



ZIMELE PERSONAL PENSION PLAN

**ABRIDGED REPORT
TO THE SCHEME MEMBERS
FOR THE YEAR ENDED
31ST DECEMBER 2016**

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ADVISORS TO THE FUND

TRUSTEE

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

ADMINISTRATOR

Pacific Insurance Brokers (EA) Ltd
The Insurance Centre, Rose Avenue
Off Dennis Prit Road
P.O. Box 50565 - 00200
Nairobi, Kenya

FUND MANAGER

Zimele Asset Management Company Limited
Ecobank Towers, 7th Floor
Muindi Mbingu Street
P.O. Box 76528-00508
Nairobi, Kenya

CUSTODIAN

Kenya Commercial Bank Limited
Kencom House, Head Office
P.O. Box 48400-00100
Nairobi, Kenya

AUDITORS

Dennis Paul & Associates
Four Green Way apartment, F1
Four Green Street off Westlands Road
P.O. Box 75374-00200
Nairobi, Kenya

PRINCIPAL LAWYERS

Muriu Mungai & Co. Advocates
Spring Valley Crescent Westlands
info@wakili.com
Nairobi, Kenya

TRUSTEE'S REPORT

The Trustee submits its report together with the audited financial statements for the period ended 31st December 2016 that disclose the state of affairs of the scheme.

INCORPORATION AND REGISTERED OFFICE

The scheme started operations on 1 April 2007, is registered under the Retirement Benefits Act, 1997 and the Income Tax Act, Chapter 470. (Scheme No. 01641, certificate No. 995 and 13433 respectively).

INVESTMENT OBJECTIVES OF THE SCHEME

The main purpose of the Scheme is to provide an investment vehicle for people to build savings for use in retirement in accordance with the provisions of Retirement Benefits Act and the regulations made thereunder. The investment objective of the Scheme is to generate long term capital growth through investing the members' contributions in equities and fixed income securities and other investments in accordance with the provisions of the Retirement Benefits Act and the regulations made thereunder.

CHANGES TO INCORPORATION DOCUMENTS

There were no changes made to Incorporation documents (Trust Deed and Rules of the Scheme) during the period.

TOTAL VALUE OF THE FUND AS AT 31ST DECEMBER 2016

The market value of the fund as at 31st December 2016 was Kshs 89.2 million.

INVESTMENT OF FUNDS

Under the terms of their appointment, Zimele Asset Management Company Limited (The Fund Managers) is responsible for the investment of funds.

The overall responsibility for investment and performance lies with the Trustees, the National Bank of Kenya Limited.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The scheme's activities expose it to a variety of financial risks, including credit risk and the effects of changes in market prices and interest rates. The scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

Risk management is carried out by the Scheme Manager, Zimele Asset Management Company Limited (ZAMCO). ZAMCO identifies, evaluates and manages financial risks, with emphasis on specific areas such as interest rate risk, credit risk and investing excess liquidity.

The Scheme has policies in place to ensure compliance with international best practice in corporate governance.

By Order of the Trustee
Natbank Trustees and Investment Services Ltd

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Retirement Benefits Act and the Regulations made thereunder requires the Trustee to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the scheme as at the end of the period and of the results of its operations. It also requires the Trustee to ensure that the scheme manager keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the scheme. The Trustee is also responsible for safeguarding the assets of the scheme.

The trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the Retirement Benefits (Individual Retirement Benefits Schemes) Regulations, 2000. The trustees are of the opinion that the financial statements give a true and fair view of the financial transactions of the scheme and of the disposition of its assets and liabilities, other than liabilities to pay pensions and benefits falling due after the end of the year. The trustees further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as for safeguarding the assets of the scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

DECLARATION STATEMENT

The Zimele Personal Pension Plan is an approved scheme within the meaning of The Retirement Benefits Act and The Regulations made there under.

