PKF

TELPOSTA PENSION SCHEME

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

RBA REGISTRATION NUMBER 0452

TABLE OF CONTENTS

SCHEME INFORMATION

TRUSTEES	: Mr. Julius K. Cheptiony - Chairman : Mr. Johnstone E. Asienga : Mr. Manuel N. Mwatibo : Mrs. Rosebella O. Mbai : Mr. Ignatius S. Wamalwa : Mr. John P. Luusa : Ms. Esther Mutisya (Appointed on 15 June 2023) : Mrs. Rachel W. Mwendia (Term ended 17 March 2023)
TRUST SECRETARY	: Mr. Peter K. Rotich
REGISTERED OFFICE	: Telposta Towers, 13th Floor : Kenyatta Avenue : P.O. Box 45610, 00100 : NAIROBI
ADMINSTRATORS	: Telposta Pension Scheme Secretariat : Telposta Towers, 13th Floor : P.O. Box 45610, 00100 : NAIROBI
INDEPENDENT AUDITOR	: PKF Kenya LLP : Certified Public Accountants of Kenya : P.O. Box 14077, 00800 : NAIROBI
CUSTODIAN	: Kenya Commercial Bank Limited : KCB Towers, 7th Floor : Upperhill : P.O. Box 30664, 00100 : NAIROBI
INVESTMENT MANAGERS	: Co-optrust Investments Services Limited : Co-operative Bank House : Haile Selassie Avenue : P.O. Box 48231, 00100 : NAIROBI : Old Mutual Investment Group (Kenya) Limited : UAP Old Mutual Tower : Upper Hill Road, Upper Hill : P.O. Box 11589, 00400 : NAIROBI : GenAfrica Asset Managers Limited : Arlington Block, 14 Riverside Business Park : Off Riverside Drive : P.O. Box 79217, 00200 : NAIROBI
LEGAL ADVISER	: Ms. Stella Wawira : Telkom Kenya Limited : P.O. Box 30301, 00100 : NAIROBI

SCHEME INFORMATION (CONTINUED)

CONSULTING ACTUARY	: Zamara Actuaries Administrators & Consultants Limited : 10th Floor, Landmark Plaza : P.O. Box 52439, 00200 : NAIROBI
PRINCIPAL BANKERS	: Kenya Commercial Bank Limited : NAIROBI
PROPERTY MANAGERS	: Tysons Limited : Jubilee Insurance House : Mama Ngina Street : P.O. Box 40228, 00100 : NAIROBI
	: Kenstate Valuers Limited : Postbank House : Banda Street : P.O. Box 3776, 00200 : NAIROBI
	: Legend Management Limited : NHIF Building : Upper Hill : P.O. Box 47155, 00100 : NAIROBI
	: Advent Limited : Jabavu lane, Jabavu Road Junction : Westlands : P.O. Box 50823, 00100 : NAIROBI

REPORT OF THE TRUSTEES

The trustees present their annual report together with the audited financial statements for the year ended 30 June 2023.

ESTABLISHMENT, NATURE AND STATUS OF THE SCHEME

The scheme was established under a trust deed dated 1 July 1997 (Principal Deed) as a defined benefits scheme to provide retirement benefits to the staff of Telkom Kenya Limited and its subsidiaries under the rules of the scheme. The scheme is an exempt approved scheme under the Income Tax Act and is registered with the Retirement Benefits Authority.

On March 2007, the scheme's founder, Telkom Kenya Limited, gave the scheme notice of its intention to close the scheme to new entrants and future accrual of benefits in accordance with the Principal Deed.

The scheme is a closed defined benefits scheme and administered in-house. Any future deficit in the scheme arising from actuarial valuation is to be met by the sponsor through the disbursement of additional funds.

MEMBERSHIP

The following is the movement in the number of members in the scheme:

	2023 Number	2022 Number
a) Total members		
Pensioners:		
- active	5,791	6,123
- inactive	999	771
Deferred members	139	195
	6,929	7,089
b) Active pensioners		
At start of year	6,123	6,386
Joiners in the year	93	92
Leavers:		
- parmanent leavers	(113)	(126)
- to inactive pensioners	(312)	(229)
	5,791	6,123
c) Inactive pensioners		
At start of year	771	622
Joiners in the year	312	229
Leavers	(84)	(80)
	999	771
d) Deferred members		
At start of year	195	245
Leavers	(56)	(50)
At end of year	139	195

FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 13 shows a decrease in the net assets available for benefits for the year by Shs. 310,114,215 (2022: Shs. 628,062,874) and statement of net assets available for benefit on page 14 shows the scheme's net assets available for benefits of Shs. 15,033,690,731 (2022: Shs. 15,343,804,946).

REPORT OF THE TRUSTEES (CONTINUED)

INVESTMENT OF FUNDS AND INVESTMENT POLICY

Under the terms of their appointment, Old Mutual Investment Group (Kenya) Limited, Co-optrust Investments Service Limited and GenAfrica Asset Managers Limited are responsible for the investment of the funds. GenAfrica Asset Managers Limited are responsible for the investments in properties, and are separately managed by four independent property management companies, Tysons Limited, Kenstate Valuers Limited, Advent Limited and Legend Management Limited.

The overall responsibility for the investment and performance of the scheme lies with the trustees.

The principal objective of the scheme investment policy is to ensure the solvency of the scheme over time and meet its benefits obligations as required. The total return objective is to achieve capital appreciation and investment income. The capital appreciation is to ensure the scheme's value is inflation protected.

The scheme's investment strategy is to produce a long-term return which maximizes real growth while ensuring income generation and liquidity sufficient to meet benefits payments, taking into account the restrictions and limits set out by the trustees as agreed with the investment manager. The trustees take reasonable care and the investment manager endeavours to ensure that the investments made are in the best interest of the members of the scheme.

We confirm that there is no self-investment, nor have any scheme assets been used as security or collateral on behalf of a member or any connected business or individual.

The make-up of the investments as at year end is summarised below:

	2023 Shs	2023 %	2022 Shs	2022 %	RBA Limits %
Plan investment property	11,846,400,000	78.57%	11,728,950,000	75.96%	30%
Government securities	2,391,096,039	15.86%	2,628,479,784	17.02%	90%
Quoted equities	720,069,153	4.78%	888,899,404	5.76%	70%
Fixed deposits	103,144,472	0.68%	138,201,755	0.89%	30%
Cash and demand deposits	8,663,831	0.06%	49,825,165	0.32%	5%
Corporate bonds	7,503,431	0.05%	7,505,361	0.05%	30%
	15,076,876,926		15,441,861,469		

The Retirement Benefits Authority (RBA) allows a maximum investment of 30% of the scheme's funds in immovable property. The scheme currently holds 78.57% (2022: 75.96%) 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 (Occupational Retirement Benefits Scheme) Regulations, 2000 made under Retirement Benefits Act, 1997.

The trustees have considered the nature, disposition, marketability, security and valuation of the scheme's investments and consider them appropriate relative to the reason of holding each class of investment. Details of the investments have been disclosed within the financial statements.

ACTUARIAL VALUATION

The actuarial valuation of the scheme was undertaken by the scheme actuary, Zamara Actuaries Administrators & Consultants Limited as at 30 June 2020 on the basis of the Projected Unit Credit Method in accordance with the requirements of International Accounting Standards (IAS) No. 19, Employee Benefits, using current salary levels up to the time of retirement of members. According to the valuation at that date and based on the trust deed, the actuarial present value of promised retirement benefits was as below:

REPORT OF THE TRUSTEES (CONTINUED)

ACTUARIAL VALUATION (CONTINUED)

	Basis of valuation 2020 Shs	2017 Shs
Total value placed on scheme assets	13,334,000,000	13,568,000,000
Actuarial net present value of promised retirement benefits	(11,226,000,000)	(10,874,000,000)
Net actuarial surplus	2,108,000,000	2,694,000,000
The actuarial present value of promised retirement benefits includes the following:-		
Future benefits to current pensioners	8,499,000,000	8,402,000,000
Estimated liability in respect to KCCT staff	79,000,000	150,000,000
Estimated liability in respect to members with entitlement to preserved benefits	1,334,000,000	1,258,000,000
Estimated liability in respect of outstanding death claims and members whose status unknown	1,314,000,000	1,064,000,000
	11,226,000,000	10,874,000,000

The scheme's actuary noted that the level of funding (the ratio of the value of the assets to the past service liability) is 118.8% which is higher than the statutory minimun funding standard of 100% prescribed in the Retirement Benefits (Minimum Funding Level and Winding-up of Schemes) Regulations 2000 (Amended).

