

Deloitte.

**KENYA RAILWAYS
STAFF RETIREMENT BENEFITS
SCHEME**

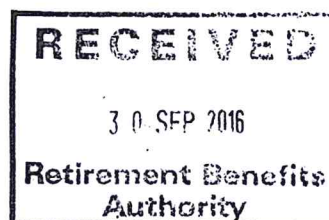
**REPORTS
AND FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2016

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

CONTENTS	PAGES
Corporate trustee and professional advisers	2
Report of the corporate trustee	3 - 5
Statement of corporate trustee's responsibilities	6
Independent auditors' report	7 - 8
Financial statements:	
Statement of changes in net assets available for benefits	9
Statement of net assets available for benefits	10
Statement of cash flows	11
Notes to the financial statements	12 - 26



KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

CORPORATE TRUSTEE AND PROFESSIONAL ADVISERS

Corporate Trustee	Corporate & Pension Trust Services Limited 10th Floor, Landmark Plaza, Argwings Kodhek Road P O Box 52439, 00200 Nairobi
Investment Manager	Co-op Trust Investment Services Limited Cooperative House Haile Selassie Avenue P O Box 48231, GPO 00100 Nairobi
Custodian	Kenya Commercial Bank Limited Custody Services Pledmont Plaza, 3rd Floor Ngong Road P O Box 30644, GPO 00100 Nairobi
Legal Advisors	Millimo, Muthomi & Co. Advocates Agip House, 4 th Floor Haile Selassie Avenue P O Box 8154 - 00200 Nairobi
Auditors	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki Way, Muthangari P O Box 40092 GPO 00100 Nairobi

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

REPORT OF THE CORPORATE TRUSTEE

The corporate trustee presents the report together with the audited financial statements for the year ended 30 June 2016.

ESTABLISHMENT, NATURE AND STATUS OF THE SCHEME

The Kenya Railways Staff Retirement Benefits Scheme was established as a defined benefit scheme in March 2006.

The main purpose of the scheme is the provision of pension and other retirement benefits for employees of the sponsor upon their retirement from the sponsor's services and relief for the dependants of deceased employees and, for that purpose, the trustees shall hold the contributions paid to them by the sponsor and the members and any other sums, investments and income and all lump sums representing the same upon trust for the respective persons for whose benefit such sums and other benefits are expressed to be payable in accordance with the provisions of the Deed and the Rules.

The scheme's assets comprise mainly investment property which was transferred from the sponsor, Kenya Railways Corporation by a Kenya gazette notice in February 2007.

The Scheme is run by the corporate trustee who is responsible for its affairs. Expenses of the scheme are met by the scheme. The Scheme is closed to new members.

CONTRIBUTIONS

The scheme is closed and thus does not receive any contributions. However given its nature the sponsor is obliged to meet any actuarial deficits that could arise.

MEMBERSHIP

	2016 No.	2015 No.
Members as at start of year	9,796	9,790
Joiners	256	415
Leavers	(407)	(409)
At the end of the year	9,645	9,796

Included in the membership above are 422 suspended members. These are members who have not returned their pension census forms. The suspended members' benefits continue to accrue and they will be reinstated and paid their accrued benefits once they return the census forms.

There are 1,228 deferred pensioners included in the members above. These are members currently in the employment with Rift Valley Railways Limited having been seconded from Kenya Railways Corporation. On retirement from Rift Valley Railways Limited, the members are eligible to pension benefits from Kenya Railways Corporation.

Joiners relate to employees who used to work for Kenya Railways Corporation up to 2006 and their dependents who had not been included in the list of pensioners since they had not provided required documents to the scheme to be included as members. It is expected that more members will join the scheme in future when suspended members return pension census forms.

PENSION PAYMENTS

The corporate trustee has undertaken various initiatives as disclosed in note 2 to the financial statements to improve the scheme's liquidity position and settle the pension arrears.

CORPORATE TRUSTEE

The corporate trustee is responsible for the security of the scheme's assets and as such regularly reviews the arrangements relating to custody, security and disposition of the assets. The corporate trustee holds regular meetings to discuss the affairs of the scheme and to deal with any other discretionary matters.

The current corporate trustee is shown on page 2.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

REPORT OF THE CORPORATE TRUSTEE (Continued)

FINANCIAL REVIEW

The statement of changes in net assets on page 9 shows an increase in the net assets of the scheme for the period of Sh, 10,356,532,000 (2015: a decrease of Sh 719,388,000) and the statement of net assets on page 10 shows that the scheme's net assets as at 30 June 2016 amounted to Sh 30,888,487,000 (2015: Sh 20,531,955,000).

INVESTMENT

We confirm that there is no self-investment, nor have the Scheme's assets been used as security or collateral on behalf of the employer or any connected business or individual. As disclosed on note 17 to the financial statements some of the scheme's investment property has been pledged to secure borrowings by the scheme.

