PKF

THE JUBILEE INSURANCE PERSONAL PENSION PLAN

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

RBA REGISTRATION NUMBER 01098

CONTENTS

PENSION PLAN INFORMATION

CORPORATE TRUSTEE	:	Natbank Trustees and Investment Services Limited
	:	P.O. Box 72866, 00200
	:	NAIROBI
REGISTERED OFFICE	:	Jubilee House, Wabera street
	:	P.O. Box 30376, 00100
	:	NAIROBI
SCHEME ADMINISTRATOR	:	The Jubilee Insurance Company of Kenya Limited
	:	Jubilee Insurance House, Wabera street
	:	P.O. Box 30376, 00100
	:	NAIROBI
APPROVED ISSUER	:	The Jubilee Insurance Company of Kenya Limited
	:	Jubilee Insurance House, Wabera street
	:	P.O. Box 30376, 00100
	:	NAIROBI
INDEPENDENT AUDITOR	:	PKF Kenya LLP
	:	Certified Public Accountants
	:	P.O. Box 14077, 00800
	:	NAIROBI

REPORT OF DIRECTORS OF THE CORPORATE TRUSTEE

The directors of the corporate trustees presents their report together with the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of the pension plan.

ESTABLISHMENT, NATURE AND STATUS OF THE PENSION PLAN

The pension plan is a defined contribution plan and is approved under the Income Tax Act. The pension plan provides retirement benefits to members of the personal pension plan upon retirement and relief to the widows and dependants of the deceased members.

CONTRIBUTIONS

As per the rules of the pension plan, members contribute at their own pace subject to a minimum of Shs. 48,000 (Shs. 4,000 per month) in the first year.

MEMBERSHIP

The following is the movement in the number of members in the pension plan:

	2019 Numbers	2018 Numbers
At start of year	28,722	24,558
Additions during the year	13,533	7,068
Leavers during the year	(3,541)	(2,904)
At end of year	38,714	28,722

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

The statement of changes in net assets available for benefits on page 7 shows an increase in net assets available for benefits of Shs. 1,777,756,958 (2018: Shs. 1,654,517,108). The statement of net assets available for benefits on page 8 shows net assets of Shs. 13,910,327,105 (2018: Shs. 12,132,570,147).

INVESTMENT OF FUNDS

Under the terms of their appointment The Jubilee Insurance Company of Kenya Limited are responsible for the investment of the fund. During the year, members' funds were invested with The Jubilee Insurance Company of Kenya Limited in a Deposit Administration Account and the net return declared and credited to members accounts at was the rate of 10% (2018: 8%).

The overall responsibility for the investment and performance of pension plan lies with the directors of the corporate trustees, assisted by the approved issuer.

PRINCIPAL RISKS AND UNCERTAINTIES

The scheme's strategic focus is to enhance contribution growth whilst maintaining the increase in net assets, the success of which remains dependent on overall market conditions and other factors such as the impact of the recent coronavirus outbreak. Whilst at this stage it is too early to predict the full potential impact of this outbreak on the scheme operations, the trustees continue to monitor this situation closely with a view to assessing and mitigating its impact on the scheme.

REPORT OF DIRECTORS OF THE CORPORATE TRUSTEE (CONTINUED)

INDEPENDENT AUDITOR

PKF Kenya, a partnership, was on 10 March 2020 converted to PKF Kenya LLP, a Limited Liability Partnership under the Limited Liability Partnership Act, 2011. The scheme's auditor, PKF Kenya LLP, has indicated willingness to continue in office in accordance with section 34 (3) of the Retirement Benefits Act, 1997.

BY THE ORDER OF THE BOARD OF DIRECTORS OF THE CORPORATE TRUSTEE

For

DIRECTOR

8th APRIL **2020**

NAIROBI

Natbank Trustee and Investment Services Ltd.
Head
P. O. Box 72866 - 00200
Nairobi

STATEMENT OF BOARD OF DIRECTORS OF THE CORPORATE TRUSTEE'S RESPONSIBILITIES

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

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

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

The directors of the corporate trustee are of the opinion that the financial statements give a true and fair view of the net assets available for benefits and changes in net assets available for benefits and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the Retirement Benefits Act, 1997.

Having made assessment of the scheme's ability to continue as a going concern, the directors of corporate trustee are not aware of any material uncertainties related to events or conditions that may cast doubt upon the scheme's ability to continue as a going concern.

