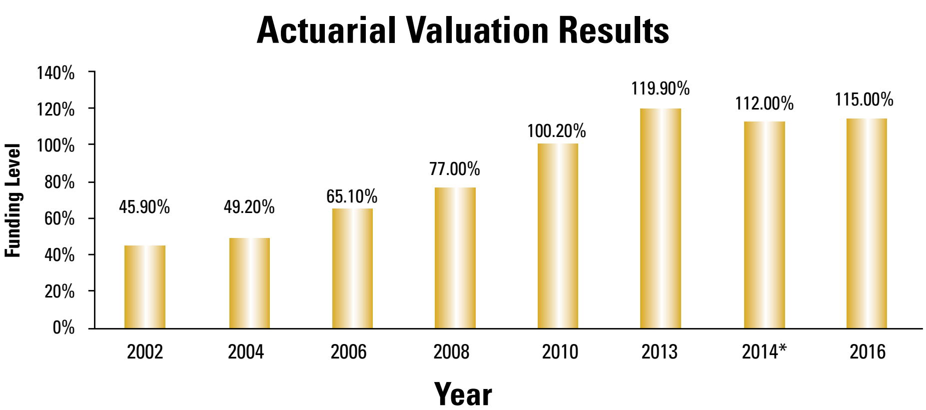




The Fund was closed to new entrants from 30th June, 2006 and hence a continued drop in membership is expected as members exit from the Fund.



The Fund has put in place financial management measures to ensure that the administrative expenses are below 1% of the total fund value.



The level of funding (the ratio of the fund assets to accrued liabilities) as per the last actuarial valuation stood 115%. The level of funding was above the statutory minimum funding requirement of 100% prescribed in the Retirement Benefits Regulations.

Business Highlights / KPIs

Net returns on investments **KShs 1,840.98m** 2016 Kshs 1,605.93 m	Increase in Net Assets **KShs 785.09m** 2016 Kshs 648.38m	Net Surplus from dealing with members **KShs (922.28) m** 2016 Kshs (847.99) m
Contributions Receivable **KShs 0** 2016 Kshs 0 m	Benefits Payable **KShs (922.28) m** 2016 Kshs (847.99) m	Fund Value **KShs 19,477.98m** 2016 Kshs 18,692.89 m
Active Members **3,467** In 2016 3,636	Deferred Members **217** In 2016 220	Pensioners **4,102** In 2016 4,076

YEAR	**2013 Kshs '000**	**2014 Kshs '000**	**2015 Kshs '000**	**2016 Kshs '000**	**2017 Kshs '000**
Statement of Changes in Net Assets Available for Benefits					
Contributions received	-	-	-	-	-
Benefits paid	(467,922)	(595,592)	(868,742)	(847,987)	(922,276)
Net returns on investments	2,263,605	2,585,461	1,133,788	1,605,929	1,840,983
Other Income	14,247	4,568	7,072	18,834	1,486
Administrative expenses	(86,597)	(75,660)	(100,944)	(128,401)	(135,099)
Increase in net assets	**1,723,333**	**1,918,777**	**171,175**	**648,375**	**785,094**
Statement of Net Assets Available for Benefits					
ASSETS					
Property & equipment	17,594	17,220	31,086	35,252	35,695
Investments Assets	15,827,662	17,985,588	17,137,042	17,464,861	17,498,965
Other Assets	342,765	323,583	1,134,467	1,360,210	2,123,047
Total assets	**16,188,021**	**18,326,391**	**18,302,595**	**18,860,323**	**19,657,707**
Liabilities					
Benefits payable	5,496	3,013	2,468	-	-
Other Liabilities	227,960	450,040	255,614	167,437	179,727
Total Liabilities	**233,455**	**453,053**	**258,082**	**167,437**	**179,727**
Trust fund	**15,954,561**	**17,873,338**	**18,044,513**	**18,692,886**	**19,477,980**

CHAIRMAN'S REPORT

Sammy Oduori
Chairman

Dear Members

It gives me great pleasure to present the Kenya Power Pension Fund (KPPF) Annual Report and Financial Statements for the year ended 31st December 2017. Despite the challenging economic and political environment, the Fund managed to register solid results.

ECONOMIC HIGHLIGHTS

According to the International Monetary Fund, the global economic activity continued to firm up in 2017. Global output was estimated to have grown by 3.7% in 2017 compared to 3.2% registered in 2016. The growth was broad based, with notable upside surprises in Europe and Asia.

Kenya's economy grew by 4.9% in 2017, recording the slowest progress in five years. This was below the 5.9% recorded in 2016. The slowdown in economic performance was mainly attributed to uncertainties resulting from prolonged electioneering period and adverse weather effects.

During the year, inflation was above the Central Bank of Kenya (CBK) upper target of 7% averaging 8.0% compared to 6.3% in 2016. The inflation was primarily due to an increase in food prices. On the foreign exchange front, the Kenyan Shilling

PERFORMANCE

The total market value of the Fund's assets as at the end of the year stood at KShs. 19.48 billion up from KShs. 18.69 billion at the end of 2016.

remained relatively stable supported by monetary policy measures taken by CBK, resilient diaspora remittances and healthy forex reserves. The Shilling depreciated by 0.7%, 10.6% and 13.1% against the US Dollar, Sterling Pound and South Africa Rand respectively. Regionally it appreciated by 2.1% and 4.6% to the Tanzanian shilling and Rwandese Franc respectively but depreciated by 0.2% to the Uganda shilling.

The stock market performed exemplary well in the period under review. The Nairobi Securities Exchange NSE 20, NSE 25 index and the NSE All Share Indices appreciated by 16.5%, 21.3% and 28.4% respectively in 2017. The positive annual performance was boosted by recovery of major banking and telecommunication stocks that went up by an average of 32.3% and 39.7% respectively.

Interest rates remained relatively stable with treasury bills closing at 8.1%, 10.6% and 11.2% for the 91 days, 182 days and 364 days respectively as at 31st December 2017. This compares to 8.6%, 10.5% and 11.0% respectively as at 31st December 2016 (due to high levels of liquidity in the market). On the other hand, the real estate sector registered a downward trend in 2017 due to the prolonged electioneering period and a credit crunch resulting from the capping of interest rates.

PENSION INDUSTRY AND REGULATORY ENVIRONMENT

The industry regulator Retirement Benefits Authority, (RBA) whose mandate is to develop the Retirement Benefits Industry and to provide policy advice to the government on matters relating to the retirement benefits sector continues to play a major role in creating public awareness of the sector. The Pension industry has continued to grow over the years with the total pension industry asset value as at the end of 2017 being over Kshs 1.0 trillion.

RBA engages in pertinent research that informs priority areas of development and policy directions. Through the regulator, various innovative products including occupational, individual and umbrella Schemes have been developed to help cater for members during their retirement. During the year the RBA undertook various initiatives to sensitize the public on the Prudential Guidelines which outline the key aspects in the implementation and management of post-retirement medical funds.

The Trustee Development Program Kenya (TDPK) training continues to play an important role in ensuring that there is prudent management of Funds thereby maintaining confidence in the management of the pension funds. All Trustees of pension schemes in Kenya are required to undergo the training. In this regard, the Fund Trustees have complied fully with this regulatory requirement.

Regulatory Changes

The following legislative and regulatory changes amongst others were introduced during the year;

a) Changes relating to Trustees

i. The Trustees are required to meet at least two times in every calendar year and the interval between Trustees meetings should not be more than six months. Trustees who fail to attend two consecutive meetings shall be removed as Trustees.
ii. RBA shall approve Trustees remuneration as approved by the members during the Annual General Meeting after every three years.
iii. No person shall be a Trustee of any Scheme Fund if such person does not comply with the guidelines and practice notes issued by RBA including the Trustees Development Programme of Kenya training (TDPK).

b) Reporting

i. Schemes custodians to submit to the RBA, quarterly reports detailing the assets of the Scheme Funds and the contributions received.
ii. A penalty of Kshs. 100,000 to be paid for failure to submit audited financial results by the due date.
iii. Schemes shall maintain a quarterly record of contributions in the prescribed form and the original record shall be submitted to the RBA on the Fifteenth (15) day of the month following the end of the quarter.

The Fund has put in place an elaborate compliance tool that tracks the compliance levels against the legislative and regulatory requirements. In addition, it continues to monitor processes to ensure that all the changes are adhered to while taking advantage of the improvements in the operating environment.

FINANCIAL PERFORMANCE

The Fund has once again delivered a solid performance notwithstanding the challenges in the operating environment. The Fund achieved an annual return on investments of 10.6% for the year ended 2017. This affirms the sound investment strategies laid down and implemented by the Board.

The total market value of the Fund's assets as at the end of the year stood at KShs. 19.48 billion up from KShs. 18.69 billion at the end of 2016. This was an increase in the net assets by Kshs 786.9 million which was an improvement from Kshs. 648.4 million registered in the year 2016. This net increase in assets is after payment of lumpsums to exiting members and monthly pensions obligation. This is a closed Fund therefore no contributions were received during the year.

The Board of Trustees endeavors to prudently invest available funds in an optimized portfolio that yields favorable returns as well as mitigate against market volatility. This is done to ensure that the existing funding levels is sustained. The long-term investment objective is to achieve return on investments in excess of inflation by ensuring a diversified portfolio and enhanced performance monitoring mechanisms.

ACTUARIAL VALUATION RESULT

The Fund is required by RBA regulations to conduct an actuarial valuation after every three years. The exercise reviews and determines the funding level of the Fund. The statutory minimum funding level is 100% that is, the liabilities should match the assets.

The actuarial valuation for the Fund was undertaken as at 31st December 2016 by Actuarial Services Limited, one of the Actuaries licensed by RBA. The results from this valuation indicated that the funding levels was 115% (2013:112%).

CORPORATE GOVERNANCE

The Trustees endeavor to adhere to the highest standards of corporate governance in the management of the Fund. The Board takes all necessary steps to implement policies, procedures and systems to ensure full compliance with all the legislative and regulatory requirements as well as the Trust Deed and Rules in serving the members. The Fund's corporate governance and risk management structures and processes are detailed on page 25 - 32 of this report.

OUTLOOK

Kenya's economy is expected to recover in 2018 as a result of stable political atmosphere and improved weather prospects. The Trustees will continue to monitor the developments in the macro environment and align its investment strategies to take advantage of opportunities while mitigating risks.

The Trustees will continue to implement strategies outlined in the 2016-2020 strategic plan as it pursues its vision of becoming the best-in-class occupational scheme in the whole of Africa. Trustees will put more emphasis on enhancing member offering, investment returns and implementation of ICT strategies as key drivers of the Fund's strategic and business operations.

APPRECIATION

I wish to salute my fellow Board members, the CEO & Trust Secretary with his team and all other stakeholders for their contributions towards this tremendous achievement. I also wish to acknowledge the Sponsor for the immense contribution made to the sustainable growth of the Fund. Finally, I would like to express my sincerest gratitude to all our business partners and advisors for their unwavering support and goodwill. God Bless you all.

Sammy Oduori
Chairman
The KPLC Staff Retirement Benefits Scheme

RIPOTI YA MWENYEKITI

Sammy Oduori
Mwenyekiti

UTENDAJI

Thamani jumla kwenye soko ya mali za Hazina kufikia mwisho wa mwaka ilifikia shilingi za Kenya bilioni kumi na tisa nukta nne nane (Kshs 19.48 billion).

Kwa Wanachama,

Ni kwa furaha kuu isiyo kifani ninachukuwa fursa hii mahsusi kuwawasilishieni ripoti ya kila mwaka na taarifa za hali ya kifedha ya Hazina ya Malipo ya Uzeeni ya Wafanyikazi wa Shirika la Kawi Kenya (Kenya Power Pension Fund- KPPF) kwa kipindi cha mwaka kilichokamilika tarehe 31/12/2017. Licha ya changamoto kubwa za kiuchumi na mazingira ya kisiasa, Hazina ilijimudu kusajili matokeo dhabiti.

VIDOKEZO MUHIMU VYA KIUCHUMI

Kulingana na Shirika la Fedha Ulimwenguni (International Monetary Fund- IMF), shughuli za kiuchumi kimataifa ziliendelea kuimarika na kuwa dhabiti kwenye mwaka wa 2017. Ilikadiriwa kuwa pato la kimataifa lilikua kwa asilimia tatu nukta saba (3.7%) kwa kipindi cha mwaka 2017 ikilinganishwa na nukta tatu nukta mbili (3.2%) iliyosajiliwa katika mwaka wa 2016. Ukuaji huu wa kimapato ulikuwa mpana zaidi huku kukiwepo na matokeo ya juu zaidi bara Ulaya na Asia, ambayo yalikuwa ya kushangaza na yasiyotarajiwa.

Uchumi wa Kenya ulikua kwa asilimia nne nukta tisa (4.9%) katika kipindi cha mwaka 2017, ukuaji huu ukiwa wa kiwango cha chini zaidi kwa miaka mitano iliyopita. Hii ilikuwa chini ya ukuaji wa asilimia tano nukta tisa (5.9%) katika kipindi cha mwaka 2016. Kuzoroteka na kudidimia huku katika ufanisi wa kiuchumi pakubwa ulihusishwa na hali tete na isiyo hakika iliyotokana na kipindi kirefu cha upigaji siasa na uchaguzi pamoja na hali mbaya ya hewa.

Kwenye mwaka 2017, mfumuko wa bei ulizidi kiwango cha juu cha asilimia saba (7%) kilichowekwa na kulengwa na Benki Kuu ya Kenya (CBK) na kufikia wastani wa asilimia nane (8%) ikilinganishwa na asilimia sita nukta tatu (6.3%) mwaka wa 2016. Mfumuko huu ulitokana pakubwa na kuongezeka kwa bei ya vyakula. Kwenye upande wa ubadilishanaji wa fedha za kigeni, shilingi ya Kenya ilisalia kuwa imara kwa kiasi kwa kusaidiwa na hatua za sera za kifedha zilizochukuliwa na kuwekwa na Benki Kuu ya Kenya (CBK), ustahimilifu wa fedha zinazotumwa kutoka mataifa ya nje na hali imara ya hifadhi ya fedha za kigeni. Thamani ya shilingi ilizorota kwa asilimia sufuri nukta saba (0.7%), asilimia kumi nukta sita (10.6%) na asilimia kumi na tatu nukta moja (13.1%) dhidi ya Dola ya Marekani, Pauni ya Uingereza na Randi ya Afrika Kusini mtawalio. Kieneo, Shilingi ya humu nchini ilipanda kwa asilimia mbili nukta moja (2.1%) na asilimia nne nukta sita (4.6%) dhidi ya shilingi ya Tanzania na Franka ya Rwanda mtawalio na kudorora kwa asilimia sufuri nukta mbili (0.2%) dhidi ya shilingi ya Uganda.

Soko la hisa lilisajili ufanisi mzuri zaidi katika kipindi husika. Kiwango cha Hisa Mahsusi katika Soko la Nairobi (NSE 20 share index), NSE 25 na kile cha Hisa Jumla cha Soko la Hisa la Nairobi (NSE All Share Indices) kiliimarika na kupanda kwa asilimia kumi na sita nukta tano (16.5%), asilimia ishirini na moja nukta tatu (21.3%) na asilimia ishirini na nane nukta nne (28.4%) mtawalio katika mwaka wa 2017. Ukuaji huu yakinifu ulipigwa jeki na kujikwamua kwa hisa muhimu za benki na mawasiliano ya simu ambao ulienda juu kwa kiwango wastani cha asilimia thelathini na mbili nukta tatu (32.3%) na asilimia thelathini na tisa nukta saba (39.7%) mtawalio.

Viwango vya riba vilisalia imara kwa kiasi na hati za dhamana (Treasury Bills) zikifunga kwa asilimia nane nukta moja (8.1%), asilimia kumi nukta sita (10.6%) na asilimia kumi na moja nukta mbili (11.2%) kwa kipindi cha siku tisini na moja, siku mia moja themanini na mbili na mia tatu sitini na nne mtawalio. Hii inalingana na asilimia nane nukta sita (8.6%), asilimia kumi nukta tano (10.5%) na asilimia kumi na moja nukta sufuri (11.0 %) mtawalio kwa kipindi kilichokamilika tarehe 31/12/2016 kwa sababu ya viwango vya juu vya ukwasi katika soko. Kwa upande mwingine, sekta ya mali isiyohamishika (real estate sector) iliteremka kwa ajili ya kipindi kirefu cha siasa za uchaguzi na kura pamoja na mtikisiko wa soko la mikopo uliotokana na kudhibitiwa kwa viwango vya riba.

SEKTA YA PENSHENI/MALIPO UZEENI NA MAZINGIRA YA UDHIBITI

Mdhibiti wa sekta ya malipo ya uzeeni, Mamlaka Simamizi ya Faida za Malipo ya Uzeeni (RBA) ambayo wajibu wake wa kimsingi ni kukuza sekta ya malipo ya uzeeni na kupeana ushauri wa kisera kwa serikali kuhusiana na maswala ya sekta ya malipo ya uzeeni, imeendelea kuchukuwa nafasi kubwa katika kuhamasisha umma juu ya sekta hii. Sekta ya pensheni iliendelea kukua na kuimarika zaidi katika kipindi cha mwaka 2017 hadi kufikia kiwango cha shilingi za Kenya trilioni moja (Kshs 1.0 trillion), hii ikiwa ndio jumla ya mali ya sekta ya pensheni. Mamlaka Simamizi ya Faida za Malipo ya Uzeeni (RBA) hufanya utafiti wa kina unaotoa mwelekeo kuhusu maeneo mwafaka ya kimaendeleo yanayostahili kupewa kipau mbele na pia kuongoza mwelekeo au mkondo wa kisera. Kupitia kwa mdhibiti, bidhaa mbalimbali bunifu zimetengenezwa ili kuwezesha kuwasaidia wanachama uzeeni wakati wa kustaafu kwao ukiwemo ule wa kitaaluma/kikazi, kibinafsi na ule wa miradi jumla (umbrella schemes). Katika kipindi cha mwaka husika, Mamlaka yalitekeleza mipango kadha wa kadha ya kuhamasisha umma juu ya Miongozo Makinifu (Prudential Guidelines) ambayo inataja mambo muhimu kuhusu utekelezwaji na usimamizi wa fedha za matibabu baada ya kustaafu.

Mafunzo yanayotolewa na Mpango wa Kukuza Wadhamini, Kenya (Trustee Development Program Kenya-TDPK) yametekeleza wajibu muhimu sana kwa kuendelea kuhakikisha kuwepo kwa usimamizi mwafaka wa Hazina na hivyo kuendelea kukuza hali ya uaminifu katika usimamizi wa mfuko wa malipo ya uzeeni. Wadhamini wote wa miradi yote ya pensheni nchini Kenya wanatakiwa kushiriki katika mafundisho haya. Kwa mujibu wa swala hili, Hazina hii imetimiza takwa hili la kiudhibiti kikamilifu.

