

KENYA FORESTRY RESEARCH INSTITUTE

DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

FINANCIAL STATEMENTS

30 JUNE 2022

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

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KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

TRUSTEES, PROFESSIONAL ADVISERS AND OTHER INFORMATION

Dr. George Muthike	
Mrs. Sarah Mogaka	
Dr. Sammy Letema	
Dr. Joshua Cheboiwo	
Ms. Rose Osoro	
Mr. Charles K. Koech	
Dr. Agnes Ogada	Appointed on 27 th October 2021
Mr. Timothy Wanjala	Appointed on 14 th October 2021
Mr. Francis O Ochung	Retired on 10 th October 2021
Ms. Juliana K Makau	Trust Secretary

FUND ADMINISTRATOR

Minet Kenya Insurance Brokers Ltd
Minet House, off Nyerere Road,
P. O. Box 20102-00200
Nairobi

FUND MANAGER

Sanlam Investments East Africa Limited
5th Floor, Africa Re Centre Hospital Road, Upper hill
P. O. Box 67262 – 00200
Nairobi

CUSTODIAN

Standard Chartered Securities Services Kenya
Standard Chartered @Chiromo, Level 5
48 Westlands Road
P. O. Box 40984-00100
Nairobi

AUDITOR

King'ang'i Kamau & Company,
Certified Public Accountants (Kenya),
8th Floor Electricity House, Harambee Avenue,
P. O. Box 5698 – 00200,
Nairobi.

REGISTERED OFFICE

Kenya Forestry Research Institute
Muguga, KEFRI-KARI Road,
Off Nairobi-Naivasha Highway
P. O. Box 20412-00200
Nairobi

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

REPORT OF THE TRUSTEES

The Trustees submit their report together with the audited financial statements for the year ended 30 June 2022.

ESTABLISHMENT, NATURE, AND STATUS OF THE SCHEME

The scheme was established, and is governed, by a Trust Deed dated 13 June 2011. It is a defined contribution plan and provides, under the rules of the scheme, retirement benefits for the staff of Kenya Forestry Research Institute. It is an exempt approved plan under the Income Tax Act and is registered with the Retirement Benefits Authority.

MEMBERSHIP

Summary of joiners and leavers

	Active	Deferred	Total
Total members at start of the year	749	30	779
New members	10	12	22
Less: Leavers	(32)	(5)	(37)
	<hr/>	<hr/>	<hr/>
Total members at end of the year	727	37	764

RESULTS FOR THE YEAR

The statement of changes in net assets on page 8 shows an increase in the net assets of the scheme for the year of Shs. 38,192,831 (2021: an increase of Shs. 300,977,161) and the statement of net assets on page 9 shows the scheme's net assets as at 30 June 2022 of Shs. 3,137,214,494 (2021: Shs. 3,099,021,663).

For the year ended 30 June 2022 the net loss distributed to members as indicated on page 8 was Kshs. 47,602,072 (2021: net gain 384,593,866) equating to a return of -1.2% (2021: 14.3%).

INVESTMENT OF FUNDS

Under the terms of their appointment, Sanlam Investments East Africa Limited is responsible for the investment of available funds.

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

KENYA FORESTRY RESEARCH INSTITUTE

DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

REPORT OF THE TRUSTEES (CONTINUED)

As at 30 June 2022 the investments' portfolio was as follows

	2022 Shs	2022 %	2021 Shs	2021 %	RBA limits
Kenya government securities	2,195,689,922	70	2,242,755,218	72	90
Quoted shares	632,784,767	20	713,616,319	23	70
Corporate bonds	20,702,026	1	-	-	20
Term deposits	184,079,562	6	30,030,096	1	30
Offshore investments	82,013,113	3	109,126,979	4	15
	<u>3,115,269,390</u>	<u>100</u>	<u>3,095,528,612</u>	<u>100</u>	

All the investments are within the statutory limits set by Retirement Benefits Authority and Investment Policy Statement.

TRUSTEES

The Trustees are appointed in accordance with the Retirement Benefits Act. The names of the Trustees are shown on page 2.

