



CORPORATE
ADMINISTRATOR

GROWING WITH YOU, SECURING YOUR FUTURE

ANNUAL REPORT

AND FINANCIAL STATEMENTS 2016

LAPTRUST (UMBRELLA)
RETIREMENT FUND
(COUNTY PENSION FUND)



GROWING WITH YOU



OUR VISION

Fulfilling lives

OUR MISSION

To offer innovative retirement benefits that enhance the socio-economic welfare of all the contributors and beneficiaries

CORE VALUES

- Team spirit
- Innovativeness
- Professionalism
- Integrity
- Customer focus

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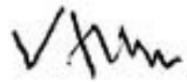
Notice of the Annual General Meeting

to members of Laptrust (Umbrella) Retirement Fund (County Pension Fund)

Notice is hereby given that the **Annual General Meeting (A.G.M)** of **LAPTRUST (UMBRELLA) RETIREMENT FUND (COUNTY PENSION FUND)** will take place on **Friday 13th October 2017** at the **Kenyatta International Convention Centre (KICC)** in Nairobi County starting from **8.30 A.M** to **12:00 PM.**

Agenda

1. Introductions and Opening Remarks
2. Address by Chief Guest
3. Reading of the Notice of the Annual General Meeting
4. Reading and approval of the Minutes of the 3rd Annual General Meeting held on 12th August 2016
5. Presentation of the Chairman's Report
6. Presentation of the Administrator's Report
7. Presentation of the Investment's Manager Reports
8. Presentation of the Schemes' Custodians Report
9. Presentation of the Financial Statements and Audited Accounts for Year ended 31st December 2016
10. Award Ceremony
11. Question & Answer
12. Presentation by Stakeholders of the Scheme
13. Vote of Thanks



Hosea Kili, OGW

Group Managing Director / CEO

CPF Financial Services Ltd;

The Scheme Corporate Administrator

For & on behalf of The Trustees of The Laptrust (Umbrella) Retirement Fund (County Pension Fund)

Trustee and Professional Advisors

Registered Office

CPF House, 7th floor
Haile Selassie Avenue
P O Box 28938, 00200
Nairobi

Corporate Trustee

Natbank Trustee and Investment Services Limited
National Bank Building
Harambee Avenue,
P.O Box 72866, 00200
Nairobi

Administrators

CPF Financial Services Limited
CPF House, 7th floor
Haile Selassie Avenue
P O Box 28938, 00200
Nairobi

Auditors

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P O Box 40092, 00100
Nairobi

Investment Managers

Co-op Trust Investment Services Limited
Co-operative Bank House
P O Box 43231, 00100
Nairobi

Custodians

Equity Bank Limited
Custody Services
Equity Centre, Hospital Road
P O Box 75104, 00200
Nairobi

Bankers

Kenya Commercial Bank Limited
Moi Avenue Branch
P O Box 30081, 00200
Nairobi



'We take pride in connecting County Governments' employees across the country to a high value Scheme and supporting them to make well informed retirement plans.'

Hosea Kili, OGW
Group Managing Director / CEO

Message from Corporate Administrator

Introduction

It is my pleasure to present to you the 2016 Administrators report and an overview of our operations for the year. As the Scheme Administrator, we take pride in connecting County Governments' employees across the country to a high value Scheme and supporting them to make well informed retirement plans. In line with our values, we continue to deliver accelerated growth in the Fund's membership base and in turn a bright, fulfilled future for the members of this Scheme.

As we present the report and financial statements for the year ended 31 December 2016, we also look back at the year Laptrust Umbrella Retirement Fund (County Pension Fund) has had – successes and challenges.

Management of the Fund

As a Scheme Administrator, we have a strong foundation of professionalism and trust which guide us in our operations and in delivering shared value to our members and stakeholders alike. This administrative strength, earned over eight decades of in-house administration of the Laptrust DB Scheme ensures that we are able to fulfill our Scheme Administration responsibilities optimally.

In the year under review, this Scheme, its members and the Administrator have shown great resilience and flexibility to market challenges brought on by the macro economic challenges coupled with the prospects of the 2017 General Elections.