The next full actuarial valuation is due as at 30 June 2023 in accordance with the requirements of the Retirement Benefits Act, 1997. The trustees have already engaged a valuer to carry out the actuarial valuation as of 30 June 2023, however the valuation had not been concluded on the date of approval of these financial statements but the trustees expect the valuation to be concluded by 30 November 2023.

TRUSTEES

The trustees are appointed in accordance with the Kenyan Retirement Benefits Act, 1997. The names of the trustees who served during the year and subsequent period to the date of this report are shown on page 1.

STATEMENT AS TO DISCLOSURE TO THE SCHEME'S AUDITOR

Each trustee at the time this report was approved confirms that, to the best of their knowledge and belief, the information furnished to the auditor for the purpose of audit is correct and complete in every respect.

INDEPENDENT AUDITOR

The scheme's auditor, PKF Kenya LLP, has expressed willingness to continue in office in accordance with section 34(3) of the Retirement Benefits Act, 1997. The trustees monitor the effectiveness, objectivity and independence of the auditor. The trustees also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration has been charged to statement of changes in net assets available for benefits.

BY THE ORDER OF THE BOARD OF TRUSTEES

________________ **TRUST SECRETARY**

25 September 2023

NAIROBI

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations, 2000 made under Retirement Benefits Act, 1997 require the trustees to prepare financial statements in a prescribed form for each financial year which give a true and fair view of the state of affairs of the scheme as at the end of the financial year and of its net changes in net assets available for benefits. The trustees are also required to ensure that the scheme keeps proper accounting records of its income, expenditure, liabilities and assets. 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 other irregularities.

The trustees accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
ii) selecting and applying appropriate accounting policies; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

The trustees are of the opinion that the financial statements give a true and fair view of the net assets available for benefits and changes in net assets available for benefits and cash flows for the year then ended in accordance with the International Financial Reporting Standard and the requirements of the Retirement Benefits Act, 1997.

Having made an assessment of the scheme's ability to continue as a going concern, the trustees are not aware of any material uncertainties related to events or conditions that may cast doubt upon the scheme's ability to continue as a going concern.

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

Approved by the board of trustees on 25 September 2023 and signed on its behalf by:

CHAIRPERSON

TRUSTEE

SCHEME GOVERNANCE DISCLOSURE STATEMENT

1. TRUSTEES IN OFFICE

In 2022/2023 financial year the following trustees served in the board of TelPosta Pension Scheme:

Name	Age in years	Category	No. of meetings attended	TPDK Certified	Highest academic qualification	Member of other pension boards
Mr. Julius K. Cheptiony	47	Sponsor	7	YES	Bachelors (BBIT)	None
Mr. Asienga Ebole Johnstone	53	Sponsor	6	YES	Masters (Construction Management)	None
Mr. Manuel N. Mwatibo	70	Member	8	YES	KACE	None
Mrs. Rosebella O. Mbai	70	Member	8	YES	Bachelors (B.A)	None
Mr. Ignatius S. Wamalwa	41	Sponsor	8	YES	Masters (MBA-Finance option), CPA (K)	None
Mr. John P. Luusa	78	Member	8	YES	Diploma in Banking (Certified Banker)	None
Ms. Esther Mutisya (Appointed 15 June 2023)	36	Sponsor	1	YES	Bachelors (BSC-Mathematics), CPA Part II	None
Mrs. Rachel Mwendia (Term ended 17 March 2023)	50	Sponsor	4	YES	Bachelors, CPA(K)	None

2. TRUSTEES MEETINGS

The board of trustees held Eight (8) meetings during the year ended 30 June 2023. The meetings were held on the dates set out hereunder:

a) 02 September 2022
b) 21 September 2022
c) 01 November 2022
d) 12 November 2022
e) 17 February 2023
f) 04 May 2023
g) 05 May 2023
h) 23 June 2023

3. THE COMPOSITION OF THE BOARD

The composition of the board of trustees is as hereunder:
a) Gender balance: Female 28.6%, Male 71.4 %
b) Skills mix: No. of trustees with financial skills – Four (4)
c) Age mix: Number of trustees who are younger than 35 years - None
d) Number of trustees who are older than 35 years - Seven (7)

SCHEME GOVERNANCE DISCLOSURE STATEMENT (CONTINUED)

4. COMMITTEES OF THE BOARD

Name of committee	Number of meetings held	Any external adviser invitees to the meeting	Allowances paid Shs.
Investment Property Management and Disposal	4	Yes. Advice on property portfolio holdings and performance of service providers with respect to property portfolio. They also provided guidance on realignment of property by developing and presenting a property realignment strategy plan. Reports on legal positions of ongoing court cases regarding properties. Presentation of all property's valuation report for book purposes.	240,000
Audit, Risk and Investments	4	Yes. Presentation of audited financial statements. Analysis of Fund Managers reports. They also provided updates on litigations and guidance on the same.	240,000
Administration, Compliance and Communication	5	Yes. Presentation of governance audit report, Treating Customers Fairly (TCF) policy documents and presentation of reviewed HR Policy and Procedures Manual. They also presented provisions of Kenya Gazette Notice No. 5796 of 5th May 2023 on Trustees Remuneration guidelines.	285,000
Combined Meeting: - Audit, Risk and Investments and Administration, Compliance and Communication	1	None	90,000
Combined Meeting: - Audit, Risk and Investments and Investment Property Management and Disposal	2	Yes. Presentation of property valuation reports for book purposes. Presentation of property realignment strategy plan.	120,000

5. FIDUCIARY RESPONSIBILITY

The board of trustees is the governing body of Telposta 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 sponsor. To achieve this, the trustees embraced their fiduciary responsibility by:

a. Acting honestly and not improperly using inside 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.

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 managers carried out management of all scheme investments and that all scheme assets and funds are held by the custodian.

During the year under review the board lodged a deed of appointment and removal of Trustees with the Retirement Benefits Authority.

SCHEME GOVERNANCE DISCLOSURE STATEMENT (CONTINUED)

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. The scheme has established a framework on members visits in all regions starting with oldest pensioners. The objective of the visits is to know and appreciate their living environment and the communities they live in.

7. **KEY OUTCOMES**

The board of trustees seeks 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. Realign the scheme investment property with an aim of improving benefits to members;
c. Supporting innovation and developing solutions that meet the members' and sponsor's needs;
d. Ensuring that the scheme's administrative processes remain transparent and accessible to members and the sponsor; and
e. Enhance communication with members through members information booklets and additional channels.

The board of trustees has also been sending quarterly reports to the sponsor detailing the activities that have taken place in each quarter. In addition, the Scheme has been sending annual benefits statements to members.

8. **ANNUAL GENERAL MEETING**

During the financial year 2022/2023 the board of trustees opted to hold physical annual general meetings in 8 stations spread over 8 regions of the country and presented the audited accounts for the financial year 2021/2022. The decision was based on trustees need to reach out to members after two consecutive years of holding virtual AGMs which were occasioned by threats of Covid-19 considering the age profile of scheme members.

9. **MEMBERS' SENSITIZATION**

During the physical annual general meetings, members were adequately engaged, and all their concerns were handled during questions and answer sessions. Topical issues on wellness in retirement covering financial discipline, health and social aspects were presented and this was highly applauded by members.

10. **TRUSTEES' REMUNERATION**

During the year under review, the trustees were paid a gross sum of Kenya Shillings one million, eight hundred and ninety three thousand seven hundred and fifty only, Shs. 1,893,750 (2022: Shs. 1,957,500).

The payment complied with the trustee remuneration policy of the scheme as consented to by the sponsor on advice of the scheme actuary.