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

Approved by the board of directors of the corporate trustee on 6th APRIL 2020 and signed on its behalf by:

DIRECTOR

Natbank Trustee and Investment Services Ltd.
Head
P. O. Box 72866 - 00200
Nairobi

DIRECTOR

REPORT OF THE INDEPENDENT AUDITOR
TO THE TRUSTEES OF THE JUBILEE INSURANCE PERSONAL PENSION PLAN

Opinion

We have audited the financial statements of The Jubilee Insurance Personal Pension Plan, set out on pages 8 to 20, which comprise the statement of net assets available for benefits as at 31 December 2019, statement of changes in net assets available for benefits for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the Jubilee Insurance Personal Pension Plan's financial position as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Retirement Benefits Act,1997.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. 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 pension plan in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for professional accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors of the corporate trustee are responsible for the other information. The other information comprises pension plan information, report of the directors of the corporate trustee and statement of directors of the corporate trustees' responsibilities that comprise the annual report but does not include the financial statements and our auditor's report thereon.

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

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

Kalamu House • Grevillea Grove • Westlands • P O Box 14077 - 00800 • Nairobi • Kenya
Tel +254 20 4270000 • Mobile +254 732 144000 • Email pkfnbi@ke.pkfea.com • www.pkfea.com

REPORT OF THE INDEPENDENT AUDITOR
TO THE TRUSTEES OF THE JUBILEE INSURANCE PERSONAL PENSION PLAN (CONTINUED)

Responsibilities of board of directors of the corporate trustees' for the financial statements

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

In preparing the financial statements, the directors of the corporate trustee are responsible for assessing the pension plan'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 directors of the corporate trustee either intend to liquidate the pension plan or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the pension plan's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the corporate trustee.

- Conclude on the appropriateness of the directors of the corporate trustee 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 pension plan'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 pension plan to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

PKF

REPORT OF THE INDEPENDENT AUDITOR
TO THE TRUSTEES OF THE JUBILEE INSURANCE PERSONAL PENSION PLAN (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.

PKF Kenya LLP

Certified Public Accountants
NAIROBI

April 14, **2020**

CPA Patrick Kuria, Practising certificate No. 2045
Signing partner responsible for the independent audit

257/20

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Notes	2019 Shs	2018 Shs
Dealings with members			
Contributions for the year	2(a)	1,576,364,266	1,496,057,887
Transfers in from other schemes	2(b)	870,912,874	883,301,752
Leavers	2(c)	(1,811,802,195)	(1,498,923,677)
Net additions from dealings with members		635,474,945	880,435,962
Return on plan investments			
Investment income	3	1,250,328,712	879,364,527
Tax	4	(97,596,872)	(64,556,025)
Administrative expenses	5	(5,000,000)	(5,000,000)
Net return on plan investments		1,147,731,840	809,808,502
Net increase		1,783,206,785	1,690,244,464
Movement in excess interest		(5,451,008)	(35,727,356)
Net increase in net assets available for benefits		1,777,755,777	1,654,517,108
Net assets available for benefits at start of year		12,132,570,147	10,478,053,039
Net assets available for benefits at end of year	6	13,910,325,924	12,132,570,147

The notes on pages 10 to 20 form an integral part of the financial statements.

Report of the independent auditor - page 5 to 7.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

	Notes	As at 31 December 2019 Shs	2018 Shs
Members' and unvested fund balances	6	13,910,325,924	12,132,570,147
REPRESENTED BY			
Non-current assets			
Plan investments	7	14,016,416,720	12,233,209,935
Current liabilities			
Payables	8	106,090,796	100,639,788
Net assets available for benefits		13,910,325,924	12,132,570,147

The financial statements on pages 8 to 20 were approved and authorised for issue by the board of directors of the corporate trustee on 8th April 2020 and were signed on its behalf by:

For _____________ DIRECTOR _____________ DIRECTOR

The notes on pages 10 to 20 form an integral part of the financial statements.

Report of the independent auditor - page 5 to 7.

Natbank Trustee and Investment Services Ltd. Head P. O. Box 72866 - 00200 Nairobi

1. **Significant accounting policies**

The principal accounting policies adopted in preparations of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) **Basis of preparation**

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards, Retirement Benefits Act, 1997 as amended, and with the Retirement Benefits (Occupational Retirement Benefits pension plan) Regulations, 2000. The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the pension plan takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date.

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

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

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

Going concern

The financial performance of the pension plan is set out in the report of the corporate trustee and in the statement of changes in net assets available for benefits. The financial position of the pension plan is set out in the statement of net assets available for benefits. Disclosures in respect of risk and fund management are set out in Notes 9 and 10 respectively.

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

New and amended standards adopted by the pension plan

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

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

- Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.

1. **Significant accounting policies (continued)**

a) **Basis of preparation (continued)**

Other standards and amendments (continued)

- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

New standards, amendments and interpretations issued but not effective

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

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

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

b) **Critical accounting estimates and judgements**

Estimates and judgements 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.

