

2020



KPC RETIREMENT BENEFITS SCHEME (D.B.)

ANNUAL REPORT & FINANCIAL STATEMENTS

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CONTENTS	PAGE
Chairman's Report	1 - 2
Board Members	3
Advisors to the Scheme and Other Information	4
Report of the Trustees	5 - 8
Statement of Trustees' Responsibilities	9
Independent Auditors' Report	10 - 12
Financial Statements:	
Statement of Changes in Net Assets Available for Benefits	13
Statement of Net Assets Available for Benefits	14
Statement of Cash Flows	15
Notes to the Financial Statements	16 - 42

Kenya Pipeline Company Retirement Benefits Schemes

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CHAIRMAN'S REPORT (D.B.)

FOR THE YEAR ENDED 30TH JUNE 2020

Welcome to the 17th Annual General Meeting of the KPC (DB) Retirement Benefits Scheme. It is an honor to present the Chairman's Report, having been appointed to the Board of Trustees (BOT) by the Sponsor with effect from 1st January 2020.

The global COVID-19 pandemic has affected many businesses in Kenya, and many of those listed at the Nairobi Securities Exchange (NSE), where our Scheme holds significant investments, have experienced significant decline in performance during the first half of 2020. However, the BOT working with the service providers, has ensured prudence in the investments of the Scheme.



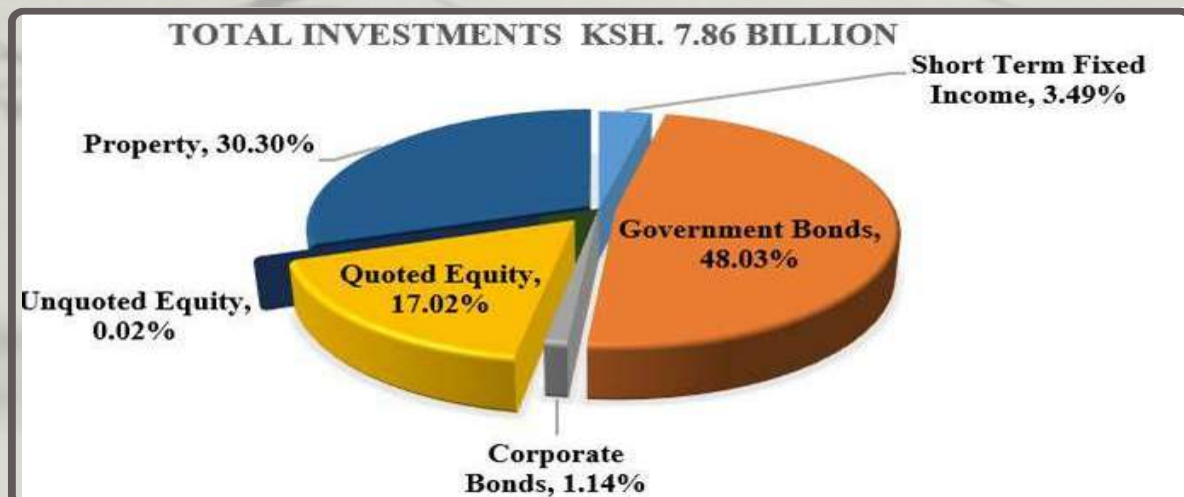
Pensioners have continued to receive their pensions promptly. Members leaving the Scheme on different grounds including retirement have also been paid on time. The Scheme has prepared a Property Strategy to guide the Board on the management of the property portfolio to ensure the Scheme remains diversified and liquid while continuing to earn optimal returns.

The Scheme is compliant with Retirement Benefits Authority regulations and guidelines. The Board is working on a policy for the implementation of the recent mortgage regulations 2020, where active members can access up to 40% of their benefits capped at Kshs 7 million for the purchase of residential houses. Members will be kept informed on the progress of this development. The BOT is alive to the need for the Post-Retirement Medical Scheme (PRMS) for members and is engaging the relevant consultants in the industry to have it implemented.

The DB Scheme guarantees a member and their spouse a lifetime income by delivering pension funds management and administration that creates long-term sustainable financial value.

Investment Performance

The Scheme's investments are in compliance with the Retirement Benefits Act and Investment Policy Statement.



Equity Performance

The equity market at 17% forms a significant portion of the Scheme's investment portfolio. During the financial year under review, the Scheme's performance on the equity portfolio was -7.3% (negative) against a market performance of -8% (negative).

Fixed Income Securities

The yields on government securities (48% of the portfolio) continued to shift downwards during the year due to high levels of liquidity in the banking sector and subdued private sector credit growth that increased demand for government bonds and treasury bills. Fixed income portfolio return during the year however stood at 10.9% against a market performance of 10.7%

Investment Market Outlook

The fiscal and monetary policies adopted during the pandemic have helped to maintain a stable economic environment. The recent lifting of travel and some business bans introduced to curb the Covid-19 pandemic has seen improved business activity that has led to attractive valuations in equities. However, resurgence in Covid-19 cases could pose a slowdown in the short-term. The Scheme will continue focusing its investments in the medium to long-term bonds that promise higher interest. While the economic effects of the pandemic have proved devastating, the Scheme has seen an opportunity to pick up on quality stocks whose market prices have hit the bottom of the price curve with the aim of cashing in when the markets fully recover.

Appreciation

Finally, I would like to appreciate the KPC Board of Directors and the entire management of the Company, the Kenya Pipeline Pensioners Association and members for their continued support. I also take this opportunity to appreciate the professional service providers who continued to offer commendable service during the year. These include

- The Investment Managers; Sanlam and GenAfrica Asset Managers
- External Auditors; Deloitte & Touche
- Custodian; Standard Chartered Bank and
- The Financial Advisors; Zamara
- The Legal Advisors
- The Property Manager, and last but not least
- The Pensions Secretariat

We take this opportunity to recognize the re-election of Eng. Evans Nyangaya and Eng. Fredrick Ogano to the Board of Trustees.

Thank you all and God bless you.