11. **BOARD OF TRUSTEES' EVALUATION**

Board and individual trustee evaluation for the period 2021/2022 was done in August 2022 and the overall score for the board was 85.4% whereas that of individual trustees had a mean score of 93.84%. Annual board evaluation for the year under review is was carried in 02 September 2023 and overall score for the board was 92.55% while individual assessed their performance as excellent with a mean score of 82.89%.

12. **INDEPENDENT AUDITOR**

PKF Kenya LLP, have expressed their willingness to continue in office.

SIGNED ON BEHALF OF THE TRUSTEES

Chairman
Board of Trustees

25 September **2023**

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF TELPOSTA PENSION SCHEME

Opinion

We have audited the financial statements of Telposta Pension Scheme set out on pages 13 to 37, which comprise the statement of net assets available for benefits as at 30 June 2023, statement of changes in net assets available for benefits, statement of cash flows and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of Telposta Pension Scheme's net assets available for benefits as at 30 June 2023 and of the changes in net assets available for benefits and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Retirement Benefits Act, 1997.

Basis for opinion

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 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 (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matters

a) Valuation and ownership of plan investment properties

(i) We draw attention to Note 14 to the financial statements concerning the valuation of plan investment properties. Included under residential properties are properties valued at Shs. 1,535,300,000 whose title documents are not in the scheme's name. These properties were vested to the scheme under Legal Notice No. 154 dated 5 November 1999 but the title documents are yet to be issued to the scheme.

(ii) Included in the valuation report as at 30 June 2023 are plan investment properties with a carrying amount of Shs. 369,200,000 in the financial statements and an accumulated valuation gain of Shs. 480,300,000 which has not been recognised in the financial statements given that the title documents are not in the scheme's name and the scheme does not have possession and control over these properties due to ownership disputes. Some of these properties include developments and structures that have been constructed by individuals claiming ownership. These properties were vested to the scheme under Legal Notice No. 154 dated 5 November 1999 but the title documents are yet to be issued to the scheme.

This indicates the existence of a material uncertainty regarding the scheme's title to certain assets. Our opinion is not qualified in respect of the above matters.

b) Non-compliance with Retirement Benefits Act, 1997 requirements

(i) We draw attention to note 14 to the financial statements which indicates that the scheme has not complied with the Retirement Benefits Investment Regulations and Policies that set the maximum investment in immovable property at 30% of the scheme's total assets. As of 30 June 2023, the scheme's investment in immovable property accounted for 78.57% (2022: 75.96%) of its total assets. The trustees have agreed on a remedial plan with the Retirement Benefits Authority.

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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF TELPOSTA PENSION SCHEME (CONTINUED)

Emphasis of matters (continued)

b) Non-compliance with Retirement Benefits Act, 1997 requirements (continued)

(ii) We draw attention to note 10 to the financial statements which indicates that the scheme has not complied with Section 31(1) of the Retirement Benefits Act, which requires that defined benefits schemes should be subjected to a valuation by an independent actuary every three years and that a copy of the valuation report should be submitted to RBA and to the scheme's sponsor within five months from the end of the financial year. An actuarial valuation of the scheme was last undertaken as at 30 June 2020 and thus the scheme would be required to do another valuation as at 30 June 2023. The trustees have already engaged a valuer to carry out the actuarial valuation as of 30 June 2023, however, by the date of approval of these financial statements, the valuation had not been concluded.

Our opinion is not qualified in respect of the above matters.

c) Contingent liabilities

We draw attention to notes 10 and 23 which indicate that the scheme had appealed against a judgement by the Retirement Benefits Appeal Tribunal where the scheme had been ordered to pay additional benefits as a result of undercalculated benefits that would accrue to its former members. Based on the assessment by the actuary as of 30 June 2020, the potential financial impact on the scheme if the additional liability imposed by the tribunal crystalized would amount to Shs. 11.5 Billion which would have a material impact leading to an actuarial deficit of Shs. 9.7 Billion. In consideration of the passage of time, the potential liability amount is expected to have increased to about Shs. 13.4 Billion. This would result in a material uncertainty on the scheme's ability to continue as a going concern.

On 16 August 2023, the High Court dismissed the scheme's appeal and this meant that the Retirement Benefits Appeal Tribunal ruling was upheld. The scheme has filed an application for stay of the High Court ruling at the Court of Appeal and lodged a notice of appeal. No provision has been made for the potential liability in the financial statements.

Our opinion is not qualified in respect of this matter.

Other information

The trustees are responsible for the other information. The other information comprises scheme information, report of the trustees, statement of trustees' responsibilities and scheme governance disclosure statement that form part of the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements do 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, 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 the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Retirement Benefits Act, 1997 and for such internal control as the trustees determine is 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 have no realistic alternative but to do so.

PKF

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF TELPOSTA PENSION SCHEME (CONTINUED)

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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to infuence the economic decions of users taken on the basis of these financial statements.

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 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.

The engagement partner responsible for the audit resulting in this report of the independent auditor is CPA Patrick Kuria, Practising certificate number 2045

For and behalf of PKF Kenya LLP
Certified Public Accountants
Nairobi, Kenya

September 27, **2023**

1231/23

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Notes	2023 Shs	2022 Shs
Benefits			
Pension benefits	3	(860,724,216)	(861,127,517)
Net decrease from dealings with members		(860,724,216)	(861,127,517)
Return on plan investments			
Plan investments income	4	968,989,416	961,755,640
Investment management expenses	5	(15,917,329)	(16,354,465)
Property management expenses	6	(124,578,549)	(155,915,511)
Net plan investments income		828,493,538	789,485,664
Other income	7	263,897	46,250,896
Administrative expenses	8	(163,178,042)	(171,578,600)
		(162,914,145)	(125,327,704)
Fair value (loss) on plan investments	11	(232,419,392)	(431,093,317)
Change in fair value of plan investment property	14	117,450,000	-
Total changes in fair value		(114,969,392)	(431,093,317)
(Decrease) in net assets available for benefits		(310,114,215)	(628,062,874)
Net assets available for benefits at start of year		15,343,804,946	15,971,867,820
Net assets available for benefits at end of year	10	15,033,690,731	15,343,804,946

The notes on pages 16 to 37 form an integral part of these financial statements.

Report of the independent auditor - page 10 to 12.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

	Notes	As at 30 June 2023 Shs	2022 Shs
Non current assets			
Intangible assets	12	-	-
Property and equipment	13	45,322,815	52,822,359
Plan investment property	14	11,846,400,000	11,728,950,000
Plan investments	15	2,887,340,206	3,342,105,777
		14,779,063,021	15,123,878,136
Current assets			
Plan investments	15	334,472,889	320,980,527
Receivables	16	164,532,556	100,693,147
Cash and bank balances	17	8,663,831	49,825,165
		507,669,276	471,498,839
Current liabilities			
Payables	18	253,041,566	251,572,029
Net current assets		254,627,710	219,926,810
Scheme net assets		15,033,690,731	15,343,804,946

The financial statements on pages 13 to 37 were approved and authorised for issue by the board of trustees on 25 September 2023 and were signed by:

_______________ **CHAIRPERSON** _______________ **TRUSTEE**

The notes on pages 16 to 37 form an integral part of these financial statements.

Report of the independent auditor - page 10 to 12.

STATEMENT OF CASH FLOWS

	Notes	2023 Shs	2022 Shs
Operating activities			
Benefits paid		(860,724,216)	(861,127,517)
Investment management, property and administrative Expenses paid		(288,672,525)	(458,085,330)
Other income		263,897	46,250,896
Net cash (used in) operating activities		(1,149,132,844)	(1,272,961,951)
Investing activities			
Net investment income received		898,924,357	1,051,584,712
Purchase of plan investments	15	(1,142,191,070)	(1,494,435,396)
Proceeds from sale of plan investments	15	1,357,270,537	1,728,586,332
Purchase of property and equipment	13	(6,032,314)	(2,840,223)
Fixed term and call bank deposits	15	(35,057,283)	(179,701,172)
Net cash from scheme activities		1,072,914,227	1,103,194,253
(Decrease) in cash and cash equivalents		(76,218,617)	(169,767,698)
Movement in cash and cash equivalents			
At start of year		188,026,920	357,794,618
(Decrease)		(76,218,617)	(169,767,698)
At end of year	17	111,808,303	188,026,920

The notes on pages 16 to 37 form an integral part of these financial statements.

