

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

CONTENTS	PAGES
Trustees and professional advisers	2
Report of the Trustees	3 - 8
Statement of Trustees' responsibilities	9
Independent auditors' report	10 - 12
Financial statements:	
Statement of changes in net assets available for benefits	13
Statement of net assets available for benefits	14
Statement of cash flows	15
Notes to the financial statements	16 - 29

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

TRUSTEES AND PROFESSIONAL ADVISERS

	TRUSTEE	TERM SERVED
Trustees	John O. A Nyerere <i>Current Chairperson</i>	- (From 21.08.20)
	Hellen Nyaruai Wamuiga Karu <i>Former Chairperson</i>	- (From 1.08.19 to 21.08.20)
	John Kimanthi Maingi	- (From 1.08.19)
	Philip Jamhuri Mainga	- (From 1.08.19)
	James Kariuki Kanyeki	- (From 1.08.19)
	Victoria Mwangeli Mulwa	- (From 1.08.19 to 20.04.20)
	Jacqueline M'mboga	- (From 1.08.19)
	Wilberforce Asava Kadima	- (From 1.08.19)
	Elijah Ogoti Mokaya	- (From 1.08.19)
	Henry Wamukota Toili	- (From 1.08.19)
	Justine Oyagi Omoke	- (From 20.04.20)
Investment Manager	Co-op Trust Investment Services Limited Co-operative House, 13th Floor Haile Selassie Avenue P O Box 48231 - 00100 Nairobi	
Custodian	KCB Bank Kenya Limited Custody Services KCB Towers, 7th Floor, Upper Hill Junction of Kenya Road and Hospital Road P O Box 30644 - 00100 Nairobi	
Legal Advisors	Akide & Company Advocates Blue Violets Plaza 6th Floor, Suite 606, Kamburu Drive Haile Selassie Avenue P.O Box 34004-00100 Nairobi	
Auditors	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki Way, Muthangari P O Box 40092 - 00100 Nairobi	

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

REPORT OF THE TRUSTEES

The Trustees of Kenya Railways Staff Retirement Benefits Scheme (the "Scheme") present the report together with the audited financial statements for the year ended 30 June 2020.

ESTABLISHMENT, NATURE AND STATUS OF THE SCHEME

Kenya Railways Staff Retirement Benefits Scheme was set up as a defined benefit Scheme vide a Trust Deed signed on 3 May 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 dependents of the deceased employees. 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 benefits 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 affairs of the Scheme are monitored by Trustees, Six (6) appointed by the Sponsor, Kenya Railways Corporation and three (3) elected by 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

	2020 No.	2019 No.
Members as at start of year	8,778	8,829
Joiners	219	301
Leavers	(331)	(352)
At the end of the year	8,666	8,778

Included in the membership above are 500 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 933 (2019 – 998) deferred pensioners included in the members above. These are members currently in the employment with Kenya Railways Corporation. On retirement, 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.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

REPORT OF THE TRUSTEES (Continued)

PENSION PAYMENTS

The Trustees have undertaken various initiatives as disclosed in note 2 to the financial statements to improve the Scheme's liquidity position and settle the pension arrears.

TRUSTEES

The Trustees are responsible for the security of the Scheme's assets and as such regularly review the arrangements relating to custody, security and disposition of the assets. The Trustees hold regular meetings to discuss the affairs of the Scheme and to deal with any other discretionary matters.

The current Trustees are shown on page 2.

The statement of changes in net assets on page 13 shows an increase in the net assets of the Scheme for the period of Sh 6,648,637,000 (2019: an increase of Sh 891,042,000) and the statement of net assets on page 14 shows that the Scheme's net assets as at 30 June 2020 amounted to Sh 37,845,430,000 (2019: Sh 31,196,793,000).

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 15 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.

There was an injunction 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 The Registered Trustees of Kenya Railways Staff Retirement Benefits Scheme & 1 Other. The injunctions were lifted on 9th July 2020 Vide a court order on the basis of consent of withdrawal signed by parties to the suit. However, there was an error on the consent that captured the Land Registration Numbers in the consent form but that does not affect the order as it is a matter of amendment of the numbers in the form.

