



KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

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KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME INFORMATION FOR THE YEAR ENDED 30 JUNE 2022

TRUSTEES AND PROFESSIONAL ADVISORS

The following Trustees held office at the close of the year:

TRUSTEES

TERM SERVED

- | | |
|---|------------------------------|
| 1. John O. A Nyerere (<i>Chairperson</i>) | From 21.08.2020 |
| 2. Martin Mogwanja (<i>Interim Chairperson</i>) | From 3.06.2021 |
| 3. Philip Jamhuri Mainga | From 1.08.2019 |
| 4. James Kariuki Kanyeki | From 1.08.2019 |
| 5. Jacqueline M'mboga | From 1.08.2019 |
| 6. Wilberforce Asava Kadima | From 1.08.2019 |
| 7. Elijah Ogoti Mokaya | From 1.08.2019 |
| 8. Henry Wamukota Toili | From 1.08.2019 |
| 9. Tom Omariba | From 3.06.2021 to 28.02.2022 |
| 10. Denis Banda Aroka | From 1.08.2022 |

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
Nairobi

LEGAL ADVISORS

Akide & Company Advocates
Blue Violets Plaza, 6th Floor, Suite 606
Kamburu Drive, Haile Selassie Avenue
P.O. Box 34004-00100
Nairobi

Chege Kibathi & Co. Advocates
Hughes Building, 3rd Floor
P.O. Box 21686-00100
Kenyatta Avenue Wing
Nairobi

INDEPENDENT AUDITOR

Ronalds LLP
Certified Public Accountants (K)
136 Manyani East Road, Off-Waiyaki Way
P.O Box 41331 – 00100
Nairobi, Kenya

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME REPORT OF THE TRUSTEES FOR THE YEAR ENDED 30 JUNE 2022

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 2022.

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 3rd May 2006.

PRINCIPAL ACTIVITIES

The main purpose of the Scheme is the provision of pension and other retirement benefits for employees of the sponsor up to 31st October, 2006 upon their retirement from the sponsor's services and relief for the dependents of the deceased members. 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 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 Kenyan Gazette Notice No.169 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	2022 No.	2021 No.
Pensioners as at 1 July	6,967	7,085
Beneficiaries as at 1 July	699	695
Joiners	224	191
Leavers	(406)	(380)
Total pensioners as at 30 June	7,484	7,591
Deferred members as at 1 July	779	831
Suspended members as at 1 July	449	484
Joiners	54	75
Total deferred/ suspended as at 30 June	1,282	1,390
At the end of the year	<u>8,766</u>	<u>8,981</u>

Suspended members are members who have not returned their pension census forms. The last member census was conducted by the management in March 2017. The suspended members' benefits continue to accrue and they will be reinstated and paid their accrued benefits once they return their census forms.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME REPORT OF THE TRUSTEES (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

Deferred members are members currently in employment with Kenya Railways Corporation. On retirement, the members are eligible to pension benefits from Kenya Railways Staff Retirement Benefit Scheme.

There were 278 joiners and 406 leavers during the year. Joiners relate to employees who used to work for Kenya Railways Corporation up to 2006 and their dependants had not been included in the list of pensioners since they had not provided required documents to the Scheme to be included as members. The Joiners include 47 deferred members, 224 beneficiaries and 7 suspended members. It is expected that more members will join the Scheme in future when suspended members return pension census forms.

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 safeguarding of the Scheme's assets and such as regularly review the arrangements relating to custody, security and disposal 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 1.

The statement of changes in net assets on page 15 shows an increase in the net assets of the Scheme for the period of Kshs 2,920,099,747 and the statement of net assets on page 16 shows that the Scheme's assets as at 30 June 2022 was Kshs 34,953,381,864.

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 have been pledged to secure borrowings by the Scheme.

The scheme is self-administered.

**KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME REPORT OF THE TRUSTEES
(CONT'D) FOR THE YEAR ENDED 30 JUNE 2022**

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 2020 by Kenbright Actuarial & Financial Services Limited

The results of the last valuation are summarized below: Kshs '000

Value placed on Scheme assets	<u>32,300,000</u>
Value of liabilities:	
Deferred members	2,449,000
Future benefits to current pensioners:	
Pensioners on payroll	11,974,000
Beneficiaries (dependants in receipt of pension)	169,000
Suspended pensioners	535,000
	<u>15,126,000</u>
Reserves	4,309,000
Total liabilities and reserves	<u>19,436,000</u>
Actuarial surplus	<u>12,899,000</u>

Funding level (ratio of Scheme assets to accrued past service liabilities) 166%

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

STATUTORY ASPECTS

Retirement Benefits Authority (RBA) allows a maximum investment of 30% of the Scheme's funds in immovable property. The Scheme currently holds 82.54% of its total assets as immovable property. The Trustees are taking necessary steps to ensure that the management to the fund and assets comply with the Retirement Benefits Act 1997 and the Retirement Benefits Regulations 2000.

**KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME REPORT OF THE TRUSTEES
(CONT'D) FOR THE YEAR ENDED 30 JUNE 2022**

FUND GOVERNANCE

1. In the year ended 30 June 2022, 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
John Nyerere	60yrs	Sponsor nominee	0	No	HHH (Fulbright) Fellow, MBA, bachelor of Arts (Hons) Economics	N/A
Philip Mainga	55yrs	Sponsor nominee	0	No	Masters in Economics Masters in Project Management	N/A
Martin Mogwanja	67yrs	Sponsor nominee	20	Yes	Masters in Chemical Engineering & Development studies	N/A
Asava Kadima	49yrs	Sponsor nominee	12	Yes	Masters in HRM, CHRP-K, BED	Kenya Railways Staff Provident Fund. Care for a Child Heart.
Jacqueline Mmboga	46yrs	Sponsor nominee	18	Yes	CPA(K), BCOM, accounting	Kenya Railways Staff Provident Fund.
Elijah Mokaya	53yrs	Elected	26	Yes	Certificate in basic occupational safety & health	N/A
James Kanyeki	50yrs	Elected	28	Yes	National Diploma in Computer studies	N/A
Henry Toili	66yrs	Elected	29	Yes	A level education	N/A

**KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME REPORT OF THE TRUSTEES
(CONT'D) FOR THE YEAR ENDED 30 JUNE 2022**

FUND GOVERNANCE

2. The Board of Trustees held 16 meetings during the year ended 30 June 2022. (Full Board Meetings)

Date Name	29/9/21	8/3/22	9/3/22	11/3/22	14/3/22	21/3/22	13/4/22	21/04/22	8/6/22	9/6/22	15/6/22	16/6/22	17/6/22	20/6/22	21/6/22	27/06/22
Asava K	x	x	x	x	x	x	x	√	√	√	x	√	x	√	√	√
J M'mboga	√	√	√	x	x	x	x	√	√	x	x	√	√	√	√	√
Henry T	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
James K	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Elijah M	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
John N	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Philip M	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Martin M	√	√	√	√	x	x	√	√	√	√	√	√	x	√	√	√

3. The composition of the Board of Trustees is as below:

- a) Gender balance: Female 1 Male 8
- b) Skills mix: No of trustees with financial skills 3
- c) Age mix: No of trustees who are younger than 35 years: 0

4. Committees of the Board

Committee meetings	No. of meetings held	Any external advisors, invitees to meetings (Yes/No) (If yes, mention the purpose)	Gross Allowance s paid (Kshs.)
Governance, HR & Compensation	4 meetings	No	140,000
Project Implementation	4 meetings	No	160,000
Strategy, Finance & Investment	3 meetings	No	90,000
Full BOT	16 meetings	No	780,000
Risk & Audit	1 meeting	No	50,000
Adhoc/Other meetings	4 meetings	No	110,000
Total sum			1,330,000

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME REPORT OF THE TRUSTEES (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

FUND GOVERNANCE

5. Fiduciary responsibility statement

The Board of Trustees is the governing body of the Kenya Railways Staff Retirement Benefits 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:

- a. Acting honestly and did not improperly use insider information or abuse their position;
- b. 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
- c. Performing their duties with the requisite degree of skill in ensuring that:
 - i) The Scheme has complied with the laws, regulations and guidelines that govern retirement benefits schemes and the Scheme's business operations.
 - ii) 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.
 - iii) The board charter for the scheme has been developed.

6. Responsible corporate citizenship

The Scheme has not participated in socially irresponsible investments and has not been involved in any activity that may undermine the wellbeing of the sponsor, members or the community in which it operates.

7. Key outcomes

The board of Trustees aims to achieve the following:

- a) Building trust with the members and sponsor of the Scheme so that they are satisfied with the administration of the scheme.
- b) Supporting innovation and developing solutions that meet the members' and sponsor's reasonable expectations; and
- c) 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:

- a) Triennial members' survey score. The latest score was **N/A**,
- b) Regular reports and feedback to the sponsor. No. of reports **four**

8. Annual general meeting

There was an Annual General Meeting held on 19th July 2022 during the year which covered a discussion of three financial years.

9. Members sensitization

The board conducted member sensitization activities from 27th June to 10th July 2022.

**KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME REPORT OF THE TRUSTEES
(CONT'D) FOR THE YEAR ENDED 30 JUNE 2022**

FUND GOVERNANCE

10. Trustees remuneration policy

During the year under review, the Trustees were paid a gross sum of Kshs 1,330,000. The payments complied with the trustee's remuneration policy, which was approved by members during 2011 AGM and ratified by the members in July 2022 during the AGM.