The members of the scheme are not liable for the debts of the scheme;

The Zimele Personal Pension Plan invests in equities and fixed income securities in accordance with the provisions of the Retirement Benefits Act and the Regulations made thereunder);

Nothing has come to the attention of the Trustee to indicate that the scheme will not remain a going concern for at least the twelve months from the date of this statement.

By Order of the Trustee
Natbank Trustees and Investment Services Ltd

FUND MANAGER'S COMMENTARY

The pace of activity was slower last year, when the global economy is estimated to have grown by 3.1% compared to 3.2% in 2015. In the USA, growth was moderate at 1.6% compared to 2.6% in 2015. China's economy followed a similar trend and grew by 6.7% last year from 6.9% in 2015, while the EU economy expanded by 1.7% last year from 2% in 2015. Emerging markets such as Russia, Brazil, and Nigeria registered negative growth last year largely due to the decline in commodity prices, while South Africa grew at a modest rate of 0.3% from 1.3% in 2015, and India continued to lead the pack at 6.6% from 7.6% in 2015.

On the domestic front, Kenya's economy is projected to have expanded by 5.9% in 2016 and is expected to slow further to 5.7% in 2017, largely due to the combined effects of drought, and political uncertainty related to the general elections. Key macroeconomic indicators remained stable in 2016. The overall rate of inflation averaged 6.3% last year compared to 6.58% in 2015, mainly as a result of favorable weather conditions leading to lower food prices, and relatively lower prices of fuel and electricity.

The shilling was relatively stable against major currencies last year supported by a favorable balance of trade position due to falling imports as big ticket infrastructure projects wind down, against steady inflows from exports, tourism and diaspora remittances. The IMF renewed its standby credit facility totaling US\$ 1.5 billion, which together with foreign exchange reserves, is expected to provide an adequate buffer against external shocks and help to keep the shilling stable.

One of the major developments in the financial market was the enactment of the interest rate capping law that came to effect in September 2016. In the current setting, commercial bank lending rates are not supposed to exceed 14% while interest rates paid on savings and deposit accounts should not be less than 7%. The passing of the law coincided with a sharp contraction in private sector credit, although this could also be attributed to the shift in liquidity in favor of large (so-called tier one) banks associated with *flight to safety* by large depositors after the placing under receivership of Imperial Bank and Chase Bank; the resulting ebbing of liquidity from mid and small size banks reduced their ability to make more loans, while at the same time saturating the capacity of the large banks to lend more.

The equity market was in its third year of under-performance as revealed by key indicators. The value of shares traded (equity turnover) declined by 30% to ksh.147 billion, while the value of all shares of listed companies (market capitalization) declined by 5.6% or ksh.115 billion, to ksh.1.9 trillion in 2016. The NSE 20 share index declined by 20% in 2016, from a decline of 21% in 2015. The NSE all-share index declined by 8% in 2016 compared to a decrease of 11% in 2015. By comparison, the Zimele Personal Pension Plan posted a gain of 3.6% last year from a decline of 1.1% in 2015.

Shares of commercial banks suffered the worst decline in the fourth quarter following the capping of lending and deposit rates. Similarly, bond market turnover declined by 48% to ksh.433 billion when new corporate bond issues were largely ignored by investors after Imperial Bank and Chase Bank were placed under receivership, and their bond listings suspended.

Most listed companies reported declines in earnings attributed to a difficult operating environment for the greater part of 2016, resulting in a record number of profit warning announcements. This means the 2017 earnings reporting season might result in fewer dividend payouts as listed companies opt to conserve cash to enable them weather the challenging operating environment expected to prevail until later this year.

Going forward, the investment outlook this year is likely to be influenced by political uncertainty as the 2017 general elections draw closer. The continuing drought witnessed in most parts of the country from late last year has already pushed the overall rate of inflation beyond the CBK 'supper target' of 7.5%. However, if the long rains are at least normal then food prices are likely to decline as fast as they rose, which could stabilize inflation in the 6% range.