ACTUARIAL POSITION

The Scheme is required to be 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 lastly undertaken for the period ended 30 June 2017 by Kenbright Actuarial & Financial Services Limited. The next valuation was to be done for the period ended 30 June 2020 but this was not carried out. The trustees will arrange for an actuarial valuation in 2021 financial year to ensure compliance with the Retirement Benefits Authority (RBA) regulations.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

REPORT OF THE TRUSTEES (Continued)

ACTUARIAL POSITION (Continued)

	Sh'000
The results of the last valuation are summarised below:	
Value placed on Scheme assets	24,300,894
Value of liabilities:	
Deferred members	1,296,267
Future benefits to current pensioners:	
Pensioners on payroll	6,864,083
Beneficiaries (dependants in receipt of pension)	178,594
Suspended pensioners	336,514
	8,675,458
*Reserves	1,544,970
Total liabilities and reserves	10,220,428
Actuarial surplus	14,080,466
Funding level (ratio of Scheme assets to accrued past service liabilities)	238%

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

STATUTORY ASPECTS

- (i) RBA allows a maximum investment of 30% of the Scheme's funds in immovable property. The Scheme currently holds about 99.7% of its total assets as immovable property. The Scheme is therefore not in compliance with the stipulated regulation. The Trustees are 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.
- (ii) 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 2017 and was due for a valuation by the end of 30 June 2020. The trustees will arrange for an actuarial valuation in 2021 financial year to ensure compliance with the RBA regulations.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

REPORT OF THE TRUSTEES (Continued)

FUND GOVERNANCE

1. In the year ended 30 June 2020, the following trustees served in the board of Kenya Railways Staff Retirement Pension Scheme.

Name of Trustee	Age	Category (Member-elected/Sponsor nominated/ Professional)	No. of meetings attended	Certified (Yes/No)	Highest qualification	Membership of other boards (Provide organisation's name)
John O.A Nyerere		Nominated	2	No		KRC KCB & NBK
John Kimanthi Maingi	58	Nominated	10	No	Bachelor's Degree	KRC KENYA TRYES DISTRIBUTORS KINGS CARGO AGENCY
Hellen Wamuga Karu	52	Nominated	11	No	Bachelor's Degree	N/A
Philip Mainga	53	Nominated	2	No	Bachelor's Degree	N/A
Victoria Mulwa	44	Nominate	5	No	Master Degree	N/A
Asava Kadima	47	Nominated	12	Yes	Masters Degree	N/A
Justine Oyagi Omoke	46	Nominated	4	No	PHD	N/A
Jacqueline M'mboga	44	Nominated	10	Yes	Bachelor's Degree	N/A
Henry Wamukota Toili	64	Elected	12	No	A-Level	N/A
James Kaiuki Kanyeki	48	Elected	11	No	Diploma	N/A
Elijah ogoti Mokaya	51	Elected	12	No	Certificate	N/A

2. The board of trustees held 13 meetings during the year to discuss matters for the year ended 30 June 2020.

The meetings were held on the dates set out hereunder:

- | | | |
|---------------|---------------|---------------|
| a) 25/10/2019 | f) 20/04/2020 | k) 21/08/2020 |
| b) 14/11/2019 | g) 18/05/2020 | l) 10/09/2020 |
| c) 31/01/2020 | h) 05/06/2020 | m) 31/08/2020 |
| d) 03/02/2020 | i) 17/06/2020 | |
| e) 21/02/2020 | j) 04/08/2020 | |

3. The composition of the board of trustees is as hereunder:

- a) Gender balance: Female 1 Male 8
- b) Skills mix: No of trustees with financial skills 2
- c) Age mix: Number of trustees who are younger than 35 years N/A

Number of trustees who are older than 35 years

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

REPORT OF THE TRUSTEES (Continued)

4. Committees of the board

Committee name	No. of meetings held	Any external Allowances paid advisors, invitees to (Kshs.) meetings (Yes/No) (if yes, mention the purpose)	Allowances paid advisors, invitees to (Kshs.)
Finance & Investment	10	N/A	N/A
Audit & Risk	5	N/A	N/A
Admin and Communication	6	N/A	N/A

5. Fiduciary responsibility statement

The board of trustees is the governing body of the **Kenya Railways Staff Retirement Pension Scheme** and is responsible for the corporate governance of the scheme.