The scheme is self-administered.

Currently, there are injunctive orders against four (4) properties for disposal namely; Nairobi Railway Club, Makongeni, Mobray and Muthurwa as per HCCC No 294 of 2012, Erdemann Property Limited vs KRSRBS & Another. However, the Scheme has appealed for the release of the four (4) properties.

ACTUARIAL POSITION

The Scheme is subjected to a triennial valuation by independent actuaries to fulfil the statutory requirements under the Retirement Benefits Act.

Actuarial valuation of Kenya Railways Staff Retirement Benefits Scheme was undertaken for the period ended 30 June 2014 by NBC Consultants and Actuaries.

In accordance with average experience of other similar schemes property assets and quoted equities are taken at 80% and 70% respectively of the values shown in the statement of net assets at the date of valuation. Other assets are taken at the values shown in the statement of net assets as at 30 June 2015.

The results of the valuation are summarised below:	Sh'000
Value placed on scheme assets	16,843,464
Value of liabilities:	
Deferred members	2,352,277
Future benefits to current pensioners:	
Pensioners on payroll	7,689,785
Beneficiaries (dependants in receipt of pension)	171,217
Suspended pensioners	98,536
	7,959,538
*Reserves	2,078,700
Total liabilities and reserves	12,390,515
Actuarial surplus	4,452,949
Funding level (ratio of scheme assets to accrued past service liabilities)	136%

*Reserves have been made mainly for mortality longevity, future joiners and pension increase arrears.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

REPORT OF THE CORPORATE TRUSTEE (Continued)

STATUTORY ASPECTS

The Retirement Benefits Authority (RBA) allows a maximum investment of 30% of the scheme's funds in immovable property. The scheme currently holds about 97% of its total assets as immovable property. The corporate trustee is taking the necessary steps to ensure that the management of the fund and its assets comply with the Retirement Benefits Act 1997 and the Retirement Benefits Regulations 2000.

The Retirement Benefits Authority (RBA) also requires that an actuarial valuation of a scheme should be carried out every three years. The actuarial valuation of Kenya Railways Staff Retirement Benefits Scheme was last undertaken for the period ended 30 June 2014. The scheme is therefore in compliance with the stipulated regulations. The next actuarial valuation should be done no later than 30 June 2017.

AUDITORS

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

FURTHER INFORMATION

Individual members of the Scheme are welcome to obtain further information about the Scheme. The Scheme's Chief Executive Officer will be pleased to answer any queries, general or about individual entitlements to benefits, which can be sent to him at Kenya Railways Staff Retirement Benefits Scheme offices.

BY ORDER OF THE CORPORATE TRUSTEE



)
) Corporate Trustee



30 September 2016

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

STATEMENT OF CORPORATE TRUSTEE'S RESPONSIBILITIES

The Kenyan Retirement Benefits Act requires the corporate trustee to prepare financial statements for each financial year which show a true and fair view of the financial transactions of the Scheme for the period and of the disposition of its assets and liabilities as at period end. It also requires the corporate trustee to ensure that the Scheme keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Scheme. The corporate trustee is also responsible for safeguarding the assets of the Scheme.

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

The corporate trustee accepts 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 Scheme's rules except for the departure from certain provisions of International Accounting Standard No. 40 (IAS 40) on Investment Property and International Financial Reporting Standard No. 13 (IFRS 13) on Fair Value Measurement as explained in note 1 to the financial statements. The corporate trustee is of the opinion that the financial statements give a true and fair view of the financial affairs of the Scheme and of its operating results. The corporate trustee further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The corporate trustee certifies that to the best of their knowledge and belief, the information furnished to the auditors for the purpose of the audit was correct and complete in every respect.

The corporate trustee acknowledges that about 97% of the scheme's investments are held in immovable properties and has undertaken various initiatives to improve the scheme's liquidity.



.....
Corporate Trustee

30 september 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

We have audited the accompanying financial statements of Kenya Railways Staff Retirement Benefits Scheme, set out on pages 9 to 26, which comprise the statement of net assets available for benefits as at 30 June 2016, and the statement of changes in 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.

Corporate Trustee's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 the audit to obtain reasonable assurance about whether 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 our 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, we considered the internal controls relevant to the Scheme's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the corporate trustee, as well as evaluating 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 qualified audit opinion.