In 2016, the Scheme, with the guidance from the Scheme Administrator, sharpened its focus on the strategic objectives outlined in the Strategic Plan 2015-2017. There are four (4) strategic goals that this plan aims at achieving by the end of the Plan period:

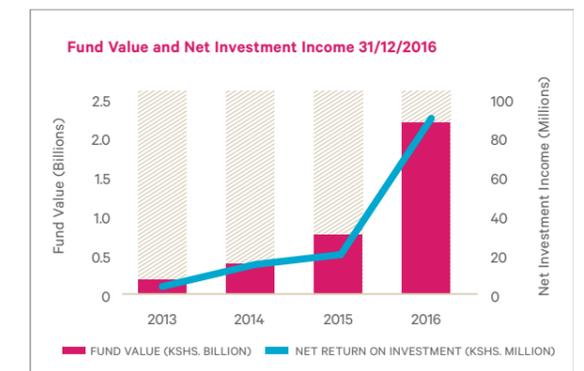
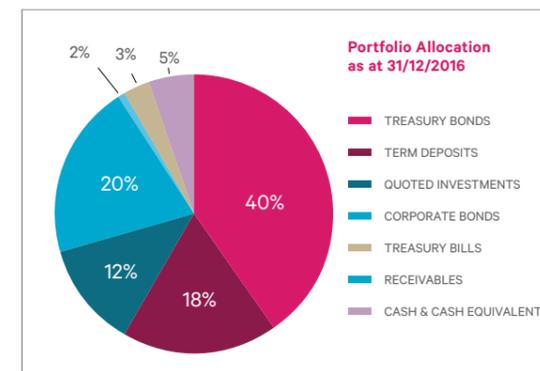
- Enhancement of Investment Returns
- Debt Management & Control
- Membership Growth
- Brand Visibility

We believe that building on the unique competencies and lessons from many years of experience in the sector, the Scheme of choice for County Governments' employees is better positioned to enhance the socio-economic welfare of all the contributors and beneficiaries of the Fund.

Performance Highlights

The Scheme closed the year with a fund value of Kshs 2.0 Billion up from Kshs 726 Million for the same period in 2015. The net asset position grew by Kshs 1.4 Billion in December 2016 up from Kshs 401 Million as at December 2015. The Scheme's investment portfolio is as illustrated below, with Treasury Bonds making up the biggest percentage (40%) of the portfolio in the reporting year.

Summary on the year under review



Message from Corporate Administrator

Membership Growth

The membership of the Scheme more than doubled from the year under review to stand at 18,304 as at 31 December 2016 up from 7,883 as at 31 December 2015. This was an impressive increase of 10,421 new members into the Scheme. The commendable growth is attributable to the recognition and acceptance of the Scheme by County Governments and other stakeholders as the Scheme enshrined in law under Section 132 of the County Governments Act.

The contribution rates for the Scheme are 15% of the pensionable salary for the employer and 12% of the pensionable salary for the employee.

County Pension Scheme Bill, 2016

Following a robust stakeholder consultative process spanning the last four years, the County Governments as key stakeholders of the Scheme, put forth a proposal to the Senate for enactment of the Laptrust Umbrella Retirement Fund (County Pension Fund) through an Act of Parliament. This process was necessary to effect the recommendations of the Stakeholders and to achieve uniform legislation for county pension arrangements.

I am pleased to note that the legislative process is well in progress, and the Senate, being the house that legislates on matters affecting County Governments, successfully legislated on the County Pension Scheme Bill 2016 during this period, publishing it on December 2, 2016. The CPS Bill 2016 is now before the National Assembly for concurrence before it is ascended into law.

Risk Management Framework

In order to proactively secure and support the Scheme's vision, the Administrator has put in place a robust Risk Management Framework to identify, analyze and control/mitigate risks aimed at minimizing risk exposure levels for the Scheme. The Risk Management Framework is built on the Scheme's philosophy of securing the future of members and supports the Trustees of the Fund in their efforts to maximize returns on investment while ensuring the growth and sustainability of the Fund for posterity.

The investment managers are responsible for the day to day management of investment funds. However, the overall responsibility for investment and performance lies with the Corporate Trustee. The Risk Management framework therefore plays a critical role in monitoring and keeping the Trustees well apprised of the risk profile of the Scheme.

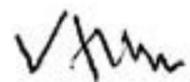
Future Prospects

It is anticipated that 2017 will present tough market conditions and a depressed performance due to the General Elections. However, with the strength of the Scheme gained over the last five years, the diligent team of the Scheme Administrator will continue to focus efforts towards delivering impressive results for the Scheme members in the coming year.

With a nationwide branch coverage, the goal of growing the Scheme membership as we take services closer to our members remains within reach. In the medium term, we seek to grow membership coverage, enhance our customer service and grow investment returns- all aimed at giving value to our esteemed members.

I wish to appreciate the Council of Governors, the County Assemblies Forum, County Public Services Boards, County Assembly Service Boards, County Secretaries, Trade Unions and all other stakeholders for their unwavering support and commitment.

To the Scheme members and sponsors, thank you for your loyalty and continued partnership.



Hosea Kili, OGW

Group Managing Director / CEO

CPF Financial Services Ltd (Corporate Administrator)

Corporate Governance Statement

Laptrust (Umbrella) Retirement Fund (County Pension Fund) is a Defined Contributions Pension Scheme and was registered by the Retirement Benefits Authority on 27 May, 2011 to provide retirement benefits for the staff of the County Governments, Associated Organizations, and Approved Reciprocating Bodies as provided under the Fund's rules.