JOYCE OWUOR – MUTUNGI (MS)
CHAIRPERSON, BOARD OF TRUSTEES

3

D.B. BOARD MEMBERS



JÖYCE ÖWÜÖR

Chairperson,
Board of Trustees



**DR. JÖNÄH
ÄIYÄBEI**



**WÄSHÖNGTÖN
ÖLÜÖCH**



**MÄJÖR (RTD)
ÖLTÄSÄYÖN
NÖÖPE**



**LÜCY
KÄRIUKI**



**WÖNNIE
MÜKÄMI**



**EVÄNS
NYÄNGÄYÄ**



**WÖLKÖNSÖN
NTWIGÄ**



**JÖSSE
WÄHÖME**



**FRED
ÖGÄNÖ**
INCOMING TRUSTEE

ADVISORS TO THE SCHEME AND OTHER INFORMATION FOR THE YEAR ENDED 30 JUNE 2020

TRUSTEES

Ms. Joyce Owuor
 Ms. Winnie Mukami
 Major (Rtd) Iltasayon Neepe
 Dr. Jonah Aiyabei
 Mr. Washington Oluoch
 Mr. Evans Nyangaya
 Mr. Wilkinson Ntwiga
 Mr. Jesse Wahome
 Eng. Lucy Kariuki

SCHEME ADMINISTRATOR AND REGISTERED ADDRESS

Sammy Njeru
 In-house Pension Administration
 Kenya Pipeline Company Retirement
 Benefits Scheme
 P.O. Box 13633 - 00800
 Nairobi

INVESTMENT MANAGERS

GenAfrica Asset Managers Limited
 Arlington Block, 14 Riverside Business Park
 Off Riverside Drive
 P.O. Box 79217-00100
 Nairobi, Kenya

Sanlam Investment (East .Africa.) Limited
 Liberty House, Nyerere Road
 P.O. Box 30550-00100
 Nairobi, Kenya

CUSTODIAN

Standard Chartered Bank of Kenya Limited
 48 Westlands Road
 P. O. Box 40984 – 00100
 Nairobi, Kenya

FINANCIAL ADVISORS

Zamara Actuaries, Administrators
 and Consultants Limited
 Landmark Plaza, Argwings Kodhek Road
 P. O. Box 52439 – 00200
 Nairobi, Kenya

ACTUARIAL ADVISORS

Kenbright Financial Services Limited
 ACK Garden House
 P. O. Box 28281 – 00200
 Nairobi, Kenya

AUDITORS

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

LEGAL ADVISORS

Robson Harris & Company Advocates
 Transnational Plaza, 6th Floor, City Hall Way
 P.O. Box 67845-00200
 Nairobi, Kenya

REPORT OF THE TRUSTEES

The Trustees present their report and financial statements for the year ended 30 June 2020 for Kenya Pipeline Company Retirement Benefit Scheme Registered Trustees ("the Scheme").

PRINCIPAL ACTIVITY

The main purpose of the Scheme is the provision of cash benefits and pensions to members upon their retirement and relief for the dependents of deceased members as defined in the rules and regulations governing the Scheme.

REGISTRATION

The Scheme is registered under the Retirement Benefits Act. The address of its registered office is P.O. Box 13633, 00800 Nairobi, Kenya. The registration number of the Scheme is **RBA/SC/INT2/00632**.

MEMBERSHIP

The following changes occurred during the year:

	2020	2019
a) Members in service	943	998
Pensioners	2	587
Deferred	79	80
	<hr/>	<hr/>
Total members	1,664	1,665
	=====	=====
b) Members in service at the start of the year	998	1,044
Less: Members who left during the year:		
Retired with pension	(46)	(42)
Death in service	(4)	(3)
Other leavers	(5)	(2)
Reinstated	-	1
	<hr/>	<hr/>
Members in service at the end of the year	943	998
	<hr/>	<hr/>
c) Pensioners		
At the start of the year	587	540
Ceased Pension	(3)	(10)
Entrants	58	57
	<hr/>	<hr/>
At the end of the year	642	587
	<hr/>	<hr/>
Total Members	1,664	1,665
	=====	=====

REPORT OF THE TRUSTEES (Continued)

ESTABLISHMENT, NATURE AND STATUS OF THE SCHEME

The Scheme was established on 1 January 1977, and is governed by a trust deed dated 26 August 2002, and amended severally with the latest amendment on 30 March 2011. It is a defined benefit scheme and provides under the rules of the Scheme, retirement benefits for the staff of Kenya Pipeline Company Limited. Income from the registered Scheme is tax exempt under the Income Tax Act. The Scheme is registered with Retirement Benefits Authority.

The Scheme ceased to admit new members in 2006, when the defined contributions Scheme was formed and all the members of the defined benefits Scheme were transferred to and began to contribute to the defined contributions Scheme.

FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 10 shows a decrease in net assets of the Scheme for the year of KShs. 37,334,428 (2019: KShs. 102,445,124), and the statement of net assets available for benefits on page 11 shows the Scheme's net assets at KShs. 7,921,186,371 (2019: KShs. 7,958,520,799).

INVESTMENT OF SCHEMES

Under the terms of their appointment, investment managers, Sanlam Investment (East Africa) Limited and GenAfrica Asset Managers Limited, are responsible for the investment of Schemes. The overall responsibility for investment and performance however lies with the trustees.

ACTUARIAL VALUATION

The last actuarial valuation was done as at 30 June 2017 by an independent firm of actuaries, Zamara Actuaries, Administrators and Consultants Limited. The Scheme was 108.6% funded (surplus Kshs. 606.7 million).

SCHEME GOVERNANCE

1. Trustees in Office.

The Trustees who served during the year and up to the date of this report were as follows:

Name of Trustee	Age	Category (Member-elected/ Sponsor-nominated/ Professional)	No. of meetings attended	Certified (Yes/No)	Highest qualification	Membership of other boards (Provide organisation's name)
Ms. Joyce Owuor	61	Sponsor Nominated	4/8	No	Degree	None
Ms. Winnie Mukami	37	Sponsor Nominated	2/8	No	Degree	KPC
Major (Rtd) Ifitason Neepe	48	Sponsor Nominated	1/8	Yes	Degree	KPC
Dr. Jonah Aiyabei	49	Sponsor Nominated	3/8	Yes	PhD	ICIFA
Mr. Washington Oluoch	74	Sponsor Nominated	8/8	Yes	Degree	None
Mr. Evans Nyangaya	63	Member Elected	8/8	Yes	Degree	Abagusii Welfare Association- Mombasa Branch
Mr. Wilkinson Ntwiga	58	Member Elected	7/8	Yes	Degree	None
Mr. Jesse Wahome	51	Member Elected	6/8	Yes	Degree	None
Eng. Lucy Kariuki	48	Member Elected	6/8	Yes	Masters Degree	Mau-Summit Secondary School

REPORT OF THE TRUSTEES (Continued)