Basis for Qualified Opinion

Non-compliance with International Accounting Standard No. 40 (IAS 40), Investment Property, and International Financial Reporting Standard No. 13 (IFRS 13), Fair Value Measurement

As stated in note 11 to the financial statements, most of the scheme's investment properties totalling Sh 28,926,424,000 (2015: Sh 17,872,424,000) are carried at forced sale value and out of this, properties totalling Sh 15,926,424,000 were last revalued on 30 June 2011. This is not consistent with the requirements of IAS 40 which requires that the fair value of the investment property shall reflect market conditions at the end of the reporting period. In addition, the values of most of the investment properties are based on forced sale values which is not consistent with the requirements of IFRS 13 which requires that fair value of an investment property should be determined based on highest and best use of the property. Due to lack of adequate information, we were unable to determine the financial effects on the financial statements of the non-compliance with IAS 40 and IFRS 13.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME
(Continued)

Qualified opinion

In our opinion, except for the effect of the matters described in the basis for qualified opinion paragraph above, the accompanying financial statements give a true and fair view of the financial transactions of the Scheme during the year ended 30 June 2016 and of the disposition of its assets and liabilities as at that date, other than liabilities to pay pensions and benefits falling due after the end of the year in accordance with International Financial Reporting Standards and the requirements of the Kenyan Retirement Benefits Act.

Emphases of matter

We wish to draw your attention to the following:

a) Non-compliance with the Retirement Benefits Act

The Retirement Benefits Authority Investment Guidelines require that investments in immovable property in Kenya be limited to a maximum of 30% of the scheme's investments. As at 30 June 2016, about 97% of the scheme's investments were in immovable assets.

b) Note 2 to the financial statements which gives disclosures on the liquidity position of the scheme. Due to the high concentration of the scheme's assets in immovable property as discussed above and injunctive orders against disposal of the scheme's properties as discussed below. The conditions indicate a material uncertainty on the scheme's ability to meet its obligations as they fall due.

c) Note 11 to the financial statements which gives disclosures on investment properties some of whose titles are not in the scheme's name and there are injunctive orders against disposal of the scheme's properties as per court case reference HCCC No 294 of 2012, Erdemann Property Limited vs KRSRBS & Another.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Fred Aloo P/No 1537.



Certified Public Accountants (Kenya)

Nairobi, Kenya

30 September 2016

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 Sh'000	2015 Sh'000
DEALINGS WITH MEMBERS			
Pension payment	4	(841,209)	(912,259)
RETURNS ON INVESTMENTS PROPERTY			
Rental income		482,249	509,430
Property management expenses	5	(155,572)	(139,989)
Fair value gain on investment property	11	11,054,000	-
Gain on disposal of investment property	11	-	19,695
NET RETURN ON INVESTMENT PROPERTY		11,380,677	389,136
RETURNS/(LOSS) ON OTHER INVESTMENTS			
Investment income	6	-	3,828
Investment management expenses	7	(60)	(678)
NET RETURNS ON INVESTMENTS		(60)	3,150
OTHER INCOME	8	19	57
Administrative expenses	9	(134,897)	(158,972)
Finance costs	10	(47,998)	(40,500)
NET INCREASE/(DECREASE) IN NET ASSETS FOR THE YEAR	18	10,356,532	(719,388)
NET ASSETS AVAILABLE FOR BENEFITS AT THE BEGINNING OF THE YEAR		20,531,955	21,251,343
NET ASSETS AVAILABLE FOR BENEFITS AT THE END OF THE YEAR		30,888,487	20,531,955

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AS AT 30 JUNE 2016

	Note	2016 Sh'000	2015 Sh'000
Assets			
Investment property	11	31,378,194	20,324,194
Equipment	12	830	1,886
Receivables and prepayments	14	1,107,968	1,603,481
Fixed deposits	15	-	2,365
Bank balance		13,438	5,396
Total assets		<u>32,500,430</u>	<u>21,937,322</u>
Liabilities			
Payables	16	(1,382,177)	(1,180,367)
Bank borrowings	17(a)	-	(225,000)
Bank overdraft	17(b)	(229,766)	-
Total liabilities		<u>(1,611,943)</u>	<u>(1,405,367)</u>
NET ASSETS AVAILABLE FOR BENEFITS		<u><u>30,888,487</u></u>	<u><u>20,531,955</u></u>
REPRESENTED BY:			
FUND BALANCE	18	<u><u>30,888,487</u></u>	<u><u>20,531,955</u></u>

The financial statements on pages 9 to 26 were approved by the corporate trustee on 30 September 2016 and were signed by:

) 
)
)
) 
)

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 Sh'000	2015 Sh'000
Cash flows from operating activities			
Other income	8	19	57
Benefits paid		(651,498)	(897,343)
Administrative and management expenses paid		(277,374)	(298,508)
Net cash used in operating activities		(928,853)	(1,195,794)
Cash flows from investing activities			
Rental income and deposits received on property		977,762	614,211
Proceeds from sale of investment property	11	-	1,734,895
Investment income received	6	-	3,828
Purchase of equipment	12	-	(835)
Net cash generated from investing activities		977,762	1,123,677
Cash flows from financing activities			
Interest paid	10	(47,998)	(40,500)
Loan repayment		(225,000)	-
Net cash used in financing activities		(272,998)	(40,500)
Net decrease in cash and cash equivalents		(224,089)	(112,617)
Cash and cash equivalent at beginning of the year		7,761	120,378
Cash and cash equivalent at end of the year		<u>(216,328)</u>	<u>7,761</u>
Represented by:			
Fixed deposits	15	-	2,365
Bank balance		13,438	5,396
Bank overdraft		(229,766)	-
		<u>(216,328)</u>	<u>7,761</u>

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1 ACCOUNTING POLICIES

Statement of compliance

Except for departure from certain provisions of International Accounting Standard No. 40 (IAS 40) on Investment Property and International Financial Reporting Standard No. 13 (IFRS 13) on Fair Value Measurement, the financial statements are prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Retirement Benefits Act.