AUDITORS

The auditors, King'ang'i Kamau & Company have expressed their willingness to continue in office.

Signed on behalf of the Trustees



Trustee

.....09/.....2022

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000 require the Trustees to prepare financial statements in a prescribed form for each financial year. They also require the Trustees to ensure that the Scheme keeps proper accounting records of its income, expenditure, liabilities and assets, and those contributions are remitted to the Custodian in accordance with the rules of the Scheme.

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


- i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii) Selecting and applying appropriate accounting policies; and
- iii) Making accounting estimates and judgments 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 the cash flows in accordance with International Financial Reporting Standards and the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000.

The Trustees certify that to the best of their knowledge and belief, the information furnished to the auditor for the purposes of the audit was correct and complete in every respect.

The financial statements were approved by the Board of Trustees on 06/09/ 2022 and signed on its behalf by:

For the Trustees

.....
Trustee 

.....
Date 06/09/22 2022

.....
Trustee 

.....
Date 06/09/ 2022



KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

Report on the financial statements

Opinion

We have audited the accompanying financial statements of Kenya Forestry Research Institute Defined Contribution Retirement Benefits Scheme, set out on pages 8 to 24, which comprise the statement of net assets available for benefits as at 30 June 2022, the statement of changes in net assets available for benefits and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial transactions of the scheme as at 30 June 2022 and of the disposition at that date of its assets and liabilities, other than liabilities to pay retirement and other benefits falling due after the end of the year in accordance with International Financial Reporting Standards and the requirements of the Retirement Benefits Act.

Basis for Opinion

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

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

Other Information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Trustees for the Financial Statements

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

In preparing the financial statements, the trustees are responsible for assessing the Scheme's ability to continue as 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. Those charged with governance are responsible for overseeing the Scheme's financial reporting process.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS 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 ISA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Scheme to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Scheme's audit. We remain responsible for our audit opinion.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Peter G. King'ang'i P/No 1223.

Peter G. King'ang'i

For and on behalf of King'ang'i Kamau & Co.

Certified Public Accountants (Kenya)

Nairobi, Kenya

**KING'ANG'I KAMAU AND
COMPANY**

Date: 31/07/2022

**CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 5698 - 00200
NAIROBI**

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

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

	Notes	2022 Shs	2021 Shs
CONTRIBUTIONS AND BENEFITS			
Contributions	4	190,967,870	191,090,441
Transfers in from other schemes		1,158,350	322,576
Benefits payable	5	(106,331,317)	(275,029,722)
Net surplus/(deficit) from dealings with members		85,794,903	(83,616,705)
RETURNS ON INVESTMENTS			
Investment income	6	314,992,483	274,736,135
Loss on disposal of treasury bonds	9	(5,377,514)	(913,513)
Gain on disposal of quoted equity investments	13	302,244	1,681,759
Fair value loss on treasury bonds	9	(88,341,249)	(3,695,930)
Fair value (loss)/gain on equity investments	13	(195,516,605)	142,293,058
Fair value (loss)/gain on offshore investments	15	(27,113,866)	9,126,979
Investment management expenses	7	(11,812,267)	(10,718,345)
NET RETURNS ON INVESTMENTS		(12,866,774)	412,510,143
Administrative expenses	8	(25,534,711)	(21,642,010)
Net return before taxation		(38,401,485)	390,868,133
Tax charge on income from unregistered scheme	22	(9,200,587)	(6,274,267)
Net return for the year		(47,602,072)	384,593,866
Increase in net assets		38,192,831	300,977,161