MABADILIKO YA KIUDHIBITI

Mabadiliko yafwatayo ya kisheria na kiudhibiti miongoni mwa mengine yalitolewa katika kipindi cha mwaka husika;

a) Mabadiliko kuhusiana na Wadhamini

i. Wadhamini wanatakiwa kukutana angalau mara mbili kwa mwaka na mda baina ya mikutano ya wadhamini usizidishe miezi sita. Wadhamini wanaokosa kuhudhuria mikutano miwili mtawalio watangólewa kutoka kwa nafasi zao kama Wadhamini.
ii. Mamlaka Simamizi ya Faida za Malipo ya Uzeeni (RBA) itaratibu na kupitisha mishahara jinsi ilivyopitishwa na wanchama wakati wa Mkutano Mkuu wa kila Mwaka (AGM) kila baada ya miaka mitatu.
iii. Hakuna mtu yeyote atakayekuwa mdhamini wa Mfuko wa kifedha au Hazina yoyote ikiwa hajatimiza matakwa na kuzingatia mwongozo unaotolewa na RBA ikiwemo Mpango wa Kukuza Wadhamini, Kenya (Trustee Development Program Kenya-TDPK).

b). Kutoa Taarifa

i. Wasimamizi wa miradi wawasilishe ripoti kwa RBA kwa kila kipindi cha robo mwaka huku wakitoa taarifa kuhusu mali inayomilikiwa na Hazina na matoleo yote yaliyopokelewa.
ii. Faini ya shilingi za Kenya laki moja (Kshs. 100,000) ilipwe ikiwa ripoti za matokeo ya kifedha yaliyokaguliwa na kuchunguzwa hazikuwasilishwa kwa tarehe rasmi iliyoratibiwa.

iii. Hazina zitadumisha rekodi za robo mwaka za matoleo ya wanachama kwa kufwata mwongozo uliotolewa na rekodi asilia itawasilishwa kwa RBA kwenye siku ya kumi na tano (15th day) ya mwezi unaofwata kukamilika kwa robo-mwaka husika.

Hazina imeweka tayari chombo mwafaka cha uafikiaji kuweza kufuatilia na kutathmini viwango vya uafikiano kwa kuzingatia matakwa ya kisheria na kiudhibiti. Pia, inaendelea kuchunguza na kufuatilia michakato ili kuhakikisha kuwa mabadiliko yote yanazingatiwa huku kukihakikishwa kuwa nafasi ya kunufaika na mazingira bora ya utendaji haipotei.

MATOKEO/UTENDAJI WA KIFEDHA WA HAZINA

Hazina kwa mara nyingine tena imeweza kusajili matokeo dhabiti mno licha ya changamoto kubwa zilizokuwepo katika mazingira ya utendaji. Hazina ilipata faida jumla kutokana na uwekezaji ya asilimia kumi nukta sita (10.6%) kwenye kipindi cha mwaka kilichokamilika 2017. Hii ni idhibati tosha ya mikakati madhubuti iliyowekwa na kutekelezwa na bodi simamizi.

Thamani jumla kwenye soko ya mali za Hazina kufikia mwisho wa mwaka ilifikia shilingi za Kenya bilioni kumi na tisa nukta nne nane (Kshs 19.48 billion) hili likiwa ni ongezeko kutoka kwa shilingi za Kenya bilioni kumi na nane nukta sita tisa (Kshs18.69 billion) mwishoni mwa mwaka wa 2016. Hili lilikuwa ongezeko kwenye mali jumla halisi la shilingi za Kenya milioni mia saba na themanini na sita nukta tisa (Kshs 786.9 million) tofauti na lile la shilingi milioni mia sita arubaine na nane nukta nne za Kenya (Kshs 648.4 million) lililosajiliwa mwaka wa 2016. Ongezeko hili la jumla kwenye mali halisi ni baada ya malipo ya pamoja ya kiasi kikubwa kwa wanachama wanaostaafu na wajibu wa pensheni wa kila mwezi. Huu ni Mfuko-funge hivyo hakuna matoleo yaliyopokelewa katika mwaka uliokamilika. Bodi ya Wadhamini inajizatiti kuwekeza fedha zilizopo kimakinifu kwa mpango mwafaka wenye upeo wa juu zaidi wenye mapato ya kuridhisha huku ikijilinda dhidi ya hali-tete katika soko. Hili hufanywa kuhakikisha kuwa viwango vya kifedha viliopo ni vya kudumu na endelevu. Lengo kuu la kiuwekezaji la muhula mrefu ni kupata mapato kwenye maekezo yenye kuzidi mfumuko wa bei kwa kupitia upanuzi wa maeneo mbalimbali kiuwekezaji pamoja na kufuatilia kwa karibu utendaji wa maekezo hayo.

MATOKEO YA UKADIRIAJI WA THAMANI (ACTUARIAL VALUATION RESULTS)

Hazina inahitajika kisheria kufanya ukadiriaji wa thamani kila baada ya miaka mitatu. Shughuli hii huhusisha kukadiria na kuamua viwango vya fedha vya Hazina. Kima cha chini cha fedha kisheria ni asilimia mia moja (100%) yaani madeni lazima yasawiane na mali-milikishi. Tathmini ya makadirio ya thamani zinazogharamiwa kutokana na hasara za awali ilifanywa na Hazina kwa kufikia tarehe 31/12/2016 na kampuni ya Actuarial Services, ambayo ni kampuni mojawapo iliyoidhinishwa na Mamlaka ya Usimamizi wa Faida za Uzeeni (RBA) kufanya ukadiriaji wa aina hiyo. Matokeo ya tathmini hii yalionyesha kuwa viwango vya kifedha ni asilimia mia moja na kumi na tano (115%) - mwaka 2013 ikiwa asilimia mia moja kumi na mbili (112%).

USIMAMIZI WA USHIRIKA

Wadhamini wanajizatiti kuzingatia viwango vya juu zaidi vya usimamizi wa ushirika katika kusimamia Hazina na huchukuwa hatua muhimu kutekeleza sera, michakato na mifumo jumla kuhakikisha kuwa inaafikiana na matakwa ya kisheria na udhibiti pamoja na Hati Dhamana na Kanuni katika juhudi za kuwahudumia wanachama. Taarifa kuhusu mifumo na michakato ya usimamizi kiushirika na ukabilianaji na hatari ziliopo zimetolewa ufafanuzi kwenye ukurasa wa 25 - 32 wa ripoti hii.

MTAZAMO

Uchumi wa Kenya unatarajiwa kuimarika katika mwaka wa 2018 kutokana na hali tulivu kisiasa na hali nzuri ya hewa. Wadhamini wataendelea kufuatilia kwa karibu matukio katika mazingira mapana ya uwekezaji na kuainisha mikakati yake ili kuweza kunufaika na nafasi ziliopo huku wakizingatia sana upunguzaji wa hatari ama hasara kwenye kuwekeza. Wadhamini wataendelea kutekeleza mikakati iliyoorodheshwa kwenye mpango kimkakati wa 2016-2020 kadri unavyolenga kuafikia ruwaza yake ya kuwa bora miongoni mwa waliobora katika kitengo cha mipango-kikazi (best-in-class occupational scheme) barani Afrika. Wadhamini watatilia mkazo zaidi swala la kuimarisha matoleo ya wanachama, faida kwa maekezo na utekelezwaji wa mikakati ya habari, mawasiliano na teknolojia kama nguzo kuu zinazosukuma na kuendesha michakato ya kibiashara na mikakati ya Hazina.

SHUKRANI

Ningependa kutoa shukrani zangu za dhati kwa wanabodi wenzangu, mkurugenzi-mtendaji pamoja na timu yake na washikadau wengine wote kwa mchango katika ufanisi huu mkubwa. Ningependa pia nimtambue mdhamini mkuu kwa mchango mkubwa uliotolewa katika kudumisha ukuaji wa Hazina. Mwisho kabisa ningependa kutoa shukrani zangu jazila kwa washirika wetu kibiashara na washauri wetu kwa nia njema na msaada wao dhabiti kwetu. Mungu awabariki nyote.

Sammy Oduori
Mwenyekiti
Hazina ya Malipo ya Uzeeni ya Wafanyikazi wa Shirika la Kawi.

CEO & TRUST SECRETARY'S REPORT

H. K. Kyanda
CEO & Trust Secretary

I am delighted to present to you our 2017 annual report which gives an account of our performance and activities during the year.

Our 2016-2020 strategic plan has provided us with focus and inspiration, opening a world of possibilities for the Fund. At the one and half years of implementation mark, we took stock of our efforts, reflected on our achievements and, most importantly, refined our efforts to build on our momentum in the years ahead. Our achievements are shaped by the strength of the foundations we set. We have worked tirelessly with, and on behalf of, our members to shape better policies, enhance member programs, optimizing on available resources and improvement on services.

During the year, the Fund continued to align its asset allocation with the strategic target levels which was informed by the members' age profile. This was meant to not only optimize the return on investment but also ensure an appropriate level of liquidity was maintained to meet the retirement benefits obligations.

Monitoring and evaluation is an essential element in the investment and portfolio management. This ensures that the outcome of the investment actions is monitored and aligned to the ever-evolving investment environment. The engagement

PERFORMANCE

We have worked tirelessly with, and on behalf of, our members to shape better policies, enhance member programs, optimizing on available resources and improvement on services.

of fund managers was enhanced through introduction of monthly meetings to supplement the existing quarterly meetings. This ensured timely feedback and tracking of the tactical investment actions of the fund managers with regard to the capital and listed equity markets investments.

On the alternative investments front, the Fund committed to invest in two additional private equity funds in pursuit of the diversification strategy. The Fund sustained its track record of optimizing real estate investments and maximizing returns from this asset class. This was achieved from timely revenue collection as well as value addition through development of its existing properties. During the year, the Fund successfully sold off its signature project at Loresho and handed over some of the houses to the buyers and plans are underway to re-develop Umeme Plaza in order to optimize on the land asset we are holding.

During the year under review, the member education program was enriched to engage more members. Pre-retirement trainings were held in liaison with the Sponsor for members with one year to retirement. We managed to reach more than 2,900 members across the regions. The Fund will continue to solicit for feedback from members as it seeks to integrate the members' interest in all activities as they form a key ingredient towards improving the services. We have also improved dissemination of information to members through our e-newsletters, website, social media platforms and short message service.

The Board commissioned construction work for a six (6) floor Stima Plaza Annex at a ground-breaking ceremony held on 7th September 2017. The new building will provide office space for the Fund's Secretariat to better serve the members and additional space for letting.

The Fund recognizes the importance of human capital in the implementation of the strategic plan. To strengthen the organisation, the Fund engaged a Human Resource consultant to undertake a wholistic review of our human resource practices. It is envisaged that the outcome of this exercise will align the human capital to the Fund's strategic plan and international best practices.

We have identified ICT as a key business driver in streamlining internal processes and enhancing efficiency. In recognition of this, we have invested substantially in ICT systems and infrastructure. This has enabled us to speed up our service delivery and cut on costs through paperless management of meetings, pension administration and internal workflows. In addition, we have changed how we communicate with the outside world with an expanded presence on Facebook, Twitter, website and short code messaging services.

As business dynamics change risks continue to increase. In this regard, the Fund has implemented a robust risk management and internal control system. Our risk management framework comprises of policies, processes and procedures for identifying, assessing and managing risks. This has enabled us to manage risks and maximize on opportunities by creating a more risk focused culture within the organization, standardization of risk reporting and efficient use of resources. We have identified risk knowledge gaps within the Fund and appropriate training have been carried out to increase awareness.

As part of our desire to continually improve our internal processes and improve our services to members, we have implemented a Quality Management System and the Fund has been re-certified based on the ISO 9001:2015 Standard. ISO 9001 is a world recognized quality management standard that helps organizations to meet the expectations and needs of their customers. The Fund first became ISO certified in April 2014 under ISO 9001:2008 and was among the first pension Funds in Kenya to attain ISO 9001:2015 certification.

OUTLOOK FOR 2018

The Fund will execute the strategies and initiatives as contained in the Fund's Strategic Plan 2016-2020. Our four key strategic pillars; Optimize our performance, Execute real estate projects, Enhance member offering and Strengthen our organization will remain our focus but we intend to put increased emphasis on new products and service delivery to our members leveraging on digital technology.

APPRECIATION

I wish to recognize the leadership, contributions and time devoted by the Chairman and the Board of Trustees for a year-round commitment to the Fund. I also thank the Secretariat for their effort in taking strides to implement the strategy.

I look forward to bringing the best of what we have on to an even better future, where we can serve our members better.

H. K. Kyanda
CEO & Trust Secretary

RIPOTI YA MKURUGENZI MKUU NA KATIBU MDHAMINI

H. K. Kyanda
Mkurugenzi Mkuu na Katibu Mdhamini

UTENDAJI

Tumefanya kazi bila kuchoka kwa niaba ya wanachama ili kuunda sera mwafaka, kuboresha mipango ya wanachama kwa kufikia upeo wa juu zaidi wa aslimali ziliopo na kuimarisha huduma kwao.

Nina furaha kubwa kuwawasilishieni ripoti yetu ya kila mwaka kwa kipindi cha mwaka 2017 ambayo inaonyesha matokeo na shughuli za utendaji kazi katika kipindi hicho.

Mpango wetu-kimkakati wa 2016-2020 umetupa lengo na msukumo dhabiti huku ukifungua milango kwa nafasi nyingi mno kwa Hazina. Kwenye kipindi cha mwaka mmoja na nusu wa utekelezwaji, tulipiga tathmini ya ufanisi wetu, tukaweka macho kwenye mafanikio tuliyonayo na cha msingi na muhimu zaidi tukazipiga msasa juhudi zetu za kuongeza kasi katika utendaji wetu kwa miaka ijayo. Mafanikio yetu yanatokana pakubwa na udhabiti wa misingi tunayoweka. Tumefanya kazi bila kuchoka kwa niaba ya wanachama ili kuunda sera mwafaka, kuboresha mipango ya wanachama kwa kufikia upeo wa juu zaidi wa aslimali ziliopo na kuimarisha huduma kwao.

Katika kipindi cha mwaka husika, Hazina iliendelea kuainisha mali yake jumla na viwango-lengwa kimkakati ambayo ilizingatia taarifa za kiumri za wanachama. Hili halikulenga tu katika kufikia upeo wa juu wa faida kiuwekezaji lakini pia lilifanywa maksudi kuhakikisha kuwa kiwango sahihi cha ukwasi kimedumishwa ili kufikia malengo na wajibu wa hazina ya malipo ya uzeeni.

Ufuatiliaji wa karibu karibu na tathmini ni kipengele muhimu zaidi cha uwekezaji na kitengo cha usimamizi. Hili huhakikisha kwamba mapato yanayotokana na hatua za kiuwekezaji zinafwatiliwa kwa karibu na kuainishwa na mazingira ya uwekezaji ambayo yanabadilikabadilika kila uchao. Shughuli ya kuwashirikisha na kuwahusisha mameneja wa uwekezaji iliboreshwa kupitia kwa mikutano ya kila mwezi pamoja na mikutano ya kila robo mwaka iliyopo. Hili lilihakikisha kuwa majibu/maoni yanatolewa na kupatikana kwa mda mzuri na pia kuweza kufuatilia hatua na mbinu za uwekezaji za mameneja wa Hazina kwa kuzingatia soko la mtaji na uwekezaji wa masoko ya hisa zilizoratibiwa.

Kwenye upande wa uwekezaji mbadala, Hazina ilijitoa muhali kuwekeza katika mifuko miwili ya ziada ya hisa za kibinafsi kwa kuzingatia upanuzi wa mpango wake kimkakati wa uwekezaji. Hazina ilidumisha rekodi yake ya kufikia upeo wa juu zaidi wa mapato kwenye uwekezaji katika mali-isiyohamishika (real-estate investment) na kuzidisha faida kutoka kwa kitengo hiki cha mali. Hili lilifikiwa kupitia kwa ukusanyaji wa mapato kwa wakati unaofaa pamoja na kuongeza thamani yake kupitia kwa kukuza mali ziliopo tayari. Kwenye kipindi cha mwaka uliopita, Hazina ilifanikiwa kuuza mradi wake mkuu wa Loresho na kuwasilisha baadhi ya nyumba zenyewe kwa wanunuzi na mipango ya kutengeneza upya jengo la Umeme (Umeme Plaza) ili kuzidisha mapato ya ardhi tunayoikalia iko tayari inaendelea.

Katika kipindi cha mwaka husika unaotathminiwa, mpango wa elimu kwa wanachama uliboreshwa zaidi ili kushirikisha wanachama wengi. Mafunzo ya kabla ya kustaafu yalifanywa kwa wanachama ambao wamesalia na mwaka mmoja kabla ya kustaafu kwa kushirikiana na mdhamini mkuu. Tulifanikiwa kuwafikia wanachama elfu mbili na mia tisa kutoka kwa maeneo yote nchini. Hazina itaendelea kutafuta maoni kutoka kwa wanachama katika juhudi zake za kutafuta kuunganisha na kushirikisha maslahi ya wanachama katika hatua zote kama kiungo muhimu katika uboreshaji wa huduma. Tumeimarisha pia namna ya usambazaji na utoaji habari kwa wanachama kupitia kwa mfumo wa majalada ya taarifa pepe mtandaoni, tovuti, majukwaa ya mitandao ya kijamii na mbinu ya arafa fupi.

Bodi ilirasimu kazi ya ujenzi wa jengo la ghorofa sita la Stima Annex katika sherehe ya uvunjaji wa ardhi (kuweka jiwe la kwanza la msingi) iliyoandaliwa tarehe 7/9/2017. Jengo hili jipya litatoa nafasi za afisi za kamati tekelezi au sekretariati ya Hazina ili kuweza kuwapa wanachama wetu huduma bora hata zaidi. Nafasi za ziada zitakodiwa. Hazina inatambua umuhimu wa wafanyikazi wake kama mtaji katika utekelezwaji wa mpango wake kimkakati. Ili kuongeza nguvu za shirika, Hazina ilitafuta huduma za mshauri au raslimali watu kikazi (Human Resource Consultant) ili kutoa tathmini ya kina kuhusu utendaji wetu katika kitengo cha wafanyikazi kama nguvu-kazi/raslimali. Inatazamiwa kuwa matokeo ya juhudi hizi yataainisha nguvu kazi na wafanyikazi na kuwaweka sawa na mpango mzima wa Hazina kimkakati pamoja na utendaji bora kimataifa.

Tunatambua umuhimu wa mfumo wa kisasa wa teknolojia, habari na mawasiliano (TEKNOHAMA) yaani ICT kwa kimombo, kama nguzo muhimu ya kuendesha biashara yenye kulainisha michakato ya ndani na kuimarisha matokeo. Kwa kulitambua hili, tumewekeza sana katika mifumo ya TEKNOHAMA na miundombinu. Hili limetuwezesha kuharakisha namna ya kutoa huduma zetu na kupunguza gharama ya kufanya na kufanikisha mikutano kwa njia zinazohusisha utumizi wa makaratasi; imetuwezesha pia kurahisisha usimamizi wa pensheni na hali ya ndani kikazi.

Kwa kuongezea, tumebadilisha jinsi tunavyowasiliana na ulimwengu wa nje kwa kuzidisha uwepo wetu kwenye mtandao wa kijamii wa Facebook, ule wa Kitwitwi yaani Twitter, tovuti na utungaji wa taarifa fupi fupi yaani arafa. Kadri mikondo na mienendo ya kibiashara inavyobadilika ndivyo hatari zinavyoongezeka. Kwa kufahamu hili, Hazina imetekeleza mbinu na mikakati ya ndani ya kusimamia na kupunguza hatari. Mfumo wetu wa kusimamia hatari unashirikisha sera, michakato na taratibu za kutambua, kutathmini na kusimamia hatari husika. Hili limetuwezesha kusimamia hatari vizuri na kutuwezesha kunufaika zaidi na nafasi ziliopo kwa kukuza utamaduni unaozingatia zaidi hatari katika shirika, usawazishaji na uainishaji wa namna ya kuripoti kuhusu hatari and namna nzuri ya matumizi ya raslimali. Tumetambua mapungufu kiujuzi kuhusu hatari yaliopo kwenye Hazina na mafundisho mwafaka yametolewa kukuza ufahamu.