SCHEME GOVERNANCE (Continued)

1. The board of trustees held 8 meetings during the year ending the 30th June 2020. The meetings were held on the dates set out hereunder:

- a) 23/08/2019
- b) 25/09/2019
- c) 30/09/2019
- d) 06/11/2019
- e) 12/02/2020
- f) 28/02/2020
- g) 19/05/2020
- h) 26/05/2020

2. **The Composition of the Board of Trustees is as hereunder:**

- a) Gender balance: Female 33% Male 67%
- b) Skills mix: No of trustees with financial skills – Two(2)
- c) Age mix: Number of trustees who are younger than 35 years – None.
- d) Number of trustees who are older than 35 years – Nine (9)

3. **Committees of the Board**

Committee name	No. of meetings held	Any external Allowances paid advisors, invitees to (Kshs.) meetings (Yes/No) (if yes, mention the purpose)	Allowances paid advisors, invitees to (Kshs.)
Audit Risk and Governance Meeting	4	None	None
Investment Committee	0	None	None

4. **Fiduciary Responsibility Statement**

The Board of Trustees is the governing body of the Kenya Pipeline Company Retirement Benefits Scheme

Registered Trustees and is responsible for the corporate governance of the scheme.

The Trustees are responsible for ensuring that the administration of the scheme is conducted in the best interests of the scheme's members and the sponsor. To achieve this, the trustees embraced their fiduciary responsibility by:

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

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

The Trustees have ensured that the fund manager has carried out all scheme investments and that all scheme assets and funds are held by the custodian. The board charter for the scheme has been developed.

5. **Responsible Corporate Citizenship**

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

REPORT OF THE TRUSTEES (Continued)

SCHEME GOVERNANCE (Continued)

6. Key Outcomes

The Board of Trustees seeks to achieve the following:

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

The Board of Trustees will measure the progress towards these outcomes through regular reports and feedback from the sponsor.

7. Annual General Meeting

The board of trustees held the main annual general meeting on 15 November 2019 at which 117 members attended. The board adequately addressed the members' concerns.

8. Members' Sensitization

The board conducted the following sensitization activities (Name of sensitization forum)	Date held
Member Education days	14 th to 22 nd October, 2019
AGMs at various Stations	Various Dates

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

9. Trustees Remuneration Policy

During the year under review, the trustees were paid a gross sum of Kshs. 690,000. The payments complied with the trustees' remuneration policy of the scheme which was approved by members at the annual general meeting held in November 2019.

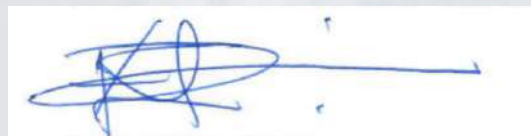
10. Board of Trustees Evaluation

No evaluation was done during the year under review.

AUDITORS

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

BY ORDER OF THE BOARD OF TRUSTEES



Sammy Njeru
Trust Secretary

16 November 2020



STATEMENT OF TRUSTEES' RESPONSIBILITIES

The 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 Scheme's assets and liabilities as at the end of the financial year and of the financial transactions of the Scheme for that year. The Regulations also require 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards("IFRS") 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 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 Scheme'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 Scheme's ability to meet its obligations.

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

Joyce Owuor
Trustee

16 November

2020

Evans Nyang'aya
Trustee

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEES OF KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME REGISTERED TRUSTEES

Report on the Financial Statements

Opinion

We have audited the financial statements of Kenya Pipeline Company Retirement Benefits Scheme Registered Trustees, set out on pages 10 to 31, which comprise the statement of net assets available for benefits as at 30 June 2020, the statement of changes in net assets available for benefits and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial transactions of the Scheme during the year ended 30 June 2020 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 this report. We are independent of the Scheme in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our ethical responsibilities in accordance with these requirements.

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 which we obtained prior to the date of the auditor's report. 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.

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEES OF KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME REGISTERED TRUSTEES (Continued)

Responsibilities of Trustees for the Financial Statements

The Trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS") and the requirements of 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees;
- Conclude on the appropriateness of the Trustees' 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; and
- 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.

**INDEPENDENT AUDITORS' REPORT
TO THE TRUSTEES OF KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME
REGISTERED TRUSTEES (Continued)**

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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



Certified Public Accountants (Kenya)

Nairobi



2020

CPA Fred Aloo, P/No 1537

Signing Partner Responsible for the Independent Audit

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	2020 KShs	2019 KShs
CONTRIBUTIONS AND BENEFITS PAYABLE			
Pensions and benefits withdrawals	4	(472,562,461)	(415,098,909)
		<hr/>	<hr/>
		(472,562,461)	(415,098,909)
ADMINISTRATIVE EXPENSES	5	(48,016,365)	(91,113,940)
		<hr/>	<hr/>
		520,578,826	(506,212,849)
		<hr/>	<hr/>
RETURN ON INVESTMENT			
Investment income	6	688,857,674	564,212,857
Changes in market value of investments	7	(187,741,569)	(150,194,468)
Investment management expenses	8	(18,089,594)	(18,160,521)
		<hr/>	<hr/>
		483,026,511	395,857,868
		<hr/>	<hr/>
OTHER INCOME	9	217,887	7,909,857
		<hr/>	<hr/>
INCREASE IN NET ASSETS FOR THE YEAR BEFORE TAX		(37,334,428)	(102,445,124)
NET ASSETS OF THE SCHEME AT THE START OF THE YEAR		7,958,520,799	8,060,965,923
		<hr/>	<hr/>
NET ASSETS AVAILABLE FOR BENEFITS AT THE END OF THE YEAR		7,921,186,371	7,958,520,799
		=====	=====

**STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
AS AT 30 JUNE 2020**

	Note	2020 KShs	2019 KShs
NON-CURRENT ASSETS			
Equipment	10	12,209,095	13,620,947
Intangible assets	11	6,933,341	-
		<hr/>	<hr/>
		19,142,436	13,620,947
		<hr/>	<hr/>
INVESTMENTS			
Investment properties	12	2,382,500,000	2,329,000,001
Treasury bonds	13(b)	3,343,880,469	3,080,952,235
Treasury bills	13(a)	432,285,377	347,748,090
Corporate bonds	14	89,644,193	223,700,321
Quoted equity investments	15	1,339,397,815	1,773,382,025
Unquoted equity investments	16	1,184,928	1,184,928
Call and fixed deposits	17	268,731,926	178,000,000
		<hr/>	<hr/>
		7,857,624,708	7,933,967,600
		<hr/>	<hr/>
TOTAL NON-CURRENT ASSETS AND INVESTMENTS		7,876,767,144	7,947,588,547
		<hr/>	<hr/>
CURRENT ASSETS			
Other receivables	18	71,972,652	33,438,595
Cash and bank balances		5,704,360	11,681,346
		<hr/>	<hr/>
		77,677,012	45,119,941
		<hr/>	<hr/>
CURRENT LIABILITIES			
Other payables	19	33,257,785	34,187,689
		<hr/>	<hr/>
NET CURRENT ASSETS		44,419,227	10,932,252
		<hr/>	<hr/>
NET ASSETS AVAILABLE FOR BENEFITS		7,921,186,371	7,958,520,799
		=====	=====
REPRESENTED BY:			
FUND BALANCE		7,921,186,371	7,958,520,799
		=====	=====

The financial statements on pages 10 to 31 were approved and authorised for issue by the Board of trustees on 16 November 2020 and were signed on their behalf by:



Joyce Owuor
Trustee



Evans Nyang'aya
Trustee

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020	2019 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Benefits paid		(471,963,244)	(415,098,909)
Investment expenses paid		(19,359,850)	(18,191,399)
RBA levy paid		(5,000,000)	(5,000,000)
Rent deposit received/(refunded)		500,542	(648,936)
Administrative expenses paid		(72,457,596)	(41,543,849)
NET CASH USED IN OPERATING ACTIVITIES		(568,280,148)	(480,483,093)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income received		665,701,744	562,765,497
Purchase of property and equipment	10	(2,061,052)	(106,999)
Purchase of intangible asset	11	(6,933,341)	-
Improvements to investment properties	12	(446,600)	(5,386,420)
Purchase of treasury bills	13(a)	(412,791,067)	(370,116,507)
Purchase of treasury bonds	13(b)	(1,301,099,174)	(878,704,102)
Purchase of corporate bonds	14	-	(687,500)
Purchase of quoted equities	15	(235,388,157)	(34,164,932)
Proceeds from sale of treasury bills	13(a)	345,248,268	408,302,966
Proceeds from sale of treasury bonds	13(b)	1,004,484,289	655,696,827
Proceeds from sale of corporate bonds	14	135,583,105	62,875,005
Proceeds from sale of equities	15	460,737,073	65,040,549
NET CASH GENERATED FROM INVESTING ACTIVITIES		653,035,088	465,514,384
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		84,754,940	(14,968,709)
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR		189,681,346	204,650,055
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	274,436,286	189,681,346
		=====	=====

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

(a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

Several new and revised standards and interpretations became effective during the year. The Trustee has evaluated the impact of the new standards and interpretations and none of them had a significant impact on the scheme's financial statements.

(b) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

At the date of authorisation of these financial statements, various revised standards and interpretations were in issue but not yet effective. The Trustees anticipate that the adoption of these standards, interpretations and amendments when effective, will have no material impact on the financial statements of the scheme.

(c) Early Adoption of Standards

The Scheme did not early-adopt any new or amended standards in 2020.

Basis of Preparation

The financial statements have been prepared under the historical cost basis except for investment properties, financial assets and financial liabilities which are accounted for at fair value.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

a) Contributions Receivable

Under the rules of the Scheme, Kenya Pipeline Company Limited shall contribute to the Scheme at such a rate or rates as the trustees shall determine from time to time with the advice of the actuary. Ordinary contributions are included on the accrual basis as they fall due. Special contributions are accounted for when received.

b) Benefits Payable

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

c) Investment Income

Investment income includes interest and dividends receivable and net exchange gains/ (losses) in the year.

Interest income is accrued in the financial statements when earned, taking into account the effective yield rate of the assets or an applicable floating rate. Interest income includes the amortization of any discount or premium or other difference between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognized when the shareholders right to receive payment is established.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

NOTES TO THE FINANCIAL STATEMENT (Continued)

ACCOUNTING POLICIES (Continued)

Basis of Preparation (Continued)

d) Foreign Currencies

Monetary assets and liabilities in foreign currencies are translated into Kenya Shillings at rates of exchange ruling at the end of each reporting period. 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.

e) Equipment

Equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses, if any.

Depreciation is calculated on the reducing balance basis and straight-line for equipment and computers respectively, at annual rates estimated to write off carrying values of the assets over their expected useful lives.

The annual depreciation rates are as follows:

Equipment	12.5%
Computers	50%

The carrying values of the equipment are assessed annually and adjusted for impairment where it is considered necessary.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of net assets available for benefits in the year the asset is derecognised.

f) Intangible Assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

g) Investment Property

Investment properties comprising land and buildings held to earn rentals and for capital appreciation are carried at fair values based on valuations performed by external independent valuers. Surplus and deficits arising from changes in the fair value are reflected in the statement of net assets available for benefits.

h) Cash and Cash Equivalents

Cash and cash equivalents include cash at bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Fund in the management of its short-term commitments.

i) Corporate Bonds

Corporate bonds are classified as fair value through profit or loss and are stated at market value as at 30 June.

j) Equity Shares

Quoted investments are classified as fair value through profit or loss and are stated at market value as at 30 June.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ACCOUNTING POLICIES (Continued)

k) Unquoted Equity Investments

Unquoted equity investments are classified as fair value through profit or loss and are stated at market value as at 30 June.

l) Off-Shore Investments

The off-shore investments represent pooled investments in global stock markets. These investments are classified as fair value through profit or loss and are stated at market value.

m) Financial Instruments

Financial Assets

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- All other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Impairment of Financial Assets

The Scheme recognises a loss allowance for expected credit losses on, bank balances, lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Scheme always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Scheme's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Scheme recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Scheme measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ACCOUNTING POLICIES (Continued)

m) Financial Instruments

Impairment of Financial Assets (Continued)

(i) Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Scheme compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Scheme considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

(ii) Definition of Default

The Scheme considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Scheme, in full (without taking into account any collateral held by the Scheme).

Irrespective of the above analysis, the Scheme considers that default has occurred when a financial asset is more than 90 days past due unless the Scheme has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Scheme write-offs debt only when there objective evidence that the debt will not be recovered and after it has exhausted its collection avenues.

(iii) Measurement and Recognition of Expected Credit Losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

Financial Liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Scheme, are measured in accordance with the specific accounting policies set out below.