11. Board of Trustees evaluation

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

Signed:

(Chairperson)

Dated:

29th September 2022

AUDITORS

The Auditors Messrs Ronalds LLP, Certified Public Accountants (K), have indicated their willingness to continue in office in accordance to Section 29(1) of the Retirement Benefits Act, 1997.

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: DENNIS AROKA

Signature:

Name of Trustee: JAMES KANYETU

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KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME STATEMENT OF TRUSTEES' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2022

The Kenya 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 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 judgements 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 Standards 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:

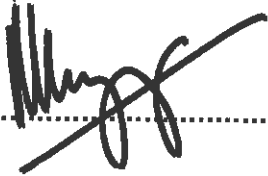
- i. Designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from misstatements, whether due to fraud or error.
- ii. Selecting suitable accounting policies and applying them consistently.
- iii. Making accounting estimates and judgements that are responsible 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.

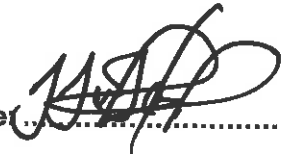
The Trustees acknowledge that 82.54% of the Scheme's investments are held in immovable properties and have undertaken various initiatives to improve the Scheme's liquidity.

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

Signature:



Signature:



Name of Trustee:

MARTIN NKWANSA

Name of Trustee:

JAMES KANYEM



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

Qualified Opinion

We have audited the financial statements of Kenya Railways Staff Retirement Benefit Scheme, which comprise the statement of net assets available for benefits as at 30 June 2022, 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, as set out on pages 15 to 30.

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 state of the scheme's financial affairs as at 30 June 2022, the results of its operations and cash flows for the year then ended in accordance with applicable International Financial Reporting Standards and requirements of the Kenyan Retirement Benefits Act.

Basis for Qualified Opinion

Non- compliance with International Accounting Standards

The statement of net assets available for benefit as at 30 June, 2022 reflects Investment property carrying amount of Kshs. 31,490,323,182 which, as disclosed in Note 11 to the financial statements, include Investment property valued at forced sale value of Kshs. 20,790,324,682. This is not consistent with the requirements of IAS 40 'Investment property' and IFRS 13 'Fair Value Measurement' which stipulates that the fair value of Investment property to reflect actual market state and circumstances as at the reporting date. A comprehensive valuation of the scheme's investment properties has not been conducted; therefore, we were unable to ascertain the level of adjustment to the carrying amount of the Investment property.

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report.

We are independent of the Scheme in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Kenya.

We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Kenya.

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



REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Emphasis of matter

We draw your attention to the following:

- Non-compliance with the Retirement Benefits Act with regards to Investment guidelines which requires a limit of 30% of scheme's investments in immovable property. As at 30 June 2022, 82.54% of the scheme's investments were held in immovable assets as disclosed in note 20. High concentration of the scheme's asset in immovable property indicates a material uncertainty on the scheme's ability to meet its obligation when they fall due.

Our opinion is not modified in respect to these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgments, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matters described in the Basis for Qualified Opinion and emphasis of matter section, the following were the key audit matters to communicate in our report.

Key Audit Matter	How the key audit matter was addressed
Revenue recognition— occurrence, completeness and measurement of recorded revenue given the variety, nature and terms of products and IFRS 15: Revenue from contracts with customers. The occurrence and accuracy of amounts recorded as revenue is an inherent industry risk due to the complexity systems arising from changes in terms of leases – including rental income without or with inconsistent terms(leases). The complexity is compounded by the significant number of revenue from exchange transactions that are accounted for on a monthly basis. We therefore considered revenue recognition to be a matter of most significance to our current year audit.	We understood and tested the design and operating effectiveness of management's controls over the recognition of revenue arising from leases. We performed analytical review procedures over significant revenue streams by identifying the drivers that resulted in changes year on year to establish detailed monthly and annual expectations. We selected and tested a sample of enterprise revenue contracts and assessed, in line with the requirements of IFRS 15: Revenue from contracts with customers, that contracts with customers were valid, that performance obligations were agreed by both parties and that revenue was appropriately recognized. We examined and assessed the accounting policies applied and disclosures in terms of the recognition of revenue for compliance with IFRS 15: Revenue from contracts with customers and industry guidance.

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (Cont'd)

IFRS 9; Financial Instruments The Scheme has receivables from disposal property amounting to Kshs 7,588,805,148, rent receivables of Kshs 296,086,830 and other receivables of Kshs 1,096,633. However, there is no IFRS model and supporting workings in place used to compute the expected credit loss and provision for the same. Therefore, there is complexity in determining the level of accuracy and reasonableness of the management estimates with regards to expected credit loss.	We relied on management representation regarding the provisions accuracy. We reviewed and assessed the reasonableness of management's estimates provided.
Bank System and Reconciliations The Scheme uses a banking system in data processing and financial reporting. However, the system does not have reconciliations modules and thus presented a complexity in assessing data reliability.	We analyzed and designed tests to confirm the accuracy of the data extracted from the system. We performed Bank analysis procedures to ascertain accuracy of the manual reconciliation reports. We also relied on management representation regarding the data accuracy.

