

**ZIMELE GUARANTEED PERSONAL PENSION PLAN  
REPORT TO THE SCHEME MEMBERS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**DENNIS PAUL & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS  
FOUR GREEN WAY APARTMENT  
FOUR GREEN OFF WESTLANDS ROAD  
P.O BOX 75374-00200  
NAIROBI**

**ZIMELE GUARANTEED PERSONAL PENSION PLAN  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**ZIMELE GUARANTEED PERSONAL PENSION PLAN  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
TRUSTEES AND ADVISORS TO THE SCHEME  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**TRUSTEES**

NatBank Trustees and Investment Services Limited  
National Bank Buildings, Harambee Avenue  
P.o Box 41862-00100  
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**

KCB Bank (K) Limited  
KCB Towers 7th Floor  
P.o Box 30664-00100  
Nairobi, Kenya

**AUDITORS**

Dennis Paul & Associates  
Four Green way apartment, F1  
Four Green Street Off Westlands Road  
P.o Box 75374-00200  
NAIROBI

**PRINCIPAL LAWYERS**

Muriu Mungai & Co. Advocates  
Spring Valley Crescent, Westlands  
info@wakili.com  
P.o Box 75362-00200  
NAIROBI

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REPORT OF THE TRUSTEES  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**INCORPORATION AND REGISTERED OFFICE**

The Scheme began its operations in September 2009 and is registered under the Retirement Benefits Act, 1997. The registered office is at Ecobank Towers, 7th Floor on Muindi Mbingu Street, Nairobi

**INVESTMENT OBJECTIVES**

The main purpose of the Scheme is to provide an investment 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 fixed income securities and other investments in accordance with the provisions of the Retirement Benefits Act and the regulations made thereunder.

**CHANGE TO INCORPORATION DOCUMENTS**

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

**TOTAL VALUE OF THE FUND AS AT 31ST DECEMBER 2017**

The market value of the fund as at 31st December 2017 was Kshs 156.4 million.

**MEMBERSHIP**

Membership of the Scheme as at year end was as follows:

	<b>2017</b>	<b>2016</b>
	<b>Members</b>	<b>Members</b>
At start of year	410	378
Entrants	17	32
Exits	-	-
At end of year	<u><u>427</u></u>	<u><u>410</u></u>

**ZIMELE GUARARANTEED PERSONAL PENSION PLAN  
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REPORT OF THE TRUSTEES (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**INVESTMENT OF FUNDS**

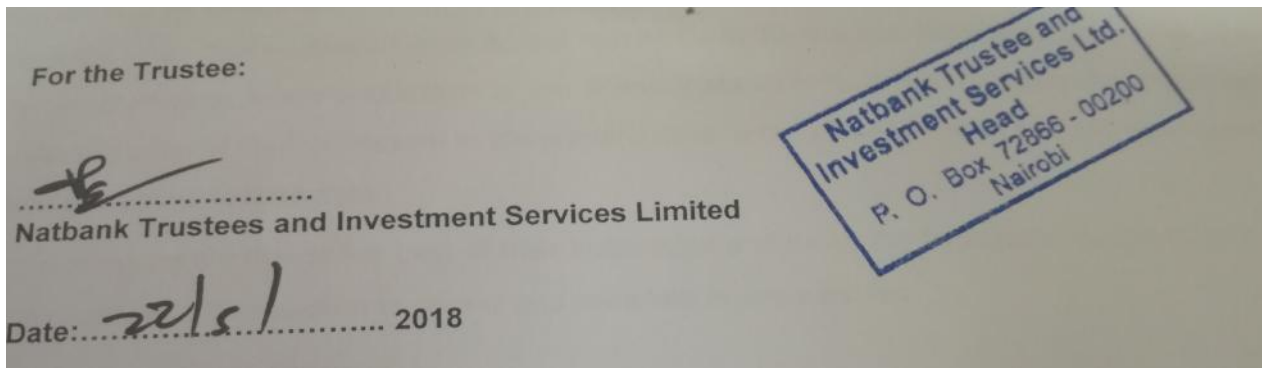
Under the terms of their appointment, Zimele Asset Management Company Limited ( The Fund Managers) are responsible for the investment of funds. The overall responsibility for investment and performance lies with the Trustees, National bank Trustees and Investment Services Limited.