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

STATEMENT OF NET ASSETS
30 JUNE 2022

	Notes	2022 Shs	2021 Shs
INVESTMENTS			
Treasury bonds	9	2,159,017,741	1,909,276,944
Treasury bills	10	36,672,181	333,478,274
Term deposits	11	184,079,562	30,030,096
Corporate bonds	12	20,702,026	-
Quoted equity investments	13	632,784,767	713,616,319
Offshore investments	14	82,013,113	109,126,979
		<u>3,115,269,390</u>	<u>3,095,528,612</u>
FIXED ASSETS			
Property, plant and equipment	15	2,576,700	3,151,948
CURRENT ASSETS			
Bank balance	16	19,332,921	4,017,255
Contributions and other receivables	17	20,197,041	13,436,376
Benefits held in trust	18	105,348,373	137,029,794
		<u>144,878,335</u>	<u>154,483,425</u>
LIABILITIES			
Benefits held in trust	18	105,348,373	137,029,794
Benefits payable	19	6,923,150	5,194,756
Accrued expenses and other payable	20	10,959,513	10,814,429
Tax payable	22	2,278,895	1,103,343
		<u>125,509,931</u>	<u>154,142,322</u>
NET ASSETS		<u><u>3,137,214,494</u></u>	<u><u>3,099,021,663</u></u>
REPRESENTED BY:			
Balances allocated to members	21	<u><u>3,137,214,494</u></u>	<u><u>3,099,021,663</u></u>

The financial statements on pages 8 to 24 were approved and authorised for issue by the board of Trustees

on.....2022 and signed on their behalf by:

Trustee

Trustee

KENYA FORESTRY RESEARCH INSTITUTE
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STATEMENT OF CASH FLOWS
30 JUNE 2022

	2022 Shs	2021 Shs
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	190,683,843	190,792,110
Transfer in	1,158,350	322,576
Benefits paid to leavers	(104,602,923)	(278,124,591)
Administrative expenses	(25,534,587)	(19,264,155)
Tax paid	(8,025,035)	(6,981,016)
	<hr/>	<hr/>
Net cash on operations of the scheme	53,679,648	(113,255,076)
	<hr/>	<hr/>
CASH FLOW FROM INVESTING ACTIVITIES		
Investment income received	266,787,984	264,300,350
Investment management expenses paid	(11,667,306)	(9,935,164)
Proceed on disposal of treasury bonds	352,595,943	685,176,954
Proceed on disposal of treasury bills	333,478,274	174,572,759
Proceeds on disposal of quoted equity investments	35,824,368	6,327,947
Proceeds on disposal of corporate bonds	-	18,100,000
Purchase of corporate bonds	20,280,035	-
Purchase of quoted investments	(150,207,177)	(83,948,804)
Purchase of treasury bonds	(696,055,503)	(682,022,793)
Purchase of treasury bills	(36,400,600)	(328,858,850)
Purchase of offshore investments	-	(100,000,000)
	<hr/>	<hr/>
Net cash from investing activities	114,636,018	(56,287,601)
	<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents	168,315,666	(169,542,677)
	<hr/>	<hr/>
MOVEMENT IN CASH AND CASH EQUIVALENTS		
At start of year	34,017,255	203,559,932
(Decrease)/increase in cash and cash equivalents	168,315,666	(169,542,677)
	<hr/>	<hr/>
At the end of year	16 <u>202,332,921</u>	<u>34,017,255</u>

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

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

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The measurement basis applied is the historical cost basis, except for financial assets measured at fair value as per section ‘Financial instruments’ below.

Revenue recognition

Contributions receivable are accounted for in the period in which they fall due.

Dividend income from investments is recognised when the Schemes’ rights to receive payment as a shareholder have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable unless collectability is in doubt.

Benefits payable

Benefits payable are accounted for in the period in which they fall due.

Depreciation

Depreciation is provided on the reducing balance basis to write off the costs over their expected useful

Cash and cash equivalents

Cash and cash equivalents include cash at bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Scheme in the management of its short-term commitments.

Financial instruments

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

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

1 ACCOUNTING POLICIES

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires the scheme to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

In particular, IFRS 9 requires the Fund to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Fund is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

Further, at end of each reporting period, the Fund reviews the carrying amounts of its financial assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised in the income statement of changes in net assets whenever the carrying amount of the asset exceeds its recoverable amount.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Fair value

For financial instruments traded in an organised financial market, fair value is determined by reference to quoted market prices.

Short term deposits

Short term deposits are classified as held to maturity and are stated at amortised cost.

Government securities

Government securities comprise treasury bills and treasury bonds, which debt securities are issued by the Government of Kenya. Treasury bills are classified as held to maturity and are stated at amortised cost while treasury bonds are classified as fair value through profit or loss and are stated at fair value.