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 the Auditor's report. The responsibility of the Auditor is to read the other information and consider whether it is materially inconsistent with the financial statements. The auditor is required to report if any material misstatement is discovered in the other information.

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

Trustees' Responsibility for the Financial Statements

The Trustees are responsible for the preparation and fair presentation of the financial statements in accordance with applicable International Financial Reporting and Kenyan Retirement Benefits Act. This responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.



REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)**Trustees' Responsibility for the Financial Statements (Cont'd)**

In preparing the financial statements, they 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 they either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 whether the financial statements are free from material misstatement.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement 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 Trustee's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



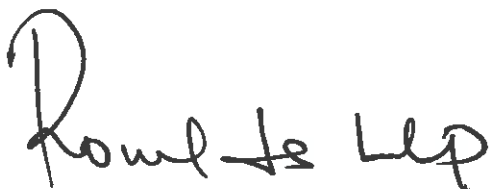
REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Report on Other Legal and Regulatory Requirements

As required by Kenyan Retirement Benefits Act, we report that the financial statements are in agreement with the books of account kept by the Scheme and that, based on our audit:

- a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- b) Other than the matters described in the basis of qualified opinion paragraph, emphasis of matter paragraph, in our opinion proper books of accounts have been kept by the Scheme, so far as appears from our examination of those books.
- c) The Scheme's statement of Net assets available for Benefits is in agreement with the books of accounts.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Ronald N. Bwosi - P/No. 1865.


Certified Public Accountant (Kenya)
Nairobi, Kenya



C.P.A Ronald N. Bwosi
Practising No. P/1865



KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 Kshs '000	2021 Kshs '000
DEALINGS WITH MEMBERS			
Pension payment	4	(1,549,037)	(873,905)
RETURN ON INVESTMENT PROPERTY			
Investment income	5	567,098	568,456
Property management expenses	6	(108,852)	(72,831)
Gain on revaluation of investment property	11	4,834,099	-
(Loss)/gain on disposal of investment property	11	-	(5,023,265)
NET RETURN ON INVESTMENT PROPERTY		<u>5,292,346</u>	<u>(4,527,640)</u>
OTHER EXPENSES			
Investment management expenses	7	(575)	(75)
Other income	8	13,008	6,683
Administrative expenses	9	(763,187)	(345,754)
Finance costs	10	(72,456)	(80,778)
Net increase/(decrease) in assets for the year		<u>2,920,100</u>	<u>(5,821,468)</u>
Net assets available for benefits as at beginning of the year		32,033,282	37,845,430
Prior year adjustment	18	-	9,320
Net assets available for benefits as at 30 June 2022		<u>34,953,382</u>	<u>32,033,282</u>

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AS AT 30 JUNE 2022

	Notes	2022 Kshs '000	2021 Kshs '000
ASSETS			
Investment property	11	31,942,095	27,107,996
Property, Plant and equipment	12	3,418	2,536
Receivables and prepayments	14	6,715,078	6,688,003
Cash and cash equivalents	15	38,306	917,820
		<u>38,698,897</u>	<u>34,716,355</u>
LIABILITIES			
Payables	16	3,426,125	1,752,295
Bank borrowings	17	319,390	930,778
		<u>3,745,515</u>	<u>2,683,073</u>
NET ASSETS AVAILABLE FOR BENEFITS		<u>34,953,382</u>	<u>32,033,282</u>
REPRESENTED BY:			
Fund balance	18	<u>34,953,382</u>	<u>32,033,282</u>

29th September

The financial statements were approved and authorized for issue by the Trustees on.....2022
and were signed on its behalf by;

.....
CHAIRMAN

.....
TRUSTEE

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KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 Kshs '000	2021 Kshs '000
OPERATING ACTIVITIES			
Other income		13,008	6,683
Benefits paid		(1,549,037)	(873,905)
Other expenses paid		(945,069)	(499,438)
Add: Depreciation expense		1,001	688
Movement in payables		1,673,830	(560,319)
Movement in receivables		(27,075)	(6,562,739)
Prior year adjustments		-	9,320
Net cash (used in) operating activities		(833,343)	(8,479,710)
INVESTING ACTIVITIES			
Rental income and deposits received on property		567,098	568,456
(Loss)/ proceeds from sale of investment property		-	(5,023,265)
Purchase of equipments		(1,883)	(2,148)
Movement in investment property		(4,834,099)	13,135,000
Gain on revaluation of investment property		4,834,099	-
Net cash generated from investing activities		565,215	8,678,043
FINANCING ACTIVITIES			
Movement in borrowings		(611,388)	705,149
Net cash generated from financing activities		(611,388)	705,149
Movement in cash and cash equivalents			
At the start of the year		917,820	14,338
Movement during the year		(879,514)	903,482
At the end of the year	15	38,306	917,820