Laptrust (Umbrella) Retirement Fund was established pursuant to the directive to the public sector retirement Schemes under Treasury Circular No. 18/2010 of November, 2010 which required all public sector retirement schemes to convert their Defined Benefits (DB) Schemes to Defined Contributions (DC) Schemes with the option of retaining persons with less than 5 years to attain retirement age in the Defined Benefits (DB) Schemes.

The Corporate Trustee

Natbank Trustees & Investment Services Ltd, a subsidiary of National Bank, is duly registered with the Retirement Benefits Authority as the appointed Corporate Trustee of Laptrust (Umbrella) Retirement Fund. The Corporate Trustee is guided by the Trust Deed and Rules for the Scheme as amended from time to time and the Retirement Benefits Act and the regulations made thereunder.

Corporate Trustee's Responsibilities

The primary role of the Corporate Trustee is to ensure that the Fund grows exponentially and continues to prosper for the benefit of members, sponsors and other stakeholders. The Corporate Trustee is responsible for policy formulation, investment of Scheme funds, Scheme administration, payment of benefits to persons entitled to such benefits under the Scheme rules, protection of the property and assets of the Scheme and performance of such other duties as may be necessary for the due and faithful performance of the Scheme's obligations. The Corporate Trustee generally meets on a quarterly basis and on such other times as may be deemed necessary, to consider all matters relating to the overall control, business performance and strategy of the Scheme.

Corporate Trustee's Independence

The Corporate Trustee has established structures and standards to enable it discharge its duties independently and free from any unlawful directions, undue influence or any other form of compulsion. These standards are fundamentally premised on the requirement that the Corporate Trustee should be independent of the Administrator and free from any business or other relationship that could adversely interfere with their objectivity and the exercise of their independent judgment. The Corporate Trustee and the Scheme Corporate Administrator are mutually interdependent but their roles and responsibilities are distinct. On the other hand, the Corporate Trustee evaluates the performance of the Scheme Corporate Administrator to ensure this is in tandem with the principal objectives of the Scheme.

Information and Professional Development

The Corporate Trustee is devoted to progressively monitor and acquaint itself with key business developments in order to maintain and enhance its effectiveness. From time to time the Corporate Trustee receives presentations from the Fund Managers, Custodians, Actuary and Legal Advisors on matters of significance. The corporate strategy, financial plans, including budgets and forecasts are regularly discussed at Corporate Trustee meetings. The Corporate Trustee is confident that it has the necessary skill, knowledge, and experience to perform the functions required of a Trustee.



For and on behalf of Corporate Trustee

Natbank Trustees and Investments Services Ltd

Administrator Management Team



Hosea Kili, OGW

Group Managing Director/ CEO



Joseph Rono

Director - Strategy, Finance and Investments



Christine Nyamwanda

Director - Operations and Marketing



Lydia Sitienei

Group Head of Legal & Company Secretary



Evelyne Muchigi

Corporate Communications Manager



Tony Olang

ICT Manager



Anne Tuitoek

Human Resource & Administration Manager



Cornelius Ndumai

Group Internal Audit Manager



Sospeter Thiga

Group Risk and Compliance Manager

GROWING WITH YOU



Report of the Corporate Trustee

The Trustees present their report together with the audited financial statements for the year ended 31 December 2016.

Establishment, nature and purpose of the Fund

The Laptrust (Umbrella) Retirement Fund (County Pension Fund) was established under the Retirement Benefits Authority (RBA) Act and is registered with the Retirement Benefits Authority. The Fund is a Defined Contributions Scheme and provides, under the rules of the Fund, retirement benefits for the staff of local authorities, associated organizations, and approved reciprocating bodies as provided in the Fund's rules.

It is a tax exempt approved Fund under the Income Tax Act. The principal objective of the Fund is to provide pension and other retirement benefits to employees of the sponsors and other individual and associated members of the Fund upon their retirement from service and relief for the dependents of deceased members.

Results

The results for the Fund for the year ended 31 December 2016 is analyzed as follows:

	2016 Shs '000	2015 Shs '000
Increase in net assets during the year	1,363,243	401,578

Membership

The Fund has 62 sponsors which comprise of 18,304 employees as at December 2016. Employees contribute to the Fund at the rate of 12% of their pensionable salaries while the employers contribute at a rate of 15% of the employees' pensionable salaries.

The Fund's membership was as follows:

	2016 No.	2015 No.
Contributing or active Members		
At beginning of the year	7,883	3,320
New members	10,477	4,609
Leavers	(56)	(46)
As at 31st December	18,304	7,883

Incorporation

LAPTRUST (Umbrella) Retirement Fund (County Pension Fund) was formed in response to Treasury Circular No. 18/2010 of November, 2010 which requires all public sector retirement Schemes to close Defined Benefits (DB) Schemes to persons aged 45 and below and establish Defined Contribution (DC) Schemes. The Scheme was registered by the RBA, Certificate No. 01305 of 27 May 2011 and started operations on 1st July, 2013.