**EXPENSES**

The full costs of administering and managing the scheme are borne by the scheme.

**AUDITORS**

Dennis Paul & Associates, Certified Public Accountants, have expressed their willingness to continue in office.



**ZIMELE GUARANTEED PERSONAL PENSION PLAN  
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STATEMENT OF TRUSTEE'S RESPONSIBILITIES  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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The Retirement Benefits (Occupational Retirement Benefits Scheme) Regulations, 2000 require the Trustees to prepare financial statements in a prescribed form for each financial year. They also require the Trustees to ensure that the Scheme 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 scheme.

The Trustees accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Retirement Benefits (Occupational 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 the financial statements as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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 aspect.

**DECLARATIONS STATEMENT**

The Zimele Guaranteed Personal Pension Plan is an approved Scheme within the meaning of The Retirement Benefits Act and The Regulations made thereunder;

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

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

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



**ZIMELE GUARANTEED PERSONAL PENSION PLAN  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FUND MANAGERS COMMENTARY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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The Kenyan economy grew at a slower pace of 4.9% in 2017 compared to 5.8% in 2016, which was mostly attributed to the adverse effects of severe drought and a prolonged period of elections. Rising energy and food prices pushed up the average rate of inflation from 6.3% in 2016 to 8% last year. Interest rates and the Shilling were stable last year despite the trend in past elections years where political uncertainty caused capital flight and volatility in the money market. Even then, concerns remain on the relative size of the current account deficit, budget deficit and public debt relative to GDP.

The market for government securities was active in 2017 due to increased pressure on domestic borrowing to finance the budget deficit. In the Treasury bills market, the 91 days maturity averaged 8.37% compared to 8.55% in 2016, the 182 days tenor averaged 9.55% from 10.92% in 2016, while the 364 days tenor averaged 10.95% from 11.69% in 2016.

One of the topics that dominated discussions and had an impact in the money market in 2017 is the Banking Amendment Act of 2016 (also referred to here as the rate cap). Most discussions were centered on its effect on the banking industry, the conduct of monetary policy by the Central Bank of Kenya (CBK), and the economy in general. The rate cap came into effect in September 2016 and was aimed at taming high lending rates and low deposit rates in the banking industry by placing a ceiling on lending rates and a floor on deposit rates based on the central bank rate (CBR). The CBR is the rate at which the central bank lends money to commercial banks. Lending rates are capped at a maximum of 4% above the CBR while deposit rates should be at least 70% of the CBR.

Bankers have since blamed the rate cap for the sharp decline in credit to the private sector and distortions in the pricing of loans stating that lending at a uniform rate implies that all customers have a similar risk profile. As a result, banks restricted lending to customers they perceived as high risk and some of the segments affected include small and medium enterprises (SMEs) and unsecured lending to individuals.

The CBK on its part has stated that the law has made it difficult to execute its statutory mandate of influencing the direction of interest rates and credit in the economy. For the government however, the law seems to have favored it as banks opted to invest more in government securities as opposed to lending to the private sector, and in the process the government's cost of borrowing remained low as evidenced by the rates of different tenors of Treasury bills and bonds last year. In effect, the rate cap also means that interest rates on government securities were implicitly capped at 14%, further securing the government's borrowing costs. This outcome coincided with a steep rise in public debt to ksh.4.6 trillion or 56% of the size of the economy at the end of last year.

**ZIMELE GUARANTEED PERSONAL PENSION PLAN  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FUND MANAGERS COMMENTARY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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There are indications that the rate cap might be modified or even repealed especially given that this is one of the conditions given by the International Monetary Fund (IMF) to renew a facility of US\$1.5 billion meant to cushion the economy from negative swings in the shilling exchange rate related to external factors; the IMF has given the government a timeline of up to September this year for action to be taken.