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2022

1 ACCOUNTING POLICIES

a) Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, and comply with the International Financial Reporting Standards (IFRSs) and the Retirement Benefit Acts, 1997 as amended, and the guidelines set out in the Accounting Guidelines - Financial Reports of Retirement Benefit Schemes. The principal accounting policies adopted remain unchanged from the previous year and are set out as follows:

b) 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 have been prepared in accordance with International Financial Reporting Standards and as the requirements of the Kenyan Retirement Benefits Act. The principal accounting policies adopted are as set below:

c) Adoption of new and revised International Financial Reporting Standards (IFRSs)

i) *Relevant new standards and revised amendments to published standards effective for the year ended 30 June 2022*

IFRS 16, Leases

In the current year, the scheme has applied IFRS 16 (as issued by 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 2022*

At the date of authorization 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 2022.

d) Benefits payable

Benefits payable are taken into account in the period in which they fall due.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2022

ACCOUNTING POLICIES (CONT 'D)

e) Revenue recognition.

i) Rental income

Rental income is recognized on accrual basis over the term of the relevant lease.

ii) Interest income

Interest income is recognized for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes interest that is obtained from interest bearing instruments.

f) Taxation

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

g) Financial instruments

Financial assets and liabilities are recognized 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 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 recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established using the Expected Credit Loss (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 amortized costs. Amortized 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 payables 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 recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2022

ACCOUNTING POLICIES (CONT 'D)

Borrowings

Borrowings are recognized fully at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the two proceeds (net of transaction costs) and the redemption value is recognized 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.

h) 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.

i) 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 sale proceeds and the carrying amount of the asset and is recognized in the statement of changes in net assets.

i) Intangible assets

Intangible assets comprise software licenses and it amortized on a straight line basis over the useful life of the license which is five years.

j) 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 identifies, 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 amount and the resulting impairment loss is treated as an expense in the statement of changes in net assets.

k) 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 ruling when the transactions are effected. Gains and losses arising from the translations are dealt with in the statement of changes in net assets.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2022

ACCOUNTING POLICIES (CONT 'D)

(I) 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 2022, 82.54% (2021: 78.1%) 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.

The Trustees have undertaken various initiatives to improve on the Scheme's liquidity including; planned disposal of the 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 ESTIMATES AND JUDGEMENTS IN APPLYING THE SCHEME'S ACCOUNTING POLICIES

In the process of applying the Scheme' accounting policies, management is required to make judgements, 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 the estimates.

The estimates and underlying assumptions are reviewed on ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision only affects that period or in the period 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 judgements and estimates in the financial statements

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

	2022 Kshs '000	2021 Kshs '000
4 PENSION PAYMENTS		
Pension payments	(1,052,016)	(873,905)
Pension arrears	(427,167)	-
Lump sum/Gratuities payment	(69,854)	-
	<u>(1,549,037)</u>	<u>(873,905)</u>
Pension payment represent pensions paid to members of the Scheme who are retired employees or their dependents as per the Scheme rules.		
5 INVESTMENTS INCOME		
Rental income	567,098	568,456
	<u>567,098</u>	<u>568,456</u>
6 PROPERTY MANAGEMENT EXPENSES		
Land rates-Charge for the year	22,783	24,251
-Penalties charged	38,121	-
Casual wages	9,323	8,366
Valuation fees	5,302	16,147
Water and electricity	890	235
Office expenses	6,017	20,175
Repair and maintenance	1,205	967
Estate demolition costs	749	505
Other expenses	24,461	2,184
	<u>108,852</u>	<u>72,831</u>
7 INVESTMENTS MANAGEMENT EXPENSES		
Custodian fees	575	75
	<u>575</u>	<u>75</u>
8 OTHER INCOME		
Miscellaneous income	12,875	6,575
Interest income from cash and call deposits	132	107
	<u>13,008</u>	<u>6,683</u>
Miscellaneous income relates to amounts recovered from pension overpayments and/or excess provision for the same and space application fee.		
9 ADMINISTRATIVE EXPENSES		
Fund administration cost	20,873	86,318
Staff costs	37,839	43,386
Increase in provision for bad and doubtful debts	28,355	173,202
Pension bank transfer commission	3,380	4,193
RBA levy: Current year	5,000	5,000
:Penalties	30,000	30,000
Audit fees	600	1,207
Legal charges-Other	88,534	1,761
Legal charges-Edermann Case	547,606	-
Depreciation (Note 12)	1,001	688
	<u>763,187</u>	<u>345,754</u>
10 FINANCE COSTS		
Interest on borrowings	72,456	80,778
	<u>72,456</u>	<u>80,778</u>