Report of the Corporate Trustee *(continued)*

Contributions

The contribution rates are expressed as a percentage of the employees' basic salary and housing allowance. Rates in use for the year 31 December 2016 and 31 December 2015 were:

Employer	15%
Employee	12%
	27%

Assets management

The investment managers are responsible for the day to day management of investment funds. However, the overall responsibility for investment and performance lies with the Trustees.

The Fund's net assets position as at 31 December 2016 was as follows:

Categories of assets	2016 Value Shs'000	2015 Value Shs'000
Cash & cash equivalents	102,275	36,150
Term deposits	372,037	-
Treasury bonds	840,515	334,824
Quoted investments	256,086	190,653
Corporate bonds	35,492	47,372
Treasury bills	67,902	14,449
Receivables	283,063	23,420
Due from related parties	204,322	87,843
Payables	(72,453)	(8,715)
Total assets	2,089,239	725,996

We confirm that there is no self-investment, nor have any Fund assets been used as security or collateral on behalf of the employer or any connected business or individual.

Trustees

The Corporate Trustee is appointed by the Fund promoter in accordance with RBA Act and Fund rules and regulations. The names of the current Trustees are shown on page 5.

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors.

SIGNED ON BEHALF OF THE TRUSTEES




Corporate Trustee

Statement of Trustees' Responsibilities

Retirement Benefits Scheme Regulations require the Trustees to prepare financial statements for each financial year which give a true and fair view of the disposition of the Fund's assets and liabilities as at the end of the financial year and of the financial transactions of the Fund for that year. The Regulations also require the Trustees to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund. They are also responsible for safeguarding the assets of the Fund.

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

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 in the manner required by the Retirement Benefits Regulations. The Trustees are of the opinion that the financial statements show a true and fair view of the financial transactions of the Fund and of the disposition of its assets and liabilities, other than liability to pay pensions and benefits falling due after the end of the year.

The Trustees also accept responsibility for:

- Designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- Selecting suitable accounting policies and applying them consistently; and
- Making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Fund's ability to meet its obligations, the Trustees are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Fund's ability to meet its obligations.

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



Corporate Trustee
2017



Independent Auditors' Report to the members of Laptrust (Umbrella) Retirement Fund

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way Muthangari
P.O Box 40092, 00100
Nairobi, Kenya
Tel: +254 (20) 423 0000
Cell: +254 (0) 719 039 000
Fax: +254 (20) 444 8966
Dropping Zone No. 92
Email: admin@deloitte.co.ke
www.deloitte.co.ke

Opinion

We have audited the accompanying financial statements of LAPTRUST (Umbrella) Retirement Fund set out on pages 17 to 32 which comprise the statement of net assets available for benefits as at 31 December 2016, and the statement of changes in net assets available for benefits and the statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 December 2016 and of the disposition at that date of its assets and liabilities, other than liabilities to pay retirement and other benefits falling due after the end of the year in accordance with International Financial Reporting Standards and the requirements of the Retirement Benefits Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with Institute of Certified Public Accountants Kenya Code of Ethics (ICPAK Code of Ethics) which is consistent with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements. The IESBA Code is consistent with the International Ethics Standards Board for Accountants' Board of Ethics for Professional Accountants (parts A and B).

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, which comprises the Report of the Trustees as required by the Retirement Benefits Act. 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 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 that we 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.

Statement of Net Assets Available for Benefits

for the year ended 31 December 2016

	Note	2016 Shs'000	2015 Shs'000
Cash and bank balances	10	79,123	20,837
Government securities – available for sale	11	840,515	334,824
Treasury bills	12	67,902	14,449
Fixed deposits	13(a)	372,037	-
Call deposits	13(b)	23,152	15,313
Corporate bonds	14	35,492	47,372
Contributions receivable	15	266,208	2,785
Quoted investments	19	256,086	190,653
Due from related parties	22	217,018	90,455
Other receivables	16	16,855	20,635
		2,174,388	737,323
LIABILITIES			
Payables and accruals	17	(72,453)	(8,715)
Due to related parties	22	(12,696)	(2,612)
		(85,149)	(11,327)
NET ASSETS		2,089,239	725,996
REPRESENTED BY			
FUND BALANCE	18	2,089,239	725,996

The financial statements on pages 17 to 32 were approved and authorised for issue by the Board of Trustees on

March 31st 2017 and were signed on their behalf by:



Corporate Trustee

Statement of Cash Flows

for the year ended 31 December 2016

	Notes	2016 Shs'000	2015 Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Contributions		1,198,711	541,866
Withdrawals paid		(114,772)	(34,796)
Administrative expenses paid		(10,969)	(14,694)
Increase in receivables and related parties		(112,699)	(95,911)
Net cash generated from operating activities		960,271	396,465
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income received		93,453	39,324
Purchase of government securities	11	(504,228)	(240,128)
Purchase of short term deposits		(899,498)	(858,465)
Purchase of corporate bonds		-	(22,784)
Purchase of quoted investments	19	(104,969)	(150,067)
Purchase of treasury bills	12	(130,570)	(13,935)
Proceeds from sale/maturity of government securities	11	30,630	30,914
Proceeds from sale/maturity of treasury bills	12	78,939	-
Proceeds from sale/maturity of short term deposits		530,735	846,155
Proceeds from sale of corporate bonds		11,362	5,000
Proceeds from sale of quoted equities		-	15,252
Net cash used in investing activities		(894,146)	(348,734)
NET INCREASE IN CASH AND CASH EQUIVALENTS		66,125	47,731
CASH AND CASH EQUIVALENTS AT 1 JANUARY		108,150	60,419
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10	174,275	108,150

Notes to the Financials Statements

1. ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards (IFRS), the Retirement Benefit Act, 1997 as amended, and with the Retirement Benefits (Occupational Retirement Benefit Fund) Regulations, 2000.

Application of new and revised International Financial Reporting Standards (IFRS)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2016

Several new and revised standards and interpretations were effective during the year. The Trustees have evaluated the impact of the new standards and interpretations and none of them had an impact on the Fund's financial statements.

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2016

Only IFRS 9 on financial instruments issued in November 2009 will be relevant to the Fund. The standard introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition. The Trustees of the Fund anticipate that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Fund's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the Fund.

(iii) Early adoption of standards

The Fund did not early adopt any new or amended standards in 2016.

Basis of preparation

The financial statements are prepared under the historical cost convention, as modified to include revaluation of investments at fair value.

Functional and presentation currency

The financial statements are presented in Kenya Shillings (Shs '000'), which is also the Fund's functional currency.

Contributions receivable and benefits payable

Contributions receivable and benefits payable to leavers are recognised in the period in which they fall due. Members who leave the sponsors employment at the end of the year (31 December) are deemed to have withdrawn from the Fund in the subsequent year, upon advising the Trustees of their intention to withdraw. The employer's contribution for members who leave the Fund before retirement age are transferred to the deferred benefits until such time as they attain retirement age or join another Fund at which point their benefits are transferred to that new Fund.

Transfers

Transfers are recognised in the period in which members join from other Funds or leave for other Funds. The values are based on methods and assumptions determined by actuaries.

Notes to the Financials Statements *(continued)*

1. ACCOUNTING POLICIES (Continued)

Investment income

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.

Withdrawals

Withdrawals are charged to the statement of changes in net assets when they fall due which is determined by reference to the date when the administrator is notified of the withdrawal by the Board of Trustees.

Benefits payable

Pensions and other benefits payable are taken into account in the period in which they fall due.

Taxation

The Fund is a registered defined benefit Fund and is exempt from income taxation.

Financial instruments

Recognition

Financial assets and liabilities are initially recognised on the Fund's statement of net assets available for benefits at cost using settlement date accounting, when the Fund has become a party to the contractual provisions of the instrument.

Classification

The Fund classifies its financial assets into the following categories:

(i) Held to maturity investments

Held to maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Fund has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowances for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation and losses arising from impairment of such investments are recognised in the statement of changes in net assets available for benefits.

(ii) Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments classified as fair value through profit or loss are initially recognised at cost and subsequently re-measured to fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realised and unrealised gains and losses are included in the statement of changes in net assets available for benefits. Interest earned whilst holding held for trading investments is reported as interest income.

Notes to the Financials Statements *(continued)*

1. ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification (Continued)

(iii) Receivables

Receivables are financial assets with fixed or determinable payments and are not quoted in an active market. After initial measurement at cost, receivables are subsequently remeasured to amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

(iv) Available for sale financial assets

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices are classified as available for sale and are initially recognised at cost. Available for sale investments are subsequently re-measured to fair value, based on quoted bid prices or amount derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using effective interest method, and foreign exchange gains and loss on monetary assets which are recognized in profit or loss. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

(v) Quoted investments

Quoted investments are classified on fair value through profit or loss and are stated at the fair value as at the end of each reporting date.

(vi) Short term deposits

Term deposits are classified as held to maturity and stated at amortised cost.

(vii) Government securities

Government securities comprise treasury bills and treasury bonds, which are debt securities issued by the Government of Kenya. Treasury bonds are classified as fair value through profit or loss and stated at fair value.

(viii) Corporate bonds

Corporate bonds are classified as held to maturity and stated at mortised cost.