A repeal of the rate cap would unlock credit to the private sector, but may lead to a significant increase in lending rates. It is not clear whether banks would concentrate their efforts in ensuring that lending rates do not rise sharply since this goes against their primary objective of profit maximization, and the rationale would be based on pricing on the basis of a customer's risk profile. A repeal would also give the CBK more room for monetary policy action; placing an implicit ceiling on the CBR is dangerous to the economy in the event of inordinate external shocks that require immediate policy action. A removal of the rate cap would probably also result in an increase in interest rates on government securities as banks reduce their holdings of the securities in favor of lending to the private sector, and participants demand for higher yields to reflect the government's high appetite for borrowing. The result would be a rise in the government's cost of borrowing, which would probably lead to a reduction in development spending to meet interest payments on domestic debt. Money market securities would be a key beneficiary of this outcome with short term interest rates likely to rise after the repeal.

There is an alternative view that a year and a half may not be a good guide on the efficacy or adverse consequence of the rate cap, especially in a year characterized by heightened political uncertainty due to prolonged electioneering leading to a harsh business environment resulting in falling turnover, and the impact of delays in payments to suppliers by both the national and county governments, which hit SMEs especially hard. It is also important to note that credit to the private sector has been on the decline since June 2014, due to various reasons, and was accelerated by the combined effects of political uncertainty and the rate cap last year.

Other factors that will determine the direction of interest rates in the money market in 2018 include inflation trends as influenced by weather conditions and energy prices, and the extent to which the national government will be able to contain the growth of public debt through management of expenditure. Overall, we expect 2018 to be a more stable and prosperous year for the economy, which should translate to a sustained favorable performance of the fund.



**ZIMELE GUARANTEED PERSONAL PENSION PLAN  
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REPORT OF THE CUSTODIAN  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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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 Trustees, we confirm that we have discharged the duties prescribed for a Custodian under Regulation 8 of the regulations, to Zimele Guaranteed Personal Pension Plan.

From the period 1<sup>st</sup> January 2017 to 31<sup>st</sup> December 2017, we have held the assets for the Zimele Guranteed Personal Pension Plan, including title documents, securities and income that accrue thereof, to the order of the Trustees and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager.



For: KCB BANK KENYA LTD.  
By order of the **CUSTODY SERVICES**  
KCB Bank ( K) Limited

**ZIMELE GUARARANTEED PERSONAL PENSION PLAN  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**Statement of changes in net assets available for benefits**

	Notes	2017 Kshs	2016 Kshs
<b>Income from dealings with members</b>			
Contributions received	3	43,143,342	15,779,292
<b>Outgoings from dealings with members</b>			
Benefits payable	4	(19,084,601)	(11,333,634)
		-	-
<b>Net additions from dealings with members</b>		<u><b>24,058,741</b></u>	<u><b>4,445,658</b></u>
<b>Return on investments</b>			
Investment income	5	11,847,237	11,534,089
Change in market value of investments (%)		5,198,341	1,127,870
<b>Net return on investments</b>		<u><b>17,045,578</b></u>	<u><b>12,661,959</b></u>
Administrative expenses	6	(508,380)	(543,429)
Investment Management expenses	7	(3,275,897)	(2,595,128)
Prior year adjustments		-	53,311
<b>Increase in net assets for the year</b>		<u><b>37,320,042</b></u>	<u><b>14,022,371</b></u>
Net assets available for benefits at start of the year		119,153,086	105,130,715
<b>Net assets available for benefits at end of year</b>		<u><u><b>156,473,128</b></u></u>	<u><u><b>119,153,086</b></u></u>

**ZIMELE GUARANTEED PERSONAL PENSION PLAN**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**As at 31 December 2017**