Kama sehemu ya nia yetu ya kuendelea kuimarisha michakato yetu ya ndani na kuboresha huduma zetu kwa wanachama, tumetekeleza mfumo wa usimamizi wa ubora (Quality Management System) ambao umeidhinishwa tena kwa kurejelea kiwango cha ISO 90001:2015. ISO 9001 ni mfumo wa kimataifa wa usimamizi wa ubora ambao husaidia mashirika kufikia na kutimiza matakwa ya wateja wao. Hazina ilipata uidhinashaji wa ISO kwa mara ya kwanza mwezi wa Aprili 2014 chini ya usajili wa ISO 9001:2008 na tulikuwa miongoni mwa Hazina za kwanza kabisa nchini Kenya kupokea cheti cha ISO 9001:2015.

MAONO/RUWAZA YA 2018

Hazina itatekeleza mikakati na mipango kama ilivyo katika Mpango-Kimkakati wa Hazina wa 2016-2020. Nguzo zetu nne kuu kimkakati ni; Kufikia upeo wa juu zaidi katika utendaji, kutekeleza miradi ya mali isiyohamishika, kuimarisha matoleo ya wanachama na kuongeza nguvu kwenye shirika inabakia lengo letu kuu. Tunakusudia kutilia mkazo zaidi kwa bidhaa mpya na utoaji wa huduma kwa wanachama ikitegemea zaidi technologia digitali.

SHUKRANI

Ningependa kutambua uongozi, michango na kujitolea kikamilifu kwa Hazina kwa Mwenyekiti na Bodi nzima ya Wadhamini kwa kipindi cha mwaka mzima. Ninaishukuru pia kamati-tekelezi (sekretariati) kwa juhudi zao katika kuchukuwa hatua kutekeleza mikakati husika. Ninatazamia kuboresha na kuzidisha juhudi katika kufikia mustakabali bora ambapo tutaweza kuwahudumia wanachama vema zaidi. Asanteni.

H. K. Kyanda
Mkurugenzi-Mtendaji na Katibu Mdhamini

BOARD OF TRUSTEES

Sammy Oduori

He was appointed to the board on 28th February, 2003 and is the current Chairman of the Board. He is a qualified Accountant and worked with The Kenya Power and Lighting Company Ltd for 21 years where he held senior management positions prior to his retirement in the year 2000. He has vast experience in Finance, Customer Service and Marketing. He is also a Certified Pension Fund Trustee. He is also a Certified Pension Fund Trustee.

Ken Tarus PhD

He was appointed as Trustee on 30th June, 2016. He holds a Doctor of Philosophy degree in Business Administration, a Masters of Business Administration, and a Bachelor of Commerce Degree. He is a Certified Public Accountant (CPA), a member of the Institute of Certified Public Accountants of Kenya (ICPAK), and a registered accountant at Registration of Accountants Board Kenya. He is also a Certified Pension Fund Trustee and a Member of Kenya Institute of Management (KIM). Currently he is the CEO & Managing Director, Kenya Power and Lighting Company Ltd (KPLC). His previous appointments include General Manager (Finance) at KPLC, Chief Manager of Finance at Rural Electrification Authority (REA), Deputy Vice Chancellor Finance & Administration at KCA University, and Head of Finance, IT and Administration at Bank of Africa.

Ernest Nadome

He was appointed to the Board in September, 2003. He holds a Master of Arts (MA) in Labour Management Relations, Bachelor of Arts (B.A) Degree (Hons). He is the General Secretary of the Kenya Electrical Trades & Allied Workers Union (KETAWU) a position he has held for the past 14 years. He is well versed in energy, human resources and labour matters, having worked for The Kenya Power and Lighting Company Ltd and Kengen for 16 years. He is the Chairman of the Board of Trustees for the DC Fund and also Chairman of the Board of Trustees for the Kengen Company Limited Staff Retirement Benefits Scheme (DC Scheme) and a Trustee of Kengen Company Limited Staff Retirement Benefits Scheme (DB Scheme). He is the 1st Assistant Secretary General for Central Organization of Trade Union (COTU-K) and the Gazetted Vice Chairman of The National Industrial Training Authority (NITA). He is also the Chairman of The National Industrial Training Authority Retirement Pension Scheme. In addition, he is a founder director of a newly established parastatal Kenya National Qualification Frame Work Authority and also a member of National Labour Board. The Chairman of Tom Mboya Labour College based in Kisumu. He is a Certified Pension Fund Trustee.

Beatrice Meso

She was appointed to the Board in November 2014. She holds a Master of Laws (LL.M), a Bachelor of Laws (LL.B Hons) and a Master of Business Administration (MBA). She also holds Post Graduate Diploma in Law and is an advocate of the High Court of Kenya, a Certified Public Secretary, an Arbitrator, a Commissioner for Oaths and a Notary Public. She has proficiency in Public and Private Sector Administration, governance, policy formulation and implementation, Company Secretarial practice, legal and regulatory matters and in electricity trade. Currently she is the General Manager, Corporate Affairs and Company Secretary in Kenya Power and Lighting Company Ltd. She is also a Certified Pension Fund Trustee.

Abubakar Swaleh

He was appointed to the Board in November 2014. He holds a Master of Business Administration (MBA), a Bachelor of Education Degree, and a Higher Diploma in Human Resource Management. He has over 24 years in senior management in the Corporate world and well over 17 years experience in the Human Resource Management and Business, from FMCG, Manufacturing, Finance and Media sectors. Previously, Mr. Swaleh worked for Gulf African Bank as a Director in Human Resource & Shared Services. He has also served as the Group Senior HR Manager at Nation Media Group. Mr. Swaleh is a member of Kenya Institute of Personnel Management. Currently, he is the General Manager, Human Resources & Administration in Kenya Power and Lighting Company Ltd. He is also a Certified Pension Fund Trustee and an AoEC Certified Coach.

Kosgey Kolil

He was appointed to the Board on 30th September, 2008. He holds a Master of Science in Commerce (Finance & Investment), a Bachelor of Commerce (Finance option) degree, he is a Certified Public Accountant of Kenya (CPA K) and is member of the Institute of Certified Public Accountants of Kenya (ICPAK). He also holds a Post Graduate Diploma in Labour Policy Studies. He is the Deputy General Secretary of the Kenya Electrical Trades & Allied Workers Union (KETAWU). He sits in the Board of the Productivity Centre of Kenya (PCK) as a nominee of the Central Organization of Trade Union (COTU-K). Prior to joining KETAWU he worked with Kenya Power and Lighting Company Ltd for 16 years in Finance where he gained a wide experience in finance and accounting. He is a Certified Pension Fund Trustee.

Henry Kyanda

He was appointed Trust Secretary and Secretary to the Board in 2006. He holds a Master of Business Administration (MBA) Degree in Strategic Management and Bachelor's degree in International Business Administration (Finance). He has wide experience in the Pensions industry having previously worked as the Principal Pensions Officer at The Kenya Power and Lighting Company Ltd. Prior to joining Kenya Power and Lighting Company Ltd he worked in the investment management industry. He has a wide experience in pensions, banking and investments spanning over 15 years. He is also a Certified Pension Fund Trustee.

MANAGEMENT TEAM

H. K. Kyanda
CEO & Trust Secretary
He was appointed Trust Secretary and Secretary to the Board in 2006. He holds a Master of Business Administration (MBA) Degree in Strategic Management and Bachelor's degree in International Business Administration (Finance). He has wide experience in the Pensions industry having previously worked as the Principal Pensions Officer at The Kenya Power and Lighting Company Ltd. Prior to joining Kenya Power he worked in the investment management industry. He has a wide experience in pensions, banking and investments spanning over 15 years. He is also a Certified Pension Fund Trustee.

Steve Mathuka
Manager Pensions Administration
He joined Kenya Power Pension Fund in 2006. He has over 20 years' experience in human resource management, project management and pensions scheme administration. He holds a Master of Business Administration (Strategic Management), a Bachelor's Degree in Psychology, a Higher Diploma in Human Resource Management and a Diploma in Mechanical Engineering. In addition he is a member of Institute of Human Resource Management (IHRM).

Edwin Kiprono
Manager Finance
He joined the Fund in June 2015. He holds a Bachelor of Commerce degree in Accounting. He has over 10 years of experience in Finance and Accounting fields. He is a Certified Public Accountant of Kenya (CPA-K) and a member of the Institute of Certified Public Accountant of Kenya (ICPAK).

Joseph Mitito
Senior Property Officer
He joined Kenya Power Pension Fund in March 2012. He has over 13 years' experience in Property management, valuation and Project management. He holds a Master of Arts in Project Planning and Management and a Bachelor of Arts degree in Land Economics. He has a post graduate diploma from the Institution of Surveyors of Kenya. He is also a full member of The Institution of Surveyors of Kenya (M.I.S.K), Registered and Practicing Valuer and Estate Agent (RV & REA). Prior to his appointment at Kenya Power Pension Fund he worked as an Associate Director at Njihia Muoka Rashid Co. Limited.

Amos Ndung'u
Senior Finance and Investments Officer
He joined Kenya Power Pension Fund in April 2012. He has over 12 years' experience in treasury management, pensions administration, finance and investments. He has a Master of Business Administration (Finance) and a Bachelor of Science in Actuarial Sciences. He is also a Certified Public Accountant of Kenya (CPA K). In addition, he is also a member of Institute of Certified Public Accountants of Kenya (ICPAK). Prior to his appointment at Kenya Power Pension Fund, he worked as a Treasury Accountant at Kenya Airways.

Susan Nguyo
Senior Pensions Officer
She joined Kenya Power Pension Fund in May 2015. She has over 18 years in handling Pension Scheme Administration, Group Life Assurances and Compliance. She holds a Bachelor of Arts (Human Resources) Degree, and an Advanced Diploma in Insurance (ACII). She is a Chartered Pension Analyst Manager (CPAM). Prior to her appointment at Kenya Power Pension Fund she worked as a Consultant at Alexander Forbes Financial Services.

Martha Simiyu
HR & Administration Officer
She joined Kenya Power Pension Fund in 2006. She has over 16 years' experience in Pension Administration and Human Resources management. She holds a Bachelor's degree in Business Administration (Management), Higher Diploma in Human Resource Management and a Diploma in Business Administration. She is a member of the Institute of Human Resources (IHRM).

STATEMENT OF **CORPORATE GOVERNANCE**

INTRODUCTION

The Board of Trustees exercises due care in ensuring that the Fund is managed in the best interest of members and the Sponsor of the Fund. The Board has established comprehensive accountability systems and structures that ensure the highest standards of corporate governance and business ethics, compliance with legal regulations as well as the Trust Deed and Rules.

BOARD MANUAL

The Board Manual is a reference guide for the Trustees of the Fund. It expounds and explains the collective and individual powers, duties, obligations, responsibilities and liabilities of the Trustees. The manual has been inspired by the dictates of good corporate governance, which is pivotal for the success, viability and sustainability of the Fund.

The Board Manual sets out the Trustee's roles and responsibilities which include but are not limited to the following:

a. Formulation and approval of the Fund's strategy.
b. Appointment of the CEO & Trust Secretary and key management staff.
c. Approval of the financial statements.
d. Approval of business plans and annual budgets.
e. Review and evaluation of Investment Manager's Performance in line with the Investment Policy Statement.
f. Review of Enterprise Risk Management framework.
g. Resolution of litigation and claims.
h. Review and approval of the Fund's policies, procedures, manuals and work plans.
i. Periodic formulation and review of ICT strategies, policies and procedures.

In the discharge of above responsibilities, the board delegates some duties to the Fund Secretariat and seeks advisory services from external parties from time to time.

BOARD STRUCTURE AND COMPOSITION

The Board endeavors to have a balance and diversity of skills, experience, independence and knowledge to ensure the Fund excels in a dynamic environment. Key among the existing competences include governance, human resource and labour relations, legal, finance and risk management.

The Board size and composition is guided by the Occupational Retirement Benefits Schemes Regulations, 2000. Under this regulation, a defined benefit scheme shall have at least have three and not more than nine trustees. The number of trustees nominated by members should be at least one third of the Board. We have complied with this requirement.

Member elected Trustees are voted every three years. The appointed Trustees serve for a period determined by the Sponsor within the regulatory framework. The recent changes by RBA requires a Trustee to serve for a maximum of two terms of three years each. There were no appointments and or elections during the year.

CHAIRMAN OF THE BOARD

The Chairman of the Board is appointed by the Board of Trustees in accordance with provisions of the Fund's Trust Deed and Rules. His roles and responsibilities are distinct and separate from those of the CEO & Trust Secretary.

The Chairman is responsible for the overall Board leadership and its effectiveness. He sets the agenda for

The Board comprised of six Trustees as shown here below;

Sammy Oduori (Chairman)	Member elected – representing Pensioners
Ken Tarus, PhD	Sponsor appointed
Beatrice Meso	Sponsor appointed
Abubakar Swaleh	Sponsor appointed
Ernest Nadome	Member elected – representing Workers Union members
Koskey Kolil	Member elected – representing Workers Union members

the Board meetings, chairs all Trustee meetings and Annual General Meeting. He ensures appropriate orientation of new Trustees on Board's role, processes, policies and awareness of conflict of interest. He maintains a separate independent working relationship with the CEO &Trust Secretary.

ROLE OF THE CEO & TRUST SECRETARY

The CEO & Trust Secretary is responsible for the leadership of the Secretariat and the day-to-day management of the Fund's operations. He acts as the Secretary to the Board and he is accountable for the Fund performance and its compliance with industry legislation and regulations. He is also tasked with the implementation of the strategic plan.

BOARD INDUCTION PROGRAMS & TRAINING

Upon appointment/election, each Trustee is provided with sufficient information to enable him/her to perform his/her roles through a comprehensive induction program.

Every year the CEO & Trust Secretary in liaison with board members undertakes a Trustees training needs and gaps analysis. From this assessment a calendar is developed highlighting the various training programs required by the board members.

During the year, the Trustees attended the following training programs based on their individual needs assessment:

a. Managing Pension in emerging and developing environment
b. Leadership, Governance & Strategy
c. Improving Board effectiveness
d. Project Management
e. Risk Management
f. Private Equity

In accordance with the Capacity Building of Trustees of Retirement Benefits Schemes Prudential Guideline Number RBA 001 of 2013, all the Trustees had been vetted and certified as Trustees as at 31st December 2017.

BOARD REMUNERATION

The Board's compensation is determined and approved by the Sponsor. The remuneration is reviewed periodically to ensure that it is in line with industry practice in consideration with the level of Fund expenses. The details of the compensation for 2017 is as shown on note 12 of the notes to the financial statements.

BOARD INDEPENDENCE AND CONFLICT OF INTEREST

The Trustees are required to act in Utmost good faith and in the best interest of the Fund. In this regard, the Trustees have put in place structures for declaration and management of conflict of interest. In cognizance of its responsibilities to members and other stakeholders, all the Trustees are expected to disclose at the beginning of each meeting, any circumstances which may give rise to any actual or potential conflict of interest within their roles as Trustees. A Trustee is not allowed to participate in the decision making on a matter that they are conflicted.

The Trustees are independent of the Secretariat. Their role is to guide, provide oversight, monitor and evaluate the success of the Secretariat in delivering the agreed strategy within the approved control framework. In any undertaking, Trustees debate their matters constructively and thoroughly challenge all opinions before making decisions.

BOARD ACTIVITIES IN 2017

In carrying out its mandate during the year, the Board engaged in various key activities which included:
a. Review status of implementation of the Fund's strategic plans for the year.
b. Approved of the Board's annual work plan.
c. Approved two additional private equity investments.
d. Achieved ISO 9001:2015 certification.
e. Reviewing and evaluation of Fund Performance.
f. Commissioning of Stima Plaza expansion project.
g. Reviewing and action on reports from Board Committees.
h. Reviewing and approving various policies, including the Board Manual.
i. Reviewing and approving the Fund Budget.
j. Reviewing and monitoring compliance to industry regulations and legislation.

BOARD COMMITTEES

The Board operates a comprehensive structure made up of committees in line with current legislation and best practices. These are established to support the Board in executing its responsibilities and obligations. The committees provide detailed reports to the Board that assist in decision making. They are established with specific terms of reference, that are regularly reviewed and streamlined in accordance with emerging trends.

The appointment of the Committee members is based on the skills set and experience of individual Trustees. The Committees meet regularly and report to the Board at least once in a quarter.

The Board currently has four committees namely;

a. Risk & Audit Committee
b. Strategy, Finance & Investments Committee
c. Governance, HR & Compensation Committee
d. Project Implementation Committee

a) Risk & Audit Committee

The Risk & Audit Committee was chaired by Kosgey Kolil with Beatrice Meso and Abubakar Swaleh as the members. The mandate of this Committee includes:

- Liaise and facilitate both internal and external auditors for effective discharge of their respective assignments
- Monitor and review the integrity of the Fund's financial statements
- Reviewing the effectiveness and reliability of management information systems, risk and internal controls systems
- Oversee the execution of the risk management strategies of the Fund
- Advise the Board on ICT governance and related matters.

The committee held three meetings during the year. The key activities during the year were as follows;

a. Reviewed the integrity of the Fund's financial statements and recommended them to the Board for approval.
b. Approved the external and internal audit plan for the year
c. Received and reviewed reports on the implementation of the Enterprise Risk Management Framework
d. Reviewed risk register detailing the various risks that the Fund faces on an ongoing basis, including operational risk, capital, liquidity, market risk and reputational risk and approved various recommendations by management intended to enhance the management of these risks
e. Facilitated internal and external audit, reviewed the issues raised and made follow up for conclusion of the issues raised
f. Assessed the performance of the internal and external auditors to ensure that they are effective in carrying out their responsibilities

b) Strategy, Finance and Investment Committee

The Strategy, Finance & Investment Committee was chaired by Ken Tarus (PhD), with Beatrice Meso and Ernest Nadome as the members. The mandate of this Committee includes:

- Oversee the execution of the strategic plan
- Oversee the development and execution of the annual budget
- Monitor implementation of the investment policy statement
- Advise the Board on appointment of Fund managers, custodians and bankers.
- To review and make recommendations to the Board on proposed new investments and capital developments.
- Monitor and evaluate the performance of fund managers

The committee held five meetings during the year. The key activities during the year were as follows;

i. Monitoring implementation of the strategic key actions for 2017
ii. Reviewed and made recommendations on the annual budget
iii. Reviewed quarterly management accounts
iv. Reviewed Fund managers' and custodian's performance
v. Reviewed and made recommendations on investments in private equity

c) Governance, HR & Compensation Committee

The Governance, HR & Compensation Committee was chaired by Abubakar Swaleh and had Ernest Nadome and Kosgey Kolil as the members. The mandate of this Committee includes:

- To oversee the governance and compliance matters of the Fund
- To oversee the communication strategy of the Fund
- Responsible for the performance management, compensation and staff welfare
- Orientation and induction of new Trustees including training and development of the Board

The committee held five meetings during the year. The key activities during the year were as follows;

i. Reviewed the status of various compliance requirements and recommended appropriate actions
ii. Reporting to the Board and Sponsor on Fund activities
iii. Performance management for Secretariat staff
iv. Reviewed the Board manual and policies
v. Approved the training and development calendar

d) Project Implementation Committee (PIC)

The Committee was chaired by Ernest Nadome with Ken Tarus (PhD), Abubakar Swaleh and Kosgey Kolil as members. The mandate of this Committee includes:

- To oversee the implementation of projects in accordance with the directives and approvals from the Board
- To ensure that appropriate mechanisms are put in place to ensure close cooperation amongst the consultants involved in the implementation of the projects
- To give necessary advice, guidance and support to the project manager and the other consultants on all project related matters to ensure that the project is well implemented
- To report on monthly basis to the Board of on matters related to the implementation of the Projects
- To review sales and marketing strategies for the Fund projects

The committee held nine meetings during the year. The key activities during the year were as follows;

a. Completed the disposal of Loresho Ridge housing project
b. Implementation of the project schedule for Stima Plaza expansion

BOARD AND COMMITTEE MEETINGS

The Board and its Committees meets regularly in accordance with business requirements. All Trustees participate in discussing the strategy, performance and risk management. The agenda and Board papers for the meetings are communicated in good time to allow the Trustees to prepare for informed deliberations and decision making. The Board on need basis invites consultants to give their professional opinion on technical matters to enable them to make informed decisions.