Financial liabilities

Financial liabilities are recognized initially at cost, and subsequently at amortised cost.

Impairment and un-collectability of financial assets

At the end of the reporting period, all financial assets are subject to review for impairment. If it is probable that the Fund will not be able to collect all amounts due (principal and interest) according to the contractual terms of receivables, or held-to-maturity investments carried at amortised cost, an impairment loss has occurred. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the asset is reduced to its estimated recoverable amount through use of the provision for impairment account. The amount of the loss incurred is included in statement of changes in net assets for the year.

Notes to the Financials Statements *(continued)*

1. ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Kenya Shillings at rates of exchange ruling at year end. Transactions during the year in foreign currencies are translated at rates ruling at the dates of the transactions. The resulting exchange differences are dealt with in the statement of changes in net assets available for benefits.

Members' funds

Members' funds comprise the accumulated net surpluses or deficits realized from dealings with members or deficits from the Fund's investing activities to the extent that they are not captured in the reserves.

Comparatives

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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE FUND'S ACCOUNTING POLICIES

In the process of applying the Fund's accounting policies, Trustees have made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

Held-to-maturity investments

The Fund follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Fund evaluates its intention and ability to hold such investments to maturity. If the Fund fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Impairment losses on financial assets

At the end of each reporting period, the Fund reviews the carrying amounts of its financial assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised in the statement of changes in net assets available for benefits whenever the carrying amount of the asset exceeds its recoverable amount.

Contributions income

Some sponsors statements of members contributions are not received regularly i.e. on a monthly basis as stipulated. The Fund management makes an estimate of the contributions income based on the latest statement ever received from the sponsor.

Notes to the Financials Statements *(continued)*

	2016 Shs'000	2015 Shs'000
3. CONTRIBUTIONS		
Employer	850,010	287,923
Employee	682,202	237,038
Penalties	48,128	13,075
	1,580,340	538,036
4. INVESTMENT INCOME		
Interest on government securities - available for sale	65,806	30,515
- Interest on fixed deposits	3,684	1,895
- Interest on call deposits	8,441	6,163
- Interest on corporate bonds	3,895	5,604
- Dividend income	8,922	2,439
	90,748	46,616
5. INVESTMENT MANAGEMENT EXPENSES		
Fund management expenses	2,588	980
Custodian fees	1,089	485
	3,677	1,465
6. FAIR VALUE LOSS ON REVALUATION OF INVESTMENTS		
Fair value gain/(loss) on government securities – available for sale	31,925	(18,342)
Fair value loss on quoted investments	(39,536)	(12,314)
	(7,611)	(30,656)
7. FUND EXPENSES		
Bank charges	67	39
Professional fees	1,255	2,401
RBA levy	1,750	1,339
Stakeholder workshops costs	4,043	-
Administrative fees	32,160	4,948
Audit fees	1,022	787
Branch operational costs	10,765	9,353
Promotional materials	604	123
Advertising & publicity	325	129
AGM & member conference	144	124
Agency force expenses*	18,895	-
	71,030	19,243

*Agency force expenses relate to commissions and other costs paid to recruitment agents for membership recruitment drives on behalf of the Scheme.

Notes to the Financials Statements *(continued)*

	2016 Shs'000	2015 Shs'000
8. PROVISION FOR DOUBTFUL DEPOSITS		
Provision for impaired deposit in Imperial Bank (Under administration by CBK)	-	72,000
9. PROVISION FOR DOUBTFUL DEBTS		
Provision for doubtful contributions	119,200	59,965
10. CASH AND CASH EQUIVALENTS		
Cash and bank balances	79,123	20,837
Call deposits	95,152	87,313
Cash and cash equivalents- disclosed in the cashflow statement	174,275	108,150
Less: Provision for doubtful deposits	(72,000)	(72,000)
	102,275	36,150
11. GOVERNMENT SECURITIES – AVAILABLE FOR SALE		
Cost at beginning of the year	334,824	143,694
Additions	504,228	240,128
Proceeds from disposal	(30,630)	(30,914)
Gain on disposal	168	258
Add: fair value gains	31,925	(18,342)
Government securities – at market value	840,515	334,824
The maturity dates for government securities are:		
- After one year but within two years	177,983	14,430
- After two years but within five years	300,803	91,974
- After five years	361,729	228,420
	840,515	334,824
The effective weighted interest rate on the treasury bonds available for sale was 11.71 % (2015 – 6.75%).		
12. TREASURY BILLS		
	2016 Shs'000	2015 Shs'000
Cost at beginning of the year	14,449	-
Additions	130,570	13,935
Proceeds from disposal	(78,939)	-
Add: accrued interest	1,822	514
Treasury bills – at market value	67,902	14,449
The effective weighted interest rate on the treasury bills available for sale was 12.71 % (2015 – 11.5%).		