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

n) Taxation

The Fund is a registered pension fund and is exempt from income tax.

o) Comparatives

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE SCHEME'S ACCOUNTING POLICIES

In the process of applying the Scheme'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:

Impairment Losses on Financial Assets

At each reporting period end, 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 whenever the carrying amount of the asset exceeds its recoverable amount.

When measuring expected credit losses (ECL), the Fund uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. The loss rate is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Equipment

Critical estimates are made by the scheme management in determining depreciation rates for equipment.

Fair Value of Investment Properties

Management estimates the fair value of investment properties by discounting expected net rentals at market yields.

CONTRIBUTIONS RECEIVABLE

The Scheme is not receiving any more contributions from members, thus contributions are nil. The Defined Benefits Scheme ceased to admit new members in 2006, when the Defined Contributions Scheme was formed and all the members of the Defined Benefits Scheme were transferred to and began to contribute to the Defined Contributions Scheme.

4 BENEFITS PAYABLE

Retirees benefits

2020 KShs	2019 KShs
472,562,461	415,098,909
=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020	2019
	KShs	KShs
5 ADMINISTRATIVE EXPENSES		
Staff salaries	14,020,657	11,054,675
RBA levy	5,000,000	5,000,000
Depreciation (note 10)	3,472,904	3,041,070
Training expenses	3,450,992	5,393,418
Property maintenance and security expenses	3,273,805	2,838,642
Legal fees	2,027,621	2,126,760
Office expenses	1,567,467	1,204,689
Professional/Scheme advisors fees	1,495,939	2,079,172
AGM expenses	1,492,221	1,333,486
Travelling and subsistence	1,484,114	2,039,865
Member welfare	1,304,607	554,080
Audit fees	1,296,357	1,234,625
Land search, valuation and rates expenses	1,005,484	1,389,038
Trustee expenses	998,316	738,430
Staff medical cover	887,177	1,696,090
Insurance	854,352	1,182,078
Tendering expenses	761,341	106,800
E-Board software subscriptions	690,106	962,254
Trustees allowances	690,000	756,000
Rent Commission	505,440	-
Leave days accrual	421,372	417,614
Meeting expenses	362,880	1,608,759
Advertising	306,101	49,985
Printing and stationery	304,865	176,477
Staff professional membership subscriptions	201,487	255,859
Bank charges	98,282	116,212
Telephone and postage expenses	33,478	113,097
Website maintenance	9,000	9,000
Property Strategy	-	1,200,000
Impairment of investments (Chase Bank Corporate Bond)	-	42,000,000
Amortization of intangible assets (note 11)	-	111,765
Scheme fund master maintenance fees	-	324,000
	48,016,365	91,113,940
	=====	=====

6 INVESTMENT INCOME

Dividend income	106,260,963	92,758,575
Interest income:		
- Treasury bonds	405,262,480	322,175,653
- Treasury bills	24,338,240	39,076,385
- Corporate bonds	19,422,551	34,186,960
- Call and fixed deposits	16,785,614	18,950,089
Rent income	76,832,733	77,464,868
Gain/(loss) on disposal of equity investments	52,384,402	(17,146,665)
Loss on disposal of government securities	(12,429,309)	(3,253,008)
	<hr/>	<hr/>
Total Income	688,857,674	564,212,857
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)**7. CHANGES IN MARKET VALUE OF INVESTMENTS**

	2020 KShs	2019 KShs
Change in fair value of treasury bonds (note 13(b))	(33,686,651)	122,862,258
Change in fair value of quoted equity investment(note 15)	(208,635,294)	(284,238,242)
Change in fair value of investment property(note 12)	53,053,399	30,190,675
Change in fair value of corporate bonds(note14)	1,526,977	(19,009,150)
	<hr/>	<hr/>
	(187,741,469)	(150,194,468)
	=====	=====

8 INVESTMENT MANAGEMENT EXPENSES

Management fees - Investment Managers

Custody fees

	2020 Ksh	2019 Ksh
Management fees - Investment Managers	9,087,451	9,277,643
Custody fees	9,002,143	8,882,878
	<hr/>	<hr/>
	18,089,594	18,160,521
	=====	=====
9 OTHER INCOME		
Reversal of previously accrued expenses	217,887	5,019,950
Recovery of impaired Imperial bank provision	-	2,889,907
	<hr/>	<hr/>
	217,887	7,909,857
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. EQUIPMENT:

	Computers	Equipment & Fixtures	Total
	KShs	KShs	KShs
COST			
At 1 July 2018	6,845,021	19,118,819	25,963,840
Additions	106,999	-	106,999
	<hr/>	<hr/>	<hr/>
At 30 June 2019	6,952,020	19,118,819	26,070,839
	<hr/>	<hr/>	<hr/>
At 1 July 2019	6,952,020	19,118,819	26,070,839
Additions	1,858,052	203,000	2,061,052
	<hr/>	<hr/>	<hr/>
At 30 June 2020	8,810,072	19,321,819	28,131,891
	<hr/>	<hr/>	<hr/>
DEPRECIATION			
At 1 July 2018	4,396,506	5,012,316	9,408,822
Charge for the year	1,277,757	1,763,313	3,041,070
	<hr/>	<hr/>	<hr/>
At 30 June 2019	5,674,263	6,775,629	12,449,892
	<hr/>	<hr/>	<hr/>
At 1 July 2019	5,674,263	6,775,629	12,449,892
Charge for the year	1,930,005	1,542,899	3,472,904
	<hr/>	<hr/>	<hr/>
At 30 June 2020	7,604,268	8,318,528	15,922,796
	<hr/>	<hr/>	<hr/>
NET BOOK VALUE			
At 30 June 2020	1,205,804	11,003,291	12,209,095
	=====	=====	=====
At 30 June 2019	1,277,757	12,343,190	13,620,947
	=====	=====	=====

At 30 June 2020, equipment with a cost of Sh 6,952,020 (2019 - Sh 6,952,020) had been fully depreciated

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2020	2019
	KShs	KShs
11 INTANGIBLE ASSETS		
COST		
At 1 July	-	3,585,042
Additions	6,933,341	-
	<hr/>	<hr/>
At 30 June	6,933,341	3,585,042
	<hr/>	<hr/>
AMORTISATION		
At 1 July	-	3,473,277
Charge for the year	-	111,765
	<hr/>	<hr/>
At 30 June	-	3,585,042
	<hr/>	<hr/>
NET BOOK VALUE		
At 30 June	6,933,341	-
	=====	=====

At 30 June 2020, intangible assets with a cost of Sh 3,585,042 (2019 - Sh 3,585,042) had been fully depreciated

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020 KShs	2019 KShs
12 INVESTMENT PROPERTIES		
At 1 July	2,329,000,001	2,293,422,906
Improvements	446,600	5,386,420
Valuation gain	53,053,399	30,190,675
	<hr/>	<hr/>
At 30 June	2,382,500,000	2,329,000,001
	=====	=====
Comprising of:		
Leasehold land and building	2,382,500,000	2,329,000,001
	=====	=====

The fair value of the Scheme's investment properties as at 30 June 2020 has been arrived at on the basis of valuation carried out at that date by Icon Valuers Limited, registered and independent valuers not connected with the Scheme. Icon Valuers Limited are members of the Institute of Surveyors of Kenya and they have appropriate qualifications, relevant and recent experience in the fair value measurement of property in various locations in Kenya.