There are no material accounting estimates and judgements that have been used in arriving at the numbers in the financial statements. Whilst at this stage it is too early to predict the full potential impact of the coronavirus outbreak on the scheme operations, the directors of corporate trustee continue to monitor this situation closely with a view to assessing and mitigating its impact on the scheme.

c) **Plan investment income**

Income comprises the fair value of the consideration received or receivable in the ordinary course of business.

The scheme recognises income when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the scheme and when the specific criteria have been met for each of the scheme's activities as described below. The scheme bases its estimates on historical results, type of transaction and specifics of each arrangement.

Interest income is accrued by reference to time in relation to the principal outstanding and the effective interest rate applicable;

Dividend income is recognised when the members right to receive payment has been established.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

d) **Contributions**

As per the pension plan rules, each member has the discretion to choose the value of their contributions. A member's sponsor or employer may choose to make contributions to the pension plan for the member.

e) **Plan investments**

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

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

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

f) **Transfers**

Transfers are recognised in the period in which members join from other pension plans or leave for other pension plans.

g) **Financial instruments**

Financial assets

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

The pension plan classifies its financial assets into the following categories:

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

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

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

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

g) **Financial instruments (continued)**

Financial assets (continued)

Notwithstanding the above, the pension plan may:

- on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at fair value through other comprehensive income.

- on initial recognition of a debt instrument, irrevocably designate it as classified and measured **at fair value through profit or loss** if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

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

Contributions due are classified and measured at amortised cost. However as at the end of the reporting period, there were no contributions due.

Derecognition/write off

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

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

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

Derecognition/write off

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

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

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

1. **Significant accounting policies (continued)**

g) **Financial instruments (continued)**

Financial assets (continued)

Impairment

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

- Contributions due - However, there were no contributions due as at year-end.

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

There no impairment loss recognised on investments measured at FVTPL.

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

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

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

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

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

Financial liabilities

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

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

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

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

g) **Financial instruments (continued)**

Offsetting financial instruments

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

h) **Withdrawals**

Benefits payable to seceding members are taken into account as they fall due for payment.

i) **Unvested funds**

Under the pension plan rules members leaving the pension plan are entitled to receive their own contribution plus a portion of the employer's contribution corresponding to the vesting scale of the pension plan. Any portion of the employer's contribution not payable to the exiting employee under this rule is retained by the corporate trustee and may be used to:

(i) Set-off against the employer's contributions for the following year or,
(ii) Provide additional benefits to a member under exceptional circumstances or,
(iii) Meet expenses of the pension plan.

j) **Taxation**

The pension plan is exempt from income tax under the Income Tax Act (Cap 470) up to the statutory limit. Income from unregistered contributions is taxed at 30%.

k) **Comparatives**

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

NOTES (CONTINUED)

2. Dealings with members

	2019 Shs	2018 Shs
a) Contributions for the year		
Registered	1,034,394,065	1,015,909,773
Unregistered	541,970,201	480,148,114
	1,576,364,266	1,496,057,887
b) Transfer in from other funds		
Individual transfers in from other schemes	870,912,874	883,301,752
c) Leavers		
Lump sums paid	(1,811,802,195)	(1,498,923,677)
Net additions from dealings with members	635,474,945	880,435,962

3. Investment income

	2019 Shs	2018 Shs
Interest income:	1,250,328,712	879,364,527

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

	2019 Shs	2018 Shs
- registered	925,005,806	664,177,777
- unregistered	325,322,906	215,186,750
	1,250,328,712	879,364,527

4. Tax

	2019 Shs	2018 Shs
Tax charge - unregistered scheme	97,596,872	64,556,025

Tax is charged on investment income earned from the unregistered pool at the rate of 30% (2018: 30%).

	2019 Shs	2018 Shs
Total investment income	1,250,328,712	879,364,527
Less: income relating to contributions within allowable limits (Note 3)	(925,005,806)	(664,177,777)
Taxable income	325,322,906	215,186,750
Tax thereon at 30% (2018: 30%)	97,596,872	64,556,025

5. Administrative expenses

	2019 Shs	2018 Shs
RBA levy		
- current year provision	5,000,000	5,000,000
	5,000,000	5,000,000

6. **Members' and unvested fund balances**

The movement in the members' balances and unvested fund is as follows:

Year ended 31 December 2019	**Registered Shs**	**Unregistered Shs**	**Total Shs**
At start of year	9,303,640,167	2,828,929,980	12,132,570,147
Contributions for the year (Note 2(a))	1,034,394,065	541,970,201	1,576,364,266
Transfers in 2(b)	545,812,975	325,099,899	870,912,874
Leavers (Note 2(c))	(1,288,190,545)	(523,611,650)	(1,811,802,195)
Plan investment income (Note 3)	925,005,806	325,322,906	1,250,328,712
Tax (Note 4)	-	(97,596,872)	(97,596,872)
Administrative expenses (Note 5)	(3,732,497)	(1,267,503)	(5,000,000)
Movement in excess interest	(4,180,006)	(1,271,002)	(5,451,008)
At end of year	10,512,749,965	3,397,575,960	13,910,325,924
Year ended 31 December 2018			
At start of year	8,216,370,790	2,261,682,249	10,478,053,039
Contributions for the year (Note 2(a))	1,015,909,773	480,148,114	1,496,057,887
Transfers in 2(b)	577,167,823	306,133,929	883,301,752
Leavers (Note 2(c))	(1,154,262,172)	(344,661,505)	(1,498,923,677)
Plan investment income (Note 3)	664,177,777	215,186,750	879,364,527
Tax (Note 4)	-	(64,556,025)	(64,556,025)
Administrative expenses (Note 5)	(3,814,705)	(1,185,295)	(5,000,000)
Movement in excess interest	(11,909,119)	(23,818,237)	(35,727,356)
At end of year	9,303,640,167	2,828,929,980	12,132,570,147

7. **Plan investments**

	2019 Shs	**2018 Shs**
Plan investments	14,016,416,720	12,233,209,935

Plan investments comprise managed funds invested with The Jubilee Insurance Company of Kenya Limited. Interest is credited to members at rates declared by the insurance company.

The plan investments are carried at the ultimate redemption value. The pension plan has a minimum guaranteed rate of 4%.

The plan investments are carried at amounts based on their ultimate redemption value.

NOTES (CONTINUED)

8. **Payables**

	2019 Shs	2018 Shs
RBA levy	5,000,000	5,000,000
Excess interest	101,090,796	95,639,788
	106,090,796	100,639,788

In the opinion of the board of directors of the corporate trustee, the carrying amounts of the pension plan payables approximate to their fair value.

The carrying amounts of the pension plan payables are denominated in Kenya Shillings.

The maturity analysis of the payables is within one year.

9. **Financial risk management objectives and policies**

The pension plan activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk.

The pension plan overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the pension plan's financial performance. Risk management is carried out by the board of directors of the corporate trustee in close collaboration with the approved issuer, under policies stipulated in the trust deed. The directors of the corporate trustee and approved issuer identify, evaluate and hedge financial risks.

i) **Market risk**

- *Interest rate risk*

During the year 31 December 2019, if interest rates at that date had been 100 basis point higher with all other variables held constant, gain for the year would have been Shs. 115,273,184 (2018: Shs.101,851,063) higher arising mainly as a result of increase in the guaranteed fund. The sensitivity is higher in 2019 than in 2018 because of a increase in the guaranteed funds for the year.

A 1% sensitivity rate is being used when reporting interest risk internally to the trustees and represents the trustees assessment of the reasonably possible change in interest rates.

ii) **Credit risk**

Credit risk arises from plan investments.

In assessing whether the credit risk on a financial asset has increased significantly, the directors of the corporate trustee compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the fund considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For these purpose default is defined as having occurred if the sponsor is in breach of contractual obligations, or if information is available internally or externally that suggests that the sponsor unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

9. **Financial risk management objectives and policies (continued)**

ii) **Credit risk (continued)**

If the trustees do not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the fund groups financial assets on the basis of shared credit risk characteristics, such as:
- type of instrument;
- industry in which the sponsor operates; and
- nature of collateral.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the following events:
- significant financial difficulty of the sponsor
- a breach of contract
- it is probable that the sponsor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

The amount that best represents the scheme's maximum exposure to credit risk at year end is made up as follows:

	2019 Shs	2018 Shs
Plan investments	14,016,416,720	12,233,209,935

No collateral is held for any of the above assets. No financial assets are either past due or impaired.

iii) **Liquidity risk**

Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated benefit payments. The board of directors of the corporate trustee agrees with approved issuer on the amount to be invested in assets that can be easily liquidated.

Note 8 disclose the maturity analysis of payables.

The undiscounted maturity analysis is not materially different from maturity analysis as disclosed on Note 8.

NOTES (CONTINUED)

10. **Fund management**

The pension plan objectives when managing fund are:

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

The Retirement Benefits Act requires the board of directors of the corporate trustee to invest members' funds using prudent investment policies that shall get the members better market rates on their investments. This requirement has been complied with.

The directors of the corporate trustee sets the amount of fund in proportion to risk. They manage the fund structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. Fund comprises members' and unvested fund balances.

11. **Registration**

The pension plan is registered in Kenya under the Trustees (Perpetual Succession Act Cap. 164) and the Retirement Benefits Authority.

12. **Presentation currency**

The financial statements are presented in Kenya Shillings (Shs.).