Notes to the Financials Statements *(continued)*

13. SHORT TERM DEPOSIT

a) SHORT TERM DEPOSITS HELD TO MATURITY

	Average interest rate	Maturity	2016 Shs'000'	2015 Shs'000'
Kenya Commercial Bank Limited	9.00%	9-Jan-17	45,342	-
Kenya Commercial Bank Limited	9.00%	16-Jan-17	2,013	-
Kenya Commercial Bank Limited	9.00%	23-Jan-17	4,017	-
Kenya Commercial Bank Limited	9.00%	30-Jan-17	3,509	-
The Co-operative Bank of Kenya Limited	9.00%	2-June-17	167,082	-
Equity Bank Limited	9.00%	2-June-17	150,074	-
			372,037	-
b) CALL DEPOSITS				
Kenya Commercial Bank Limited	7.50%	On Call	2,018	-
Equity Bank Limited	7.35%	On Call	5,051	-
The Co-operative Bank of Kenya Limited	7.50%	On Call	16,083	-
Family Bank Limited	17%	On Call		8,407
Diamond Trust Bank Limited	14%	On Call		6,906
Imperial Bank of Kenya Limited	24%	On Call	72,000	72,000
Less: Provision for doubtful deposits (note 9)			(72,000)	(72,000)
			23,152	15,313

The weighted average interest rate as at 31 December 2016 was 7.50 % (2015: 15.60%).

14. CORPORATE BONDS – HELD TO MATURITY

	Maturity	Average interest rate	2016 Shs'000'	2015 Shs'000'
NIC Bank Limited	09-Sep-19	12.50%	6,760	6,756
Corporate Insurance Company Limited	03-Sep-19	13.00%	12,161	12,157
ARM Cement Limited	21-Oct-15	25.00%	-	11,443
Commercial Bank of Africa Limited	14-Dec-20	12.75%	5,021	5,017
Centum Investments Limited	06-Jun-22	12.50%	9,007	9,000
Housing Finance Company	02-Oct-17	12.50%	1,029	1,030
Kengen Limited	21-Oct-19	12.50%	1,514	1,969
			35,492	47,372

The weighted average interest rate as at 31 December 2016 was 12.7% (2015: 15.56%).

Notes to the Financials Statements *(continued)*

15. CONTRIBUTIONS RECEIVABLE

	2016 Shs'000	2015 Shs'000
Contribution receivable from sponsors	453,316	70,693
Interest on outstanding contributions	11,808	11,808
Provision for bad and doubtful receivables:		
- Outstanding contributions	(187,108)	(67,908)
- Interest and penalties	(11,808)	(11,808)
	266,208	2,785
16. OTHER RECEIVABLES		
Dividend receivable	165	635
Prepayments	16,690	20,000
	16,855	20,635
17. PAYABLES AND ACCRUALS		
Benefits payable	29,558	1,515
Other accruals	42,895	7,200
	72,453	8,715
18. FUND BALANCE		
At beginning of the year	725,996	324,418
Increase in net assets for the year	1,363,243	401,578
At 31 December	2,089,239	725,996

Notes to the Financials Statements *(continued)*

19. QUOTED INVESTMENTS AT FAIR VALUE

Number of shares 31-Dec-2015	Additions	Number of shares 31-Dec-2016	Description	Market value at 31-Dec-2015 Shs'000	Additions Shs'000	Market gain/ (loss) Shs'000	Market value at 31-Dec-2016 Shs'000
20,000	70,000	90,000	Bamburi Cement Limited	3,500	11,264	(364)	14,400
785,000	1,110,000	1,895,000	Kenya Commercial Bank Limited	34,344	33,974	(13,837)	54,481
450,000	1,000,000	1,450,000	The Kenya Power & Lighting Co Ltd	5,940	9,398	(3,520)	11,818
235,467	150,000	385,467	The Co-operative Bank of Kenya Limited	4,238	2,184	(1,334)	5,088
231,037	23,104	254,141	Diamond Trust Bank Kenya Limited	43,204	-	(13,215)	29,989
600,000	200,000	800,000	Equity Bank Limited	24,000	7,885	(7,885)	24,000
1,200,031	2,400,062	3,600,093	Kengen Co. Limited	8,520	15,720	(3,360)	20,880
100,000	-	100,000	East Africa Breweries Limited	27,300	-	(2,900)	24,400
1,303,000	-	1,303,000	Kenol/Kobil Limited	12,509	-	6,906	19,415
30,000	3,333	33,333	Standard Chartered Bank Limited	5,850	-	450	6,300
20,000	-	20,000	Nation Media Group Limited	3,820	-	(1,960)	1,860
1,069,200	1,200,000	2,269,200	Safaricom Limited	17,428	24,544	1,483	43,455
6,043,735	6,156,499	12,200,234		190,653	104,969	(39,536)	256,086

Notes:

Market values for quoted equity investments are determined by reference to Nairobi Securities Exchange prices prevailing at the end of each reporting date.