The fair value of investment properties was determined by reference to market evidence of recent transactions for similar properties. The valuations were based on both discounted cash flows method and comparable sales approach. There has been no change on the valuation technique during the year.

12 INVESTMENT PROPERTIES (Continued)

Details of the Company's investment properties and information about the fair value hierarchy at the end of the reporting period are as follows:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
30 June 2020				
Crescent business center	-	-	1,472,000	1,472,000
Valley road land	-	-	540,000	540,000
Athi river land	-	-	370,500	370,500
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	2,382,500	2,382,500
	=====	=====	=====	=====
30 June 2019				
Crescent Business Center	-	-	1,445,000	1,445,000
Valley road land	-	-	524,000	524,000
Athi river land	-	-	360,000	360,000
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	2,329,000	2,329,000
	=====	=====	=====	=====

INVESTMENT PROPERTIES (Continued)

Property	Valuation technique	Significant observable inputs	Sensitivity
Crescent Building	Income capitalisation/ Discounted cash flow method.	The valuation model considers the present value of net cash flows to be generated from the property considering expected rental growth, occupancy rates and other costs not paid by tenants. The net cash flows are discounted using the discount rate.	An increase in the discount rate would result in a decrease in fair value, and vice versa. An increase in the annual rent escalation rate would lead to an increase in fair value, and vice versa.
Valley Road & Athi River land	Comparable sales approach	Comparable sales approach is based on analysis of comparable property sales in the neighborhood assuming that a typical buyer will not pay more for the subject property than they would have paid for a similar property in the same area. Adjustments were made to reflect the status of the property vis-à-vis comparables.	

The income generated from the property is as follows:

	2020	2019
	Shs'000	Shs'000
Rental income from investment properties (note 6)	76,832	77,464
Direct operating expense arising from rented out investment property *	(3,274)	(2,839)
	<hr/>	<hr/>
	73,558	74,625
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 GOVERNMENT SECURITIES

	2020	2019
	KShs	KShs
Treasury bills	432,285,377	347,748,090
Treasury bonds	3,343,880,469	3,080,952,235
	3,776,165,846	3,428,700,325
	=====	=====

Treasury bills
Held at amortised cost

The movement of treasury bills is as follows:

At the beginning of the year	347,748,090	385,254,744
Purchases during the year	412,791,067	370,116,507
Disposals	(345,248,268)	(408,302,966)
Accrued interest	16,994,488	679,805
	432,285,377	347,748,090
	=====	=====

The maturity dates of the treasury bills are as follows:

maturing within 3 months	86,338,489	78,623,825
maturing within 4-12 months	345,946,888	269,124,265
	432,285,377	347,748,090
	=====	=====

The weighted average interest rate as at 30 June 2020 was 10.36 % (2019: 11.61 %).

(a) **Treasury bonds**

At fair value through profit or loss

The movement of treasury bonds is as follows:

At the beginning of the year	3,080,952,235	2,735,082,702
Purchases during the year	1,301,099,174	878,704,102
Disposals	(1,004,484,289)	(655,696,827)
Change in fair value	(33,686,651)	122,862,258
	3,343,880,469	3,080,952,235
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The maturity dates of the treasury bonds are as follows:

	2020	2019
Maturing within one year	163,890,445	531,998,565
Maturing in the second year	211,995,702	66,497,549
Maturing in 3-5 years	876,987,003	429,872,466
Maturing after 5 years	2,091,007,319	2,052,583,655
	<hr/>	<hr/>
	3,343,880,469	3,080,952,235
	=====	=====

The weighted average interest rate as at 30 June 2020 was 12.23%% (2019: 12.47 %).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020 KShs	2019 KShs
14 CORPORATE BONDS		
At fair value through profit or loss		
At the beginning of the year	223,700,321	360,896,985
Purchases during the year	-	687,500
Disposals during the year	(135,583,105)	(62,875,005)
Provision of Imperial Bank Limited bond	-	(14,000,000)
Change in fair value	1,526,977	(19,009,159)
Provision of Chase Bank Limited bond	-	(42,000,000)
	<hr/>	<hr/>
At the end of the year	89,644,193	223,700,321
	=====	=====
15 QUOTED EQUITY INVESTMENTS		
At fair value through profit or loss		
At the beginning of the year	1,773,382,025	2,088,495,884
Purchases during the year	235,388,157	34,164,932
Disposals during the year	(460,737,073)	(65,040,549)
Change in market value	(208,635,294)	(284,238,242)
	<hr/>	<hr/>
At the end of the year	1,339,397,815	1,773,382,025
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 UNQUOTED EQUITY INVESTMENTS

	2020	2019
At fair value through profit or loss		
Longhorn Kenya Limited	108	108
Anglo Africa Property Holdings	1,184,820	1,184,820
	<hr/>	<hr/>
	1,184,928	1,184,928
	=====	=====

Movements in unquoted equity investments is analysed as follows:

At the beginning of the year	1,184,928	1,184,928
Change in market value	-	-
	<hr/>	<hr/>
At the end of the year	1,184,928	1,184,928
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020 Kshs	2019 Kshs
17 CALL AND FIXED DEPOSITS		
Held at amortised cost		
NCBA Bank Kenya Limited	95,140,959	15,000,000
Co-operative Bank of Kenya Limited	59,148,384	14,000,000
Equity Bank Kenya Limited	5,000,000	35,000,000
Imperial Bank Limited	19,883,010	19,883,010
Diamond Trust Bank Kenya Limited	18,256,438	-
Stanbic Bank Kenya Limited	91,186,145	114,000,000
	<hr/>	<hr/>
	288,614,936	197,883,010
Less provision for impairment fixed and call deposits	(19,883,010)	(19,883,010)
	<hr/>	<hr/>
	268,731,926	178,000,000
	=====	=====

The weighted average interest rate as at 30 June 2020 was 7.2% (2019: 8%).