The trustees are responsible for ensuring that the administration of the scheme is conducted in the best interests of the scheme's members and the sponsor. To achieve this, the trustees embraced their fiduciary responsibility by:

- Acting honestly and did not improperly use inside information or abuse their position;
- Exercising the highest degree of care and diligence in the performance of their duties that a reasonable person in a like position would exercise in the circumstances; and
- Performing their duties with the requisite degree of skill.

The scheme has complied with the laws, regulations and guidelines that govern retirement benefits schemes and the scheme's business operations.

The trustees have ensured that the fund manager has carried out all scheme investments and that all scheme assets and funds are held by the custodian.

The board charter for the scheme has been developed.

6. Responsible corporate citizenship

The scheme has participated in socially responsible investments and operations and has not been involved in any activity that may undermine the well-being of the sponsor, members or the community in which it operates.

7. Key outcomes

The board of trustees seeks to achieve the following:

- Building trust with the members and sponsor of the scheme so that they are satisfied with the administration of the scheme;
- Supporting innovation and developing solutions that meet the members' and sponsor's needs; and
- Ensuring that the scheme's administrative processes remain transparent and accessible to members and the sponsor.

The board of trustees will measure the progress towards these outcomes through:

- Triennial members' survey score. The latest score was N/A,
- Regular reports and feedback from the sponsor. No. of reports N/A

8. Annual general meeting

The board of trustees a Special AGM on 23rd July 2019 to conduct elections whereby 3 members were elected.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

REPORT OF THE TRUSTEES (Continued)

9. Members' sensitization

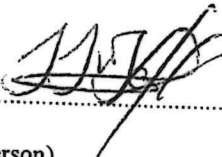
The board conducted the following sensitization activities (Name of sensitization forum)	Date held	No. of members who attended	Remarks
Retirement planning meeting	N/A	N/A	N/A
Members' day	N/A	N/A	N/A

10. Trustees remuneration policy

During the year under review, the trustees were paid a gross sum of Kshs. 1,706,468. The payments complied with the trustees remuneration policy which was approved by RBA since there was no AGM that was held to approve their remuneration.

11. Board of trustees evaluation

The Board of trustees did not undertake any board evaluation in the year under review.

Signed:  Dated: 30 September 2020

(Chairperson)

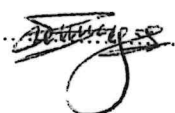
AUDITORS

Deloitte & Touche served as the Scheme's auditors for the year ended 30 June 2020.

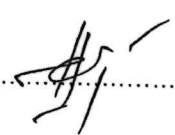
FURTHER INFORMATION

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 the Scheme's offices.

BY ORDER OF THE TRUSTEES

Signature 

Name of Trustee Eljal Moraya

Signature 

Name of Trustee HENRY W. TOIL

30 September 2020

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Kenyan Retirement Benefits Act requires the Trustees 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 Trustees to ensure that the Scheme keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Scheme. The Trustees are also responsible for safeguarding the assets of the Scheme, and for taking reasonable steps for the prevention and detection of fraud and error.

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 in the manner required by the Kenyan Retirement Benefits Act 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. They also accept responsibility for:

- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and
- (iii) making accounting estimates and judgements that are reasonable in the circumstances.

The Trustees certify 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 aspect. The Trustees are 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 Trustees acknowledge that 99.7% of the Scheme's investments are held in immovable properties and have undertaken various initiatives to improve the Scheme's liquidity.

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

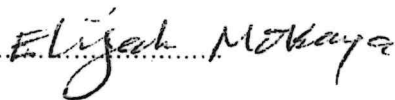
Signature



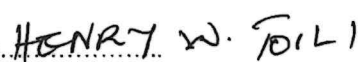
Signature



Name of Trustee



Name of Trustee



30 September 2020

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

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Kenya Railways Staff Retirement Benefits Scheme (the "Scheme"), set out on pages 13 to 29, which comprise the statement of net assets available for benefits as at 30 June 2020, 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.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph below, the financial statements give a true and fair view of the financial transactions of the Scheme during the year ended 30 June 2020 and of the disposition of its assets and liabilities as at that date, in accordance with International Financial Reporting Standards and the requirements of the Kenyan Retirement Benefits Act.