Notes to the Financials Statements *(continued)*

20. MANAGEMENT OF MEMBERS' FUNDS

The Fund maintains an efficient structure of members' funds consistent with the Fund's risk profile and the regulatory and market requirements of its operating environment.

The Fund's objectives when managing members' funds are to safeguard the Fund's ability to continue as a going concern in order to fulfill its obligations of paying retirement benefits when they fall due.

21. FINANCIAL RISK MANAGEMENT

The Fund generates revenues for the members by investing in various income generating activities. These activities expose the Fund to a variety of financial risks, including credit risk and the effects of changes in equity market prices, foreign currency exchange rates and interest rates. The Fund'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 investment managers and the Trustees under policies approved by the Trustees. Investment managers review the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against market risks.

Market risk

Interest rate risk

The Fund's interest bearing assets include treasury bonds and term deposits which are at variable and fixed interest rates.

At 31 December 2016, an increase/(decrease) of 1% on the interest bearing financial assets' interest rate would have resulted in increase/(decrease) respectively in net increase in net assets of approximately Shs 1,359,460 (2015 – Shs 238,000).

Credit risk

Credit risk arises from cash and cash equivalents and receivables. As part of the credit risk management system, the investment managers and the Trustees monitor and review information on significant investments.

The amount that best represents the Fund's exposure to credit risk as at 31 December 2016 is made up as follows:

2016	Fully performing Shs'000	Past due Shs'000	Impaired Shs'000	Total Shs'000
Government securities	840,515	-	-	840,515
Bank balances	79,123	-	-	79,123
Call deposits	95,152	-	(72,000)	23,152
Treasury bills	67,902	-	-	67,902
Contributions receivable	465,125	-	(198,917)	266,208
Quoted investments	256,086	-	-	256,086
Corporate bonds	35,492	-	-	35,492
Other receivables	16,855	-	-	16,855
Amount due from related parties	217,018	-	-	217,018
	2,073,268	-	(270,917)	1,802,351

Notes to the Financials Statements *(continued)*

21. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

2015	Fully performing Shs'000	Past due Shs'000	Impaired Shs'000	Total Shs'000
Government securities	334,824	-	-	334,824
Bank balances	20,837	-	-	20,837
Call deposits	87,313	-	(72,000)	15,313
Treasury bills	14,449	-	-	14,449
Contributions receivable	82,501	-	(79,716)	2,785
Corporate bonds	47,372	-	-	47,372
Other receivables	20,635	-	-	20,635
Amount due from related parties	90,455	-	-	90,455
	698,386	-	(151,716)	546,670

The debts that are impaired are fully provided for. The debts that are past due are not impaired and continue to be paid. The Fund's management is actively pursuing these debts.

Liquidity risk

The Fund is required to make payments in respect of pension payments when members withdraw or retire from the Fund, 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 Fund's liquidity on a regular basis and the Trustees review it on a quarterly basis.

The amounts disclosed in the table below are the contracted undiscounted cash flows of the Fund's financial liabilities.

	2016 Shs'000	2015 Shs'000
Other payables	72,453	8,715

The Fund's current liabilities are all payable within a year.

Fair value of financial assets and liabilities

The table below shows an analysis of financial instruments at fair value by level of the fair value hierarchy. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Financials Statements *(continued)*

21. FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities (Continued)

	Note	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2016					
Fair value through profit or loss:					
Quoted investments	15	256,086	-	-	256,086
Available for sale:					
Government securities	9	840,515	-	-	840,515
		1,096,601	-	-	1,096,601
31 December 2015					
Fair value through profit or loss:					
Quoted investments	15	190,653	-	-	190,653
Available for sale:					
Government securities	9	334,824	-	-	334,824
		525,477	-	-	525,477

The Fund had no financial assets or liabilities measured at fair value as at 31 December 2016. There were no transfers between levels 1, 2 and 3 in the year (2015: none).

22. RELATED PARTY TRANSACTIONS

The Fund transacts with its members, the various local authorities in Kenya. Amounts due from the sponsors represent contributions and related penalties outstanding at year end.

	2016 Shs'000	2015 Sh'000
Due from Local Authorities Pension Trust Retirement Benefits Scheme	214,648	87,807
Due from CPF Financial Services Limited	2,370	2,648
	217,018	90,455
Due to Local Authorities Pension Trust Retirement Benefits Scheme	-	794
Due to CPF Financial Services Limited	-	1,818
Due to Laptrust Individual Pension Scheme	12,696	-
	12,696	2,612

The related party balances are interest free, unsecured and have no fixed repayment period.



CORPORATE
ADMINISTRATOR