It is also probable to assume that the equities market has priced in most of the bad news related to the profit warning announcements last year. However, the challenges currently prevailing on the economic and political fronts and their impact on business performance, call for caution before investing in shares. Geopolitical factors, especially uncertainty to migration, global trade,

development assistance and foreign relations as a result of the policies of the new administration in the US, further complicates this picture.

In line with these developments, our investment strategy will be largely biased in favor of fixed income securities in the first half of 2017, and select purchases of under-valued stocks whenever opportunities arise. Overall, we remain optimistic that barring unfortunate events prevailing, 2018 might be a good year for stocks.

REPORT OF THE CUSTODIAN

In accordance with the Retirement Benefits (Managers and Custodians) Regulations, 2000 (The Regulations) and the Custody Agreement between Kenya Commercial Bank Limited as the Custodian and National Bank of Kenya as the Trustee, we confirm that we have discharged the duties prescribed for a Custodian under Regulation 8 of the regulations, to Zimele Personal Pension Plan.

From the period 1st January 2016 to 31st December 2016, we have held the assets for the Zimele Personal Pension Plan, including title documents, securities and income that accrue thereof, to the order of the Trustee and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager.

By Order of the Custodian
KCB Bank Kenya Limited

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF ZIMELE PERSONAL PENSION PLAN

We have audited the financial statements of the Zimele Personal Pension Plan for the period ended 31 December 2016 as set out on pages 11 and 12. These financial statements comprise the statement of changes in net assets available for benefits, the statements of net assets available for benefits and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Trustee Responsibility for the Financial Statements

The Trustee is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards

Auditors Responsibility

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Trustees, as well as an evaluation of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of the scheme's financial transactions during the year ended 31 December 2016, and of the disposition as at that date of its assets and liabilities in accordance with the International Financial Reporting Standards and Retirement Benefits Act 1997.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 9 of the financial statements which indicate that Kshs 21,277,020 had been invested in Chase Bank Limited. The Bank was put under receivership in April 2016. However the bank is operating under the management of Kenya Commercial Bank Limited.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Dennis Paul M Ireri - P/ 1925

Statement of Changes in Net Assets Available for Benefits for the year ended 31/12/2016

	2016	2015
	<u>KSHS</u>	<u>KSHS</u>
Income from dealing with members		
Contributions received	6,107,807	9,380,646
Outgoing from dealing with members		
Benefits Paid	(8,534,195)	(4,743,145)
Net additions from dealing with members	(2,426,388)	4,637,501
Return on Investments		
Investment Income	6,269,080	12,403,609
Changes in Market Value of investments	(386,817)	(2,753,741)
Net return on investments	5,882,263	9,649,868
Administrative Expenses	(785,695)	(375,916)
Prior Year Adjustment	33,619	-
Investment Management Expenses	(2,646,344)	(2,885,886)
	(3,398,420)	(2,261,802)
Increase in Net Assets for the Year		
Net assets available for benefits at the start of the year	89,239,058	78,213,492
Net assets available at the end of the year	89,296,514	89,239,058

Statement of Net Assets Available for Benefits as at 31/12 /2016

	2016 KSHS	2015 KSHS
Assets		
Kenya Government Securities	50,377,034	55,038,204
Corporate Bonds	1,506,653	1,600,000
Quoted Equities	4,826,325	6,498,240
Cash and Fixed Deposits	25,277,020	24,377,020
Investment in Unit Trust	5,410,127	-
	87,397,159	3,326,034
Current Assets		
Custodian and Collection Accounts	2,098,267	1,010,396
Income Receivable	135,562	1,020,000
	2,233,829	2,030,396
Liabilities		
Other payables and accrued expenses	334,475	295,803
Total Net Assets	89,296,514	89,239,057
Financed By		
Members' Account and Reserve Fund	89,296,514	89,239,057