Basis for Qualified Opinion

Non-compliance with International Accounting Standard "IAS 40", Investment Property, and International Financial Reporting Standard "IFRS 13", Fair Value Measurement

As disclosed in note 10, to the financial statements, most of the Scheme's investment properties are carried at forced sale value. Moreover, a full valuation of most of the Scheme's investment properties has not been carried out at the end of the reporting period. This is not consistent with the requirements of IAS 40 and IFRS 13 which requires that the fair value of the investment property reflect market conditions at the end of the reporting period and that fair value of an investment property be determined based on highest and best use of the property respectively. Consequently, as a result of the above, we were unable to determine whether adjustments to the carrying amount of investment property of Sh 40,242,995,000 in note 10 to the financial statements were necessary.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Scheme in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphases of matter

We 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 2020, 99.7% of the Scheme's investments were in immovable assets.
- b) Non-compliance with the Retirement Benefits Act – the Act 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 2017 and was due for a valuation by the end of 30 June 2020.

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

Report on the Audit of the Financial Statements (Continued)

Emphases of matter (Continued)

- c) Note 2 to the financial statements which shows 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 valued at Sh 21,777,902,000 as disclosed in note 10. These conditions indicate a material uncertainty on the Scheme's ability to meet its obligations as they fall due.
- d) Note 10 to the financial statements which shows disclosures on investment properties valued at Sh 8,299,323,000 whose titles are not in the Scheme's name and there are injunctive orders against disposal of the Scheme's properties valued at Sh 21,777,902,000 as per court case reference HCCC No 294 of 2012, Erdemann Property 1047 Limited vs Kenya Railways Staff Retirement Benefits Scheme & 1 Other.

Our opinion is not modified in respect of these matters.

Other Information

The Trustees are responsible for the other information, which comprises the Report of the Trustees as required by the Retirement Benefits Act. The other information does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of Trustees for the Financial Statements

The Trustees are 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 Trustees determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so. The Trustees are responsible for overseeing the Scheme's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees.
- Conclude on the appropriateness of the Trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Certified Public Accountants (Kenya)

Nairobi, Kenya

30 September 2020

CPA David Waweru, Practising certificate No. 2204

Signing partner responsible for the independent audit

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 Sh'000	2019 Sh'000
DEALINGS WITH MEMBERS			
Pension payment	4	(886,739)	(909,089)
RETURN ON INVESTMENT PROPERTY			
Rental income		565,027	566,399
Property management expenses	5	(179,511)	(82,987)
Gain on revaluation of investment property	10	7,761,570	-
Gain on disposal of investment property		118,480	1,545,631
NET RETURN ON INVESTMENT PROPERTY			
		8,265,566	2,029,043
LOSS ON OTHER INVESTMENTS			
Investment management expenses	6	(70)	(63)
OTHER INCOME			
	7	2,436	51,489
Administrative expenses	8	(731,816)	(250,737)
Finance costs	9	(740)	(29,601)
NET INCREASE IN NET ASSETS FOR THE YEAR			
	16	6,648,637	891,042
NET ASSETS AVAILABLE FOR BENEFITS AT THE BEGINNING OF THE YEAR			
		31,196,793	30,305,751
NET ASSETS AVAILABLE FOR BENEFITS AT THE END OF THE YEAR			
		37,845,430	31,196,793

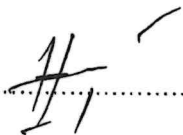
KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AS AT 30 JUNE 2020

	Note	2020 Sh'000	2019 Sh'000
Assets			
Investment property	10	40,242,995	32,575,025
Equipment	11	1,076	1,064
Receivables and prepayments	13	125,264	673,034
Bank balance		14,338	15,119
Total assets		<u>40,383,673</u>	<u>33,264,242</u>
Liabilities			
Payables	14	2,312,614	1,842,560
Bank borrowings	15	225,629	224,889
Total liabilities		<u>2,538,243</u>	<u>2,067,449</u>
NET ASSETS AVAILABLE FOR BENEFITS		<u><u>37,845,430</u></u>	<u><u>31,196,793</u></u>
REPRESENTED BY:			
FUND BALANCE	16	<u><u>37,845,430</u></u>	<u><u>31,196,793</u></u>

The financial statements on pages 13 to 29 were approved by the trustees on 30 September 2020 and were signed by:

Signature 

Signature 

Name of Trustee Elijah Mwakaya

Name of Trustee HENRY W. TOILI

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 Sh'000	2019 Sh'000
Cash flows from operating activities			
Other income	7	2,436	51,489
Benefits paid		(583,406)	(705,075)
Other expenses paid		(744,218)	(1,864,147)
Net cash used in operating activities		(1,325,188)	(2,517,733)
Cash flows from investing activities			
Rental income and deposits received on property		1,112,797	(78,673)
Proceeds from sale of investment property		212,080	2,518,600
Purchase of equipment	11	(470)	(627)
Net cash generated from investing activities		1,324,408	2,439,301
Cash flows from financing activities			
Interest expense	15	-	29,601
Loan valuation fees	15	-	-
Loan recovery fees	15	-	35,553
Repayment of borrowings	15	-	(10,035)
Net cash generated from financing activities		-	55,119
Net decrease in cash and cash equivalents		(780)	(23,313)
Cash and cash equivalent at beginning of the year		15,119	38,432
Cash and cash equivalent at end of the year		14,338	15,119
Represented by:			
Bank balance		14,338	15,119

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1 ACCOUNTING POLICIES

Statement of compliance

Except for the departure from certain provisions of the International Accounting Standards 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 (IFRS) and interpretations (IFRIC)

- i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2020*

IFRS 16, Leases

In the current year, the scheme has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The scheme is not a lessee in any significant long-term lease arrangements or leases of high value assets therefore there is no impact on the company's financial statements on adoption of this standard.

Several other new and revised standards and interpretations became effective during the year. The Trustees have evaluated the impact of the new standards and interpretations and none of them had a significant impact on the scheme's financial statements.

- ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020*

At the date of authorisation of these financial statements, various revised standards and interpretations were in issue but not yet effective. The Trustees anticipate that the adoption of these standards, interpretations and amendments when effective, will have no material impact on the financial statements of the scheme.

- iii) *Early adoption of standards*

The Scheme did not early adopt any new or amended standards in 2020.

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 are recognised in the period they fall due.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Rental income

Rental income is recognized on a straight-line basis over the term of the relevant lease.

Taxation

The Scheme is a registered pension fund and is exempt from income tax under the Income Tax (Retirement Benefits) rules 1994.

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: Cash and cash equivalents; and receivables. Management determines the appropriate classification of its investments at initial recognition.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents include cash in hand and deposits held at call with banks.

Trade receivables

If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established using an ECL model in line with the requirements of IFRS 9 as outlined in the next section below. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is charged to profit or loss.

(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

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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 statement of changes in net assets 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.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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 or at forced sale value. 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 following expected useful lives:

Computer equipment	3 years
Fixtures and fittings	8 years

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.

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.

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 2020, 99.7% (2019: 97.9%) of the Scheme's investments were held in immovable properties. The Scheme therefore does not always have sufficient liquid funds to meet its immediate pension obligations leading to pension arrears.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 LIQUIDITY OF THE SCHEME (Continued)

In addition, as disclosed in note 10, currently, there are injunctive orders against disposal of the Scheme's properties valued at Sh 21,777,902,000 (2019: 21,597,932,000) as per Court Case Reference Nairobi – High Court Civil Case No. 294 of 2012, Erdemann Property 1047 Limited vs Kenya Railways Staff Retirement Benefits Scheme & 1 Other.

The trustees have 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 both the prime properties and the 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, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

There were no significant judgments and estimates made in the financial statements.

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.

5 PROPERTY MANAGEMENT EXPENSES

	2020 Sh'000	2019 Sh'000
Land rates – current year accrual	22,629	9,112
Legal charges	47,452	54,216
Casual wages	9,629	12,041
Valuation fees	28,676	2,278
Estate water bills	359	3,311
Other expenses	69,371	1,387
Repair and maintenance	1,279	501
Estate demolition costs	116	141
	<u>179,511</u>	<u>82,987</u>