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONT 'D) FOR THE YEAR ENDED 30 JUNE 2022

		2022 Kshs '000	2021 Kshs '000
11 INVESTMENT PROPERTY			
At forced Sale Value	Valuation date		
L.R 209/6829 -Makongeni Estate, Nairobi			5,865,901
L.R 209/6502 (Part)- Muthurwa Estate, Nairobi	July 2011	2,072,000	2,072,000
L.R 209/19382-Ngara railway estate-Nairobi	July 2020	7,580,000	7,580,000
L.R 209/12088-Landmawe, Nairobi	July 2011	1,655,923	1,655,923
L.R 209/12178-Upper Hill(Part), Nairobi	July 2011	1,155,000	1,155,000
L.R 209/6502 (Part)- HQ (Eastern " Wing including Block D)-Nairobi	July 2011	1,138,400	1,138,400
L.R 209/6506- Matumbato, Nairobi	April 2018	2,069,999	2,070,000
L.R 209/6507- Matumbato, Nairobi	April 2018	840,001	840,001
L.R 1/437- Kindaruma Road, Nairobi	July 2011	64,000	64,000
L.R 209/12401- Goods Shed Area, Nairobi	July 2020	4,215,000	4,215,000
		<u>20,790,325</u>	<u>26,656,226</u>
At open market Value			
L.R XXVI/941- Chambilo, Mombasa	March 2014	451,770	451,770
L.R 209/6829 -Makongeni Estate, Nairobi	Jan 2022	10,700,000	-
		<u>11,151,770</u>	<u>451,770</u>
Total		<u>31,942,095</u>	<u>27,107,996</u>
Movement in investment properties			
At the beginning of the year		27,107,996	40,242,996
Gain on property revaluation		4,834,099	-
Compulsory acquisition		-	(13,000,000)
Disposal		-	(135,000)
		<u>31,942,095</u>	<u>27,107,996</u>

The following Investment properties were sold in the previous year:

Property Details	Disposal Value Kshs '000	Cost Kshs '000	Gain/Loss on disposal Kshs '000
L.R No. 209/378/5- Hurlingham Nairobi (0.48 acres)	176,149	135,000	41,149
L.R No. 209/11953- Nairobi Railway Club (18 acres)	7,935,586	13,000,000	(5,064,414)

A loan from KCB Bank of Kenya limited was secured by legal charge over L.R. No. 209/6506 Matumbato,Nairobi.However the bank requested for the replacement of the security since the previous security was not perfect according to the bank after carrying out a valuation. The scheme offered L.R. 209/19382-Ngara Estate and its in the process of extending the lease to fully facilitate charge of the facility. Once this is done the bank will discharge the old security 209/6506 which they claimed was not perfect security.

Chambilo L.R Mombasa /Block XXVI/941 was leased to Blue Water Properties Limited from 1st June 2014 to 1st June 2063 .However the property was used to irregularly obtain a bank loan. The matter is being pursued.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

12 PROPERTY AND EQUIPMENT	Computers Kshs '000	Furniture & Office equipment Kshs '000	Total Kshs '000
COST			
2020			
As at 1 July 2020	6,767	5,575	12,342
Additions	1,353	795	2,148
As at 30 June 2021	8,120	6,370	14,490
2021			
As at 1 July 2021	8,120	6,370	14,490
Additions	1,049	834	1,883
As at 30 June 2022	9,170	7,204	16,373
DEPRECIATION			
2020			
As at 1 July 2020	6,636	4,630	11,266
Charge for the year	434	254	688
As at 30 June 2021	7,070	4,884	11,954
2021			
As at 1 July 2021	7,070	4,884	11,954
Charge for the year	639	362	1,001
As at 30 June 2022	7,709	5,247	12,955
NET BOOK VALUE			
As at 30 June 2021	1,051	1,486	2,536
As at 30 June 2022	1,461	1,957	3,418

13 COMPUTER SOFTWARE

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

14 RECEIVABLES AND PREPAYMENTS

	2022 Kshs '000	2021 Kshs '000
Trade Receivables		
Receivables arising from disposal of property	7,588,805	7,626,805
Rent receivable	347,032	255,579
Provision for doubtful receivables	(1,231,725)	(1,203,371)
	6,704,112	6,679,014

Provision for doubtful debts is calculated based on the outstanding receivables using the following rates: 5% of the total expected rental income for the current year and over 90 days -100%,90 days-75%,60 days-50% and less than 30 days 25 % for the prior periods.