The agenda and board papers are circulated via the e-Board system which has an interactive and easy to navigate interface and is accessible via a webpage. The Trustees using the e-Board system can access and preview necessary information on all the items to be discussed prior to any meeting. This system has been valuable in enabling Trustees to prepare adequately and hold meetings efficiently, saving on time and eliminating the manual paper-based system. Further to this, minutes are prepared, filed in minute books and safely kept.

The Board has in place a Board work plan which stipulates meeting schedules.

Board and Committee Meeting Attendance

The schedule of meetings together with their respective attendance is as shown below;

Trustee Name	Full Board	Risk & Audit	Strategic Finance & Investments	Governance,HR Staff Compensation	Project Implementation
Total Meetings	9	3	5	5	9
Sammy Oduori	9	-	-	-	
Ernest Nadome	8	-	5	5	1
Ken Tarus, PhD	7	-	4	-	1
Kosgey Kolil	8	2	-	4	6
Beatrice Meso	8	3	5	-	-
Abubakar Swaleh	5	3	-	5	6

BOARD EVALUATION

The success of the Fund ultimately depends upon the capacity of the Trustees to provide strategic direction. It is therefore paramount for the Board to continuously evaluate its performance against set targets. The Board undertakes self-evaluation every year while the external evaluation is done bi-annually. The outcome of these evaluations has been instrumental in improving Board performance and effectiveness.

The following areas are covered to identify areas of improvement:

- Board Structure and Composition
- Board Processes and Accountability
- Chairman's leadership, communication and relationship with the Board
- Composition and operations of Board Committees
- Role and effectiveness of the CEO & Trust Secretary
- Strategy, Financial Matters and Performance
- Stakeholders engagement
- Succession Planning and Management
- Board dynamics

SUCCESSION PLANNING

Succession planning is key in any organization. It encompasses an ongoing process of systematically identifying, assessing and developing talent and capacity to ensure continuity in specific positions within the organization. It incorporates a comprehensive framework designed to identify and prepare candidates to take over positions or responsibilities and fill vacancies that may occur. The Board has put in place a succession plan that is being implemented continuously to ensure a smooth transition and continuity of operations.

GOING CONCERN

The Trustees confirms the financial statements are prepared on a going concern basis. The Trustees are satisfied that the Fund has adequate resources to continue in business for the foreseeable future.

In preparing the financial statements, the trustees are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless trustees either intends to liquidate the Scheme or to cease operations.

The level of funding (the ratio of the fund assets to accrued liabilities) grew from 112.0% in previous valuations to 115%. The level of funding was above the statutory minimum funding requirement of 100% prescribed in the Retirement Benefits Regulations.

CODE OF CONDUCT

The Fund has a code of conduct stipulated in the Board manual. In discharging their duties, all Trustees observe rules and regulations governing their conduct and are bound by the overriding fiduciary duty to act in good faith and in the best interests of the Fund members.

WHISTLE-BLOWING POLICY

The whistle-blowing policy was formulated to provide an avenue to guide the impartial handling of feedback and reports on any noncompliance. The Fund is committed to high standards of ethical, moral and legal business conduct. In line with this commitment, and the Fund is dedicated to promoting open communication and provide an avenue for whistle blowers to raise concerns. They are protected from reprisals or victimization for whistle blowing.

RISK MANAGEMENT

Risk management is embedded in the Fund's corporate strategy and is considered important element in achieving our strategic goals. The Trustees are committed to a process of Enterprise Risk Management that manages identified strategic and operational risks through a proactive, systematic, structured and integrated process.

A risk management framework is in place which allows management to focus holistically on all risks faced by the Fund. This risk management framework structure is designed to ensure:

- Careful monitoring of the effectiveness of the Fund corporate strategy
- Consistent accounting, reliable financial reporting and compliance with laws and regulations
- Focus on the most efficient and effective way to conduct daily business operations

Risk Management Structure

The risk management structure of the Fund is composed of the Board of Trustees, Risk & Audit committee and the management team. Their respective roles are shown below:

a. Board
The Board bears the overall responsibility of risk management. In discharging its duties, it ensures that the Fund has put in place proper risk management policies that provide guidance to either, avoid, control or eliminate potential risk. This has over the years aided the Board in decision making within acceptable risk appetite.

b. Risk & Audit Committee
The mandate of this Committee is to develop, implement and monitor risk management framework under the guidance of the Board. The Committee also ensures that risk management system implemented by management meets the requirements as set out in the policy. They review the work of the internal auditor and advice the board based on the findings of the internal audit. They also monitor opportunities arising from these risks for consideration.

c. Internal Auditor
The Board has appointed an independent internal auditor to review the effectiveness and efficiency of the risk management processes. The internal audit report is presented to the Risk & Audit Committee for review and implementation.

d. Management Team
The Management team's role is to implement the risk management framework established by the Board of Trustees. It develops a risk register which identifies the various risks, their root causes, mitigating factors, impacts and as well as their owners. The register also identifies opportunities arising from these risks which are further analyzed and recommended to the Board for consideration.

Risk Identification and Assessment

The Fund has put in place a system of identifying risks that can hinder the attainment of set objectives. The risks are assessed both quantitatively and qualitatively, measured and mapped in accordance with their impact and likelihood. A risk register is maintained and updated quarterly by the Secretariat and submitted to the Risk & Audit Committee for initial review before being presented to the Board for approval.

During the year, the Fund identified major risks and put in place mitigation measures. The Board pays close attention and monitors the mitigation measures against these major risks.

Nature of Risk	Description	Mitigation Measures
Low return on investments	Risk of non- attainment of target returns mainly due to challenges in the macro economic environment	a. Regularly monitor changes on macro-economic environment b. Monitoring and evaluation of Fund Managers performance
Unsuccessful real estate projects	Non- attainment of agreed timelines, quality and budget utilization	a. Comprehensive feasibility studies and risk analysis for all projects b. Proper planning and budgeting including budget reviews c. Conducting proper due delegence before enganging third parties d. Insurance covers to cushion the Fund against unforeseen events
Data security and integrity	This is unauthorized access to data and information contained in systems that impacts the integrity of the data	a. Robust system security against unauthorized access and cyber attacks b. User training and awareness c. Non- disclosure agreements with service providers

Details of the investment and financial risks have been reported under our Note No 3 as per IFRS 7 disclosure requirements on nature and extent of risks arising from financial instruments both qualitative and quantitative.

Risk Awareness

The Board's commitment to risk management has been evidenced by the awareness and training given to the Board of Trustees, management and the staff of the Fund. In addition, the Fund has inculcated a culture of risk based thinking amongst staff members, by ensuring that risk management is an agenda in all departmental and management meetings.

STAKEHOLDERS' ENGAGEMENT

The Fund is committed to maintaining mutually beneficial engagement with all stakeholders. The Board has developed a stakeholder's engagement policy which identifies the key stakeholders, details the perspective and interest for each group. It also identifies information disclosure and frequency, stipulates how the key strategic priorities for improving stakeholder relationships will be developed and how grievances will be managed.

COMMUNICATION TO MEMBERS

The Fund has adopted various channels of communication such as member education seminars, annual general meetings, customer service help desks, newsletters, periodic submission of reports and publishing of all relevant information on the Fund's website. A feedback mechanism has been established where members provide their responses, complains and suggestions regarding provision of the Fund's services. Such feedback is reviewed and necessary actions taken to address the issues raised.

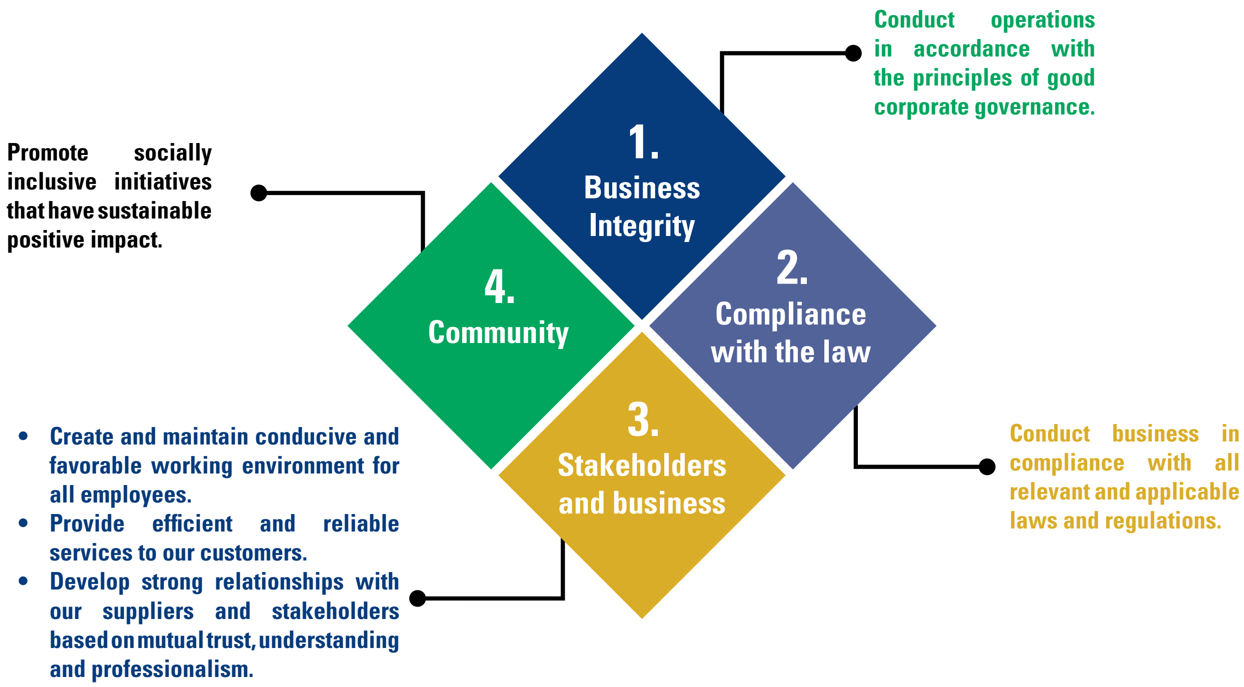
BUSINESS CONTINUITY POLICY

The Business continuity plan is intended to ensure that the Fund's critical business functions will continue to operate despite serious incidents or disasters that might otherwise have interrupted them, or will be recovered to an operational state within a reasonably short period. The Board is in the process of appointing a consultant to review and update the business continuity plan.

CORPORATE **CITIZENSHIP**

The Fund recognizes the importance of giving back to society and to be a responsible corporate citizen. It is committed to contributing to socio-economic development through acting ethically and improving the quality of life for members, needy communities and the society at large. The cornerstone of our sustainability and commitment is through various engagements with stakeholders whether directly or indirectly and activities that are planned for each year.

In response to this belief the Fund has in place a comprehensive plan as highlighted below;

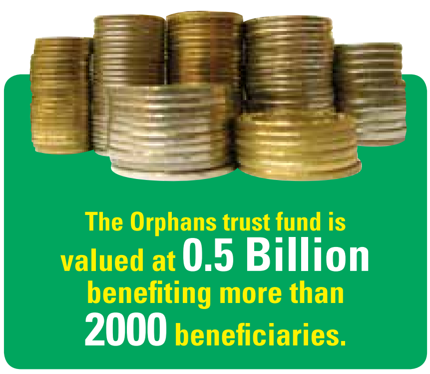


a) Orphans Trust Fund Programme

As part of Corporate Citizenship, the Board operates an Orphans Trust Fund Programme (OTP) which was established in 1998. At the demise of a parent, children are left in the hands of the other parent who may not have the capacity to ensure that they go to school and complete their education. In some instances, children have lost both parent and are left in the hands of relatives who may not have the ability to take care of their education needs.

Out of concern for the wellbeing of the orphans, the Trustees found it necessary to establish the programme through which deceased members benefits are set aside and administered by the Trustees for the welfare and education of the orphans.

The Secretariat is involved in the day to day administration of the orphan trust funds. The widow/widower or guardians provide fee structures from schools where the children attend and school fees is paid directly to the institutions. A breakdown of expenses is also provided which is paid to the guardians. The orphan trust fund program has benefited many children and currently is valued at approximately Kshs. 0.5 billion benefiting more than 2,000 beneficiaries. The funds are invested to ensure growth and capital preservation.



Testimonials

Samson Ombewa Family

"My father who was a former employee of Kenya Power passed away in 2012, a year before I sat for my national examination. You can imagine how that was tough for me.

At the time, being the first of his four children it had not dawned on me the kind of responsibilities that were awaiting for me in the near future but one thing that I started worrying about immediately after he was laid to rest was; what was going to become of our educational future? Would we finish school and if so how? I remember pondering over such questions.

Upon expressing my concerns to some of his colleagues who also happened to be close family friends, I was made aware that we would have access to his pension via the KPPF and they explained to me that we would all be able to go to school, with a possibility of all of us finishing if managed well. You can imagine the weight that was lifted off me. No good news was more forthcoming at a time like that. So later on I visited the KPPF offices, where I was explained to what the scheme was all about and how it worked. Ever since (nearly six years ago) till date my siblings and I have been able to go to school without difficulties and lucky for us because of the good management of the KPPF And God's goodwill and faithfulness I foresee the four of us being able to finish school. We all have KPPF to be grateful to."

Vivianne Auma Wandera

"My name is Vivianne Auma Wandera daughter of the late Henry Wafula Wilson Wandera. My father passed away in the year 2000 leaving the four of us behind. When I lost my dad I thought that my world had come to a stand still considering that he was the only parent I had before then. I felt like all my dreams of becoming the lawyer he had wanted me to be had been shattered. I felt like all my hope was gone but Glory to God there came my saviour, the Kenya Power Pension Fund (KPPF). My three siblings and I received immense support from The Kenya power Pension Fund which included school fees and upkeep. Through their efficiency in management of my dad's savings, I was able to go through school from standard 6 through to university without any difficulties. Currently am working with Kenya Power at the Call Centre, thanks to KPPF. The far I have come, God is my guide."

Gerry Rugiha Akaranga

"When my parents separated in 1992, my mum moved on with her life. Two-three years down the road life took a different turn. If I wasn't herding cows deep in the Kakamega forest, I was either fetching firewood or baby-sitting my younger sister. This was at the expense of going to school. Eventually in 1996, through the intervention of some well meaning neighbor, I was taken to school. My maternal uncle later took me to Dugula Primary School where his wife was a teacher. It was while here that I learnt that my biological father had passed on and had been buried.

How Kenya Power came to know about my existence and whereabouts, I don't know. I vividly recall with fond memories the day my grandfather took me to Stima Plaza in Nairobi. From the warm welcome, surprise of skyscrapers to promises of education, it felt like life had just began. Thanks to KPPF's Orphans Trustee Program (OTP), I successfully completed my primary schooling and joined Mbale High School. Throughout the four years, KPPF ensured that my school fees was paid on time and in full. Thanks to KPPF I completed my secondary education with a decent grade of B plain. In 2010 I joined Masinde Muliro University of Science and Technology to pursue a Bachelor of Education Degree. Even though my share of the benefits was slowly drying up, KPPF sustained control of the remaining funds and ensured that I finished my degree programme.

Once again thanks to KPPF, I graduated in July 2014 with a second class upper degree. Looking back, I shiver at where I would have ended were it not for those who have helped me. I will remain forever indebted to KPPF management for their understanding and support without which I may not be who I am and where I am today. As a way of giving back, I am currently a teacher at Hobunaka Girls Luanda Sub-County. Long Live KPPF."

b) Investing in communities

The Fund focuses on investing in activities that promote sustainable social and economic development in our communities. Our programmes focus on education and health.

i) Health

One of the leading common occurrences in Kenya leading to loss of life and property worth millions of shillings are fire accidents. Kenyatta National Hospital on average admits over 1,200 patients per year with mild to severe burns majority of whom are children from underprivileged families. Over the years, the Fund has identified this challenge as one of the areas to provide the necessary support through both prevention of occurrences, enhanced awareness as well as expanding the treatment facilities.

In the year under review and as part of the Corporate Citizenship long term partnership program, the Fund allocated Kshs 10 million towards the renovation and refurbishment of Kenyatta National Hospital Burns Unit.

Over 1,200 patients receives treatment per year from fire related injuries.

ii) Education

During the year, the Secretariat identified Ngaamba Primary School in Makueni County, a mixed boarding school with over 300 pupils. The school had a need for proper boarding facilities and had poor rain water harvesting system. In this regard, the Fund refurbished the school boarding facilities, by donating double decker beds, mattresses and gutters for rain water harvesting to improve on sustainable water supply.

Over 300 Pupils received donations.

In a bid to inspire the giving spirit among our staff, the Secretariat was requested to donate some of their items that could be of help to the pupils such as storybooks, toys, shoes and clothes. The staff gave motivational and career talks to the pupils during the visit.

Corporate Citizenship activity at Ngaamba Primary School in Makueni County

OUR PEOPLE

Secretariat staff

Our people are key in the attainment of the Fund's goals and objectives. The Fund endevours to attract, retain and develop the best talent whilst providing a safe work environment. Our human capital has a total of twenty-five employees drawn from different backgrounds. It incorporates a diverse age profile, which provides a mix of experience and expertise that provides opportunities for succession.

a) Performance Management

The Fund's performance management system is tied to its strategic pillars. The individual performance targets are derived from the Fund's corporate targets. Staff involvement in setting performance targets is paramount. Individual employee's performance is reviewed against their set targets half yearly. The reward and recognition is based on the results of the appraisal.

b) Training and Development

The Fund philosophy is that with a stable, highly trained, healthy workforce, productivity will always be guaranteed. The Fund has a comprehensive staff training and development program which is developed taking into considerations the training needs analysis. Our training programs focus on development of leadership and technical skills across the Fund. The employees are trained using a combination of in-house and external trainings. During the year, we implemented 91% of the planned trainings for staff which is expected to improve our service delivery to members/customers.

c) Work Environment

The Fund has provided conducive working environment necessary for staff comfort while at work. In addition we encourage work-life balance by allowing our employees time-off for the annual leave. The Fund ensures the employees have the necessary equipment and resources to carry out their duties. The Fund commissioned Stima Plaza expansion which will provide additional office space for our staff.

d) Staff Engagement

The Fund has an open door policy a culture in which employees can reach one another without hindrances. It also has in place a communication policy which guides and ensure s effective communications across the Fund. The Fund holds staff and departmental meetings on regular basis where employees are updated on all corporate and business developments. Additionally, employees are involved in various projects and initiatives such as corporate citizenship, innovations, customer service, risk management and quality management systems.

The Fund conducts employee satisfaction survey bi annually, which is useful in identifying areas of improvement. The recommendations arising from the surveys are implemented by inclusion in the subsequent year's work plan. The employee satisfaction levels from the last survey stood at 85%.