6 INVESTMENT MANAGEMENT EXPENSES

Custodial fees	<u>70</u>	<u>63</u>
----------------	-----------	-----------

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020 Sh'000	2019 Sh'000
7 OTHER INCOME		
Miscellaneous income	2,396	1,478
Interest income from cash and call deposits	40	11
Sponsor grant from Kenya Railways Corporation	-	50,000
	<u>2,436</u>	<u>51,489</u>
	=====	=====
8 ADMINISTRATIVE EXPENSES		
Fund administration cost	54,205	45,279
Staff costs	45,529	45,380
Increase in provision for bad and doubtful debt	586,213	117,183
Pension bank transfer commission	8,629	8,684
Retirement Benefit Authority Levy - current year	-	5,000
- penalties	34,250	26,250
Audit fees	2,474	2,474
Depreciation (note 11)	457	431
Miscellaneous	59	56
	<u>731,816</u>	<u>250,737</u>
	=====	=====
9 FINANCE COST		
Interest on borrowings	740	29,601
	<u>740</u>	<u>29,601</u>
	=====	=====

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020 Sh'000	2019 Sh'000
10 INVESTMENT PROPERTY		
At forced sale value		
L.R 209/11953 - Nairobi Railway Club, Nairobi **	13,000,000	13,000,000
L.R 209/6829 - Makongeni Estate, Nairobi **	5,865,901	5,865,901
L.R 209/6502 (Part) - Muthurwa Estate, Nairobi **	2,072,000	2,072,000
L.R. No. 209/19382 - Ngara Railway Estate – Nairobi	7,580,000	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 ***	2,070,000	2,070,000
L.R 209/6507 - Matumbato, Nairobi **	840,001	660,031
L.R 209/378/5 - Hurlingham Nairobi*	135,000	170,000
L.R 1/420 - Kindaruma Road, Nairobi*	-	93,600
L.R 1/437 - Kindaruma Road, Nairobi	64,000	64,000
L.R 209/12401 - Goods Shed Area, Nairobi*	4,215,000	-
	39,791,225	30,123,255
At open market value		
L.R 209/12401 - Goods Shed Area, Nairobi*	-	2,000,000
L.R XXVI/941 - Chambilo, Mombasa	451,770	451,770
	451,770	2,451,770
	40,242,995	32,575,025
Movement in investment properties		
At the beginning of the year	32,575,025	33,547,994
Forced sale value gains	7,761,570	-
Disposal	(93,600)	(972,969)
At the end of the year	40,242,995	32,575,025

All investment properties were revalued by Knight Frank Limited registered valuers on 30 June 2011. Since then, the following properties have been revalued as indicated below:

Revalued and carried at forced sale value:

- L.R. No. 209/19382 - Ngara Railway Estate – Nairobi by Gimco Limited in 2020
- L.R 209/6507 - Matumbato, Nairobi by Dominion Valuers Limited in 2020
- L.R 209/378/5 - Hurlingham Nairobi by Accurate Valuers Limited in 2020
- L.R 209/12401 - Goods Shed Area, Nairobi by Gimco Limited in 2020
- L.R. No. 209/6505 Matumbato, Upperrhill by Gimco Limited in 2015;
- L.R No. 209/11953 Nairobi Railway Club by Rubyland Limited in 2015;
- L.R 209/378/5 Hurlingham by Rubyland Limited in 2016;
- L.R 209/6506 - Matumbato, Nairobi by Prestige Management Valuers Limited in 2019;
- L.R 209/6507 - Matumbato, Nairobi, by Rubyland Limited in 2018 and;

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 INVESTMENT PROPERTY (continued)

Revalued and carried at open market value

- L.R. No. 209/12401 Goods Shed Area, Nairobi by Gimco Limited in 2015;
- L.R. No. XXVI/237Chambilo, Mombasa by Gimco Limited in 2015;

* Included in investment properties as at 30 June 2020 are properties valued at Sh 8,299,323,000 (2019: Sh 6,212,923,000) 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 trustees are 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 21,777,902,000 (2019: Sh 21,597,932,000) as per court case reference HCCC No 294 of 2012, Erdemann Property 1047 Limited vs Kenya Railways Staff Retirement Benefits Scheme & 1 Other.