Adoption of new and revised International Financial Reporting Standards

(i) *New standards and amendments to published standards effective for the year ended 30 June 2016*

At the date of authorisation of these financial statements, various revised standards and interpretations were issued and effective. These standards and interpretations did not result in the change in the scheme's accounting policies or result in any material impact on the financial statements of the entity.

(ii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2016 and future annual periods*

Only IFRS 9 issued in November 2009 which introduced new requirements for the classification and measurement of financial assets will be relevant to the operations of the Scheme. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.
- Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The trustees of the Scheme anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Scheme's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the Scheme.

(iii) *Early adoption of standards*

The scheme did not early adopt any new or amended standards in 2016.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Basis of preparation

The financial statements are prepared under the historical cost convention as modified for the revaluation of investment properties and financial instruments. The principal accounting policies adopted remain unchanged from the previous year and are set out below:-

Benefits

Benefits payable to leavers are recognised in the period in which they fall due.

Rental income

Investment property includes rental houses. However, some of the tenants in these houses specifically in Makongeni and Muthurwa do not have lease agreements and therefore the collection of rent is not guaranteed. All rental income other than that from Kenya Railways Corporation is recognised when received. Rental income from Kenya Railways Corporation is recognised on a straight-line basis over the term of the relevant lease.

Investment income

Interest income is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable.

Dividend income

Dividend income from investments is recognised when the scheme's right to receive payment as a shareholder has been established.

Financial instruments

Financial assets and liabilities are recognised on the Scheme's statement of net assets when the scheme becomes a party to the contractual provisions of the Instruments.

(i) Financial assets

Classification

The scheme classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held- to- maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition.

Government securities

Government securities comprise treasury bills and treasury bonds, which debt securities are issued by the Government of Kenya. Treasury bills are held to maturity and are stated at face value less unearned discount while treasury bonds are held for trading and are stated at fair value.

Receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Trade receivables are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the receivable, and that the loss event has an impact on the future cash flows on the receivable that can be estimated reliably.

Objective evidence that trade receivables are impaired could include default or delinquency by a customer, indications that a customer will enter bankruptcy as well as observable changes in national or local economic conditions that correlate with default on receivables. Bad debts are written off when all reasonable steps to recover them have failed

Bad debts are written off in the year in which they are identified.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

(ii) Financial liabilities

Financial liabilities are stated at amortised cost. Amortised cost of a financial liability is the amount at which the financial liability was measured at initial recognition less principal repayments, plus accrued interest on the outstanding principal.

Accounts payable

The liabilities for accounts payable are carried at cost, which is measured at the fair or contractual value of the consideration to be paid in future in respect of goods and services supplied by the suppliers, whether billed or not, to the scheme.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the scheme has an unconditional right to defer settlement of the liability for more than 12 months after the reporting period.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, part of the investment property is measured at fair value. This is not in compliance with the requirements of IAS 40 and the audit opinion is qualified in this respect. Gains and losses arising from changes in the fair value of investment property are dealt with in statement of changes in net assets in the period in which they arise.

Equipment

Equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation on equipment is calculated on a straight-line basis to write off the cost of the equipment over the expected useful lives at the following annual rates:

Computer equipment	33 $\frac{1}{3}$ %
Fixtures and fittings	12 $\frac{1}{2}$ %

The gains and losses arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of changes in net assets.

Intangible assets

Intangible assets comprise software licences and is amortised on a straight line basis over the useful life of the licence which is five years.

Impairment of assets

The carrying amounts of the Scheme's assets are reviewed annually at the year end to determine if there is any indication of impairment. If such condition is identified, the asset's net recoverable amount is estimated. Where the asset's carrying amount exceeds its net recoverable amount, it is written down immediately to the recoverable amount and the resulting impairment loss is treated as an expense in the statement of changes in net assets.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Foreign currencies

Foreign currency balances are translated into Kenyan Shillings at the rates of exchange ruling at the year end. Transactions during the year are translated at the rates ruling when the transactions are effected.

Gains and losses arising from the translations are dealt with in the statement of changes in net assets.

Cash and cash equivalents

For the purposes of the statement of cashflows, cash and cash equivalents comprise cash and bank balances, treasury bills and term deposits maturing within three months from date of acquisition.