18 OTHER RECEIVABLES		
Rent receivable	37,558,127	20,549,357
Due from KPC Retirement Benefit Scheme 2006 (D.C) Registered Trustess	25,808,611	11,917,843
Other receivables	4,335,994	258,181
Prepaid insurance	2,923,833	713,214
Medical Fund	1,346,087	-
	<hr/>	<hr/>
	71,972,652	33,438,595
	=====	=====

19 OTHER PAYABLES AND ACCRUED EXPENSES

Retirement Benefit Authority(RBA) levy (note 20)

5,000,000

5,000,000

Management fees

2,435,096

2,340,226

Custody fees

734,422

2,099,548

Rent deposit refundable

14,160,064

13,659,522

Prepaid rent

3,699,055

964,419

Actuarial fees

446,635

454,470

Leave days

421,372

1,208,803

Gratuity

2,144,962

-

Accrued expenses

4,216,179

8,460,701

33,257,785

34,187,689

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NOTES TO THE FINANCIAL STATEMENTS (continued)

20 CONCENTRATION OF INVESTMENTS

	At 1 Jun; 2019	Additions	Disposals	At 30 Jun 2020	Cost of addi- tions	Cost of dis- posals	Proceeds on disposals	Gain/(loss) on Disposal	Market gain/ (loss)	Market value at 30 Jun 2020	Market value at 30 Jun 2019
	Units	Units	Units	Units		Shs	Shs	Shs	Shs	Shs	Shs
ARM Cement Plc	230,285	-	-	230,285	-	-	-	-	(1,278,082)	-	1,278,082
Bamburi Cement Plc	1,002,796	-	-	1,002,796	-	-	-	-	(85,488,359)	28,078,288	113,566,647
Absa Bank Kenya Plc	2,462,712	1,987,900	-	4,450,612	25,101,820	-	-	-	(6,331,040)	44,506,120	25,735,340
British American Tobacco Plc	15,814	-	15,814	-	-	7,907,000	7,506,349	(400,651)	-	-	7,907,000
Centum Investment Plc	805,515	-	-	805,515	-	-	-	-	(4,712,263)	20,580,908	25,293,171
CFC Stanbic Holdings Plc	224,000	180,900	90,000	314,900	18,995,524	8,910,000	9,795,060	885,060	(6,616,259)	26,530,325	22,176,000
East African Breweries Plc	679,700	387,000	150,000	916,700	75,601,014	29,962,500	31,166,100	1,203,600	(33,648,439)	148,963,750	135,770,075
Equity Group Holdings Plc	6,004,900	842,700	977,100	5,870,500	21,965,894	38,058,045	48,654,950	10,596,905	(24,689,258)	203,706,350	233,890,855
I&M Holdings Plc	52,000	-	-	52,000	-	-	-	-	(260,000)	2,600,000	2,860,000
KCB Group Plc	5,178,353	1,465,400	750,000	5,893,753	50,461,543	28,687,500	36,783,229	8,095,729	(13,703,853)	214,237,922	198,072,002
Kenya Power and Light- ning Plc	5,022,950	-	-	5,022,950	-	-	-	-	(9,895,212)	9,644,064	19,539,275
Nation Media Group Plc	194,432	-	-	194,432	-	-	-	-	(6,532,915)	2,994,253	9,527,168
NCBA Group Plc	1,528,331	-	814,500	713,831	3,644,097	24,923,700	28,567,797	3,644,097	(2,891,016)	18,952,213	46,766,929
Safaricom Plc	25,848,300	2,664,400	10,675,700	17,837,00	59,354,893	300,783,380	316,293,957	15,510,577	(10,610,730)	511,030,050	726,337,230
Standard Chartered Bank Plc	324,422	-	135,100	189,322	-	26,276,950	27,010,212	733,262	(4,685,720)	32,137,410	63,100,079
Co-operative Bank Plc	8,798,240	-	3,967,700	4,830,540	12,115,824	47,612,400	59,728,224	12,115,824	724,581	58,691,061	105,578,880
Stanbic Bank Uanda Limited	6,095,000	-	-	6,095,000	-	-	-	-	(730,059)	4,163,495	4,893,553
Umenie Limited	1,289,795	-	-	1,289,795	-	-	-	-	(1,521,958)	9,209,136	10,731,094
Umenie Uganda	280,000	-	-	280,000	-	-	-	-	1,046,882	3,372,470	2,325,588
TOTAL EQUITIES					267,240,609	513,121,475	565,505,878	52,384,403	(211,823,700)	1,339,397,815	1,773,382,025

At fair value through profit or loss

At 30 June 202

Longhorn Kenya Limited	10,755	-	-	10,755	-	-	-	-	-	-	-	-	-	-	-	-	-	-	108	108
Anglo Affien Properties Holding	592,410	-	-	592,410	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,184,820	1,184,820

21 TAX

The Registered Scheme is registered under the Income Tax Act and its income is exempt from tax.

22. CONTINGENT LIABILITIES

There were no contingent liabilities of the Scheme as at 30 June 2020 and as at 30 June 2019.

23. FINANCIAL RISK MANAGEMENT

The Scheme generates revenues for the members by investing in various income generating activities, which involve trading in the stock exchange, trading in government securities and 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 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.

The trustees provides written principles for overall risk management, as well as written 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.

- (i) **Foreign Exchange Risk** - The Scheme invests internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from investment in offshore investments.

The Scheme's currency risk is evaluated as low because the foreign investments are long term and any currency losses are expected to be recouped through dividend income earned and which comprises the value of the Scheme. The Scheme manages foreign exchange risk by limiting offshore investments to the strategic range of 5% of total portfolio.

Since the above do not constitute trading activities, the Scheme does not manage foreign exchange risk arising from future commercial activity but only revalues the assets and liabilities at the prevailing exchange rates at the end of the year.