Secretariat team building session

ENVIRONMENTAL PRACTICES

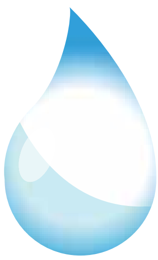
We continuously work to operationalize sound environmental practices in our projects through their design and construction. This has been done in a way that has positive impact on the environment and surrounding communities. It is a practice anchored on the understanding that the environment provides the resources that organizations require to do their business and therefore the need for reciprocity through undertaking initiatives that contribute to environmental improvement.

Environmental practices are anchored on the adoption of green technology that ensures sustainable utilization of energy and water.

a) Energy usage

The Fund has undertaken various initiatives to ensure less energy consumption, wastage and thus a lower carbon footprint. The green/sustainability strategies include;

1. Modernization of lifts in Stima Plaza which are more efficient in energy saving.
2. Energy saving light fittings.
3. Adoption of the elements of natural lighting, cross ventilation and cooling in all of our property developments.
4. Use of solar panels in all of the Fund's developments to provide additional energy for external lighting and solar water heating systems.
5. Adoption of environmental protection measures such as use of local materials, lead free paints, low Volatile Organic compound finishes and sufficient greenery spaces.



b) Sustainable water usage

In light of the decreasing water resources, the Fund undertakes its business operations in a way that ensures sustainable water use in its developments. From the design to installations and usage, the Fund has put in place the following sustainable water usage measures;

1. Rain water harvesting system-Our developments are fitted with sufficient underground tanks that ensure 100% harvesting of rain water. The collected water is used on non-consumable fixtures in the common areas and watering the gardens.
2. Use of water conservancy sanitary fittings and taps.
3. Water recycling and reuse-Our developments recycle waste water via waste water treatment plants. The recycled water is used for ground maintenance.

c) Other Environmental Initiatives

Within the working environment of the Fund, there is minimization of wastage in unnecessary printing through allocation of printer access codes for accountability on paper usage as well as promotion of usage of e-documents

The Fund has adopted best practices in promoting the environment and is best demonstrated by its continued undertaking of Environmental Impact Assessment (EIA) for all the proposed development to assist in the understanding of the potential environmental impacts and proper measures to mitigate the impacts. These impacts are monitored to avert environmental degradation.

STATUTORY INFORMATION

REPORT OF THE BOARD OF TRUSTEES

FOR THE YEAR ENDED 31 DECEMBER 2017

Background

The Kenya Power & Lighting Company Limited Staff Retirement Benefits Scheme Trustees are pleased to submit their annual report together with the audited financial statement for the year ended 31 December 2017 in accordance with section 34 of the Retirement Benefits Act.

Principal Activities
The principal activities of the Scheme are provision of cash benefits and pensions to the members upon attainment of the retirement age of sixty years, and where applicable, benefits for dependents' of deceased members. This is achieved through prudent funds investment.

Financial Review
The statements of changes in net assets available for benefits shows an increase in the net assets of the Scheme for the year of KShs 785 million (2016: increase of KShs 648 million) and the statement of net assets available for benefits shows the Scheme's net assets of KShs. 19.5 billion (2016: KShs. 18.6 billion).

Board of Trustees
The Trustees of the Scheme who held the office during the year are listed on page 2.

Auditor
Ernst and Young LLP, having expressed their willingness, will continue to be in office in accordance with Section 34(3) of the Retirements Benefits Act and subject to Rule No. 19 (a) (iv) of the Scheme's Trust Deed and Rules.

Financial Statements
The Audited financial statements were approved and authorized by the Board of Trustees on 26 March, 2018

STATEMENT OF THE **TRUSTEES' RESPONSIBILITIES**
FOR THE YEAR ENDED 31 DECEMBER 2017

The Kenyan Retirement Benefits Act requires the Trustees to prepare financial statements for each financial year which show a true and fair view of the financial transactions of the Scheme for the year and of disposition at year end of its assets and liabilities. It also requires the Trustees to ensure that the Scheme keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Scheme. They are also responsible for safeguarding the assets of the Scheme.

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Retirement Benefits Act, and for such internal control as Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. They are also obligated to send to the members a summary of its audited financial accounts together with the members' benefit statements.

The Trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the Scheme's rules. The Trustees are of the opinion that the financial statements give a true and fair view of the financial affairs of the Scheme and of its operating results. The Trustees further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Nothing has come to the attention of the Trustees to indicate that the Scheme will not be able to meet its obligations for at least the next twelve months from the date of this statement and the requirements of Kenyan Retirement Benefits Act.

....	....	....
S. Oduori CHAIRMAN	K. Kolil TRUSTEE	H. Kyanda TRUST SECRETARY

26 March, 2018

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF THE KENYA POWER & LIGHTING COMPANY LIMITED STAFF RETIREMENT BENEFITS SCHEME-DEFINED BENEFITS

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kenya Power and Lighting Company Limited Staff Retirement Benefits Scheme-Defined Benefits ("the Scheme"), which comprise the statement of changes in net assets available for benefits and the statement of net assets available for benefits as at 31 December 2017, statement of changes in members' funds and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 40 to 88.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Power and Lighting Company Limited Staff Retirement Benefits Scheme-Defined Benefits as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Kenyan Retirement Benefits Act.

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 Consolidated 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)*. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of financial statements in Kenya. 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 Board of Trustees, which we obtained prior to the date of this report, as required by the Kenyan Retirement Benefits Act and the Annual Report, which is expected to be made available to us after that date. The other information 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 an audit opinion or 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 on the other information obtained prior to the date of this auditor's report, 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Trustees for the Financial Statements

The trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Retirement Benefits Act and for such internal controls as trustees determine are 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 trustees either intends to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so.

The trustees 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 International Standards on Auditing (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 management.
- Conclude on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with trustees 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 auditors report is CPA Joseph K Cheboror-Practicing Certificate No. 1145

Nairobi
29 March, 2018

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED 31 DECEMBER 2017

CONTRIBUTIONS AND BENEFITS	Note	2017 KShs '000	2016 KShs '000
Contributions receivable from sponsor	5	-	-
Benefits payable	6	(922,276)	(847,987)
Net deficit from dealing with members		**(922,276)**	**(847,987)**
RETURNS ON INVESTMENTS			
Investment properties	7	301,026	931,013
Inventory properties	7	131,952	39,050
Government securities at fair value through profit and loss	7	659,422	731,682
Government securities held to maturity	7	17,424	16,083
Term deposits with financial institutions	7	58,022	39,601
Quoted equities at fair value through profit or loss	7	585,686	(286,111)
Corporate bonds at fair value through profit or loss	7	102,945	139,990
Unquoted investments	7	19,958	18,351
Offshore investments	7	-	(1,298)
Investment income		**1,876,435**	**1,628,361**
Investment management expenses	8	(35,452)	(22,432)
Net returns on investments		1,840,983	1,605,929
OTHER INCOME	**9**	**1,486**	**18,834**
OPERATIONAL EXPENSES	**10**	**(135,099)**	**(128,401)**
INCREASE IN NET ASSETS FOR THE YEAR		**785,094**	**648,375**

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

AS AT 31 DECEMBER 2017

	Note	2017 KShs '000	2016 KShs '000
ASSETS			
Property and equipment	14	6,121	4,769
Intangible assets	15	29,574	30,483
		35,695	**35,252**
INVESTMENTS			
Investment properties	16	6,841,412	6,650,700
Inventory properties - work in progress	16	66,894	30,405
Inventory properties	16	79,985	1,227,533
Government securities at fair value through profit or loss	16	5,280,858	5,294,584
Government securities held to maturity	16	372,325	142,458
Unquoted equity investments	16	385,495	280,468
Quoted equity investments at fair value through profit or loss	16	2,871,034	2,447,639
Corporate bonds at fair value through profit or loss	16	885,434	955,497
Term deposits with financial institutions	16	715,528	435,577
		17,498,965	**17,464,861**
OTHER ASSETS			
Receivables	24	2,101,163	1,351,548
Amounts due from related parties	25	15,252	7,527
Cash and bank balances	26	6,632	1,135
		2,123,047	**1,360,210**
TOTAL ASSETS		**19,657,707**	**18,860,323**
LIABILITIES			
Amounts due to related parties	25	6,712	9,814
Other payables and accruals	27	173,015	157,623
TOTAL LIABILITIES		**179,727**	**167,437**
NET ASSETS AVAILABLE FOR BENEFITS		**19,477,980**	**18,692,886**
REPRESENTED BY MEMBERS' FUNDS: **SCHEME BALANCE**		**19,477,980**	**18,692,886**

The financial statements were approved for issue by the Board of Trustees on 26 March, 2018 and signed on its behalf by: -

…………………………………	…………………………………	…………………………………
S. Oduori CHAIRMAN	K. Kolil TRUSTEE	H. Kyanda TRUST SECRETARY

STATEMENT OF CHANGES IN MEMBERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 KShs '000	2016 KShs '000
At 1 January	**18,692,886**	**18,044,511**
Increase in net assets for the year	785,094	648,375
At 31 December	**19,477,980**	**18,692,886**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs '000	2016 KShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase in net assets for the year		785,094	648,375
Adjustment for:			
Depreciation on property and equipment	14	1,932	776
Amortization of intangible assets	15	1,640	-
Gain on sale of inventory properties	7	(131,952)	(39,050)
Fair value gain on investment properties	7	(190,712)	(819,136)
Loss/(gain) on disposal of government securities at fair value through profit or loss	7	6,304	(4,198)
Gain on disposal of government securities held to maturity	7	(10,347)	(11,430)
(Gain)/Loss on disposal of quoted equity investments at fair value through profit or loss	7	(58,894)	733
Gain on disposal of corporate bonds at fair value through profit or loss	7	(7,745)	(5,631)
Write off of offshore investments	7	-	1,298
Fair value gain on government securities at fair value through profit or loss	7	(120,763)	(162,644)
Interest on government securities held to maturity	7	(7,077)	(4,653)
Fair value loss on corporate bonds at fair value through profit or loss	7	2,895	12,729
Impairment of corporate bonds at fair value through profit or loss	7	65,925	-
Fair value (gain)/loss on equity investment at fair value through profit or loss	7	(398,324)	443,100
Operating surplus before working capital changes		**(62,024)**	**60,269**
Increase in other receivables	24	(749,615)	(224,872)
Increase in amounts due from related parties 25		(7,725)	(5,601)
Decrease in amounts due to related parties	25	(3,102)	(6,857)
Decrease in benefits payable		-	(2,468)
Increase/(decrease) in payables and accruals	27	15,392	(81,320)
Net cash outflows from operating activities		**(807,074)**	**(260,849)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	14	(3,284)	(3,952)
Purchase of intangible assets	15	(731)	(991)
Proceeds from sale of inventory property	16	1,279,500	662,125
Purchase of government securities at fair value through profit or loss	16	(2,721,784)	(1,940,505)
Proceeds from sales of government securities at fair value through profit or loss	16	2,849,969	1,440,341
Purchase of government securities held to maturity	16	(487,443)	(248,768)
Proceed from sale of government securities held to maturity	16	275,000	196,000
Purchase of quoted equity investments at fair value through profit or loss	16	(1,354,758)	(112,402)
Proceeds from sale of quoted equity investment at fair value through profit or loss	16	1,388,581	66,952
Purchase of unquoted equity investments	16	(109,899)	(6,607)
Proceeds from sale of unquoted equity investment	16	4,872	-
Purchase of corporate bonds at fair value through profit or loss	16	(95,700)	-
Proceeds from corporate bonds at fair value through profit or loss	16	104,688	80,922
Purchase of investment properties	17	-	(25,700)
Purchase of investment properties – work in progress	18	(36,489)	(8,749)
Purchase of inventory properties	18	-	(174,548)
Net cash generated from/(used in) investing activities		**1,092,522**	**(75,882)**
DECREASE IN CASH AND CASH EQUIVALENTS		**285,448**	**(336,731)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**26**	**436,712**	**773,443**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**26**	**722,160**	**436,712**

NOTES TO THE **FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2017

REPORTING ENTITY

The Kenya Power and Lighting Company Limited Staff Retirement Benefits Scheme was established by the Kenya Power and Lighting Company (the sponsor) under irrevocable trust as a scheme for the purpose of providing pension and other benefits to the members upon attainment of the retirement age of sixty years, and where applicable, benefits for the dependants of deceased members. The Scheme is registered by the Retirement Benefits Authority, and is domiciled in Kenya. The address of its registered office is as follows:

Retirement Benefits Scheme Trustees
Stima Plaza, Kolobot Road, Parklands
P. O. Box 1548-00600, Nairobi

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below and as described under section 34 (2) of the Kenyan Retirement Benefits Act. As per the Retirement Benefits Act, the statement of income and expenditure and the statement of the assets and liabilities of the scheme are represented by statement of changes in net assets available for benefits and the statement of net assets available for benefits.

These policies have been consistently applied over the periods presented unless otherwise stated:

a) Basis of preparation of financial statements

Basis of preparation

The financial statements are presented in Kenya Shillings, and are prepared under the historical cost basis except for certain investments that have been measured at fair value.

Statement of compliance

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Kenyan Retirement Benefits Act.

(b) New and amended standards and interpretations

The Scheme applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Scheme has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The new standards and amendments effective as of 1 January 2017 are listed below:

- *Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*
- *Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
- Annual Improvements Cycle - 2014-2016
- Amendments to IFRS 12 *Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12*

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). There were no changes in liabilities arising from any financing activities in relation to the Scheme for both current and the comparative period.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New and amended standards and interpretations (continued)

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. These amendments are not expected to have any impact on the Scheme since it is tax exempt.

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments are not expected to have any impact on the Scheme as it does not have interests in subsidiaries, joint ventures or associates.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Scheme's financial statements are disclosed below. The Scheme intends to adopt these standards, if applicable, when they become effective.

The list of standards, improvements and amendments that are effective for periods beginning after 1 January 2018 are listed below:

Effective for annual periods beginning on or after 1 January 2018
- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments
- IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4
- Transfers of Investment Property - Amendments to IAS 40
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- AIP IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters
- AIP IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment - by - investment choice.

Effective for annual periods beginning on or after 1 January 2019
- IFRS 16 Leases
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- AIP IFRS 3 Business Combinations – Previously held Interests in a joint operation
- AIP IFRS 11 Joint Arrangements – Previously held Interests in a joint operation
- AIP IAS 12 Income Taxes – Income tax consequences of payments on financial instruments
- AIP IAS 23 Borrowing Costs – Borrowing costs eligible for capitalization

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)
FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New and amended standards and interpretations (continued)

Standards issued but not yet effective (continued)

Effective for annual periods beginning on or after 1 January 2021
- IFRS 17 Insurance Contracts

Effective date postponed indefinitely:
- IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture – Amendment to IFRS 10 and IAS 28

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Scheme plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Scheme has performed a detailed impact assessment of the applicable aspects of IFRS 9.

This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Scheme in 2018 when the Scheme will adopt IFRS 9. Overall, the Scheme expects no significant impact on its statement of changes in net assets available for benefits and statement of changes in members' funds except for the effect of applying the impairment requirements of IFRS 9, which has been discussed below. However, the impact is not expected to be material to the members' funds. In addition, the Scheme will implement changes in classification of certain financial instruments as discussed below.

(a) Classification and measurement

The Scheme does not expect a significant impact on its statement of net assets available for benefits or statement of changes in members' funds on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale with gains and losses recorded in statement of changes in net assets available for benefits will continue to be measured at fair value through profit or loss, which is expected not to have an impact on the changes in net assets available for benefits.

The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in the statement of changes in net assets available for benefits during prior periods for these investments. The Scheme will continue to present fair value changes in the statement of changes in net assets available for benefits, and, therefore, the application of IFRS 9 will not have a significant impact.

Receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest, where applicable. The Scheme analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New and amended standards and interpretations (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment

IFRS 9 requires the Scheme to record expected credit losses on all of its debt securities, loans and other receivables, where applicable, either on a 12-month or lifetime basis. The Scheme will apply the simplified approach and record lifetime expected losses on all receivables. The Scheme assessed whether credit risk has increased significantly since initial recognition at the end of each reporting period, by considering the change in the risk of default occurring over the remaining life of the financial instrument. From the Scheme's assessment, there are currently no expected credit losses on its financial instruments.

(c) Hedge accounting

The Scheme determined that since it does not have any existing hedge relationships, applying the hedging requirements of IFRS 9 will not have a significant impact on the Scheme's financial statements. Further, IFRS 9 does not change the general principles of how an entity accounts for effective hedges.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. However, these amendments are not expected to have any impact on the Scheme's accounting policies because the income is mainly earned from financial instruments, which are scoped out of IFRS 15; this is with the exception of revenue from inventory property sales contracts. In this respect, the Scheme is currently assessing the impact of IFRS 15, in particular in respect of the following:

- The requirements to estimate variable consideration, and to determine the number of performance obligations contained in a contract, may lead to different revenue recognition in respect of fees for property management and development services.
- Sales of real estate will generally be recognised when control of the property transfers. Judgement will be required when applying the new requirements, to assess whether control transfers and therefore revenue should be recognised over time or at a point in time.

IFRS 16 Leases

Issued by IASB on 13 January 2016, the new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17. Lessees are to recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less). Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach. The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The Scheme does not expect a significant impact on implementation of this standard as the only arrangement the Scheme has as a lessee currently relates to car parking space rental, which is temporary, pending completion of the Stima Plaza extension. The Scheme plans to reassess this position when the improvements come into effect.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New and amended standards and interpretations (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Scheme will apply amendments when they become effective. However, since Scheme's current practice is in line with the clarifications issued, the Scheme does not expect any effect on its financial statements.

Those standards issued but not yet effective that are not expected to have an impact on the Scheme include:

- *IFRS 2 Classification and Measurement of Share-based Payment Transactions –Amendments to IFRS 2*
- IFRS 17 *Insurance Contracts*
- Annual Improvements 2014-2016 Cycle (issued in December 2016)
    - IFRS 1 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*
    - IAS 28 *Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*
- Applying IFRS 9 *Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4*
- IFRIC Interpretation *22 Foreign Currency Transactions and Advance Consideration*
- IFRIC Interpretation *23 Uncertainty over Income Tax Treatment*
- *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- *Prepayment Features with Negative Compensation - Amendments to IFRS 9*
- *Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28*
- *IFRS Practice Statement 2: Making Materiality Judgements*

c) Revenue recognition

The Scheme's revenue is generated from rental and licence income from investment properties, sale of completed inventory properties, interest, discounts and rebates from government securities, interest on term deposits, interest on corporate bonds and dividends from quoted and unquoted equities.

Revenue represents the fair value of consideration received or receivable in the course of the Scheme's activities. It is recognised when it is probable that future economic benefits will flow to the Scheme and the amount of revenue can be measured reliably. It is stated net of value added tax, rebates and trade discounts.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Revenue recognition (continued)

Investment income

Interest income is recognised in the changes in net assets available for benefit as it accrues and is calculated by using the effective interest rate method. Investment income also includes dividend income which is recognised when the right to receive the payment is established, which is generally when shareholders approve the dividend.

The Scheme is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of changes in net assets available for benefits, except for contingent rental income which is recognised when it arises (where applicable). Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

Licence income - Service charges, management charges and other expenses recoverable from tenants
Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes receivable.

Contributions from the sponsor are accounted for in the period in which they fall due. There were no contributions during the year as the Scheme is closed, fully funded and hence no contributions were received.