**Statement of net assets available for benefits**

	Notes	2017 Kshs	2016 Kshs
<b>Assets</b>			
Kenya Government Securities	8	100,074,903	73,221,966
Cash and Fixed Deposits	9	18,694,000	16,501,869
Investment in Unit Trust		37,056,260	24,388,469
		<b>155,825,162</b>	<b>114,112,304</b>
<b>Current Assets</b>			
Custodian and collection accounts	10	1,006,268	3,922,848
Income Receivable	11	-	1,354,982
		<b>1,006,268</b>	<b>5,277,830</b>
<b>Liabilities</b>			
Other payables and accrued expenses	12	358,303	237,048
		<b>156,473,128</b>	<b>119,153,086</b>
<b>TOTAL NET ASSETS</b>			
		<b>156,473,128</b>	<b>119,153,086</b>
<b>FINANCED BY:</b>			
		<b>156,473,128</b>	<b>119,153,086</b>
<b>Members' Account and Reserve Fund</b>		<b>156,473,128</b>	<b>119,153,086</b>

For the Trustee:  
  
 Natbank Trustees and Investment Services Limited  
 Date: 22/12/2018 2018

Natbank Trustees and Investment Services Ltd.  
 Head  
 P. O. Box 72885 - 00200  
 Nairobi

**ZIMELE GUARANTEED PERSONAL PENSION PLAN  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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<b>Statement of Changes in Equity</b>	<b>Net Unit Holders Funds Kshs</b>	<b>Total Kshs</b>
<b>For the year 2016</b>		
As at 1st January 2016	88,421,605	88,421,605
Net Contributions	30,731,481	30,731,481
		-
As at 31st December 2016	<b>119,153,086</b>	<b>119,153,086</b>
<b>For the year 2017</b>		
As at 1st January 2017	119,153,086	119,153,086
Net Contributions	37,320,042	37,320,042
		-
As at 31st December 2017	<b>156,473,128</b>	<b>156,473,128</b>

**ZIMELE GUARARANTEED PERSONAL PENSION PLAN  
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**Statement of cash flows**

	<b>2017 Kshs</b>	<b>2016 Kshs</b>
<b>Cashflow from operations</b>		
Contributions received	43,143,342	15,779,292
Benefits paid	(19,084,601)	(11,333,634)
Expenses paid	(3,784,277)	(3,138,557)
Prior year adjustments	<u>(115,794)</u>	<u>(93,667)</u>
Net cash flow from operations	<u>20,158,670</u>	<u>1,213,434</u>
<b>Working Capital Changes</b>		
(Increase)/ Decrease in Receivables	1,354,982	(1,354,982)
Increase/ (Decrease) in Payables	237,048	192,014
Net Cash flow from operating Activities	<u>1,592,030</u>	<u>(1,162,968)</u>
Net cashflow from operating Activities	<u>21,750,700</u>	<u>50,466</u>
<b>Cashflow from Financing Activities</b>		
Investment income received	11,847,237	11,534,089
Change in market value of investment	5,198,341	1,127,870
	<u>-</u>	<u>-</u>
<b>Cash flow from financing activities</b>	<u>17,045,578</u>	<u>12,661,959</u>
<b>Cash flow from investing activities</b>		
Change in investment	<u>(41,712,858)</u>	<u>(10,527,954)</u>
<b>Net Cash Inflow / Outflow</b>	<u>(2,916,581)</u>	<u>2,184,471</u>
Cash and cash equivalents at start of year	<u>3,922,848</u>	<u>1,738,377</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>1,006,268</u></u>	<u><u>3,922,848</u></u>

**ZIMELE GUARANTEED PERSONAL PENSION PLAN  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**Notes**

**1. Basis of preparation**

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

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay benefits that fall due after the end of the financial year.

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

**(a) Basis of accounting**

The financial statements have been prepared under the historical cost convention.

**(b) Contributions**

Contributions from the members are accounted for in the period to which they fall due.

**(c) Interest income**

Interest income is accounted for in the period in which it is earned.

**(d) Benefits payable**

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

**(e) Benefit transfers**

Benefit transfers are recognized in the period in which members join from other schemes or leave for other schemes.