***The loan from KCB Bank Kenya Limited is secured by legal charge over L.R. No. 209/6506 Matumbato, Nairobi.

The following Investment properties were sold in the year under review; L.R 1/422-Ngong Road, L.R 209/6507 (Part)-Matumbato marked portion J and F (measuring 0.7412 and 0.5002 acres respectively) as per the proposed sub-division and L.R 209/6502 (Part)-Muthurwa estate measuring 5.4 acres was swapped against accumulated land rates to a tune of Ksh 1,572,492,000 as per the fully executed agreement.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 EQUIPMENT

	Computers Sh'000	Office equipment and furniture Sh'000	Total Sh'000
Cost			
At 1 July 2018	6,490	4,755	11,245
Additions in the year	277	350	627
At 30 June 2019	6,767	5,105	11,872
As at 1 July 2019	6,767	5,105	11,872
Additions in the year	-	470	470
At 30 June 2020	6,767	5,575	12,342
Depreciation			
As at 1 July 2018	6,078	4,299	10,377
Charge for the year	278	153	431
At 30 June 2019	6,356	4,452	10,808
As at 1 July 2019	6,356	4,452	10,808
Charge for the year	280	178	458
At 30 June 2020	6,636	4,630	11,266
Net book value			
At 30 June 2020	131	945	1,076
At 30 June 2019	411	653	1,064

12 COMPUTER SOFTWARE

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

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020 Sh'000	2019 Sh'000
13 RECEIVABLES AND PREPAYMENTS		
Trade receivables		
Receivables arising from disposal of property	940,351	896,505
Rent receivable	211,508	216,900
Provision for doubtful receivables	(1,030,168)	(443,955)
	<u>121,691</u>	<u>669,450</u>
Other receivables		
Other receivables	3,573	3,584
	<u>125,264</u>	<u>673,034</u>

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

- The former Ministry of Local Government of Sh 105,000,000 which is still outstanding due the restructuring of ministries under the 2010 constitution making it difficult to establish which ministry should settle the debt. The amount has been fully provided for on the basis that it might take long to recover as a specific budgetary allocation is required in the new ministry.
- Kenya Power and Lighting Limited to whom Makongeni L.R. No. 209/6829-part and LR No. 209/65/02 were sold to in 2008 and 2014 respectively. 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. The outstanding balance amounts to Sh 26,000,000.
- Mahadi Investment Limited to whom Valley Road - Kindaruma Road LR no 209/1064 was sold to in 2014. The debtor continues settling the balance according to the payment plan. The outstanding balance amounts to Sh 79,902,200.
- Primix Enterprises limited Sh. 353,860,000 relating to part sale of L.R 209/6507 Matumbato, Nairobi portion J and F as per the proposed sub-division
- Receivable from Kenya Urban Road Authority (KURA) Sh. 227,508,348 being value of the land over and above the swapped accumulated land rates
- Receivable from South River Homes Limited Sh. 148,080,000 to whom Kindaruma Road L.R. 1/420 was sold to in 2020.

14 PAYABLES		
	2020 Sh'000	2019 Sh'000
Accruals and other payables	984,625	629,998
Benefits payable	1,252,050	949,117
Penalties on RBA levy payable	-	147,250
Deposits	66,586	61,342
Retirement Benefit Authority (RBA) levy payable	-	50,000
Leave provision	9,353	4,853
	<u>2,312,614</u>	<u>1,842,560</u>

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 PAYABLES (Continued)

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 1047 Limited vs Kenya Railways Staff Retirement Benefits Scheme & 1.

15 BANK BORROWINGS (Secured)

	2020 Sh'000	2019 Sh'000
Analysis of changes in bank borrowings:		
At 1 July	224,889	169,770
Loan repayment	-	(10,035)
Loan recovery fees	-	35,553
Accrued interest	740	29,601
At 30 June	225,629	224,889
Maturity analysis		
Repayable within 12 months	225,629	224,889

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

The effective interest rate on loan on 30 June 2020 was 0 % (2019: 23.5%) because of a waiver obtained from the bank. This includes a nominal rate of 13.5% p.a. and a default rate of 10% p.a.

16 FUND BALANCE

	2020 Sh'000	2019 Sh'000
Opening fund balance	31,196,793	30,305,751
Net increase in net assets for the year	6,648,637	891,042
Fund balance at the end of the year	37,845,430	31,196,793

17 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.

	2020 Sh'000	2019 Sh'000
Key management remuneration:		
Salaries and other benefits	-	15,466
Trustees' allowances	1,706	-

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 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. 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 trustees together with the investment manager under policies approved by the trustees. 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 trustees 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 Kenyan 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 2020, 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 2,012,150,000 (2019 – Sh 1,628,751,000).

(iii) Interest rate risk

The Scheme does not hold any interest bearing assets, therefore it is not exposed to interest rate risk.