- (ii) **Price Risk** - The Scheme is exposed to equity securities price risk because of investments in quoted shares classified at fair value through the statement of changes in net assets. The Scheme is not exposed to commodity price risk. To manage its price risk arising from investments in equity and debt securities, the Scheme diversifies its portfolio. Diversification of the portfolio is done in accordance with statement of investment policy, which is reviewed every three years. Most quoted shares held by the Scheme are traded on the Nairobi Securities Exchange (NSE).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2020 KShs	2019 KShs
Effect on returns from investment	5% appreciation	66,200,000	87,772,000
	5% appreciation	(66,200,000)	(87,772,000)
Effect on Scheme balance	5% appreciation	66,200,000	87,772,000
	5% appreciation	(66,200,000)	(87,772,000)
		=====	=====

FINANCIAL RISK MANAGEMENT(Continued)

a) **Market Risk**(iii) **Interest Rate Risk**

The Scheme's interest bearing assets are investments in treasury bonds, corporate bonds, treasury bills and fixed deposits, which bear a fixed coupon rate except for some corporate bonds which earn interest at a floating rate.

At 30 June 2020, an increase/decrease of 100 basis points would have resulted in an increase or decrease respectively in net returns on investments of approximately KShs 4,125,000 (2019: KShs 3,005,000).

b) **Credit Risk**

Credit risk arises from cash and cash equivalents, fixed deposits, interest bearing investments, deposits with banks, and receivables. As part of the credit risk management system, the investment manager and the trustees monitor and review information on significant investments, Trustees have approved larger portfolio investments with the Government of Kenya which has a low credit rating and has the lowest default record.

The amount that best represents the Scheme's exposure to credit risk as at 30 June 2020 and 30 June 2019 is made up as follows:

	Fully Performing KShs	Past Due KShs	Impaired KShs	Total KShs
At 30 June 2020				
Treasury bills	432,285,377	-	-	432,285,377
Other receivables	68,302,644	-	-	68,302,644
Call and fixed deposits	268,731,926	-	19,883,010	288,614,936
	<hr/>	<hr/>	<hr/>	<hr/>
	769,319,947	-	19,883,010	789,202,957
	=====	=====	=====	=====
At 30 June 2019				
Treasury bills	347,748,090	-	-	347,748,090
Other receivables	33,438,595	-	-	33,438,595
Call and fixed deposits	178,000,000	-	19,883,010	197,883,010
	<hr/>	<hr/>	<hr/>	<hr/>
	559,186,685	-	19,883,010	579,069,695
	=====	=====	=====	=====

c) Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities.

NOTES TO THE FINANCIAL STATEMENT (Continued)**23 FINANCIAL RISK MANAGEMENT (Continued)****c) Liquidity Risk (Continued)**

The table below analyses the Scheme's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

30 June 2020

	Up to 3 Months	4-12 Months	1-5 Years	Over 5 years	Total
	KShs	KShs	KShs	KShs	KShs
Financial assets					
Government securities	432,285,377	163,298,268	1,089,181,208	2,090,770,993	3,776,165,846
Other receivables	71,972,652	-	-	-	71,972,652
Corporate bonds	-	-	89,644,193	-	89,644,193
Call and fixed deposits	217,713,926	51,000,000	-	-	268,713,926
Bank balance	5,704,360	-	-	-	5,704,360
Financial liabilities					
Other payables	(33,688,000)	-	-	-	(33,688,000)
NET LIQUIDITY GAP	693,988,315	214,928,268	1,178,825,401	2,090,770,993	4,178,512,977
	=====	=====	=====	=====	=====

30 June 2019

Financial assets					
Government securities	134,955,097	470,002,806	831,721,343	1,992,021,079	3,428,700,325
Other receivables	33,438,595	-	-	-	33,438,595
Corporate bonds	15,200,000	91,329,899	117,170,422	-	223,700,321
Call and fixed deposits	178,000,000	-	-	-	178,000,000
Bank balance	11,681,346	-	-	-	11,681,346
Financial liabilities					
Other payables	(34,187,689)	-	-	-	(34,187,689)
NET LIQUIDITY GAP	339,087,349	561,332,705	948,891,765	1,992,021,079	3,841,332,898
	=====	=====	=====	=====	=====

Fair Value of Financial Assets and Liabilities

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 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:

- i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

NOTES TO THE FINANCIAL STATEMENT (Continued)

23 FINANCIAL RISK MANAGEMENT (Continued)

d) Fair Value of Financial Assets and Liabilities (Continued)

- ii) 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
- iii) 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).

	Level 1 KShs	Level 2 KShs	Level 3 KShs	Total KShs
30 June 2020				
Financial assets at fair value through profit or loss:				
Local equity investments	1,324,072,520	-	-	1,324,072,520
Regional equity investments	15,325,295	-	-	15,325,295
Unquoted equity investments	-	1,184,928	-	1,184,928
Treasury bonds	-	3,343,880,469	-	3,343,880,469
Corporate bonds	-	89,644,194	-	89,644,194
Call and fixed deposits	-	268,731,926	-	268,731,926
	1,339,397,815	3,703,441,517	-	5,042,839,332
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENT (Continued)

There were no transfers between levels 1, 2 and 3 in the year (2019: none).

	Level 1 KShs	Level 2 KShs	Level 3 KShs	Total KShs
30 June 2019				
Financial Assests at fair value through profit or loss:				
Local equity investmnets	1,755,431,789	-	-	1,755,431,789
Regional equity investments	17,950,236	-	-	17,950,236
Unquoted equity investments	-	1,184,928	-	1,184,928
Treasury bonds	-	3,332,069,724	-	3,332,069,724
Corporate bonds	-	218,502,786	-	218,502,786
Call and fixed deposits		178,000,000	-	178,000,000
	1,773,382,025	3,729,757,438	-	5,503,139,463
	=====	=====	=====	=====

There were no transfers between levels 1, 2 and 3 in the year (2018: none).

NOTES TO THE FINANCIAL STATEMENT (Continued)

23 FINANCIAL RISK MANAGEMENT (Continued)

d) Fair Value of Financial Assets and Liabilities (Continued) The following table provides information about how the fair values of these financial assets and liabilities are determined (in, valuation technique(s) and inputs used).

Financial Assets	Fair values as at		Fair value hierarchy	Valuation techniques and key inputs
	2020	2019		
	KShs	KShs		
Financial assets at fair value through profit or loss Government securities	3,776,165,846	3,428,700,325	Level 1	Quoted bid prices in an active market
Listed investments	1,339,397,815	1,773,382,025	Level 1	Quoted bid prices in an active market
Unlisted investments	1,184,928	1,184,928	Level 1	Quoted bid prices in an active market
	=====	=====		



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