Sale of completed properties

A property is regarded as sold when the significant risks and returns have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Realised / unrealised gains and losses

Realised / unrealised gains and losses recorded in the changes in net assets available for benefits on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction. Fair value gains and losses are determined as the difference between the carrying amount and the prevailing market value.

d) Benefits payable

Benefits payable are accounted for in the period in which they fall due.

e) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Property and equipment are reviewed for impairment whenever there are any indications of impairment identified.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The impairment loss is recognised changes in net assets available for benefit for the year.

An item of property and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Gains and losses on derecognition of property and equipment are determined by reference to their carrying amounts.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property and equipment (continued)

The residual value, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and are adjusted prospectively, if appropriate. Depreciation charge is on a straight-line basis. The depreciation rates per respective class are as follows:

Computer hardware	3 years
Equipment	4 years
Furniture and fittings	10 years

f) Accounting for leases

Determination

The determination of whether an arrangement is, (or contains), a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Scheme as a lessor

Leases in which the Scheme does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination took place.

g) Intangible assets

Intangible assets represent the Biometric System for member registration and identification and the Server Kit software for the fund operations which is stated at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated to write off the cost over two years in equal installments in line with the requirements of the Retirement Benefits Authority Act Occupational –Regulations 34C.

Software license costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the company are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each license or item of software over its estimated useful life (three years).

Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, even when idle. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

Softwares under implementation are recognised as work in progress at historical costs less any accumulated impairment loss. The cost of such softwares includes professional fees and costs directly attributable to the software. The softwares are not amortized until they are ready for the intended use. It is at this point that the costs are transferred to intangible assets and carried at cost less accumulated amortization and accumulated impairment losses.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Intangible assets (continued)

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of net assets when the asset is derecognized.

h) Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment property, including interest in leasehold land, is initially recognised at cost including the transaction costs. Subsequently, investment property is carried at fair value representing the open market value at the reporting date determined by annual valuations carried out by external registered valuers/ directors. Gains or losses arising from changes in the fair value are included in determining the increase in net assets for the year to which they relate.

The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Valuation of investment properties was carried by Joseph Mwaura Njoroge (Sundown Valuers & Realtors Limited) an external independent valuer. The valuer has vast experience and carried out similar valuations in locations near the Scheme's properties. The valuation was based on the fair value applicable as at 31 December 2017. The independent valuer made the following assumption when carrying out the valuation;

(i) The fair value is at arm's length where the buyers and the sellers are operating with full knowledge of the market and that none of them is forced to sell or buy.
(ii) That the economic situation will remain favorable for a period of time.
(iii) That the property is free from any encumbrances/charges.
(iv) The ownership of the property is not contested.

When the Scheme can reliably determine the fair value of a self-constructed investment property under construction or development, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the increase in net assets.

The difference between the carrying value and the fair value of the properties at the date of reclassification from investment properties under construction or development or work in progress to investment properties is recognised in the increase in net assets.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Investment properties (continued)

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is charged or credited to the changes in net assets available for benefit.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Scheme's accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

i) Inventory properties

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory property and is measured at the lower of cost and net realisable value (NRV).
Cost includes:

- Freehold and leasehold rights for land
- Amounts paid to contractors for construction

Non-refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when incurred.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventory property recognised in statement of changes in net assets available for benefits on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

j) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Purchases and sales of financial instruments are recognised on trade date – the date on which the Scheme commits to purchase or sell the asset.

The Scheme classifies its financial assets into the following IAS 39 categories: Financial assets at fair value through profit or loss; loans and receivables; held to maturity financial assets; and available for sale financial assets. Trustees determines the appropriate classification of its financial instruments at initial recognition.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Scheme commits to purchase or sell the asset.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial instruments (continued)

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling it in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by trustees. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value adjustments are recognised in the statement of changes in net assets available for benefits in the year that they arise.

Financial assets at fair value through profit or loss comprise quoted equity investments, government securities at fair value through profit or loss and corporate bonds.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include receivables arising from transactions with third parties. After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate method (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in changes in net assets available for benefit. Gains and losses are recognised in the changes in net assets available for benefit when the investments are derecognised or impaired, as well as through the amortisation process.

The Scheme has classified other receivables comprising of outstanding receivables on Runda and Loresho properties, interest receivable, prepayments, amounts due from related parties and cash and cash equivalents as loans and receivables.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the Scheme's management has the positive intention and ability to hold to maturity.

After initial measurement, held-to-maturity financial assets are measured at amortised cost, using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR gains and losses are recognised in statement of changes in net assets available for benefit when the investments are derecognised or impaired, as well as through the amortisation process.

The Scheme has term deposits with financial institutions and government securities that are held to maturity financial assets.

Available-for-sale (AFS) financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Subsequent to initial recognition, these investments are re-measured at fair value unless their value cannot be reliably measured in which case they are carried at cost less provision for impairment.

Unrealised gains and losses arising from changes in the fair value of available-for-sale are recognised in statement of changes in net assets available for benefits. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of changes in net assets available for benefit for the year as net realised gains/losses on financial assets.

Unquoted investments are classified as available-for-sale investments.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial instruments (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Scheme's statement of net assets available for benefits) when:

- The rights to receive cash flows from the asset have expired

or

- The Scheme has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Scheme has transferred substantially all the risks and rewards of the asset, or (b) the Scheme has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Scheme has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.
When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Scheme continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Scheme also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Scheme has retained.

Impairment of financial assets

The Scheme assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost- loans and receivables

For financial assets carried at amortized cost, the Scheme first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Scheme determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in changes in net assets available for benefits.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial instruments (continued)

Financial assets (continued)

Available-for-sale (AFS) financial assets (continued)

Financial assets carried at amortised cost- loans and receivables (continued)

If, in a subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in changes in net assets, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial investments

For available-for-sale financial investments, the Scheme assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment is recognised in changes in net assets available for benefits. Impairment losses on equity investments are not reversed through changes in net assets available for benefit; increases in their fair value after impairment are recognised directly in changes in net assets available for benefits.

Financial liabilities
Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, payables and financial guarantee contracts, net of directly attributable transaction costs. The Scheme's financial liabilities include other payables and accruals and amounts due to related parties.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the statement of changes in net assets available for benefit. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 satisfied. The Scheme has not designated any financial liability as at fair value through profit or loss.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial investments (continued)

Loans and borrowings and payables

After initial recognition, loans and borrowings and payable are subsequently measured at amortised cost using the EIR method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the carrying amount on initial recognition.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Gains and losses are recognised in changes in statement of changes in net assets available for benefit when the liabilities are derecognised as well as through the EIR amortisation process.

The Scheme has inventory property houses deposits from buyers, benefits payable, amounts due to related parties and other payables classified as loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of changes in net assets available for benefit.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of net assets only when there is a current and legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the changes in net assets available for benefit unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Scheme.

k) Capital management

The Scheme does not hold any capital. Each member is entitled to retirement benefits based on a pre-determined formula. At any one time the Scheme's assets should at least be equal to the liabilities failure to which the sponsor would be required to finance the deficit.

l) The Scheme's funding policy and objectives

When deciding on an appropriate investment strategy and risk profile for the investment of the Scheme assets, the objectives of the Scheme, and the membership profile, by both term and nature are analyzed.

Primary Objective of the Scheme is to provide lump sum and pension benefits on a defined contribution benefits basis for members on their retirement or invalidity as well as benefits to members' dependents on members' death before retirement. For assets and liabilities that are recognised in the financial statements on a recurring basis, the Scheme determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) The Scheme's funding policy and objectives (continued)

Analysis of liabilities

The age liability profile of the members and the ability to pay benefits and expenses out of monthly contributions and investment income are particularly important in determining the liquidity constraints of the Scheme.

The age liability profile of the members has an important influence on the risk tolerance that the Scheme can assume in meeting its long-term performance objectives (e.g. the younger the age profile of the Scheme, the greater the level of 'aggression' the Scheme can tolerate. The more members close to retirement, or to receiving benefits, the more conservative the risk profile, particularly if the 'older' members' assets represent a significant proportion of the Scheme).

The primary investment objectives of the Scheme are as follows:

A medium to long term view towards the investment of the Scheme assets has been adopted, the minimum period being no less than three (3) years with the following primary investment objectives of the Scheme:

(i) To maximize the long term "real" return on the Scheme assets. To do this in a way that minimizes, to the extent practical, the possibility the Scheme's assets (at their realizable value), at any one time, would fail to cover 100% of the total accrued liabilities;

(ii) Subject to i) above, to ensure an optimum level of return within specified risk parameters and to do so effectively, prudently and in a cost efficient manner, in full compliance with applicable laws and regulations

The Trustees have a statutory and fiduciary duty and responsibility to invest the Scheme's assets in a responsible and prudent manner.

For the purposes of achieving the funding objectives, the funding position shall be reviewed annually.

m) Taxation

Current income tax

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act. Income tax expense is the aggregate amount charged/ (credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Current income tax assets or liabilities are based on the amount of tax expected to be paid or recovered in respect of the taxation authorities in the future. Tax is recognised in the statement of changes in net assets available for benefits. However, The Scheme is a registered pension scheme under the Kenya Income Tax Act and is therefore tax exempt.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the end of the reporting period is recognised as an expense accrual.

Retirement benefit obligations

The Scheme operates a defined contribution Scheme for its employees. The assets of the Scheme are held in separate trustee administered funds, which are funded from contributions from both the Scheme and employees.

The Scheme also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute and are currently at KShs 200 per employee per month.

Statutory Pension Scheme

The Scheme's contributions to the defined contribution scheme and NSSF are charged to changes in net assets available for benefits as they fall due.

Bonus

An accrual is recognised for the amount expected to be paid under short-term cash bonus if the Scheme has a present legal and constructive obligation to pay this amount as a result of past service provided by the employee, the obligation can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

o) Impairment of non-financial assets

The Scheme assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Scheme estimates the asset's recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the changes in net assets available for benefits in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Scheme makes an estimate of recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

The Scheme's assets affected by this policy include property and equipment and intangible assets.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Fair value measurement

The Scheme measures financial instruments such as quoted equity investments at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Scheme.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Scheme uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2-Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3-Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Scheme determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as property and investment properties. Involvement of external valuers is decided upon annually by the finance and investment manager after discussion with and approval by the Scheme's trustee committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Scheme has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

q) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash at hand, deposits held with financial institutions and other short-term highly liquid investments.

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Expenses

Expenses are recognised in the statement of changes in net assets available for benefits when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably and is independent from transactions with equity participants.

This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment).

i) When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined expenses are recognised in the statement of changes in net assets available for benefit on the basis of systematic and rational allocation procedures. This is often necessary in recognising the equipment associated with the using up of assets such as property and equipment in such cases the expense is referred to as a depreciation or amortisation. These allocation procedures are intended to recognise expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

ii) An expense is recognised immediately in the statement of changes in net assets available for benefit when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of net assets available for benefits as an asset.

s) EVENTS AFTER THE REPORTING DATE

The financial statements are adjusted to reflect events that occurred between the reporting date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the reporting date. Events that are indicative of conditions that arose after the reporting date are disclosed, but do not result in an adjustment of the financial statements themselves. There are no material events or circumstances that have risen between the reporting date and the date of this report that would require adjustment to, or disclosure, in these financial statements.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the accounting policies adopted by the Scheme, the Trustees make certain judgments and estimates that may affect the carrying values of assets and liabilities in the next financial period. Such judgments and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The Trustees evaluate these at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available.

The preparation of the Scheme's financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Key sources of estimation uncertainty:

Property lease classification – Scheme as lessor

The Scheme has entered into commercial property leases on its investment property portfolio. The Scheme has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Impairment of non-financial assets

The Scheme assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Scheme estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU's) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Scheme bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Scheme's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to the statement of changes in net assets available for benefits. For such properties, the impairment is recognised in the statement of changes in net assets available for benefits up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Scheme estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of changes in net assets available for benefits.

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimation of net realisable value for inventory property

Inventory property is stated at the lower of cost and net realisable value (NRV). NRV for completed inventory property is assessed by reference to market conditions and prices existing at the reporting date and is determined by the Scheme, based on comparable transactions identified by the Scheme for properties in the same geographical market serving the same real estate segment.

NRV in respect of inventory property under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and an estimate of the time value of money to the date of completion.

Valuation of property

The fair value of investment property is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13.

Investment property under construction is measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. In one case, the fair value of the investment property under construction could not be reliably determined because it was in an area in which the surrounding properties were under development and reliable estimates could not be made. This property is recorded at cost.

The Investment properties are stated at fair value, which has been determined based on valuations performed by Joseph Mwaura Njoroge (Sundown Valuers & Reltors Limited) as at 31 December 2017 having regard to the foregoing particulars and the present day economic circumstances. The valuer used the market approach by comparing the properties with identical or similar assets for which price information is available.

Property and equipment

Critical estimates are made by the Scheme's management, in determining depreciation rates for property and equipment and amortization of intangible assets. However, the intangible assets currently reported have yet to be commissioned for use and are thus held at cost.

Receivables

Critical estimates are made by the trustees in determining the recoverable amount of receivables.

Income taxes

The Scheme is subject to income taxes in various jurisdictions for offshore and regional investments. Significant judgment is required in determining the Scheme's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Scheme recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility.

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT

Estimation of net realisable value for inventory property

The Scheme generates revenues for the members by investing in various income generating activities which involve trading in the securities, and investing in other financial assets including offshore investments.

These activities expose the Scheme to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the Trustees together with the investment managers under policies approved by the Trustees. The investment managers review the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against market risks. The Trustees provide guidelines for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity. The Scheme also follows guidelines issued by the Kenyan Retirements Benefits Authority (RBA) in respect of maximum investment in different types of investments.

a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits and AFS investments.

(i) Foreign exchange risk

The Scheme is exposed to the risk that the fair value or the future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Scheme invests internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Uganda shilling. Foreign exchange risk arises from investment in offshore investments, quoted shares on the Uganda Stock Exchange (USE) and the Rwanda Stock Exchange (RSE).

The Scheme currency risk is evaluated as low because the foreign investments are long-term and any currency losses are expected to be recouped through interest income earned and which comprises the value of the Scheme. The Scheme manages foreign exchange risk by limiting offshore investments to strategic range of 5% of total portfolio as required by the RBA regulations. The quoted investments in the USE and RSE are low risk and form an insignificant part of the total portfolio.

At 31 December 2017, the Scheme did not have offshore investments.

(ii) Price risk

The Scheme is exposed to equity securities price risk because of investments in quoted shares classified at fair value through profit or loss. The Scheme is also exposed to the risk that the value of debt securities will fluctuate due to changes in market value. To manage its price risk arising from investments in equity and debt securities, the Scheme diversifies its portfolio invested in bonds of varying maturities. Diversification of the portfolio is done in accordance with trust deed.

For equities, the Scheme has invested in companies in different sectors of the economy, while for debt securities; the Scheme has policy which is reviewed after every three years. All quoted shares held by the Scheme are traded on the Nairobi Securities Exchange (NSE), Uganda Securities Exchange (USE) and Rwanda Stock Exchange (RSE).

If the price of securities were to appreciate/depreciate by 5% it would have the following effect (approximately):

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

a) Market risk (continued)

(ii) Price risk (continued)

		2017 KShs '000	2016 KShs '000
Effect on returns from Investment	5% Appreciation	28,976	(14,306)
	5% Depreciation	(28,976)	14,306
Effect on Scheme balance	5% Appreciation	143,559	122,382
	5% Depreciation	(143,559)	(122,382)

iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme's interest bearing assets are investments in treasury bonds, corporate bonds, treasury bills and fixed deposits. All of these instruments are at fixed interest rates.

The nature of financial instruments held, that is, fixed interest instruments mitigates risk exposure of the Scheme. Fluctuations in interest rates will not have a significant effect on the Scheme.

b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

Credit risk arises from receivables, term deposits with financial institutions, interest bearing investments, deposits with banks, and cash and cash equivalents. As part of the credit risk management system, the Investment Manager and the Trustees monitor and review information on significant investment. The Trustees have approved a larger portfolio investment with the Government of Kenya debt securities which have a low credit risk and no default record.

The Scheme has an elaborate vetting process before a term deposits are placed in a financial institution. The deposits are also spread to mitigate against concentration risks. The vetting process is continuously reviewed to take into consideration of new developments.

The amount that best represents the Scheme's maximum exposure to credit risk as at reporting period is made up as follows:

	2017 KShs	2016 KShs
Government securities held to maturity	372,325	142,458
Government securities at fair value through profit or loss	5,280,858	5,294,584
Short term deposits with financial institutions	715,528	435,577
Corporate bonds at fair value through profit or loss	885,434	955,497
Receivables	2,101,163	1,351,548
Bank and cash balances	6,632	1,135
Amount due from related parties	15,252	7,527
	9,377,192	**8,188,326**

The Scheme holds no collateral over the above assets. The Scheme has not pledged any part of the above assets to fulfil any collateral requirements. There were no financial guarantees thus none included in the liquidity table under note 3(c).

For terms and conditions relating to related party receivables, refer to note 25.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

Receivables are non-interest bearing and are generally on terms of 30 to 90 days, save for mortgage house sales, refer to note 3(c) and note 24(a).

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Scheme, and earn interest at the respective short-term deposit rates. Refer to note 3(c) and note 26.

None of the above financial assets are past due or impaired.

The Scheme's maximum exposure to credit risk for the components of the statement of net assets available for benefits at 31 December 2017 and 2016 is the carrying amounts as illustrated in 24.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Scheme's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Scheme's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio and in line with the Investment Policy Statement for the Scheme. Identified concentrations of credit risks are controlled and managed accordingly. Selective screening is used by the Scheme to manage risk concentrations at both the relationship and industry levels.

c) Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in meeting obligations from its financial liabilities.

The Scheme is required to make periodic payment in respect of pension payments when members retire from the Scheme, and is therefore exposed to the risk of difficulty in raising funds to make such payments. It therefore invests a portion of its assets in investments that are readily convertible to cash. The investment managers monitor the Scheme's liquidity on a regular basis and the Trustees review it on a quarterly basis.

The Scheme's primary long – term risk is that its financial assets will fall short of its financial liabilities (promised benefit payable to members). Therefore, the aim of investments risk management is to minimize the risk of overall reduction in the value of the Scheme and to maximize the opportunity for gains across the whole Scheme portfolio. The Scheme achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest risk) and credit risk to an acceptable level. In addition, the Scheme manages liquidity risk to ensure there is sufficient liquidity to meet its forecast cash flows. The Scheme manages this investment risk as per part of its overall pension Scheme risk management program.

The table below analyses the Scheme's financial assets and financial liabilities as at the end of the reporting period. The amounts disclosed in the table below are the undiscounted cash flows. Balances due equal their carrying balances, as the impact of discounting is not significant.

The Scheme's liabilities are all payable within a year.

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

The table below summarizes the maturity profile of the Scheme's financial assets and liabilities based on contractual undiscounted obligations as at 31 December 2017.

	Less Than 3 months KShs '000	3 to12 months KShs '000	1 to 5 years KShs '000	More than 5 Years KShs '000	Total KShs '000
Government securities at fair value through profit and loss	-	519,230	1,003,604,	3,758,024	5,280,858
Government securities held to maturity	372,325	-	-	-	372,325
Short term deposits with financial institutions	715,528	-	-	-	715,528
Quoted equity investments	-	-	-	2,871,034	2,871,034
Unquoted equities	-	-	-	385,495	385,495
Corporate bonds at fair value through profit or loss	-	-	885,434	-	885,434
Receivables	9,832	-	2,091,331	-	2,101,163
Bank and cash balances	6,632	-	-	-	6,632
Due from related parties	8,849	6,403	-	-	15,252
Total	**1,113,166**	**525,633**	**4,004,200**	**6,800,442**	**12,443,441**
Financial liabilities					
Due to related parties	6,712	-	-	-	6,712
Other payables, and accruals	171,057	-	1,958	-	173,015
	177,769	-	1,958	-	179,727
Total net financial assets as at 31 December 2017	**935,397**	**525,633**	**3,978,411**	**7,014,553**	**12,453,994**

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)
FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

The table below summarizes the maturity profile of the Scheme's financial assets and liabilities based on contractual undiscounted obligations as at 31 December 2016.