B Credit risk

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

Credit risk arises from bank balances and receivables. As part of the credit risk management system, the Investment Manager and the Trustees monitor and review information on significant investment.

	Internal/ external rating	Gross carrying amount Sh'000	Loss allowance Sh'000	Net amount Sh'000
At 30 June 2020				
Receivables	Various	1,155,432	(1,030,168)	125,264
Bank balances	Various	14,338	-	14,338
		<u>1,169,770</u>	<u>(1,030,168)</u>	<u>139,602</u>
		=====	=====	=====

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (continued)

B Credit risk (continued)

	Internal/ external rating	Gross carrying amount Sh'000	Loss allowance Sh'000	Net amount Sh'000
At 30 June 2019				
Receivables	Various	1,113,405	(443,955)	669,450
Bank balances	Various	15,119	-	15,119
		<u>1,128,524</u>	<u>(443,955)</u>	<u>684,569</u>

Bank balances are not restricted and include deposits held with banks that have high credit ratings.

The loss allowance represents the debt that is provided for in line with the expected credit loss model.

C Liquidity risk

Liquidity risk is the risk that the Scheme 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 but do not earn interest. About 97.78% of the Scheme's portfolio is made up investment property which is not readily liquid. The trustees 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.

The table below shows the Scheme's remaining contractual maturity of its financial liabilities. The table has been drawn up based on the undiscounted cash flows.

	Less than 1 month Shs'000	Between 1 – 3 months Shs'000	Over 3 months Shs'000	Total Shs'000
At 30 June 2020				
Benefits payable	95,751	277,728	878,571	1,252,050
Creditors and other payables	-	35,168	1,025,396	1,060,564
Bank borrowing	-	-	225,629	225,629
	<u>95,751</u>	<u>312,896</u>	<u>2,129,596</u>	<u>2,538,243</u>
At 30 June 2019				
Benefits payable	72,584	210,532	666,001	949,117
Creditors and other payables	-	29,626	863,817	893,443
Bank overdraft	-	-	224,889	224,889
	<u>72,584</u>	<u>240,158</u>	<u>1,754,707</u>	<u>2,067,449</u>

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2020 Sh'000	2019 Sh'000
19	CAPITAL COMMITMENTS		
	Authorised but not contracted for	21,690	-
		=====	=====
20	OPERATING LEASE RECEIVABLE		
	Amounts receivable in respect of obligations under operating leases:		
	Within one year	91,158	427,040
	Over one year	-	91,158
		=====	=====
		91,158	518,198
		=====	=====
21	CONTINGENT LIABILITIES		
	Legal suits	357,374	26,000,000
		=====	=====

Currently, there are injunctive orders against four (4) properties for disposal namely; Nairobi Railway Club, Makongeni, Mowbray and Muthurwa as per HCCC No 294 of 2012, Erdemann Property 1047 Limited vs The Registered Trustees of Kenya Railways Staff Retirement Benefits Scheme & 1 Other. The Plaintiff seeks both injunctive orders and award of damages for loss of business and breach of contract in the sum of Shs 26 Billion. However, the Scheme has appealed for the release of the four (4) properties.

22 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.

Revaluations have been carried out as disclosed in Note 10.

As disclosed in Note 10, investment property of Sh 39,791,225,000 have been revalued at forced sale value. 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.

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.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 FAIR VALUE OF NON-FINANCIAL ASSETS (Continued)

The following table shows an analysis of investment property recorded 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 2020				
Total investment property	- =====	- =====	40,242,995 =====	40,242,995 =====
At 30 June 2019				
Total investment property	- =====	- =====	32,575,025 =====	32,575,025 =====

24 REGISTRATION

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

25 SUBSEQUENT EVENTS

The extent to which COVID-19 pandemic impacts future results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus and the actions to contain the spread or treat its impact, among others. Future results may therefore be adversely affected by the economic impact of the pandemic as it unfolds.

The COVID-19 pandemic created panic both in the global and domestic financial markets. It also affected the real estate/property market investors.

The pandemic did not have a significant impact on the other investments i.e. bank balances due to its nature.

Based on the assessment done by the trustees, the impact of COVID-19 on the investments of the scheme is not expected to be significant because rental income is being collected at the same proportions as prior year.

26 CURRENCY

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