Comparatives

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

2 LIQUIDITY OF THE SCHEME

As at 30 June 2016, 97% (2015: 93%) of the scheme's investments were held in immovable properties. The scheme therefore does not always have sufficient liquid funds to meet its monthly pension obligations leading to pension arrears.

In addition, as disclosed in note 11, currently, there are injunctive orders against disposal of the scheme's properties valued at Sh 10,325,901,060 as per court case reference HCCC No 294 of 2012, Erdemann Property Limited vs KRSRBS & Another.

The corporate trustee has undertaken various initiatives to improve on the scheme's liquidity including; planned disposal of some investment properties, improvements on existing properties to enhance rent collections, developing undeveloped properties to earn rentals or for future sale and establishing a line of credit with a financial institution.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the scheme's accounting policies, the corporate trustee has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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. These are dealt with below:

Impairment losses

At the end of each reporting period, the scheme reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the scheme estimates the recoverable amount of the cash generating unit to which the asset belongs.

Equipment

Critical estimates are made by the corporate trustee in determining the useful lives and residual values to equipment based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

4 PENSION PAYMENTS

Pension payments represent pensions paid to members of the scheme who are retired employees of Kenya Railways Corporation as per the scheme rules.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh'000	2015 Sh'000
5	PROPERTY MANAGEMENT EXPENSES	
	Legal charges	103,040
	Land rates	20,914
	Valuation fees	15,786
	Casual wages	9,398
	Other expenses	2,451
	Estate water bills	2,360
	Repairs and maintenance	1,623
	Esatate Demolition Costs	-
		306
	<u>155,572</u>	<u>139,989</u>
6	INVESTMENT INCOME	
	Interest on short term deposits	-
		3,828
7	MANAGEMENT EXPENSES	
	Custodial fees	60
	Investment management fees	-
		580
	<u>60</u>	<u>678</u>
8	OTHER INCOME	
	Scrap disposal	-
	Miscellaneous income	19
		54
		3
	<u>19</u>	<u>57</u>
9	ADMINISTRATIVE EXPENSES	
	Staff costs	51,584
	Fund administration costs	44,898
	Pension Bank Transfer Commission	8,843
	Retirement Benefit Authority Levy - current year	5,000
	- penalties	17,000
	Increase in provision for bad and doubtful debt	4,558
	Audit fees	1,872
	Depreciation (note 12)	1,056
	Penalties	88
		13
	<u>134,897</u>	<u>158,972</u>

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh'000	2015 Sh'000
10 FINANCE COST		
Interest on borrowings	47,998	40,500
11 INVESTMENT PROPERTY		
At forced sale value		
L.R 209/11953 - Nairobi Railway Club, Nairobi **	13,000,000	1,946,000
L.R 209/6829 - Makongeni Estate, Nairobi **	5,865,901	5,865,901
L.R 209/6502 (Part) - Muthurwa Estate, Nairobi**	2,450,000	2,450,000
L.R. No. 209/19382 - Ngara Railway Estate – Nairobi*	2,178,400	2,178,400
L.R 209/12088 - Landmawe, Nairobi*	1,655,923	1,655,923
L.R 209/12178 - Upper Hill (Part), Nairobi*	1,155,000	1,155,000
L.R 209/11954/2 (Part) - HQ (Eastern "Wing including Block D) Nairobi*	1,138,400	1,138,400
L.R 209/6506 - Matumbato, Nairobi	721,600	721,600
L.R 209/6507 - Matumbato, Nairobi	349,600	349,600
L.R 1/422 - Ngong Road, Nairobi*	104,800	104,800
L.R 1/423 - Ngong Road, Nairobi*	104,800	104,800
L.R 1/420 - Kindaruma Road, Nairobi*	93,600	93,600
L.R 1/437 - Kindaruma Road, Nairobi **	64,000	64,000
L.R 209/378/5 - Hurlingham Nairobi	44,400	44,400
	28,926,424	17,872,424
At open market value		
L.R 209/12401 - Goods Shed Area, Nairobi*	2,000,000	2,000,000
L.R XXVI/941 - Chambilo, Mombasa	451,770	451,770
	2,451,770	2,451,770
	31,378,194	20,324,194
Movement in investment properties		
At the beginning of the year	20,324,194	22,039,394
Disposal	-	(1,715,200)
Fair value gains	11,054,000	-
At the end of the year	31,378,194	20,324,194

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 INVESTMENT PROPERTY (Continued)

	2016 Sh'000	2015 Sh'000
Disposal of investment properties		
Disposal proceeds	-	1,734,895
Book value of disposed property	-	(1,715,200)
Gain on disposal	-	19,695

The investment properties were revalued by Knight Frank Limited registered valuers on 30 June 2011. Since then, only four properties: Goods Shed Area, Nairobi; Matumbato, Upperhill (L.R. No. 209/6505) and Chambilo, Mombasa have been revalued in 2015 by Gimco Limited and Nairobi Railway Club (LR 209/11953) revalued in 2016 by Rubyland Limited.