Financial assets	Less Than 3 months KShs '000	3 to12 months KShs '000	1 to 5 years KShs '000	More than 5 Years KShs '000	Total KShs '000
Government securities at fair value through profit and loss	-	365,274	2,431,281	2,335,384	5,131,939
Government securities held to maturity	142,458	-	-	-	142,458
Short term deposits with financial institutions	435,577	-	-	-	435,577
Quoted equity investments	-	-	-	2,447,639	2,447,639
Unquoted equities	-	-	-	280,468	280,468
Corporate bonds at fair value through profit or loss	-	-	955,497	-	955,497
Receivables	17,478	1,334,070	-	-	1,351,548
Bank and cash balances	1,135	-	-	-	1,135
Due from related parties	7,527	-	-	-	7,527
Total	**604,175**	**1,699,344**	**3,386,778**	**5,063,491**	**10,753,788**
Financial liabilities					
Due to related parties	9,814	-	-	-	9,814
Other payables, and accruals	155,665	-	1,958	-	157,623
	165,479	**-**	**1,958**	**-**	**167,437**
Total net financial assets as at 31 December 2016	**438,696**	**1,699,344**	**3,384,820**	**5,063,491**	**10,586,351**

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

4. ACTUARIAL VALUATION METHOD AND ASSUMPTIONS

The pension Scheme liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 26. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the actuarial position. This estimate is subject to significant variances based on changes to the underlying assumptions.

The accrued (past service) liability in respect of each in-service Scheme member is taken as the present value of all benefits accrued to the Scheme's date of closure with allowance for revaluation of the accrued benefits to date of retirement or earlier exit. Each member's accrued liability is subject to a minimum of the member's own accumulated contributions and the Employer's accumulated contributions "on the member's behalf". The accrued liability in respect of pensioners is taken as the present value of the expected future pension payments.

In arriving at the value of accrued benefits, various assumptions have to be made. These assumptions are divided into demographic and financial assumptions. Demographic assumptions relate to the probability of an event occurring that would lead to the payment of a benefit. These include the mortality, withdrawal, retirement and similar assumptions. Financial assumptions on the other hand relate to those factors that affect the actual value/ amount of the benefit paid out. These would ideally include the rate of salary increases and the valuation rate of discount and the rate of pension increases. The financial assumptions have a greater bearing on the results of the actuarial valuation, particularly the relative differences between the assumptions as opposed to their absolute values.

The principal features of the actuarial basis can be summarised as follows:

Rate of interest/discount rate	:	10% per annum
Rate of revaluation of deferred benefits	:	5% per annum from 30/6/2006
Rate of pension increases	:	0% per annum for post 31/12/1999 service 3% per annum for pre 1/1/2000 service
Rate of increases to deferred pensions	:	0% per annum
Mortality - Pre-retirement	:	A1949/52 Ultimate
- Post-retirement	:	a (55) Males/Females Ultimate
Retirements	:	50% assumed to retire at age 55 and the balance at age 60 Withdrawals
Ill-health early retirement	:	In accordance with the average experience of other similar schemes.
Assets	:	Assets taken into account at amounts shown in the audited accounts as at 31 December 2016.

The actuarial basis adopted for this valuation is identical to that used for the last actuarial valuation of the Scheme as at 31 December 2013.

The actuarial basis adopted is, in the opinion of the Actuary, wholly consistent with the bases used for the actuarial valuations of other similar closed schemes in Kenya at the present time. It is important to appreciate that whilst individual elements of an actuarial basis may be subject to differences of opinion, it is the basis as a whole that is relevant rather than its individual constituent parts. The valuation method used was the Attained Age Method (AAM).

Sensitivity of Actuarial Valuation Results of Scheme

It is important to appreciate that the results of the actuarial valuation of the Scheme are sensitive to the actuarial assumptions made. The actuarial assumptions reflect one view of likely future events and there is therefore uncertainty as to how the financial position of the Scheme will develop in future. There is no guarantee that the assumptions made will be borne out in practice and the expectation is that the Scheme's actual experience will from time to time be better or worse than that assumed.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

4. ACTUARIAL VALUATION METHOD AND ASSUMPTIONS (continued)

	2017 KShs '000	2016 KShs '000
Scheme surplus	2,433,618	2,433,618
Funding level	**115.0%**	**115.0%**

The level of funding (the ratio of the Scheme assets to accrued liabilities) is 115.0% (2016: 115.0 %). The level of funding is above the statutory minimum funding requirement of 100% prescribed in the Retirement Benefits Regulations as amended in 2009.

The table below shows the results of the actuarial calculations based on the data provided to the appointed actuary and the assumptions and methodology adopted.

Value of:	**50% retire at age 55 KShs '000**	**25% retire at age 55 Kshs '000**	**All retire at age 60 Kshs '000**
Future Benefits to Current and Suspended Pensioners (non-vested benefits)	6,425,401	6,425,401	6,425,401
Deferred Pensioners	235,756	235,756	235,756
Active Members Accrued Benefits	9,461,597	9,102,310	8,766,056
Outstanding Liabilities	136,514	136,514	136,514
Total Liabilities	**16,259,268**	**15,896,955**	**15,563,727**
Non-vested benefits	6,425,401	6,425,401	6,425,401
Vested benefits	9,833,867	9,471,554	9,138,326
Value placed on Scheme Assets	18,692,886	18,692,886	18,692,886
Surplus	**2,433,618**	**2,795,931**	**3,129,159**
Funding level	**115.0%**	**117.6%**	**120.1%**

Assuming all (or most active) active members retire at age 60, the results of the actuarial valuation as at 31 December 2016 show a bigger actuarial surplus of KShs 3.129 billion. The funding level on this basis is 120.1%.

The movement in the number of pensioners and dependants was as shown below:

	Primary pensioners	**Widows/ Widowers**	**Orphans**	**Total**
Number as at 31 December 2013	909	1,199	2,111	4,219
New retirements/deaths from active service	270	51	121	442
New retirements from deferred status	31	-	-	31
Omitted in data for 2013 valuation	12	13	17	42
Deaths – beneficiaries on payroll	(48)	54	26	32
Deaths – ceased as no other beneficiaries	-	(20)	-	(20)
Ceased on attaining age 23 years	-	-	(707)	(707)
Number as at 31 December 2016	1,174	1,297	1,568	4,039

5. CONTRIBUTIONS RECEIVABLE FROM SPONSOR

The Scheme is closed, fully funded and hence no contributions were received.

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)

FOR THE YEAR ENDED 31 DECEMBER 2017

6. BENEFITS PAYABLE

	2017 KShs '000	2016 KShs '000
Withdrawals	259,468	231,465
Pensions	662,808	616,522
	922,276	**847,987**

7. RETURNS ON INVESTMENT

	2017 KShs '000	2016 KShs '000
Investment properties:		
Fair value gains on investment property (note 16)	190,712	819,136
Rental income	105,066	107,773
Licence income	5,248	4,104
	301,026	931,013
Inventory properties:		
Sale of inventory property	1,279,500	662,125
Inventory cost	(1,147,548)	(623,075)
Gain on sale of inventory property	131,952	39,050
Government securities at fair value through profit or loss:		
Interest on treasury bonds	544,177	564,456
Fair value gain (note 16)	120,763	162,644
Rebate on bonds	786	384
(Loss)/gain on disposal of treasury bonds (note 16)	(6,304)	4,198
	659,422	731,682
Government securities held to maturity:		
Fair value gain (note 16)	7,077	4,653
Gain on disposal of treasury bills (note 16)	10,347	11,430
	17,424	16,083
Term deposits with financial institutions:		
Interest on deposits	58,022	39,601
Quoted equity at fair value through profit or loss:		
Dividends receivable	128,468	157,722
Fair value loss (note16)	398,324	(443,100)
Loss on sale of investments (note 16)	58,894	(733)
	585,686	(286,111)
Corporate bonds at fair value through profit or loss:		
Interest on corporate bonds	164,020	147,088
Fair value loss on valuation of on corporate bonds (note 16)	(2,895)	(12,729)
Impairment loss (note 16)	(65,925)	-
Gain on disposal of corporate bonds (note 16)	7,745	5,631
	102,945	**139,990**

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

7. RETURNS ON INVESTMENT (continued)

	2017 KShs '000	2016 KShs '000
Unquoted investments:		
Interest received	13,659	18,351
Dividend received	6,301	-
	19,958	**18,351**
Offshore investments:		
Net loss on offshore investment (note 16)	-	(1,298)

8. INVESTMENT MANAGEMENT EXPENSES

	2017 KShs '000	2016 KShs '000
Investment management fee	25,320	13,469
Custodial fee	9,327	8,884
Brokerage fees	805	79
	35,452	**22,432**

Investment management expenses include investment manager's fees, custodial fees and brokerage fees paid by the Scheme. Investment managers are paid a fee of 0.18% (2016: 0.125%) of the net asset value held by the investment managers and a performance fee of 0.07% (2016: 0.01%) of the market value of the portfolio if the performance meets the bench mark. The composite benchmark is derived with reference to the strategic asset allocation as set out in the Investment Policy Statement. Custodians on the other hand are paid a maximum fee of 0.07% of the net asset value. Applicable transaction costs and bank charges are also payable to the custodian. Brokerage fees are part of the cost of purchase and sale of investments at the Nairobi Securities Exchange Limited (NSE), Uganda Securities Exchange (USE) and Rwanda Stock Exchange (RSE).

9. OTHER INCOME

	2017 KShs '000	2016 KShs '000
Interest on call deposits	-	4,380
Write back of excess accrual	1,486	14,152
Sundry receipts	-	302
	1,486	**18,834**

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)

FOR THE YEAR ENDED 31 DECEMBER 2017

10. OPERATIONAL EXPENSES

	2017 KShs '000	2016 KShs '000
Administrative expenses:		
Office expenses	1,563	1,353
External audit fees	2,439	2,196
Legal and professional fees	9,919	15,944
Actuarial fees	631	1,624
Levies and taxes	5,000	5,000
Bank charges	682	502
Depreciation of property and equipment (note 14)	1,932	776
Amortization of intangible assets (note 15)	1,640	-
office Repairs and maintenance	15	37
Insurance expenses	1,934	2,682
Land rates	3,617	1,364
ICT expenses	2,821	2,188
Secretariat expenses (note 11)	66,999	58,274
Governance fees and expenses (note 12)	17,622	17,056
Members' expenses (note 13)	8,321	9,053
Net administrative expenses	**125,135**	**118,049**
Other administrative expenses:		
Printing and stationery	2,498	2,685
Subscription	52	81
ISO expense	2,502	1,274
Corporate events	948	1,136
Service Charge	421	473
Parking rent expense	486	-
Procurement expenses	2,616	-
Corporate social responsibility	441	4,703
	9,964	**10,352**
Total operational expenses	**135,099**	**128,401**

11. SECRETARIAT EXPENSES

	2017 KShs '000	2016 KShs '000
Salaries, wages and bonuses	51,494	44,468
NSSF	58	53
Contribution to Defined Contributions Pension Scheme	3,614	3,405
Staff training	10,166	8,708
Leave pay provision	1,667	1,640
	66,999	**58,274**

These are expenses relating to the staff in the Scheme secretariat. The Secretariat oversees all activities performed by the Scheme's service providers that include investment manager, custodian, property manager, actuary and legal advisors. The secretariat is responsible for communication with members and other stakeholders as well as ensuring the Scheme is compliant with all applicable statutory requirements.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

12. GOVERNANCE FEES AND EXPENSES

	2017 KShs '000	2016 KShs '000
Trustees' remuneration	8,501	10,228
Internal audit fee	1,685	2,378
Trustees' training	7,436	4,450
	17,622	**17,056**

Governance expenses are incurred by the Trustees in fulfilling their mandate as is required of them by the Trust Deed & Rules and by the Kenyan Retirement Benefits Act. Trustees' remuneration relates to their sitting allowances for the meetings attended and the honoraria.

13. MEMBERS' EXPENSES

	2017 KShs '000	2016 KShs '000
Annual general meeting costs	1,123	1,609
Members' education costs	7,198	7,444
	8,321	**9,053**

Members expense comprise of Annual General Meeting expenses and cost of sensitizing and educating members about the Scheme and their benefits.

14. PROPERTY AND EQUIPMENT

2017 COST	Computer hardware Kshs'000	Equipment Kshs'000	Furniture & fittings KShs'000	Total KShs'000
s at 1 January 2017	6,118	7,766	2,270	16,154
Additions	2,531	323	430	3,284
As at 31 December 2017	**8,649**	**8,089**	**2,700**	**19,438**
ACCUMULATED DEPRECIATION				
As at 1 January 2017	4,451	5,236	1,698	11,385
Charge for the year	1,153	702	77	1,932
As at 31 December 2017	5,604	5,938	1,775	13,317
CARRYING AMOUNT				
As at 31 December 2017	**3,045**	**2,151**	**925**	**6,121**
2016				
COST				
As at 1 January 2016	4,265	5,006	2,119	11,390
Additions	1,041	2,760	151	3,952
Reclassification (note 15)	812	-	-	812
As at 31 December 2016	**6,118**	**7,766**	**2,270**	**16,154**

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)
FOR THE YEAR ENDED 31 DECEMBER 2017

14. PROPERTY AND EQUIPMENT (continued)

2016 COST	Computer hardware Kshs'000	Equipment Kshs'000	Furniture & fittings KShs'000	Total KShs'000
ACCUMULATED DEPRECIATION				
As at 1 January 2016	3,964	5,006	1,639	10,609
Charge for the year	487	230	59	776
As at 31 December 2016	4,451	5,236	1,698	11,385
CARRYING AMOUNT				
As at 31 December 2016	**1,667**	**5,119**	**572**	**4,769**

There was no existence of any restrictions on title, and property and equipment pledged as security for any liabilities. There were no contractual commitments for the acquisition of property and equipment.

15. INTANGIBLE ASSETS

2017	Software work in progress KShs '000	Software KShs '000	Total KShs '000
COST			
At 1 January & 31 December	30,483	-	30,483
Additions	731	-	731
Transfers*	(6,886)	6,886	-
At 31 December	24,328	6,886	31,214
AMORTISATION			
At 1 January	-	-	-
Charge for the year*	-	1,640	1,640
At 31 December	-	1,640	1,640
CARRYING AMOUNT	**-**	**5,246**	**29,574**

**These include the Biometric System and Server Kit commissioned for use within the year.*

Intangible assets - work in progress relate to computer software(s) which include, FundMaster and Document Management System acquired by the Scheme for use in its operations but which are still in the implementation phase and thus are yet to be commissioned.

2016	Software under Development KShs '000
COST	
At 1 January & 31 December	30,304
Additions	991
Reclassification (note 14)	(812)
At 31 December	**30,483**

Intangible assets – work in progress relates to computer software(s) which include, FundMaster, Document Management System and Biometric System acquired by the Scheme for use in its operations but which are still in the implementation phase and thus are yet to be commissioned.

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)

FOR THE YEAR ENDED 31 DECEMBER 2017

16. INVESTMENTS

c) Liquidity risk (continued)

2017	Value at 01.01.2017 KShs'000	Purchases KShs'000	Sales/maturity proceeds KShs'000	Gain/(loss) on disposal KShs'000	Fair value gain/(loss) KShs'000	Accrued interest KShs'000	Impairment loss KShs'000	Value at 31.12.2017 KShs'000
Investment property (note 17)	6,650,700	-	-	-	190,712	-	-	6,841,412
Investment property - WIP (note18 (a))	30,405	36,489	-	-	-	-	-	66,894
Inventory property (note18 (b))	1,227,533	-	(1,279,500)	131,952	-	-	-	79,985
Government securities at fair value through profit or loss (note 19 (a))	5,294,584	2,721,784	(2,849,969)	(6,304)	120,763	-	-	5,280,858
Government securities held to maturity (note 19 (b))	142,458	487,443	(275,000)	10,347	7,077	-	-	372,325
Unquoted equity investments (note 20)	280,468	109,899	(4,872)	-	-	-	-	385,495
Quoted equity investments at fair value through profit or loss (note 21)	2,447,639	1,354,758	(1,388,581)	58,894	398,324	-	-	2,871,034
Corporate bonds at fair value through profit or loss (note 22)	955,497	95,700	(104,688)	7,745	(2,895)	-	(65,925)	885,434
Term deposits with financial institutions (note 23)	435,577	4,754,635	(4,512,899)	32,223	-	5,992	-	715,528
	17,464,861	**9,560,708**	**(10,283,557)**	**102,905**	**713,981**	**5,992**	**(65,925)**	**17,498,965**

The change in market value of investments comprises change in carrying amount of the investments as a result of valuation at the reporting date. The transaction costs are included in the cost of purchases and sales proceeds.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

16. INVESTMENTS

c) Liquidity risk (continued)

2016	Value at 01.01.2016 KShs'000	Purchases KShs'000	Sales/maturity proceeds KShs'000	Gain/(loss) on disposal KShs'000	Fair value gain/(loss) KShs'000	Accrued interest KShs'000	Impairment loss KShs'000	Value at 31.12.2016 KShs'000
Investment property (note 17)	5,805,864	25,700	-	-	-	819,136	-	6,650,700
Inventory property – work in progress (note18 (a))	21,656	8,749	-	-	-	-	-	30,405
Inventory property (note 7 & 18 (b))	1,676,060	174,548	-	(662,125)	39,050	-	-	1,227,533
Government securities at fair value through profit or loss (note 19 (a)	4,627,578	1,940,505	-	(1,440,341)	4,198	162,644	-	5,294,584
Government securities held to maturity (note 19 (b))	73,607	248,768	-	(196,000)	11,430	4,653	-	142,458
Unquoted equity investment (note 20)	273,861	6,607	-	-	-	-	-	280,468
Quoted equity investments at fair value through profit and loss (note 21)	2,846,022	112,402	-	(66,952)	(733)	(443,100)	-	2,447,639
Corporate bonds at fair value through profit or loss (note 22)	1,043,517	-	-	(80,922)	5,631	(12,729)	-	955,497
Offshore investments	1,298	-	-	-	(1,298)	-	-	-
Term deposits with financial institutions (note 23)	767,577	5,042,820	-	(5,403,756)	27,018	-	1,918	435,577
	17,137,040	**7,560,099**	**-**	**(7,850,096)**	**85,296**	**530,604**	**1,918**	**17,464,861**

The change in market value of investments comprises change in carrying amount of the investments as a result of valuation at the reporting date. The transaction costs are included in the cost of purchases and sales proceeds.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

17. INVESTMENT PROPERTIES

	Stima Plaza KShs'000	Umeme Plaza KShs'000	Karen KShs'000	Total KShs'000
2017				
At 1 January 2017	1,875,700	1,305,000	3,470,000	6,650,700
Additions	-	-	-	-
Fair value gains	24,300	-	166,412	190,712
31-Dec-17	**1,900,000**	**1,305,000**	**3,636,412**	**6,841,412**
2016				
At 1 January 2016	1,821,064	1,113,300	2,871,500	5,805,864
Additions	25,700	-	-	25,700
Fair value gains	28,936	191,700	598,500	819,136
31December 2016	**1,875,700**	**1,305,000**	**3,470,000**	**6,650,700**

The Scheme investment properties consist of three commercial properties; Stima Plaza, Umeme Plaza and Karen.