Report of the independent auditor - page 10 to 12.

1. **Significant accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements comply with the requirements of the Kenyan Retirement Benefits Act, 1997. The statement of changes in net assets available for benefits represents the statement of income and expenditure referred to in the Act. The statement of net assets available for benefits represents the statement of assets and liabilities referred to in the Act.

a) **Basis of preparation**

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards, Retirement Benefits Act, 1997 as amended, and with the Retirement Benefits (Occupational Retirement Benefits scheme) Regulations, 2000. The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price 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 liability, the scheme takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date.

The financial statements summarise the transactions of the scheme and deal with the net assets available for benefits at the disposal of the scheme. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which takes into account such obligations is dealt with in the report on actuarial valuation on pages 4 and 5 of the report of the trustees and these financial statements should be read in conjunction with this report.

Going concern

The financial performance of the scheme is set out in the report of the trustees and in the statement of changes in net assets available for benefits. The financial position of the scheme is set out in the statement of net asset available for benefits. Disclosures in respect of financial risks and uncertainties are included in the report of the trustees and disclosures in respect of risk and fund management are set out in note 21 and 22.

Based on the financial performance and position of the scheme and its risk management policies, the trustees are of the opinion that the scheme is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

New standards, ammendements and interpretations adopted by the scheme

The scheme applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The scheme has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use'

The amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the financial statements of the scheme as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning the earliest period presented.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

a) **Basis of preparation (continued)**

Amendments to IAS 37 'Onerous Contracts – Costs of Fulfilling a Contract'

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

These amendments had no impact on the financial statements of the scheme as the scheme did not identify any contracts as being onerous at the beginning and end of the reporting period.

Amendment to IFRS 9 Financial Instruments 'Fees in the '10 per cent' test for derecognition of financial liabilities'

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The amendment had no impact on the financial statements of the plan as there were no modifications of the scheme's financial instruments during the period.

New standards, amendments and interpretations issued but not effective

At the date of authorisation of these financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective for the year presented:

- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022), effective for annual periods beginning or after 1 January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement for at least 12 months after the reporting date.

- Amendments to IAS 1 'Non-current Liabilities with Covenants' (issued in October 2022) effective for annual periods beginning on or after 1 January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.

- Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies (issued in February 2021)

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

1. **Significant accounting policies (continued)**

a) **Basis of preparation (continued)**

New standards, amendments and interpretations issued but not effective (continued)

- Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies (issued in February 2021) (continued)

  The scheme is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

- Amendments to IAS 8 'Definition of Accounting Estimates' (issued in February 2021), effective for annual reporting periods beginning on or after 1 January 2023, introduce a definition of 'accounting estimates' and clarify the distinction between changes in accounting estimates and change in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

  The amendments are not expected to have a material impact on the scheme's financial statements.

Except where indicated above, the trustees do not expect that adoption of the above standards and interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates.

b) **Significant accounting judgements, estimates and assumptions**

In the application of the accounting policies, the trustees are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The trustees have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i) **Measurement of Expected Credit Losses (ECL) - rent receivables**

In recognising the expected credit losses on other rent receivables, the scheme has adopted the simplified approach. The scheme has adopted the provision matrix to measure expected credit losses where by a default rate is applied on debtors depending on the number of days that a trade receivable is past due. The default rate is estimated based on the tenant's historical default rate and reviewed and adjusted for forward looking information on a periodical basis.

For government rent receivables, the scheme has based the it on the governments default rate assigned by global credit rating bodies S&P and GCR.

ii) **Measurement of Expected Credit Losses (ECL) - cash and cash equivalents**

An expected credit loss model for deposits and call balances placed with banks will be based on the default rate assigned by global credit rating bodies S&P and GCR.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

b) **Significant accounting judgements, estimates and assumptions (continued)**

ii) **Measurement of Expected Credit Losses (ECL) - cash and cash equivalents (continued)**

The S&P ranking has assigned a risk/default rate of 0.00% for financial institutions rated AAA, 0.02% for AA rated, 0.07% A rated, 0.29% for BBB rated, 0.70% for BB rated, 2.88% for B rated and 15.87% for CCC/C rated financial institutions (Source 2018 Annual Global Corporate Default Study, Standard & Poor). GCR has carried out a credit rating of Kenyan banks but has not assigned risk/default rates for the various ratings given. On the other hand, S&P has not done a rating specific to Kenyan financial institutions but has risk rates assigned to various ratings as documented above whose description we have reviewed and came up with the risk rates applicable to Kenyan banks.

In the GCR rating of Kenyan financial institutions falling into tier one are described as consistently having a stable outlook which is what is similar to the S&P description of financial institutions rated BB. Hence a default rate of 0.70% has been considered for deposits held with Tier one banks. Tier two banks such are described as having a stable or positive outlook in the GCR rating which can be equated to the S&P rating of B with a default rate of 2.88%. Whilst Tier three banks such as stable or positive or watch outlook by GCR which bear similar descriptions as the CCC/C rating by S&P with a risk/default rate of 15.87%.

iii) **Useful lives, depreciation methods and residual values of property and equipment and intangible assets**

Management reviews the useful lives, depreciation methods and residual values of the items of property and equipment and intangible assets on a regular basis. During the financial year, the trustees determined no significant changes in the useful lives and residual values. The carrying amounts of intangible assets and property and equipment are disclosed in notes 12 and 13 respectively.

iv) **Revaluation of plan investment properties**

The scheme carries its plan investment properties at fair value, with changes in fair value being recognised in statement of changes in net assets available for benefits. The fair value of plan investment properties was determined by reference to the market prices of similar properties of the type and in the area in which the property is situated. The key assumptions used to determine the fair value of the properties are provided in note 14.

The scheme has recognised residential properties valued at Shs. 1,507,500,000 (2021: Shs. 1,507,500,000) whose title documents are not in the scheme's name. The inclusion is based on fact that the properties included were vested to the scheme under Legal Notice No. 154 dated 5 November 1999.

The scheme has plan investment properties with a carrying value of Shs. 369,400,000 and an accumulated valuation gain of Shs. 439,300,000 which has not been recognised in the financial statements. The exclusion of the valuation gain is based on the fact that the title documents are not in the scheme's name and the scheme has no possession and control over these properties due to ownership disputes. Some of these properties include developments and structures that have been constructed by individuals claiming ownership. These properties were vested to the scheme under Legal Notice No. 154 dated 5 November 1999 but the title documents are yet to be issued to the scheme.

v) **Rental income from residential investment properties**

Rental income from residential properties is recognised on a cash basis due to uncertainity in collection as there are ongoing court cases in which the tenants have taken the scheme to court. An injuction has been issued by the courts barring the scheme from collecting rent from the tenants. It is on this basis that the scheme only recognise rent on cash basis.

In recognising whether to recognise rental income on accrual or cash basis, the trustees have taken the consideration to the problems encountered to collect the rent and the legals cases as detailed on Note 14.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

b) **Significant accounting judgements, estimates and assumptions (continued)**

vi) **Fair value measurement of financial instruments**

When the fair values of financial assets and financial liabilities recorded in the statement of net assets available for benefits cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See note 15 for further disclosures.

vii) **Impairment of non-financial assets**

Impairment exists when the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The carrying amounts of intangible assets and property and equipment are disclosed in notes 12 and 13 respectively.

viii) **Actuarial valuation**

In determining the actuarial valuation of the scheme, the trustees engage an actuary after every three years. The trustees engaged an actuary to carry out actuarial valuation as of 30 June 2023. As at the date of approval of these financial statements, the valuation exercise was ongoing and the trustees are of the opinion thet the scheme's assets are sufficient to cover the resultant actuarial liability.

c) **Plan investments income**

Income comprises the fair value of the consideration received or receivable in the ordinary course of business.