* Included in investment properties are properties valued at Sh 8,430,923,000 (2015 – Sh 8,430,923,000) whose titles are not in the scheme's name. These were however transferred to the scheme by Kenya Railways Corporation via a Kenya Gazette notice of 7 September 2006. According to the Legal Notice No. 169 of September 2006, the Trustees of the scheme were vested with 5 Acres of Good Shed property although the actual allotment size to the sponsor Kenya Railways Corporation was 8.11 Acres. It is on the basis of 5 acres the valuation was done and adopted by the Trustees. The corporate trustee is pursuing the transfer of titles and these processes are in different stages of completion.

** Currently, there are injunctive orders against disposal of the scheme's properties valued at Sh 21,379,901 (2015: Sh 10,325,901,060) as per court case reference HCCC No 294 of 2012, Erdemann Property Limited vs KRSRBS & Another.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 EQUIPMENT

	Computers Sh'000	Office equipment and furniture Sh'000	Total Sh'000
Cost			
At 1 July 2014	5,444	4,099	9,543
Additions	375	460	835
At 30 June 2015, 1 July 2015 and 30 June 2016	5,819	4,559	10,378
Depreciation			
At 1 July 2014	4,328	3,034	7,362
Charge for the year	588	542	1,130
At 30 June 2015	4,916	3,576	8,492
At 1 July 2015	4,916	3,576	8,492
Charge for the year	615	441	1,056
At 30 June 2016	5,531	4,017	9,548
Net book value			
30 June 2016	288	542	830
30 June 2015	903	983	1,886

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 COMPUTER SOFTWARE

The scheme has computer software whose original cost is Sh 10,000,000 which is fully amortised. The software is in respect of the day to day running of the scheme and is still in use.

14 RECEIVABLES AND PREPAYMENTS

	2016 Sh'000	2015 Sh'000
Receivables arising from disposal of property	1,084,303	1,585,002
Other receivables	111,397	111,187
Rent receivable	51,964	62,871
Provision for doubtful receivables	(139,696)	(155,579)
	<u>1,107,968</u>	<u>1,603,481</u>

Other receivables relate to amounts due from the former Ministry of Local Government, amounting to Sh 105,000,000, prepayments of Sh 5,500,000 as well as pension recoveries from pensioners for under-deductions amounting to Sh 695,000. The amount due from the former Ministry of Local Government is still outstanding due the restructuring of ministries under the new constitution making it difficult to establish which ministry should settle the debt. The amount has provided for on the basis that it might take long to recover as a specific budgetary allocation is required in the new ministry.

Receivables arising from disposal of investment property relate to amounts due from the following:

- AMS Upper Hill Group, to whom Matumbato Upperhill Property LR no 209/6505 was sold and an amount of Sh 34,000,000 has been received after year end. The debtor continues settling the balance according to the payment plan.
- Kenya Power and Lighting Limited to whom Makongeni (L.R. No. 209/6829-part) was sold. No payment has been received after year end since the land rates on the property are still owing to Nairobi City County hence title has not yet been transferred for the debtor to settle the outstanding balance.
- Mahadi Investment Ltd to whom Valley Road - Kindaruma Road LR no 209/1064 was sold and an amount of Sh 10,100,000 has been received after year end. The debtor continues settling the balance according to the payment plan.

	2016 Sh'000	2015 Sh'000
15 FIXED DEPOSITS		
Held to maturity - maturing within 90 days:		
Housing Finance Company Limited	-	847
NIC Bank Limited	-	1,043
Equity Bank Limited	-	475
	<u>-</u>	<u>2,365</u>

The weighted average effective interest rate during the year on the short term deposits held at 30 June 2016 was nil (2015: 10.51%). The deposits matured during the year.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 PAYABLES

	2016 Sh'000	2015 Sh'000
Accruals and other payables	659,671	599,344
Benefits payable	533,060	504,172
Penalties on RBA levy payable	75,750	16,750
Deposits	57,374	53,494
Retirement Benefit Authority (RBA) levy payable	53,500	5,000
Leave provision	2,821	1,606
	<u>1,382,177</u>	<u>1,180,367</u>

Accruals and other payables includes amounts due to Flexus Estate amounting to Sh 21,250,000 that relates to a deposit they made with respect to the sale of Mobray Court (L.R. No. 1/437 – Kindaruma Road) that did not materialise since the property has a court injunction against disposal of the mentioned properties as per HCCC No 294 of 2012, Erdemann Property Limited vs KRSRBS & Another.

17(a) BANK BORROWINGS (Secured)

	2016 Sh'000	2015 Sh'000
Analysis of changes in bank borrowings		
At 1 July	225,000	225,000
Repayment	(225,000)	-
Additions	-	-
	<u>-</u>	<u>225,000</u>
At 30 June	-	225,000
Maturity analysis		
Repayable within 12 months	-	225,000
	<u>-</u>	<u>225,000</u>

The loan is from Kenya Commercial Bank Limited and was secured by legal charge over L.R. No. 209/6506 Matumbato, Upperhill, Nairobi.