Rental income earned from the investment property during the year amounted to KShs 105 million (2016: KShs 108 million) (note 7).

As at 31 December 2017, investment property were revalued by Sundown Valuers & Realtors Limited (2016: Vineyard Valuers Limited), registered valuers, using the market comparison approach having regard to the foregoing particulars and the present day economic circumstances. Sundown Valuers & Realtors Limited and Vineyard Valuers Limited are an industry specialists in valuing these types of investment properties.

There were no direct operating expenses arising from investment property that generated rental income. There was no acquisition or sale of investment property during the year.

There was no existence of restrictions on the realisability of investment properties or the remittance of income and proceeds of disposal of investment properties. There were no contractual obligations to purchase or for repairs, maintenance or enhancements. The contractual obligations to construct or develop investment properties are detailed in note 18 and note 28.

18. a) INVESTMENT PROPERTIES – WORK IN PROGRESS

2017	Stima Plaza KShs'000	Umeme Plaza KShs'000	Karen KShs'000	Total KShs'000
At 1 January 2017	6,669	2,965	20,771	30,405
Additions	36,489	-	-	36,489
As at 31 December 2017	**43,158**	**2,965**	**20,771**	**66,894**

2016

	Stima Plaza KShs'000	Umeme Plaza KShs'000	Karen KShs'000	Total KShs'000
At 1 January	4,995	-	16,661	21,656
Additions	1,674	2,965	4,110	8,749
As at 31 December 2016	**6,669**	**2,965**	**20,771**	**30,405**

Investment properties under construction relates to contractors and subcontractors' costs incurred in relation to development of Stima Plaza, Umeme Plaza and Karen properties.

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)

FOR THE YEAR ENDED 31 DECEMBER 2017

18. b) INVENTORY PROPERTIES

	2017 KShs '000	2016 KShs '000
As at 1 January	1,227,533	1,676,060
Additions	-	174,548
Cost of sold inventory property	(1,147,548)	(623,075)
Balance as at 31 December	**79,985**	**1,227,533**

There were no inventories pledged as security for any liability.

19. GOVERNMENT SECURITIES

		2017 KShs '000	2016 KShs '000
a)	Treasury bonds – at fair value through profit or loss	5,280,858	5,294,584
b)	Treasury bills – held to maturity	372,325	142,458

The weighted average interest rate realized on the investment in treasury bonds during the year was 11.88% (2016:11.83%).

20. UNQUOTED EQUITY INVESTMENTS

	2017 KShs'000	2016 KShs'000
At Cost		
1 January	280,468	273,861
Addition(a)	109,899	6,607
Reimbursements(b)	(4,872)	-
31 December	**385,495**	**280,468**

(a) Relates to additional investment in Ascent Rift Valley Fund Ltd, Catalyst Fund II L.P. and Fanisi Capital.

(b) Relates to reimbursement from Catalyst Fund II LP after entry of new investors in 2017.

In the current year the unquoted equity investment constitutes investment in Ascent Rift Valley, Gulf Power Limited, Catalyst Fund II L.P., and Fanisi Capital which has been carried at cost and the Trustees are of the opinion that this cost approximates their fair value because the expected inputs that would be used by management for the valuation are not based on observable market data neither does the Scheme hold any recent price quotations of the above investments. Further, the unquoted equities are not actively traded and management does not intend to dispose them in the immediate future.

The Scheme together with The KPLC Staff Retirement Benefit Scheme (2016) jointly acquired a 10% interest in the equity shares of Gulf Power Ltd, an independent power producer. Both Schemes have a direct equity stake on a 50:50 ratio.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

23. TERM DEPOSITS WITH FINANCIAL INSTITUTIONS

	2017	2016	
	Interest Rate	KShs '000	KShs '000
Cooperative Bank Ltd	0.5%	-	51,839
NIC Bank Limited	7.0%	-	6,500
Equity Bank Ltd	8.0%	-	4,521
Kenya Commercial Bank	9.0%	-	49,000
Kenya Commercial Bank	9.0%	-	23,000
Equity Bank Ltd	7.4%	-	300
Kenya Commercial Bank	8.4%	-	4,000
Equity Bank Ltd	8.0%	-	4,000
Cooperative Bank Ltd	9.3%	-	32,000
Kenya Commercial Bank	9.0%	-	100,000
Kenya Commercial Bank	9.0%	-	7,000
Kenya Commercial Bank	9.0%	-	21,000
Cooperative Bank Ltd	10.0%	-	28,500
Kenya Commercial Bank	9.0%	-	31,000
Kenya Commercial Bank	9.0%	-	71,000
Diamond Trust Bank	7.5%	3,000	-
Kenya Commercial Bank	10.0%	120,000	-
Equity Bank Ltd	8.5%	7,200	
NIC Bank Limited	10.0%	35,000	-
Equity Bank Ltd	8.5%	21,600	-
Cooperative Bank Ltd	9.8%	13,600	-
NIC Bank Limited	10.0%	39,000	-
Equity Bank Ltd	9.5%	2,500	-
Kenya Commercial Bank	10.0%	49,200	
Kenya Commercial Bank	9.3%	80,000	-
Kenya Commercial Bank	9.3%	1,300	-
Cooperative Bank Ltd	10.5%	47,200	-
Cooperative Bank Ltd	7.0%	77,436	
Cooperative Bank Ltd	9.5%	53,400	-
NIC Bank Limited	9.0%	55,300	-
Kenya Commercial Bank	10.8%	45,600	-
Equity Bank Ltd	8.5%	7,100	-
Equity Bank Ltd	10.5%	51,100	-
Total deposits		**709,536**	**433,660**
Add: Accrued interest		**5,992**	**1,918**
		715,528	**435,577**

The weighted average interest rate realized on the term deposits during the year was 9.3% (2016: 8.1%). None of the above assets have been pledged.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

24. RECEIVABLES

(a) MORTGAGE HOUSE SALES RECEIVABLES

	2017 KShs '000	2016 KShs '000
Runda houses sales	203,125	203,125
Loresho houses sales	1,886,695	1,130,776
	2,089,820	**1,333,901**

Outstanding receivables from sale of Runda and Loresho houses are amounts due from mortgage buyers. The Scheme has obtained a multi dwelling title and registration of leases is ongoing. Amounts are yet to be released to the Scheme as the lease registration has yet to be finalized. Thus none of the above assets are impaired.

(b) OTHER RECEIVABLES

	2017 KShs '000	2016 KShs '000
Rent receivable(a)	637	726
Prepayments	22	450
Parking rent deposit receivable(b)	1,511	-
Pension recoverable (medical premiums)(c)	1,627	-
Interest & Dividends Receivable	7,546	16,471
	11,343	**17,647**
	2,101,163	**1,351,548**

(a) Rent receivable relates to rent that was outstanding from property manager in relation to Stima Plaza property as at the end of the year.

(b) Parking rent deposit receivable relates to deposit on staff parking paid to KenGen Staff Retirement Benefits Scheme for rented parking space.

(c) Pension recoverable (medical premiums) relates to the medical premiums paid by the Scheme on behalf of retirees which is recoverable from their monthly pension.

25. RELATED PARTY DISCLOSURES

The Scheme transacts with its sponsor, the Kenya Power & Lighting Company Limited (the sponsor) and the Kenya Power & Lighting Company Limited Staff Retirement Benefits Scheme 2006 (defined contribution); a sister Scheme.

Amounts due from Kenya Power & Lighting Company Staff Retirement Benefits Scheme 2006 (defined contribution) represent recoverable secretariat costs not received by the end of the reporting period.

Amounts due to the Sponsor represent pensions and salaries paid on behalf of the Scheme by the sponsor and are recoverable from the Scheme.

Amounts due from Kenya Power Provident Fund A (PFA) relates to balances recoverable from a Provident Fund maintained by Kenya Power & Lighting Company for its employees as the Fund's sponsor. These are payments of benefits to members made by the Scheme on behalf of the Provident Fund. The payments were made through the Scheme as the Provident Fund awaits to constitute a new board to facilitate approval of such payments for the respective Fund .A transfer of amount paid by the Fund will be made by the PFA Fund as soon as the Board is constituted. Amounts due from related parties are current and considered to be fully recoverable and thus no provisions for impairment losses have been made in the books of account. There are no trade off agreements between the related parties for amounts outstanding at the end of the period.

Key management includes the Board of Trustees who are entitled to a sitting allowance and Secretariat staff who are paid a salary. The trustees' allowances are short term in nature and the Scheme does not have: post tenure benefits, other long-term benefits and termination benefits.

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

25. RELATED PARTY DISCLOSURES (continued)

	2017 KShs '000	2016 KShs '000
Related parties' balances and transactions:		
Amounts due from related parties:		
Due from KPLC staff retirement benefits scheme 2006	8,849	7,527
Due from Kenya Power Provident Fund A (PFA)	6,403	-
	15,252	**7,527**
Amounts due to related parties:		
Due to Kenya Power & Lighting Company Limited	5,405	9,814
Due to KPLC staff retirement benefits scheme 2006	1,307	-
	6,712	**9,814**
Reimbursement of administrative expenses from KPLC staff retirement benefits scheme 2006	21,725	21,208
Rental income earned from the Kenya Power & Lighting Limited	92,199	92,545
Short-term employment benefits:		
Key management compensation:		
Salary and other allowances	40,824	33,672
Trustees' remuneration	**8,501**	**10,228**

The Scheme does not have a share based payment for key management personnel. Termination benefits include: pension contributions plus accrued interest. There were no guarantees and/ or commitments made on behalf of related parties.

There were no provisions for bad and doubtful debts in relation to related party balances. Amounts due to/from related parties do not attract interest.

26. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2017 KShs'000	2016 KShs'000
Cash and bank balances	6,632	1,135
Short term deposits	715,528	435,577
	722,160	**436,712**

27. OTHER PAYABLES AND ACCRUALS

	2017 KShs'000	2016 KShs'000
Rent deposits	1,958	1,958
Accruals	171,057	155,655
	173,015	**157,623**

Accruals include construction costs, management and custodian fees, professional, legal and other pending supplier balances as of respective year end.

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)

FOR THE YEAR ENDED 31 DECEMBER 2017

28. CAPITAL COMMITMENTS

As at the end of the reporting period the Scheme had committed the following to investment in unquoted equity shares and the development of investment properties.

	2017 KShs '000	2016 KShs '000
Unquoted equity shares:		
Authorized and contracted for:		
Ascent Rift Valley	206,463	204,972
Catalyst Fund II L.P	206,463	-
Fanisi Capital	206,463	-
	619,389	**204,972**
Development of investment property:		
Stima plaza extension	407,000	-
	1,026,389	**204,972**

The Fund has committed USD 6 million evenly distributed in three Funds for investment in private equity (currently a total of KShs 385 million of this commitment is invested in Ascent Rift Valley, Catalyst Fund II L.P and Fanisi Capital – refer to note 20). The exchange rate used is USD/KShs 103.23 (2016: 102.49).

29. INCOME AND EXPENDITURE ACCOUNT

	2017 KShs '000	2016 KShs '000
Investment income	1,876,435	1,628,361
EXPENDITURE: -		
Investment management fee (note 8 (a))	(35,452)	(22,432)
Net administrative expenses (note 10)	(125,135)	(118,049)
Other administrative expenses (note 10)	(9,964)	(10,352)
Total expenditure	(170,551)	(150,833)
Net income for the year	**1,705,884**	**1,477,528**

30. OPERATING LEASES

Net rental income earned during the year was KShs 105 million (2016: KShs 108 million). The Scheme has various lease contracts of 6-year renewable terms with a 2-year 15% escalation close running to the end of the lease term. At the end of the reporting period, the Scheme had contracted with tenants for the following future lease receivables:

	2017 KShs '000	2016 KShs '000
Less than one year	121,831	105,335
Between one and five years	590,768	642,869
	712,598	**748,204**

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

31. FAIR VALUE MEASUREMENT

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Scheme.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Scheme specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Scheme's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange Limited.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components and investment property

This hierarchy requires the use of observable market data when available. The Scheme considers relevant and observable market prices in its valuations where possible.

For assets where the fair value cannot be measured reliably, cost basis has been used.

The table below shows an analysis of assets recorded at fair value by level of the fair value hierarchy.

31 December 2017	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Quoted equity investment at fair value through profit or loss	2,871,034	-	-	2,871,034
Corporate bonds at fair value through profit or loss	885,434	-	-	885,434
Government securities at fair value through profit and loss	5,280,858	-	-	5,280,858
Investment properties	-	-	6,841,412	6,841,412
	9,037,326	**-**	**6,841,412**	**15,878,738**

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)
FOR THE YEAR ENDED 31 DECEMBER 2017

31. FAIR VALUE MEASUREMENT (continued)

31 December 2016	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Equity investment-at fair value through profit or loss	2,447,639	-	-	2,447,639
Corporate bonds at fair value through profit or loss	889,572	-	65,925	955,497
Government securities at fair value through profit and loss	5,294,584	-	-	5,294,584
Investment properties	-	-	6,650,700	6,650,700
	8,631,795	**-**	**6,716,625**	**15,348,420**

Valuation techniques used in determining fair value of financial assets and liabilities:

The significant unobservable inputs used in the fair value measurements categorized in level 3 of the fair value hierarchy as at 31 December 2017 are as shown below.

Instrument	Level	Valuation basis	Rate	Significant unobservable Inputs
Investment properties	3	Discounted Cash Flow	13%	Discount rate used

Corporate bonds include Chase Bank Corporate bonds of a face value of KShs 76 million (fair value of KShs 65.93) which was listed at the Nairobi Securities Exchange (NSE). The corporate bond issuer, Chase Bank Ltd (IR), was placed under receivership by the Central Bank of Kenya on 7 April 2016 for a maximum period of 12 months. Consequently, Nairobi Securities Exchange Ltd (NSE) under the directive of the Capital Markets Authority of Kenya (CMA), suspended the trading of the corporate bond with effect from 8 April 2016.

Given this stated incurred loss event, the financial asset has been fully impaired and thus not carried at fair value as at 31 December 2017.

Reconciliation of fair value measurement under Level 3 hierarchy:

Corporate bonds at fair value through profit or loss	2017 KShs '000	2016 KShs '000
At 1 January	65,925	75,628
Re-measurement recognized in net assets available for benefits in the year	-	(9,702)
Impairment loss	65,925	-
At 31 December	**-**	**65,925**

31. FAIR VALUE MEASUREMENT (continued)

Fair value measurement hierarchy for assets as at 31 December 2017:

31 December 2017	**Date of valuation**	**Level 1 KShs '000**	**Level 2 KShs '000**	**Level 3 KShs '000**	**Total KShs '000**
Investment properties					
Residential properties	31 Dec 2017	-	-	3,636,412	3,636,412
Commercial properties	31 Dec 2017	-	-	3,205,000	3,205,000
Quoted equity Investments at fair value through profit or loss					
Agricultural	31 Dec 2017	5	-	-	5
Banking sector	31 Dec 2017	809,070	-	-	809,070
Commercial & services sector	31 Dec 2017	-	-	-	-
Construction & allied sector	31 Dec 2017	335,771	-	-	335,771
Energy & Petroleum sector	31 Dec 2017	454,546	-	-	454,546
Insurance sector	31 Dec 2017	31,188	-	-	31,188
Investment sector	31 Dec 2017	24,252	-	-	24,252
Manufacturing & allied sector	31 Dec 2017	188,486	-	-	188,486
Telecommunication & technology	31 Dec 2017	1,027, 716	-	-	1,027, 716
Quoted Debt Securities at fair value through profit or loss					
Corporate bonds	31 Dec 2017	885,434	-	-	885,434
Government securities	31 Dec 2017	5,280,858	-	-	5,280,858
		9,037,326	**-**	**6,841,412**	**15,878,738**

There were no transfers between level 1 and level 2 during 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)
FOR THE YEAR ENDED 31 DECEMBER 2017

31. FAIR VALUE MEASUREMENT (continued)

Fair value measurement hierarchy for assets as at 31 December 2016:

31 DECEMBER 2016	Date of valuation	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Investment properties					
Residential properties	31 December 2016	-	-	3,470,000	3,470,000
Commercial properties	31 December 2016	-	-	3,180,700	3,180,700
Quoted equity Investments at fair value through profit or loss					
Agricultural	31 December 2016	6	-	-	6
Banking sector	31 December 2016	890,818	-	-	890,818
Commercial & services sector	31 December 2016	45,253	-	-	45,253
Construction & allied sector	31 December 2016	235,431	-	-	235,431
Energy & Petroleum sector	31 December 2016	310,002	-	-	310,002
Insurance sector	31 December 2016	10,000	-	-	10,000
Investment sector	31 December 2016	20,510	-	-	20,510
Manufacturing & allied sector	31 December 2016	312,229	-	-	312,229
Telecommunication & technology	31 December 2016	623,390	-	-	623,390
Quoted Debt Securities at fair value through profit or loss					
Corporate bonds	31 December 2016	882,182	-	65,925	955,497
Government securities	31 December 2016	5,294,584	-	-	5,294,584
		8,624,405	**-**	**6,716,625**	**15,341,030**

There were no transfers between level 1 and level 2 during 2016

NOTES TO THE **FINANCIAL STATEMENTS (CONT"D)**

FOR THE YEAR ENDED 31 DECEMBER 2017

32. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) FINANCIAL ASSETS	2017 KShs '000	2016 KShs '000
Non-current financial assets		
Financial assets at fair value through profit or loss:		
Government securities at fair value through profit or loss (note 19(a))	4,785,460	4,929,310
Quoted equity investments at fair value through profit or loss (note 21)	2,871,034	2,447,639
	7,656,639	**7,376,949**
Available-for-sale financial assets:		
Unquoted equity investments (note 20)	385,495	280,468
Loans and receivables:		
Receivables (note 24(a))	2,091,331	-
Total non-current financial assets	**10,133,466**	**7,657,417**
Current financial assets		
Financial assets at fair value through profit or loss:		
Government securities at fair value through profit or loss (note 19(a))	519,230	365,274
Corporate bonds at fair value through profit or loss (note 22)	950,494	955,497
	1,469,724	**1,320,771**
Held-to-maturity investments:		
Government securities held to maturity (note 19(b))	372,325	142,458
Loans and receivables:		
Receivables (note 19(b))	9,832	1,351,548
Amount due from related parties	15,252	7,527
Term deposits with financial institutions (note 23)	715,528	435,577
Cash and bank balances (note 26)	6,632	1,135
	749,461	**1,795,787**
Total current financial assets	**4,680,624**	**3,259,016**
Total financial assets	12,698,781	10,916,433
(b) FINANCIAL LIABILITIES		
Financial liabilities at amortised cost:		
Due to related parties	6,712	9,814
Other payables and accruals	173,015	157,623
Total financial liabilities	**179,727**	**167,437**

NOTES TO THE FINANCIAL STATEMENTS (CONT"D)

FOR THE YEAR ENDED 31 DECEMBER 2017

33. TAX STATUS

The Scheme is a registered pension scheme under the Kenya Income Tax Act and is therefore tax exempt.

34. REGISTRATION

The Scheme is registered in Kenya under the Retirement Benefits Act.

35. CURRENCY

The financial statements are presented in Kenya Shillings (KShs '000).


SAKILE
PROPERTIES

KENYA POWER
PENSION FUND
Defined Benefits

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