The scheme recognises income when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the scheme's activities as described below. The scheme bases its estimates on historical results, type of transaction and specifics of each arrangement.

i) Interest income is recognised on a time proportion basis using the effective interest method. Once a financial asset is identified as credit-impaired, the effective interest rate is applied to the amortised cost (net of impairment losses) in subsequent reporting periods.

ii) Dividend income is recognised when the shareholders right to receive payment has been established.

iii) Rental income from commercial properties is recognized on a straight line over the period of the lease.

iv) Rental income from residential properties is recognised on a cash basis.

d) **Transfers from and to other schemes**

Transfer values represent the capital sums either receivable in respect of members from other schemes or payable to schemes of members who have left the scheme. They are accounted for on an accruals basis on the date the trustees of the receiving scheme accept the liability to pay the related benefits.

e) **Benefits and payments**

Pensions in payment, including pensions funded by annuity contracts and amounts paid under income draw-down arrangements, are accounted for in the period to which they relate. Where members can choose whether to take their benefits as a full pension or as a lump-sum with reduced pension, retirement benefits are accounted for on an accruals basis on the date the option is exercised. Other benefits are accounted for on an accruals basis on the date of retirement or death, as appropriate. Refunds and opt-outs are accounted for when the trustees are notified of the member's decision to leave the scheme.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

f) **Plan investments**

All plan investments are carried at fair value. For marketable securities, the fair value is the market value which is the most useful measure of the securities as at the reporting date and of the investment performance for the period.

Those securities that have a fixed redemption value and have been acquired to match the obligations of the scheme, or specific parts thereof, are carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity.

Where quoted or other unit prices are not available, the management adopts valuation techniques appropriate to the class of investment.

The methods of determining fair value for the principal classes of investments are:
- Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days, are included at the last price provided by the manager at or before the year-end.
- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the management. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation of fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustments are made.

Plan investment properties are valued annually by independent valuers who have recent experience of the locations and types of properties held by the scheme, taking into account, amongst other things, the current estimate of rental values and market yields.

g) **Financial instruments**

Financial instruments are recognised when, and only when, the scheme becomes party to the contractual provisions of the instrument.

Financial assets

Purchases or sales of financial assets are recognised initially using the trade date accounting which is the date the group commits itself to the purchase or sale.

The scheme classifies its financial assets into amortised cost; financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding. The carrying amount of these assets is adjusted by any expected credit loss allowance measured and recognised.

At initial recognition of a financial asset, the scheme determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The scheme reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period, the scheme has not identified a change in its business models.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

g) **Financial instruments (continued)**

Financial assets (continued)

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the scheme has transferred substantially all risks and rewards of ownership, or when the scheme has no reasonable expectations of recovering the asset.

Impairment

The scheme recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost:

- Cash and cash equivalents
- Receivables

The loss allowance is measured at an amount equal to the lifetime expected credit losses for receivables.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non-current except those with maturities of less than 12 months from the reporting date or those which management has the express intention of holding for less than 12 months from the reporting date, in which case they are classified as current assets.

Financial liabilities

Financial liabilities are classified and measured at amortised cost.

All financial liabilities are recognised initially at fair value and, in the case of payables, net of directly attributable transaction costs.

All financial liabilities are classified as non-current except those expected to be settled in the scheme's normal operating cycle, those payable or expected to be paid within 12 months of the reporting date and those which the scheme does not have an unconditional right to defer settlement for at least 12 months after the reporting date.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in statement of changes in net assets available for benefits.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

h) **Property and equipment**

Property and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the scheme and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to statements of changes in net assets available for benefits during the financial year in which they are incurred.

Depreciation is calculated on the straight line basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate %
Motor vehicles	25
Office equipment	12.5
Furniture and fittings	12.5
Computers	33.3
Borehole	8

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property and equipment is derecognised upon disposal or when no future future economic benefits are expected from its use or disposal. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining increase/(decrease) in net assets available for benefits.

i) **Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be four years.

j) **Impairment of non-financial assets**

At the end of each reporting period, the scheme reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

An impairment loss is recognised for the amount by which the carrying amount of an asset or exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal and value in use. The recoverable amount is determined for an individual asset.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

j) **Impairment of non-financial assets (continued)**

Impairment losses are recognised in the statement of changes in net assets available for benefits in expense categories consistent with the function of the impaired asset.

For all assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or or have decreased. If such indication exists, the scheme estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of changes in net assets available for benefits.

k) **Taxation**

The scheme is exempt from income tax under the Income Tax Act (Cap 470).

l) **Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and financial assets with maturities of less than 91 days from the initial placement date and money market lines.

m) **Comparatives**

There were no changes in presentation in the current year.

NOTES (CONTINUED)

2. Funding of the scheme

An actuarial valuation of the scheme was undertaken by the scheme actuary, Zamara Actuaries Administrators & Consultants Limited as at 30 June 2020. The results of the actuarial valuation revealed total value placed on scheme assets of Shs. 13,334 million and a past service actuarial liability of Shs. 11,226 million. The scheme's actuary noted that the level of funding (the ratio of the value of the assets to the past service liability) is 118.8% which is higher than the statutory minimun funding standard of 100% prescribed in the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000 as amended.

	2023 Shs	2022 Shs
3. Pension benefits		
Lump sum pension paid	846,217,083	847,455,228
Death benefits paid	14,507,133	13,672,289
	860,724,216	861,127,517
4. Plan investments income		
Interest on treasury bonds	314,660,433	322,987,533
Interest on treasury bills	807,790	-
Interest on corporate bonds and commercial paper	900,919	605,479
Rental income - commercial property	514,781,915	522,335,165
Rental income - residential property	51,614,078	42,793,298
Dividend income	71,082,264	62,160,544
Interest on fixed deposits	8,916,367	8,774,926
Gain on disposal of plan investments (Note 15)	6,225,650	2,098,695
	968,989,416	961,755,640
5. Investment management expenses		
Management expenses	11,507,292	11,218,917
Custodial fees	4,410,037	5,135,548
	15,917,329	16,354,465
6. Property management expenses		
Residential house expenses	10,442,505	23,683,754
Legal fees	55,054,544	66,022,088
Guarding fees	6,508,781	5,118,325
Land rent and rates	6,130,992	5,213,938
Letting fees	916,726	-
Service charge	4,482,872	9,960,134
Auctioneer's fees	6,445,355	1,980,540
Valuation fees	22,721,656	39,745,078
Surveyors' fees	8,133,806	4,075,654
Repairs and utilities	3,741,312	116,000
	124,578,549	155,915,511
Net investment income	828,493,538	789,485,664
7. Other income		
Interest income	263,897	477,824
Payables writeback	-	45,773,072
	263,897	46,250,896

NOTES (CONTINUED)

8. **Administrative expenses**	**2023 Shs**	**2022 Shs**
Staff costs (Note 9)	38,166,455	39,700,929
RBA levy	5,000,000	5,000,000
Trustees fees and expenses	2,898,195	2,199,251
Office expenses	5,419,805	6,288,771
AGM expenses	11,391,727	8,281,438
Expected credit loss	-	5,034,432
Actuarial fees	4,672,288	13,803,061
Insurance	8,342,948	7,976,862
Audit fees	2,298,269	1,781,719
Training, subscription and development	8,742,294	11,003,311
ICT expenses	7,156,477	8,288,938
Legal fees	1,737,422	4,612,265
Professional fees	15,360,443	10,642,120
Printing and stationery	1,700,817	1,258,567
Depreciation on property and equipment	13,531,858	13,211,968
Travelling and accomodation	9,299,421	10,250,572
Subsistence allowances	11,030,968	15,199,878
Advertising	5,459,435	948,352
Bank commission and charges	2,049,467	1,549,406
Vehicle running expenses	29,654	22,360
Telephone and postage	1,544,952	4,524,400
Pensioners headcount	4,260,259	-
Office, equipment maintenance and repairs	3,084,888	-
	163,178,042	171,578,600

9. **Staff costs**		
Salaries and wages	33,923,758	36,445,700
Staff medical scheme	4,242,697	3,255,229
	38,166,455	39,700,929

10. **Fund balance**

The movement in the fund balance is as follows:

At start of year	15,343,804,946	15,971,867,820
Pension benefits (Note 3)	(860,724,216)	(861,127,517)
Plan investments income (Note 4)	968,989,416	961,755,640
Investment management expenses (Note 5)	(15,917,329)	(16,354,465)
Property management expenses (Note 6)	(124,578,549)	(155,915,511)
Other income (Note 7)	263,897	46,250,896
Administrative expenses (Note 8)	(163,178,042)	(171,578,600)
Fair value (loss)/gain on plan investments (Note 11)	(232,419,392)	(431,093,317)
Change in fair value of plan investment properties (Note 14)	117,450,000	-
At end of year	15,033,690,731	15,343,804,946

10. Fund balance (continued)

	Basis of valuation 2020 Shs	2017 Shs
Total value placed on scheme assets	13,334,000,000	13,568,000,000
Actuarial net present value of promised retirement benefits	(11,226,000,000)	(10,874,000,000)
Net actuarial surplus	2,108,000,000	2,694,000,000

The actuarial present value of promised retirement benefits includes the following:-

Future benefits to current pensioners	8,499,000,000	8,402,000,000
Estimated liability in respect to KCCT staff	79,000,000	150,000,000
Estimated liability in respect to members with entitlement to preserved benefits	1,334,000,000	1,258,000,000
Estimated liability in respect of outstanding death claims and members whose status unknown	1,314,000,000	1,064,000,000
	11,226,000,000	10,874,000,000

The actuarial valuation of the scheme was undertaken by the scheme actuary, Zamara Actuaries Administrators & Consultants Limited as at 30 June 2020 on the basis of the Projected Unit Credit Method.

The retirement benefits act requires defined benefits schemes to be subjected to valuation by independent actuaries every three years. An actuarial valuation of the scheme was last undertaken during the year ended 30 June 2020 and therefore the next valuation was due as at 30 June 2023. The trustees have already engaged a valuer to carry out the actuarial valuation as of 30 June 2023, however the valuation had not been concluded on the date of approval of these financial statements but the trustees expect the valuation to be concluded by 30 November 2023.

As disclosed in Note 23, the scheme had appealed against a judgement by the Retirement Benefits Appeal Tribunal where the scheme had been ordered to pay additional benefits as a result of undercalculated benefits that would accrue to its former members. Based on the assessment by the actuary as of 30 June 2020, the potential financial impact on the scheme if the additional liability imposed by the tribunal crystalized would amount to Shs. 11.5 Billion which would have a material impact leading to an actuarial deficit of Shs. 9.7 Billion. In consideration of the passage of time, the potential liability amount is expected to have increased to about Shs. 13.4 Billion. This would lead to a material uncertainity on the scheme's ability to continue as a going concern.

On 16 August 2023, the High Court dismissed the the scheme's appeal and this meant that the Retirement Benefits Appeal Tribunal ruling was upheld. The scheme has filed an application for stay of the High Court ruling at the Court of Appeal and lodged a notice of appeal. The trustees are confident that the appeal has reasonable chances of success.

11. **Fair value (loss) on plan investments**	**2023 Shs**	**2022 Shs**
Fair value (loss) on local equity investments (Note 15)	(128,560,977)	(315,428,349)
Fair value (loss) on bond market investments (Note 15)	(103,858,415)	(115,664,968)
	(232,419,392)	(431,093,317)

NOTES (CONTINUED)

12. **Intangible assets**

	2023 Shs	2022 Shs
Cost		
At start and end of year	5,191,500	5,191,500
Accumulated amortisation		
At start of year	5,191,500	5,191,500
Charge for the year	-	-
At end of year	5,191,500	5,191,500
Carrying amount	-	-

13. **Property and equipment**

Year ended 30 June 2023

	Motor vehicles Shs	Office equipment Shs	Furniture and fittings Shs	Computers Shs	Borehole Shs	Total Shs
Cost						
At start of year	1,260,000	106,770,655	8,984,447	15,780,418	2,865,498	135,661,018
Additions	-	2,178,052	2,292,581	1,561,681	-	6,032,314
At end of year	1,260,000	108,948,707	11,277,028	17,342,099	2,865,498	141,693,332
Accumulated depreciation						
At start of year	1,260,000	58,488,959	7,963,697	12,260,505	2,865,498	82,838,659
Charge for the year	-	11,518,744	494,021	1,519,093	-	13,531,858
At end of year	1,260,000	70,007,703	8,457,718	13,779,598	2,865,498	96,370,517
Carrying amount	-	38,941,004	2,819,310	3,562,501	-	45,322,815

Year ended 30 June 2022

	Motor vehicles Shs	Office equipment Shs	Furniture and fittings Shs	Computers Shs	Borehole Shs	Total Shs
Cost						
At start of year	1,260,000	106,770,655	8,928,447	12,996,195	2,865,498	132,820,795
Additions	-	-	56,000	2,784,223	-	2,840,223
	1,260,000	106,770,655	8,984,447	15,780,418	2,865,498	135,661,018
Accumulated depreciation						
At start of year	1,260,000	46,499,071	7,758,263	11,243,860	2,865,498	69,626,692
Charge for the year	-	11,989,888	205,434	1,016,645	-	13,211,967
At end of year	1,260,000	58,488,959	7,963,697	12,260,505	2,865,498	82,838,659
Carrying amount	-	48,281,696	1,020,750	3,519,913	-	52,822,359

14. **Plan investment property**

	Telposta Towers	Residential properties	2023 Shs	2022 Shs
At start of year	6,500,000,000	5,228,950,000	11,728,950,000	11,728,950,000
Fair value gain	-	117,450,000	117,450,000	-
At end of year	6,500,000,000	5,346,400,000	11,846,400,000	11,728,950,000

14. **Plan investment property (continued)**

The fair value of plan investment property was determined by reference to the market prices of similar properties of the type and in the area in which the properties are situated. The valuation was carried out as of 30 June 2023 by Crystal Valuers Limited, an independent professional valuers, with recent experience in the location and category of the investment property being valued. As at 30 June 2023 there has been a change in value of the plan investment property.

The following amounts are included under statement of changes in net assets available for benefits in respect of the plan investment properties:	**2023 Shs**	**2022 Shs**
Rental income	566,395,993	565,128,463
Less: direct rental expenses arising from plan investment properties that generate rental income	(124,578,549)	(155,915,511)
Net rental income	441,817,444	409,212,952
Gain on valuation of plan investment properties	117,450,000	-

Included under residential properties are properties valued at Shs. 1,535,300,000 (2022: Shs. 1,507,000,000) whose title documents are not in the scheme's name. These properties were vested to the scheme under Legal Notice No. 154 dated 5 November 1999 but the title documents are yet to be issued to the scheme. The trustees continue to actively pursue the transfer of titles and the transfer of individual properties are at different stages of transfer.

Included in the valuation report are investment properties whose accumulated valuation gain of Shs. 480,300,000 (2022: Shs. 439,300,000), some of which relates to development on done by other parties which has not been recognised in the financial statements given that the title documents are not in the scheme's name and the scheme has no possession and control over these properties due to ownership disputes. These properties were vested to the scheme under Legal Notice No. 154 dated 5 November 1999 but the title documents are yet to be issued to the scheme.

The Retirement Benefits Investment Regulations and Policies set the maximum investment in immovable property at 30% of the scheme's total assets. As of 30 June 2023, the scheme's investment in immovable property accounted for 78.57% (2022: 75.96%) of its total assets.

The trustees have agreed on a remedial plan with the Retirement Benefits Authority.

15. **Plan investments**

	2023 Shs	**2022 Shs**
Non-current		
Shares		
- Quoted shares (Kenya)	720,069,153	888,899,404
Kenya government securities	2,159,767,622	2,445,701,012
Corporate bonds	10,703,431	10,705,361
Impairment	(3,200,000)	(3,200,000)
	2,887,340,206	3,342,105,777
Current		
Kenya government securities		
- Maturing after 91 days	231,328,417	182,778,772
Fixed term and call bank deposits	111,503,828	146,561,111
Impairment	(8,359,356)	(8,359,356)
	334,472,889	320,980,527
Total plan investments	3,221,813,095	3,663,086,304

15. **Plan investments (continued)**

The following table analyses the movement of plan investments during the year.