The effective interest rate on loan on 30 June 2016 was nil (2015 – 18%). The loan was repaid in the year.

17(b) BANK OVERDRAFT

In the period, the scheme defaulted on repayment of the loan principal of Sh 225,000,000 due on 30 April 2016 to Kenya Commercial Bank Limited. As a result the bank recovered the full amount from the scheme's current bank account on 30 April 2016. As there were no sufficient funds in the account, it went into an overdraft position. The overdraft is secured by legal charge over L.R No 209/6506 Matumbato, Upperhill, Nairobi.

The effective interest rate charged on the facility was 18%.

	2016 Sh'000	2015 Sh'000
18 FUND BALANCE		
Opening fund balance	20,531,955	21,251,343
Net (decrease)/increase in net assets for the year	10,356,532	(719,388)
	<u>30,888,487</u>	<u>20,531,955</u>
Fund balance at the end of the year	30,888,487	20,531,955

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME
NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

	2016 Sh'000	2015 Sh'000
Key management remuneration:		
Salaries and other benefits	16,241	15,937

The following transactions and balances were held with the scheme sponsor, Kenya Railways Corporation Limited:

	2016 Sh'000	2015 Sh'000
Rent receivable	21,382	21,382

20 FINANCIAL RISK MANAGEMENT

The sponsor, Kenya Railways Corporation, transferred investment property to the scheme to cover the liabilities of the scheme at its inception.

The schemes main source of revenue is therefore rental income from the investment properties as well as proceeds from the disposal of property. The scheme also generates revenues by investing in various income generating activities which involve trading in the stock exchange, government and other securities. These activities expose the fund to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign and interest rates. The scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the corporate trustee together with the investment manager under policies approved by the corporate trustee. The investment manager reviews the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against market risks. The corporate trustee provides principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity. The scheme also follows guidelines issued by the Retirements Benefits authority in respect of maximum investment in different types of investments.

A Market risk

(i) Foreign exchange risk

The scheme does not hold any off shore investment or investments denominated in foreign currencies, thus it's not exposed to foreign exchange risk.

(ii) Price risk

The scheme's exposure to equity securities price risk is insignificant.

As at 30 June 2016, if the market price of investment property were to appreciate/depreciate by 5% with all other variables held constant, the impact on return on investment the year would have been higher by Sh 1,568,909 (2015 – Sh 1,016,210).

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 FINANCIAL RISK MANAGEMENT (Continued)

A Market risk (Continued)

(iii) Interest rate risk

The scheme's interest bearing assets are investments in fixed deposits. All of these instruments are at fixed interest rates.

The nature of financial instruments held, that is, fixed interest instruments mitigates risk exposure of the scheme. Fluctuations in interest rates will have an insignificant effect on the scheme.

B Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the company.

Credit risk arises from bank balances, fixed deposits, interest bearing investments, deposits with banks, and receivables. As part of the credit risk management system, the Investment Manager and the Corporate Trustee monitor and review information on significant investment.

The amount that best represents the scheme's maximum exposure to credit risk at 30 June is made up as follows:

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
30 June 2016				
Receivables	1,089,795	157,869	(139,696)	1,107,968
Bank balances	14,438	-	-	14,438
	<u>1,104,233</u>	<u>157,869</u>	<u>(139,696)</u>	<u>1,122,406</u>
30 June 2015				
Receivables	1,590,494	168,566	(155,579)	1,603,481
Bank balances	5,396	-	-	5,396
Fixed deposits	2,365	-	-	2,365
	<u>1,598,255</u>	<u>168,566</u>	<u>(155,579)</u>	<u>1,611,242</u>

Bank balances and fixed deposits are held with reputable financial institutions that have high credit ratings.

C Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The scheme is required to make periodic payment in respect of pensions to members and is therefore exposed to the risk of difficulty in raising funds to make such payments. It therefore invests a portion of its assets in investments that are readily convertible to cash. About 99% of the scheme's portfolio is made up investment property which is not readily liquid. The corporate trustee has however made plans to dispose some of the investment property as well as improve rent collections on its existing properties in order to increase the schemes liquidity. Disposal of the some of the property is a viable option for raising liquidity as the schemes portfolio comprises of prime property.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 FINANCIAL RISK MANAGEMENT (Continued)

C Liquidity risk (Continued)