Corporate bonds

Corporate bonds are classified as fair value through profit or loss and are stated at market value as at 30 June.

Equity shares

Quoted investments are classified as fair value through profit or loss and are stated at market value as at 30 June.

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Foreign currencies

Foreign currency balances are translated into Kenyan Shillings at the rates of exchange ruling at the end of each reporting period. Transactions during the year are translated at the rates ruling when the transactions are effected. Gains and losses arising from the translations of monetary items are dealt with in the statement of changes in net assets available for benefits. The Scheme had foreign exchange at 30 June 2022.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and bank balances, and deposits maturing within three months from year end.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE SCHEME'S ACCOUNTING POLICIES

In the process of applying the Scheme's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

3 FINANCIAL RISK MANAGEMENT

The Scheme's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the Scheme does not hedge any risks.

Risk management is carried out by the investment managers of the scheme in accordance with policies approved by the Board of Trustees.

Market risk

(i) Foreign exchange risk

The Scheme had investments in offshore markets at 30 June 2022 and was therefore exposed to foreign exchange. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

(ii) Price risk

The Scheme is exposed to equity securities price risk because of investments in quoted shares classified at fair value through profit and loss. The Scheme is also exposed to the risk that the value of debt securities will fluctuate due to changes in market value. To manage its price risk arising from investments in equity and debt securities, the Scheme diversifies its portfolio. For equities, the Scheme has invested in companies in different sectors of the economy, while for debt securities; the Scheme has invested in bonds of varying maturities. Diversification of the portfolio is done in accordance with resolutions passed on investments during quarterly trustees' meetings. All quoted shares held by the Scheme are traded on the Nairobi Securities Exchange (NSE).

At 30 June 2022, if the prices of all equity investments had increased/decreased by 5% with all other variables held constant, the increase or decrease in net assets would amount to Shs. 31,639,238 (2021: Shs. 35,680,816). Holding all other factors constant, an impact of a 5% increase or decrease in prices of treasury bonds would have increased or decreased net assets by Shs. 107,950,887 (2021: Shs. 95,463,847).

KENYA FORESTRY RESEARCH INSTITUTE
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 FINANCIAL RISK MANAGEMENT(Continued)

Market risk(Continued)

(iii) Cash flow and fair value interest rate risk

The Scheme's interest-bearing assets are investments in treasury bonds, corporate bonds, treasury bills, commercial paper and fixed deposits. All of these instruments are at fixed interest rates. The Scheme therefore has no interest rate risk.

Credit Risk

Credit risk arises from cash and cash equivalents, fixed deposits, interest bearing investments, deposits with banks, and receivables. As part of the credit risk management system, the Investment Manager and the Trustees monitor and review information on significant investments. The Trustees have approved a larger portfolio investment with the Government of Kenya debt securities which have a low credit risk and no default record.

The amount that best represents the Scheme's maximum exposure to credit risk is made up as follows:

	Up to 3 Months Months KShs	4-12 Months Months KShs	Over 1 Year Years KShs	Total Total KShs
2022				
Treasury Bonds	-	-	2,159,017,741	2,159,017,741
Treasury bills	-	36,672,181	-	36,672,181
Call and term deposits	184,079,562	-	-	184,079,562
Contributions due	16,005,463	-	-	16,005,463
Bank balance	19,332,921	-	-	19,332,921
	<u>219,417,946</u>	<u>36,672,181</u>	<u>2,159,017,741</u>	<u>2,415,107,868</u>
2021				
Treasury Bonds	-	29,419,352	1,879,857,592	1,909,276,944
Treasury bills	-	333,478,274	-	333,478,274
Call and term deposits	30,030,096	-	-	30,030,096
Contributions due	13,436,376	-	-	13,436,376
Bank balance	4,017,255	-	-	4,017,255
	<u>47,483,727</u>	<u>362,897,626</u>	<u>1,879,857,592</u>	<u>2,290,238,945</u>

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 FINANCIAL RISK MANAGEMENT (Continued)

Impairment of financial assets

For the purposes of impairment assessment, the corporate bonds, government securities, are considered to have low credit risk as the counterparties to these investments have a minimum BBB- credit rating. Accordingly, for the purpose of impairment assessment for these financial assets, the loss allowance is measured at an amount equal to 12-month ECL.