As at 30 June 2023	**Value as at start of year Shs**	**Purchases and accrued interest Shs**	**Proceeds on sale/maturity Shs**	**Changes in fair value Shs**	**Gain on disposal Shs**	**Value as at end of year Shs**
Shares						
- Quoted shares (Kenya)	888,899,404	5,020,661	(56,304,216)	(128,560,977)	11,014,281	720,069,153
Treasury bonds	2,628,479,784	126,732,105	(265,231,649)	(103,856,485)	(4,788,631)	2,381,335,124
Corporate bonds	7,505,361	-	-	(1,930)	-	7,503,431
Treasury bills	-	14,457,740	(4,696,825)	-	-	9,760,915
Fixed term and call bank deposits	138,201,755	995,980,564	(1,031,037,847)	-	-	103,144,472
	3,663,086,304	1,142,191,070	(1,357,270,537)	(232,419,392)	6,225,650	3,221,813,095
As at 30 June 2022						
Shares						
- Quoted shares (Kenya)	1,278,331,074	8,909,780	(88,194,837)	(315,428,349)	5,281,737	888,899,404
Treasury bonds	2,729,997,862	388,871,427	(371,541,495)	(115,664,968)	(3,183,042)	2,628,479,784
Corporate bonds	-	7,505,361	-	-	-	7,505,361
Fixed term and call bank deposits	317,902,927	1,089,148,828	(1,268,850,000)	-	-	138,201,755
	4,326,231,863	1,494,435,396	(1,728,586,332)	(431,093,317)	2,098,695	3,663,086,304

Fair value is determined by reference to quoted prices in active markets.

The carrying amounts of the above financial assets are as follows:

	2023			2022		
	Current Shs	Non-current Shs	Total Shs	Current Shs	Non-current Shs	Total Shs
Fair value - market value	221,567,502	2,879,836,775	3,101,404,277	182,778,772	3,334,600,416	3,517,379,188
Ultimate redemption value	112,905,387	7,503,431	120,408,818	138,201,755	7,505,361	145,707,116
	334,472,889	2,887,340,206	3,221,813,095	320,980,526	3,342,105,777	3,663,086,304

The carrying amounts of the scheme's plan investments are denominated in shillings.

15. Plan investments (continued)

Quoted equity - Kenya

Description	Historical cost 1-Jul-22 Shs	Number of shares 1-Jul-22	Number of shares Additions	Number of shares (Disposals)	Number of shares 30-Jun-23	Market value at 1-Jul-2022 Shs	Additions Shs	(Disposals) Shs	Gain/(Loss) realised on disposal Shs	Unrealized market (loss)/gain 30-Jun-2023 Shs	Market price 30-Jun-2023 Shs	Market value at 30-Jun-2023 Shs	Historical cost 30-Jun-2023 Shs
Bamburi Cement Limited	60,581,907	316,694	-	-	316,694	10,878,439	-	-	-	(2,897,750)	25.20	7,980,689	60,581,907
Absa Bank Kenya Plc	19,827,611	1,386,280	-	-	1,386,280	14,486,626	-	-	-	1,871,478	11.80	16,358,104	19,827,611
British American Tobacco Plc	10,778,673	28,100	-	-	28,100	11,457,775	-	-	-	702,500	432.75	12,160,275	10,778,673
Centum Investments Company Plc	8,169,978	174,600	-	-	174,600	1,707,588	-	-	-	(136,188)	9.00	1,571,400	8,169,978
Cooperative Bank of Kenya Limited	52,182,782	7,303,159	-	(980,000)	6,323,159	79,604,433	-	(11,635,344)	953,344	8,220,107	12.20	77,142,540	45,180,453
Deacons (East Africa) Limited	2,500,000	333,332	-	-	333,332	149,999	-	-	-	-	0.45	149,999	2,500,000
Diamond Trust of Kenya Limited	20,204,100	210,684	-	-	210,684	10,523,666	-	-	-	(21,068)	49.85	10,502,597	20,204,100
East Africa Breweries Limited	82,336,661	426,715	-	(161,260)	265,455	58,566,634	-	(29,260,290)	7,127,355	4,711,826	155.00	41,145,525	51,220,788
Equity Group Holdings Limited	109,608,406	3,003,100	108,000	-	3,111,100	129,133,300	5,020,661	-	-	(15,154,386)	38.25	118,999,575	114,629,067
Kenya Commercial Bank Limited	67,266,957	3,501,967	-	-	3,501,967	135,351,025	-	-	-	(32,743,391)	29.30	102,607,633	67,266,957
Kenya Electricity Generating Company Limited	36,299,339	2,703,663	-	-	2,703,663	9,138,381	-	-	-	(2,892,919)	2.31	6,245,462	36,299,339
Kenya Power & Lighting Limited	10,178,388	532,400	-	-	532,400	761,332	-	-	-	79,844	1.58	841,176	10,178,388
Nation Media Group Limited	10,715,728	62,248	-	-	62,248	1,061,322	-	-	-	124,495	19.05	1,185,817	10,715,728
NCBA Group Plc	18,262,796	422,560	-	-	422,560	9,972,404	-	-	-	6,444,032	38.85	16,416,437	18,262,796
Safaricom Limited	148,337,190	15,057,500	-	(500,000)	14,557,500	375,684,625	-	(15,408,582)	2,933,582	(108,453,375)	17.50	254,756,250	143,411,499
Standard Chartered Bank Kenya Limited	59,709,455	324,023	-	-	324,023	40,421,856	-	-	-	11,583,819	160.50	52,005,675	59,709,455
Total	716,959,971	35,787,024	108,000	(1,641,260)	34,253,764	888,899,404	5,020,661	(56,304,216)	11,014,281	(128,560,977)		720,069,153	678,936,738

NOTES (CONTINUED)

15. **Plan investments (continued)**

Weighted average effective interest rates at the year-end were as follows:

	2023 %	2022 %
- Government securities	12.35%	12.34%
- Corporate bonds	12.25%	12.25%
- Fixed term and call bank deposits	10.31%	7.51%

Treasury bonds	2023 Shs	2022 Shs
Maturing within one year	221,567,502	182,778,772
Maturing within 2 - 5 years	894,841,889	584,872,279
Maturing after 5 years	1,264,925,733	1,860,828,733
	2,381,335,124	2,628,479,784
Treasury bills		
Maturing within one year	9,760,915	-
	9,760,915	-
Fixed term bank deposits		
Maturing within 91 days (note 17)	103,144,472	138,201,755
Corporate bonds		
East Africa Breweries Limited	7,503,431	7,505,361
Imperial Bank Limited (In Receivership)	3,200,000	3,200,000
Expected credit loss	(3,200,000)	(3,200,000)
	7,503,431	7,505,361
Maturing as follows		
Between 2 - 5 years	7,503,431	7,505,361

Included in the corporate bond is an amount of Shs. 3,200,000 which had been placed with Imperial Bank Limited which was placed under receivership on 13 October 2015. The trustees have assessed whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected and the period of such cash flows. Whilst in the opinion of the trustees the recovery of these balances is likely to take place over a protracted period of time, any potential financial impact is not expected to be material.

16. **Receivables**

	2023 Shs	2022 Shs
Rent receivable	143,438,587	83,258,228
Expected credit loss	(10,397,234)	(10,397,234)
	133,041,353	72,860,994
Dividends receivable	12,649,517	14,452,889
Deposits and prepayments	10,922,337	10,028,949
Amount due from Telposta Provident Fund (Note 19)	7,919,349	3,350,315
	164,532,556	100,693,147

16. **Receivables (continued)**

Movement in expected credit loss	**2023 Shs**	**2022 Shs**
At start of year	10,397,234	21,439,000
Additions	-	5,034,432
Write off	-	(16,076,198)
At end of year	10,397,234	10,397,234

In the opinion of the trustees, the carrying amounts of trade and other receivables approximate to their fair value.

The scheme's credit risk arises primarily from rent receivables. The trustees are of the opinion that the scheme's exposure is limited because the larger proportion of the debt is held by the government ministries.

The carrying amounts of the scheme's trade and other receivables are denominated in the Kenya Shilling.