Other receivables

Other receivables	10,966	8,989
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Other receivables include lift payment of Kshs 3,572,940, prepaid staff medical cover Kes 4,949,779, prepaid WIBA & Group Life Kes 1,156,719.66, prepaid software maintenance Kes 500,000 and staff salaries advance of Kshs 786,894.

Total	6,715,078	6,688,003
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KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONT 'D) FOR THE YEAR ENDED 30 JUNE 2022

14 RECEIVABLES AND PREPAYMENTS (CONT 'D)

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

During the sale of Muthurwa (LR No. 209/6502) in November 01,2007,the land rates were still owing to the Ministry of Local government therefore the title had not yet been issued and the outstanding balance could not be cleared. The Ministry of Local Government owes Kes 105,000,000 which is still outstanding due to the restructuring of ministries under the 2010 constitution making it difficult to establish which Ministry should settle the debt.

Makongeni LR No. 209/6829 part and Muthurwa LRNo.209/65/02 were sold to KPLC in May 21,2008 and 2014 respectively .The land rates on property are still owing to Nairobi County hence title has not yet been transferred for the debtor to settle the outstanding balance. The outstanding balance amounts to Kes 15,000,000.

Valley road Kindaruma Road LR No. 290/1064 was sold to Mahadi Investment in December 12, 2014.The titles of the land from the sponsor had incomplete information therefore ownership could not be transferred to the buyer. Follow up of titles is being done by the Lawyers and once resolved, the debtor will continue to settle the balance according to the payment plan. The outstanding balance amounts to Kes 79,902,200.

Matumbato LR 209/6507 ,Nairobi was sold to Premix Enterprises Limited in February 28,2019, portion J and F as per the proposed subdivison.However ,during the processing of titles, the land titles were confiscated by the EACC due to investigation of the acquirer.

Nairobi Railways Club LR 209/11953 was acquired through compulsory acquisition(Gazette Notice Number 6601, Vol.CXXII-No 163) in September 2020 by Government of Kenya through KeNHA at Kshs 7,935,585,600. A deposit of Kshs 1,200,000,000 was paid and thus an outstanding balance of Kshs 6,735,585,600 in 2021.The property had been valued at Kshs 17,181,400,000 in February 2016.

Hurlingham LR No.209/378/5 was sold to Meri Construction Limited at Kes 176,149,000 in June 2021.They had paid a deposit of 77,200,000 and therefore had a balance of 71,949,000 which has not been cleared as the purchaser had not received the title.

	2022 Kshs '000	2021 Kshs '000
15 CASH AND CASH EQUIVALENTS		
Cash at bank	31,723	62,722
Escrow account	6,583	855,098
	<u>38,306</u>	<u>917,820</u>
16 PAYABLES		
Accruals and other payables	1,635,822	991,305
Benefits payable	1,712,805	689,965
Tenants deposits	76,373	69,352
Leave provision	1,125	1,673
	<u>3,426,125</u>	<u>1,752,295</u>

Accruals and other payables include amount due to Flexus Estate of Kshs 21,250,002.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

	2022 Kshs '000	2021 Kshs '000
17 BANK BORROWINGS (Secured)		
Analysis of changes in bank borrowings		
As at 1 July 2021	930,778	850,000
Loan repayment	(683,843)	-
Accrued interest	72,456	80,778
As at 30 June	319,390	930,778
Maturity analysis		
Repayable within 12 months	319,390	-

The loan was acquired from KCB Bank Kenya Limited and is secured by:

- Board Resolution by the borrower authorizing the borrowing of Kshs 850,000,000 and the security arrangement.
- Corporate guarantee for Kshs 850,000,000 executed by Kenya Railways Corporation together with a supporting resolution
- Registered consent in court marking the suits involving the Bank and scheme as settled.
- Deed of assignment of sale proceeds from the following properties;
 - L.R. No. 209/12401, Good shed area Nairobi measuring 5 acres
 - LR No. 1/420 Kindaruma Property along Ngong Road measuring 0.71 acres.
 - LR No. 209/378/5 Hurlingham Property measuring 0.48 acres
 - LR No. XXVI/941 Chambilo in Kizingo Mombasa measuring 2.67 acres.
 - LR/No. 209/6507 Matumbato Four (4) plots each measuring 0.5 acres.

The effective interest rate on loan as provided by the bank on 31st August 2020 was 13%.

The loan is inclusive of moratorium of 24 months on principal repayments and 18 months moratorium on interest repayments concurrently.

The previous year loan of Kshs 225,629, 000 was repaid by the first loan disbursement of Kshs 525,000,000.

	2022 Kshs '000	2021 Kshs '000
18 FUND BALANCE		
Opening fund balance	32,033,282	37,845,430
Net increase/(decrease) in net assets for the year	2,920,100	(5,821,468)
Prior year adjustment	-	9,320
Fund balance at the end of the year	34,953,382	32,033,282

Prior year adjustment

The prior year adjustment has been made to recognize the staff leave days consumed but not adjusted in the previous financial statements.