The table below analyses the scheme's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month Shs'000	Between 1 – 3 months Shs'000	Over 3 months Shs'000	Total Shs'000
At 30 June 2016				
Benefits payable	66,028	178,084	288,948	533,060
Creditors and other payables	6,540	22,326	60,250	89,116
Bank overdraft	-	229,766	-	229,766
	<u>72,568</u>	<u>430,176</u>	<u>349,198</u>	<u>851,942</u>
At 30 June 2015				
Benefits payable	40,651	150,882	312,639	504,172
Creditors and other payables	6,000	30,859	38,385	75,244
Bank borrowings	-	-	225,000	225,000
	<u>46,651</u>	<u>181,741</u>	<u>576,024</u>	<u>804,416</u>
			2016 Sh'000	2015 Sh'000
21 CAPITAL COMMITMENTS				
Authorised but not contracted for			-	-
			<u>-</u>	<u>-</u>
22 OPERATING LEASE RECEIVABLE				
Amounts receivable in respect of obligations under operating leases				
Within one year			355,326	402,454
Between two and five years			84,810	94,074
			<u>440,136</u>	<u>496,528</u>
23 CONTINGENT LIABILITIES				
Legal suits			26,000,000	26,000,000
			<u>26,000,000</u>	<u>26,000,000</u>

Currently, there are also injunctive orders against disposal of the scheme's properties as per HCCC No 294 of 2012, Erdemann Property Limited vs KRSRBS & Another. Please refer to note 11.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 ACTUARIAL VALUATION AND STATEMENT

The Scheme operates on a defined benefits basis and its assets are held in funds managed by an independent investment manager.

The Scheme is subjected to a triennial valuation by independent actuaries to fulfil the statutory requirements under the Retirement Benefits Act.

Actuarial valuation of Kenya Railways Staff Retirement Benefits Scheme was undertaken for the period ended 30 June 2015 by NBC Consultants and Actuaries.

The results of the valuation are summarised below: Sh'000

Value placed on scheme assets	16,843,464
-------------------------------	------------

Value of liabilities:

Deferred members	2,352,277
------------------	-----------

Future benefits to current pensioners:

Pensioners on payroll	7,689,785
-----------------------	-----------

Beneficiaries (dependants in receipt of pension)	171,217
--	---------

Suspended pensioners	98,536
----------------------	--------

	7,959,538
--	-----------

*Reserves	2,078,700
-----------	-----------

Total liabilities and reserves	12,390,515
--------------------------------	------------

Actuarial surplus	4,452,949
-------------------	-----------

Funding level (ratio of scheme assets to accrued past service liabilities)

	136%
--	------

*Reserves have been made mainly for mortality longevity, future joiners and pension increase arrears.

The Retirement Benefits Rules and Regulations 2000, require all funds in Kenya to satisfy a minimum funding requirement of 100% of the fund's accrued liabilities. The funding level disclosed for the Scheme at 136% at this valuation was above the minimum funding requirement.

25 FAIR VALUE OF NON-FINANCIAL ASSETS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the scheme takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The investment properties were revalued by Knight Frank Limited registered valuers on 30 June 2011. Since then, only three properties: Goods Shed Area, Nairobi; Matumbato, Upperhill (L.R. No. 209/6505) and Chambilo, Mombasa have been revalued in 2015. This is not consistent with International Accounting Standard No 40, Investment Property which requires investment property carried at fair value to be revalued at the end of each reporting period. The investment property values are based on the forced sale value obtained during this valuation.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 FAIR VALUE OF NON-FINANCIAL ASSETS (Continued)

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The scheme considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of investment property recorded at forced sale value by level of the fair value hierarchy:

	Level 1 Shs '000'	Level 2 Shs '000'	Level 3 Shs '000'	Total Shs '000'
At 30 June 2016				
Total investment property	-	31,378,194	-	31,378,194
	=====	=====	=====	=====
At 30 June 2015				
Total investment property	-	20,324,194	-	20,324,194
	=====	=====	=====	=====

26 REGISTRATION

The scheme is registered in Kenya under the Retirement Benefits Act.

27 CURRENCY

The financial statements are presented in Kenya Shillings rounded to the nearest thousands (Sh'000) which is also the functional currency.



September 30, 2016

Our Ref: RB/FIN/23/88

Mr. Charles Macharia
Manager, Supervision Department
Retirement Benefit Authority (RBA)
Rahimtullah Tower, 13th Floor
P.O Box 57733-00200

NAIROBI

Dear Sir,

**RE: KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME
AUDITED ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016**

The above subject refers,

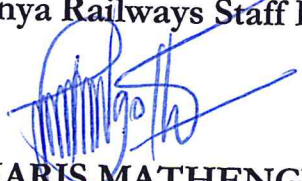
In accordance with section 30 (1) of the Retirement Benefit (Occupational Retirement Benefits Schemes) Regulations 2000, we are pleased to enclose herewith a copy of the Audited accounts for the financial year ended 30th June 2016.

Kindly acknowledge receipt on the attached copy of this letter.

Yours faithfully,

For and on behalf of;

Kenya Railways Staff Retirement Benefit Scheme (KRSRBS)


PHARIS MATHENGE NGOTHO
FOR CHIEF EXECUTIVE OFFICER