17. **Cash and cash equivalents**

	2023 Shs	**2022 Shs**
Cash in hand and bank balances	8,663,831	49,825,165

The carrying amounts of the scheme's cash and cash equivalents are denominated in Kenya Shilling (Shs).

For the purposes of statement of cash flows, cash and cash equivalents comprises cash at bank, deposits held at call with banks and investment in financial assets maturing within 3 months from the placement date.

	2023 Shs	**2022 Shs**
Cash and cash equivalents	8,663,831	49,825,165
Fixed term and call bank deposits (Note 15)	103,144,472	138,201,755
	111,808,303	188,026,920

18. **Payables**

Sundry creditors

Deposits on disposal of properties*	21,119,428	21,419,428
Rent received in advance	37,515,229	50,179,210
Service charge received in advance**	113,287,586	110,942,033
RBA Levy	5,000,000	5,000,000
Rent deposits	11,972,490	11,972,490
Other payables and accrued expenses	64,146,833	52,058,869
Total sundry creditors	253,041,566	251,572,029

In the opinion of the trustees, the carrying amounts of payables approximate to their fair value.

The carrying amounts of the scheme's payables are denominated in Kenya Shillings.

NOTES (CONTINUED)

18. **Payables (continued)**

* The deposits on disposal of properties are deposits received from potential buyers for the various properties which were being disposed by the scheme. Some of the potential buyers have taken the scheme to court as the scheme attempted to rescind the sale on the expiry of the payment dates. The buyers want the court to compel the scheme to the sale on the original terms. The legal process is ongoing.

** The service charge received in advance comprise of funds received and payments made on service charge. The service charge is audited separately and the income and expenditure is not reflected in these financial statements.

The maturity analysis of the scheme's payables is as follows:

Year ended 30 June 2023	**0 to 3 months Shs**	**3 to 6 months Shs**	**Total Shs**
Sundry creditors	106,662,062	146,379,504	253,041,566
Year ended 30 June 2022			
Sundry creditors	107,238,078	144,333,951	251,572,029

19. **Related parties transactions and balances**

	2023 Shs	**2022 Shs**
Trustees allowance	1,893,750	1,957,500
Amount due from Telposta Provident Fund (Note 16)		
At start of year	3,350,315	3,932,420
Settlement made	-	(3,932,420)
Advance	1,000,000	-
Expense allocation in the year	3,569,034	3,350,315
At end of year	7,919,349	3,350,315

In the opinion of trustees, the carrying amount of dues from Telposta Provident Fund approximates to their fair value. The balance is denominated in Kenya Shillings.

20. **Tax status of the scheme**

Telposta Pension schem has been approved by the Kenya Revenue Authority and is exempt from income tax on its investment income up to the statutory limit and has an exemption certificate Ref: 92291B/2338 dated 15 August 2005.

21. **Financial risk management objectives and policies**

The scheme's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk.

The scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the scheme's financial performance.

Risk management is carried out by the trustees in close collaboration with the investment managers, under policies stipulated in the trust deed. The trustees and investment managers identify, evaluate and hedge financial risks.

21. **Financial risk management objectives and policies (continued)**

a) Market risk

i) Interest rate risk

During the year ended 30 June 2023, if interest rates at that date had been 100 basis points higher with all other variables held constant, net assets available for benefits would have been Shs. 25,017,439 (2021: Shs. 27,741,869) higher, arising mainly as a result of higher interest income on interest bearing investments. If interest rates had been 100 basis points lower, the effects on net assets available for benefits would have been the opposite.

ii) Price risk

The scheme is exposed to equity securities price risk because of investments held by the scheme and classified on the statement of net assets available for benefits as plan investments. The scheme is not exposed to commodity price risk. To manage its price risk arising from equity securities, the scheme diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the trustees and investment managers.

The table below summarizes the impact of increases of the market price on the scheme's net assets available for benefits. The analysis is based on the assumption that the equity indexes had increased by 5% with all other variables held constant and all the scheme's equity instruments moved according to the historical correlation with the index:

Index	Impact on net assets for the year 2023 Shs	2022 Shs
Market price - increase	155,070,214	175,868,959

Net assets available for benefits for the year would increase as a result of gains on quoted shares classified as plan investments.

b) Credit risk

Credit risk arises from cash and cash equivalents, plan investments as well as outstanding rent receivables.

Management assesses the credit quality of the tenant, taking into account their financial position, past experience and other factors.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

In assessing whether the credit risk on a financial asset has increased significantly, the scheme compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the scheme considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due.

For these purpose default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

21. **Financial risk management objectives and policies (continued)**

b) Credit risk (continued)

If the scheme does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the scheme groups financial assets on the basis of shared credit risk characteristics, such as:

- type of instrument;
- industry in which the debtor operates; and

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the the following events:

- significant financial difficulty of the sponsor
- a breach of contract
- it is probable that the sponsor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

The gross carrying amount of financial assets with exposure to credit risk at the reporting date was as follows:

Basis for measurement of loss allowance	**2023 Shs**	**2022 Shs**
Rent receivable	143,438,587	83,258,228
Dividends receivable	12,649,517	14,452,889
Amount due from Telposta Provident Fund	7,919,349	3,350,315
Cash and cash equivalent	8,663,831	49,825,165
Gross carrying amount	172,671,284	150,886,597
Loss allowance	(10,397,234)	(10,397,234)
Exposure to credit risk	162,274,050	140,489,363

The age analysis of the gross carrying amount at the end of each year was as follows:

	Not past due Shs	**31 - 60 days Shs**	**61 - 90 days Shs**	**Past 91 days Shs**	**Total Shs**
As at 30 June 2023	53,798,937	19,545,342	11,401,622	87,925,383	172,671,284
As at 30 June 2022	93,130,442	11,789,676	7,234,754	38,731,725	150,886,597

c) Liquidity risk

Liquidity risk is the risk that the scheme will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities.

The scheme is not exposed to liquidity risk as it maintains adequate amounts of cash and cash equivalents to pay off liabilities as they fall due.

Notes 18 discloses the maturity analysis of payables.

21. **Financial risk management objectives and policies (continued)**

c) Liquidity risk (continued)

Year ended 30 June 2023	**Between 1 - 3months Shs**	**Between 3 months - 1 year Shs**	**Total Shs**
Non-interest bearing liabilities - payables	106,662,062	146,379,504	253,041,566
Year ended 30 June 2022			
Non-interest bearing liabilities - payables	107,238,078	144,333,951	251,572,029

22. **Fund management**

The scheme's objectives when managing fund are:

- to comply with The Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations, 2000 made under Retirement Benefits Act, 1997.
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for members and benefits for other stakeholders.

The Retirement Benefits Act, 1997 requires the trustees to invest members' funds using prudent investment policies that shall get the members better market rates on their investments. This requirement has not been complied with fully as disclosed on Note 14 of the financial statements.

The scheme sets the amount of fund in proportion to risk. The scheme manages the fund structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. Fund comprises members' balances.

23. **Contingent liabilities**

As at the end of both the current reporting period and prior year, the scheme had several pending cases in court whose liability could not be reliably estimated untill the determination of the suits.

i) As disclosed in Note 14 there are various ongoing court cases in regards to ownership of properties. Except for the potential liability in legal fees in the event the court rules against the scheme there are no other direct potential liabilities as a result of these cases.

ii) As disclosed in Note 10, there has been an ongoing court case in which the scheme appealed a ruling by the Retirement Benefits Appeal Tribunal where the scheme was ordered to pay additional benefits as a result of undercalculated benefits accruable to its members.

On 16 August 2023, the High Court dismissed the the scheme's appeal and this meant that the Retirement Benefits Appeal Tribunal ruling was upheld. The scheme has filed an application for stay of the High Court ruling at the Court of Appeal and lodged a notice of appeal. The trustees are confident that the appeal has reasonable chances of success.

Based on the assessment by the actuary as of 30 June 2020, the potential liability on the scheme would amount to a payment in excess of Shs. 11.5 Billion (2022: Shs. 11.5 Billion) to former members of the scheme. In consideration of the passage of time this amount is expected to have increased to about Shs. 13.4 Billion.

24. **Presentation currency**

The financial statements are presented in Kenya Shillings.