<b>3. Contribution income</b>	<b>2017</b>	<b>2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Members - Voluntary Contributions	43,143,342	15,779,292
	<u><u>43,143,342</u></u>	<u><u>15,779,292</u></u>
<b>4. Benefits payable</b>	<b>2017</b>	<b>2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Pensions	<u><u>19,084,601</u></u>	<u><u>11,333,634</u></u>
<b>5. Investment income</b>	<b>2017</b>	<b>2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Income from Kenya Government Securities	10,088,554	7,008,931
Interest on call	(1,166,430)	2,963,774
Interest on T. Bill	203,744	725,473
Interest on money market investment	2,707,791	338,469
Sale of securities	-	497,442
Rebate on bond	13,579	-
	<u><u>11,847,237</u></u>	<u><u>11,534,089</u></u>

**ZIMELE GUARANTEED PERSONAL PENSION PLAN  
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**Notes (continued)**

<b>6 Administrative expenses</b>	<b>2017</b>	<b>2016</b>
	<b>Kshs</b>	<b>Kshs</b>
RBA Levy	238,306	210,261
Bank charges	123,665	164,504
AGM fees	8,200	-
Secretarial fees	-	29,403
Audit fees	34,800	34,800
Administration and processing	103,409	104,461
	<b><u>508,380</u></b>	<b><u>543,429</u></b>
	<b>2017</b>	<b>2016</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>7 Investment Management expenses</b>		
Fund Manager	2,811,941	2,194,834
Custodian	320,481	252,851
Trustees fees	143,475	147,443
	<b><u>3,275,897</u></b>	<b><u>2,595,128</u></b>
<b>8 Government Bonds</b>	<b>2017</b>	<b>2016</b>
Cumulative Treasury Bonds	100,251,374	71,621,455
Cumulative Treasury Bills	(176,472)	1,600,510
	<b><u>100,074,903</u></b>	<b><u>73,221,966</u></b>

**ZIMELE GUARANTEED PERSONAL PENSION PLAN  
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FOR THE YEAR ENDED 31 DECEMBER 2017**

**Notes continued**

<b>9 Term deposits</b>	<b>2017 Kshs</b>	<b>2016 Kshs</b>
Chase Bank	15,494,000	15,494,000
Kenya Women Micro Finance Bank	-	1,007,869
National Industrial Credit Bank	3,200,000	-
	<u>18,694,000</u>	<u>16,501,869</u>
<b>10 Custodians and collection accounts balance</b>	<b>2017 Kshs</b>	<b>2016 Kshs</b>
KCB Collection	1,242,212	3,199,834
National Bank	(235,945)	723,015
	<u>1,006,268</u>	<u>3,922,848</u>
<b>11 Receivables</b>	<b>2017 Kshs</b>	<b>2016 Kshs</b>
Interest receivable on cash and fixed deposits	-	<u>1,354,982</u>
<b>12 Other payables and accrued expenses</b>	<b>2017 Kshs</b>	<b>2016 Kshs</b>
Audit fees current year	34,800	34,800
Trustee fees	55,422	-
Management fees	268,081	202,248
	<u>358,303</u>	<u>237,048</u>

**13. Financial risk management disclosures**

The scheme's activities expose it to a variety of financial risks, including credit risk and the effects of changes in 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, but the scheme does not hedge any risks.

Risk management is carried out by the approved issuer of the scheme in accordance with policies approved by the Board of Trustees.



**ZIMELE GUARARANTEED PERSONAL PENSION PLAN  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**Notes (continued)**

**Financial risk management disclosures (Continued)**

**Market risk**

**(i) Foreign exchange risk**

The scheme has no investments in offshore markets or in foreign currency and is therefore not exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Euro.

**(ii) Cashflow and fair value interest rate risk**

The scheme does not hold any interest bearing financial liability or overdraft at a variable rate which would expose the scheme to cash flow interest rate risk.

**(iii) Credit risk**

Credit risk refers to the risk that a counterparty will default on his obligations resulting in financial loss to the scheme and arises principally from the scheme's investments and contributions receivable. The fund does not have any significant concentrations of credit risk. The approved issuer assesses the credit quality of each investment, taking into account its credit rating. Individual risk limits are set based on internal or external ratings in accordance with limits set by the trustees.

**Liquidity risk**

Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated benefit payments. The trustees agree with the approved issuer on the amount to be invested in assets that can be easily liquidated.