In determining the expected credit losses for these assets, the Trustees have taken into account the historical default experience, the financial position of the counterparties, as well as the future prospects of the industries in which the issuers of the redeemable notes, bills of exchange and debentures operate obtained from economic expert reports, financial analyst reports and considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for these financial assets.

The table below details credit quality of the scheme's financial assets as well as the scheme's maximum exposure to credit risk by credit risk rating grade.

30 June 2022	Note	Internal/ external rating	12 months or lifetime ECL	Gross carrying amount	Loss allowance	Net amount
Treasury bonds	9	Investment grade	Lifetime ECL	2,159,017,741	-	2,159,017,741
Treasury bills	10	Investment grade banks	Lifetime ECL	36,672,181	-	36,672,181
Term deposits	11	Investment grade banks	-	184,079,562	-	184,079,562
Bank balances	16	Investment grade banks	-	19,332,921	-	19,332,921
Contributions due	17	Performing	Lifetime ECL	16,005,463	-	16,005,463
Total				2,415,107,868		2,415,107,868

KENYA FORESTRY RESEARCH INSTITUTE
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 FINANCIAL RISK MANAGEMENT (Continued)

Impairment of financial assets (Continued)

30 June 2021	Note	Internal/ external rating	12 months or lifetime ECL	Gross carrying amount	Loss allowance	Net amount
Treasury bonds	9	Investment grade	Lifetime ECL	1,909,276,944	-	1,909,276,944
Treasury bills	10	Investment grade banks	Lifetime ECL	333,478,274	-	333,478,274
Term deposits	11	Investment grade banks	-	30,030,096	-	30,030,096
Bank balances	16	Investment grade banks	-	4,017,255	-	4,017,255
Contributions due	17	Performing	Lifetime ECL	13,436,376	-	13,436,376
Total				2,290,238,945	-	2,290,238,945

The following table details the risk profile of receivables based on the Scheme's provisional matrix.

2022	Not past due	Receivables – days past due					Total
		<30	31 – 60	61 – 90	91 – 120	>120	
Gross carrying amount at default	20,197,041	-	-	-	-	-	20,197,041
Lifetime ECL	-	-	-	-	-	-	-
Net Amount	20,197,041	-	-	-	-	-	20,197,041

2021	Not past due	Receivables – days past due					Total
		<30	31 – 60	61 – 90	91 – 120	>120	
Gross carrying amount at default	13,436,376	-	-	-	-	-	13,436,376
Lifetime ECL	-	-	-	-	-	-	-
Net Amount	13,436,376	-	-	-	-	-	13,436,376

For contribution receivables, the Scheme has applied the simplified approach in the IFRS 9 to measure the loss allowance. All contributions due are received within one month from the end of the month and thus no need for impairment.

Impairment requirements under IFRS 9 as at 30 June 2022.

From the date of initial application of IFRS 9, the scheme has been analyzing its financial assets as regards loss allowances determined under IFRS 9, no additional impairment is required due to the nature of financial assets held by the scheme as disclosed above.

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 FINANCIAL RISK MANAGEMENT (Continued)

Impairment requirements under IFRS 9 as at 30 June 2022 (Continued)

No collateral is held for any of the above assets. Except for Imperial bank and Chase Bank corporate bonds which were fully impaired in 2018 & 2019 no financial assets are either past due or impaired. Government securities comprise of 70% (2021: 72%) of the assets subject to credit risk, which is a high concentration. However, it is in line with the Retirement Benefits Authority's limit.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated benefit payments. The trustees agree with the investment manager on the amount to be invested in assets that can be easily liquidated.