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. The related party for the year was Kshs 2,412,349 paid as Trustees allowances and other emoluments.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONT 'D) FOR THE YEAR ENDED 30 JUNE 2022

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 scheme main source of revenue is therefore rental income from the investment property. These activities expose the fund to a variety of financial risks including credit risk. This is mostly informed by the probability of default by tenants in paying the rent dues. Other risks relate to property without titles. Retirement Benefits Authority (RBA) allows a maximum investment of 30% of the Scheme's funds in immovable property. The Scheme currently holds 82.54% of its total assets as immovable property. The Trustees are taking necessary steps to ensure that the management to the fund and assets comply with the Retirement Benefits Act 1997 and the Retirement Benefits Regulations 2000.

a) Market Risk

i) Interest rate risk

The Scheme holds interest bearing assets and liabilities and therefore it is exposed to interest rate

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 Trustees monitor and review information on significant investment.

	Internal/ External rating	Gross carrying amount Kshs'000	Loss allowance Kshs'000	Net amount Kshs'000
At 30 June 2022				
Receivables	Various	7,935,837	(1,231,725)	6,704,112
Bank balances	Various	38,306	-	38,306
		<u>7,974,144</u>	<u>(1,231,725)</u>	<u>6,742,418</u>
At 30 June 2021				
Receivables	Various	7,882,384	(1,203,371)	6,679,014
Bank balances	Various	917,820	-	917,820
		<u>8,800,204</u>	<u>(1,203,371)</u>	<u>7,596,833</u>

Bank balances are not restricted and include deposits held with banks which have high credit ratings. The loss allowance represents the debt that is provided for in line with the expected loss model.

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONT'D) FOR THE YEAR ENDED 30 JUNE 2022

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 82.54% of the Scheme's portfolio is made up investment property which is not liquid. The trustees have 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. The Retirement Benefits Authority regulations posits that a Schemes immovable assets portfolio be capped at 30 % of the investment 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 Ksh'000	Between 1-3 Months Ksh'000	Over 3 months Ksh'000	Total Ksh'000
At 30 June 2022				
Benefits payable	230,940	175,900	1,305,965	1,712,805
Creditors and other payables	181,500	525,000	1,003,573	1,710,073
Bank borrowing	-	-	319,390	319,390
	<u>412,440</u>	<u>700,900</u>	<u>2,628,928</u>	<u>3,742,268</u>

At 30 June 2021

Benefits payable	73,905	162,628	453,432	689,965
Creditors and other payables	-	16,429	1,696,891	1,713,320
Bank borrowing	-	-	930,778	930,778
	<u>73,905</u>	<u>179,057</u>	<u>3,081,101</u>	<u>3,334,063</u>

	2022 Kshs '000	2021 Kshs '000
21 OPERATING LEASE RECEIVABLE		
Amounts receivable in respect of obligations under operating leases:		
Within one year	91,158	91,158
Over one year	<u>91,158</u>	<u>91,158</u>

KENYA RAILWAYS STAFF RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONT 'D) FOR THE YEAR ENDED 30 JUNE 2022

22 CONTINGENT LIABILITIES

	2022	2021
	Kshs'000	Kshs'000
Legal suits	615,693	357,374
	<u>615,693</u>	<u>357,374</u>

The legal suits relate to the following cases:

Nairobi Mississippi Water Limited vs KRSRBS & 3 others Case no.MWK/KR/50'C/20 filed for breach of contract which claims special damages of Kshs 59,180,435.

Nairobi Autobacs Limited Vs KRSRBS & 3 others filed against the scheme for breach of contract which claims special damages of Kshs 129,206,890.

Nairobi Patflex Solutions Limited & 7others vs KRSRBS & 3 others filed against the Scheme for breach of contract which claim damages of Kshs 427,305,585.

23 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 11.

As disclosed in Note 11, investment property of Kshs 27,107,995,000 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 investments 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 included 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 (CONT 'D) FOR THE YEAR ENDED 30 JUNE 2022

23 FAIR VALUE OF NON-FINANCIAL ASSETS (CONT 'D)

The following tables shows an analysis of investment property recorded by level of the fair value hierarchy:

	Level 1 Kshs '000	Level 2 Kshs '000	Level 3 Kshs '000	Total Kshs '000
At 30 June 2022				
Total investment property	-	-	31,942,095	31,942,095
	<u>-</u>	<u>-</u>	<u>31,942,095</u>	<u>31,942,095</u>
At 30 June 2021				
Total investment property	-	-	27,107,996	27,107,996
	<u>-</u>	<u>-</u>	<u>27,107,996</u>	<u>27,107,996</u>

24 REGISTRATION

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

25 CURRENCY

The financial statements are presented in Kenyan Shillings.