



**ZIMELE GUARANTEED 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 began its operations in September 2009 and is registered under the Retirement Benefits Act, 1997 and the Income Tax Act, CAP 470. The registered office is at Ecobank Towers, 7th Floor on Muindi Mbingu Street, Nairobi.

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 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 116.8 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 Guaranteed 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 Guaranteed Personal Pension Plan invests in equities and fixed income securities in accordance with the provisions of the Retirement Benefits Act and the Regulations made there under;

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

Kenya's economy is projected to have grown by 5.9% in 2016, but is expected to slow down 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% compared to 6.6% in 2015, mainly as a result of favorable weather conditions leading to lower food prices, and relatively lower prices of fuel and electricity. Stability in the rate of inflation last year resulted in a decline in the central bank rate (CBR) by 150 basis points to 10%, and subsequently interest rates on government securities of various maturities remained relatively stable.

The market for government securities was quite active in 2016 due to increased pressure on domestic borrowing to finance the budget deficit. In the Treasury bills market, the 91 days maturity averaged 8.6% compared to 10.9% in 2015, the 182 days tenor averaged 10.87% from 12.22% in 2015, while the 364 days tenor averaged 11.44% from 12.89% in 2015. By comparison, the Zimele Guaranteed Personal Pension Plan yield averaged 11.2% last year from 12.2% in 2015.

In the primary market for Treasury bonds, the value of bonds issued increased by 66% to ksh.343 billion, compared to an increase of 20% in 2015. The average redemption yield of treasury bonds issued last year increased by 81 basis points to 14.22%, compared to an increase of 146 basis points in 2015 when there was a surge in interest rates in the second half of the year. In the secondary market at the NSE, Treasury bonds turnover increased by 48% to ksh.431 billion, compared to a decline of 40% in 2015.

However, the market for corporate bonds did not fare well last year, there were no new issues while turnover at the secondary market declined by 48% to ksh.1.59 billion. The market for new issues of corporate bonds was negatively impacted by the placement under receivership of Imperial Bank and Chase Bank, and subsequent suspension of their bond listings at the Nairobi Securities Exchange. This is the first time that listed bonds were simultaneously in default and suspension at the NSE.

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. According to the Banking (Amendment) Act of 2016, the central bank rate is the reference point for determining both lending and deposit rates. In the current setting, commercial bank lending rates are not supposed to exceed 14% while interest rates on savings and deposit accounts should not be less than 7%. The passing of the law coincided with a sharp contraction in credit to the private sector, 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, including managers of third party funds such as unit trusts and pension schemes, after Imperial Bank and Chase Bank were placed under receivership. 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 interbank rate averaged 4.77% last year

from 11.04% in 2015, mainly as a result of the concentration of liquidity in the large banks. This development could also partly explain why the government was able to borrow more domestically without causing a significant increase in short term interest rates.

Although the overall rate of inflation appears to be headed in the double-digit range, the fact that the core rate of inflation (which excludes prices of food and energy) is still well below the 5% range implies there is a diminished likelihood of the central bank rate going up in the short term, we therefore do not expect interest rates on fixed income securities to vary much from the levels experienced last year.

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 Guaranteed Personal Pension Plan.

From the period 1st January 2016 to 31st December 2016, we have held the assets for the Zimele Guaranteed 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 GUARANTEED PERSONAL PENSION PLAN

We have audited the financial statements of the Zimele Guaranteed 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

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.

Statement of Changes in Net Assets Available for Benefits for the year ended 31/12/206

	2016	2015
	<u>KSHS</u>	<u>KSHS</u>
Income from dealing with members		
Contributions received	15,779,292	5,706,543
Outgoing from dealing with members		
Benefits Paid	(11,333,634)	(10,533,694)
Net additions from dealing with members	4,445,658	(4,827,151)
Return on Investments		
Investment Income	11,534,089	13,336,863
Changes in Market Value of investments	1,127,870	10,768,131
Net return on investments	12,661,959	24,104,994
Administrative Expenses	(534,429)	(240,252)
Investment Management Expenses	(2,595,128)	(2,328,480)
Prior Year Adjustment	53,311	-
	14,022,371	16,709,111
Increase in Net Assets for the Year		
Net assets available for benefits at the start of the year	105,130,715	88,421,605
Net assets available at the end of the year	119,153,086	105,130,715

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

	2016 KSHS	2015 KSHS
Assets		
Kenya Government Securities	73,221,966	84,640,350
Cash and Fixed Deposits	16,501,869	18,944,000
Investment in Unit Trust	24,388,469	-
	114,112,304	103,584,350
Current Assets		
Custodian and Collection Accounts	3,922,848	1,738,380
Income Receivable	1,354,892	-
	5,277,830	1,738,380
Liabilities		
Other payables and accrued expenses	237,048	192,014
Total Net Assets	119,153,086	105,130,716
Financed By		
Members' Account and Reserve Fund	119,153,086	105,130,716