Fair value of financial assets and liabilities

The table below shows an analysis of financial instruments at fair value by level of the fair value hierarchy. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices); and
- iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
30 JUNE 2022				
At fair value through profit or loss				
Government Securities	2,195,689,922	-	-	2,195,689,922
Quoted equity	632,784,767	-	-	632,784,767
Corporate bonds	-	20,702,026	-	20,702,026
	<u>2,828,474,689</u>	<u>20,702,026</u>	<u>-</u>	<u>2,849,176,715</u>
30 JUNE 2021				
At fair value through profit or loss				
Government Securities	2,242,755,218	-	-	2,242,755,218
Quoted equity	713,616,319	-	-	713,616,319
	<u>2,956,371,537</u>	<u>-</u>	<u>-</u>	<u>2,956,371,537</u>

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2022 Shs	2021 Shs
4	CONTRIBUTIONS	
	125,837,053	126,569,159
From Employer	63,587,817	63,285,282
From Members	1,543,000	1,236,000
Additional voluntary contributions	<u>190,967,870</u>	<u>191,090,441</u>
	<u>190,967,870</u>	<u>191,090,441</u>
5	BENEFITS	
	106,331,317	275,029,722
Benefits paid and payable	<u>106,331,317</u>	<u>275,029,722</u>
	<u>106,331,317</u>	<u>275,029,722</u>
	Relates to amounts paid to members who leave the Scheme before retirement age and retirement benefits paid to members.	
6	INVESTMENT INCOME	
	<i>Held to maturity investments</i>	
	4,260,592	6,680,371
Interest on term deposits	16,846,097	11,379,329
Interest on treasury bills	1,664,141	2,098,964
Interest on corporate bonds		
	<i>Investments at fair value through profit or loss</i>	
	261,886,413	232,079,764
Interest on treasury bonds	<u>284,657,243</u>	<u>252,238,428</u>
	<u>284,657,243</u>	<u>252,238,428</u>
	30,335,240	22,497,707
Dividend incomes	<u>314,992,483</u>	<u>274,736,135</u>
	<u>314,992,483</u>	<u>274,736,135</u>
7	INVESTMENT MANAGEMENT EXPENSES	
	7,501,250	6,784,271
Investment manager fees	4,311,017	3,934,074
Custodian fees	<u>11,812,267</u>	<u>10,718,345</u>
	<u>11,812,267</u>	<u>10,718,345</u>

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2022 Shs	2021 Shs
8 ADMINISTRATIVE EXPENSES		
Administrator's fees	2,320,000	2,229,560
RBA levy	3,888,160	3,849,113
Trustee expenses	3,152,145	1,518,616
Trustees allowances	4,392,394	2,360,500
Audit fees	120,000	120,000
Bank charges	42,955	32,551
Members AGM expenses	2,131,675	2,087,880
Members education expenses	1,640,483	1,351,800
Secretariat staff salaries	4,767,781	4,755,218
Travelling and accommodation	745,974	466,535
Transport	716,186	749,437
Stationery and printing	363,310	229,550
Depreciation	575,248	730,550
Consultancy fees	550,000	-
Strategic plan implementation	-	1,077,900
Association of Retirement Benefits Schemes subscription	25,000	25,000
Maintenance expenses	103,400	57,800
	<u>25,534,711</u>	<u>21,642,010</u>
9 TREASURY BONDS		
At fair value through profit or loss		
At 1 July	1,909,276,944	1,917,040,548
Purchases	696,055,503	682,022,793
Maturity /disposals	(352,595,943)	(685,176,954)
Loss on maturity	(5,377,514)	(913,513)
Fair value loss	(88,341,249)	(3,695,930)
	<u>2,159,017,741</u>	<u>1,909,276,944</u>
At 30 June	<u>2,159,017,741</u>	<u>1,909,276,944</u>
Maturing:		
-Within one year	-	29,419,352
-After one year but within five years	2,159,017,741	1,879,857,592
	<u>2,159,017,741</u>	<u>1,909,276,944</u>

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2022 Shs	2021 Shs
10	TREASURY BILLS	
	Held to maturity	
	At 1 July	
	333,478,274	167,812,854
	Purchases	
	36,400,600	328,858,850
	Maturity	
	(333,478,274)	(174,572,759)
	Accrued interest	
	271,581	11,379,329
	<hr/>	<hr/>
	At 30 June	
	<u>36,672,181</u>	<u>333,478,274</u>
11	TERM DEPOSITS	
	Held to maturity	
	Diamond Trust Bank Kenya limited	
	-	13,030,096
	Equity Bank Kenya Limited	
	105,744,110	17,000,000
	Co-operative Bank of Kenya Limited	
	68,256,548	-
	NCBA Bank Kenya	
	10,078,904	-
	<hr/>	<hr/>
	<u>184,079,562</u>	<u>30,030,096</u>
12	CORPORATE BONDS	
	At fair value through profit or loss	
	Chase Bank Limited	
	10,000,000	10,000,000
	<i>Impairment loss on Chase Bank Limited corporate bond</i>	
	<i>(10,000,000)</i>	<i>(10,000,000)</i>
	East African Breweries Limited	
	20,702,026	-
	Imperial Bank Limited	
	10,000,000	10,000,000
	<i>Impairment loss on imperial bank corporate bond</i>	
	<i>(10,000,000)</i>	<i>(10,000,000)</i>
	<hr/>	<hr/>
	<u>20,702,026</u>	<u>-</u>

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2022 Shs	2021 Shs		
14	OFFSHORE INVESTMENTS				
	At 1 July	109,126,979	-		
	Purchases	-	100,000,000		
	Fair value change	(27,113,866)	9,126,979		
	Market value at 30 June	<u>82,013,113</u>	<u>109,126,979</u>		
15	PROPERTY, PLANT AND EQUIPMENT				
		FURNITURE & OFFICE EQUIPMENT	COMPUTERS	MOTOR VEHICLES	TOTALS
	COST	Shs	Shs	Shs	Shs
	At 1 July 2021 & 30 June 2022	<u>3,291,532</u>	<u>1,045,580</u>	<u>3,636,356</u>	<u>7,973,468</u>
	DEPRECIATION				
	At 1 July 2021	1,504,055	831,675	2,485,790	4,821,520
	Charge for the year	223,435	64,172	287,641	575,248
	At 30 June 2022	<u>1,727,490</u>	<u>895,846</u>	<u>2,773,431</u>	<u>5,396,768</u>
	NET BOOK VALUE				
	At 30 June 2022	<u>1,564,042</u>	<u>149,734</u>	<u>862,925</u>	<u>2,576,700</u>
	At 30 June 2021	<u>1,787,477</u>	<u>213,905</u>	<u>1,150,566</u>	<u>3,151,948</u>
16	CASH AND CASH EQUIVALENTS				
	Cash at bank	19,332,921	4,017,255		
	Term deposits	183,000,000	30,000,000		
		<u>202,332,921</u>	<u>34,017,255</u>		
	For the cash flow statement, cash and cash equivalents comprise bank balances and deposits held at call with banks maturing within 3 months from the financial year end of the scheme.				
17	CONTRIBUTIONS AND OTHER RECEIVABLES				
	Contributions due for less than 30 days.	16,005,463	13,436,376		
	Dividend receivable	4,191,578	-		
		<u>20,197,041</u>	<u>13,436,376</u>		

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 INVESTMENTS FOR BENEFITS HELD IN TRUST-APPENDIX 1	2022 Shs	2021 Shs
Net investments held	<u>105,348,373</u>	<u>137,029,794</u>
Benefits held in trust represent investments for benefits held under trust for former members of the scheme now deceased.		
19 UNPAID BENEFITS		
Amounts due to leaving members.	<u>6,923,150</u>	<u>5,194,756</u>
20 ACCRUED EXPENSES AND OTHER PAYABLES		
RBA Levy payable	3,889,240	3,850,101
Fund administration fees payable	2,320,000	2,320,000
Secretariat staff salaries	2,406,370	2,445,384
Custodial fees payable	343,309	332,854
Investment management fees payable	1,880,594	1,746,090
Audit fees payable	120,000	120,000
	<u>10,959,513</u>	<u>10,814,429</u>
21 NET ASSETS AT END OF YEAR		
Net assets at start of the year	3,099,021,663	2,798,044,502
Increase in net assets	38,192,831	300,977,161
	<u>3,137,214,494</u>	<u>3,099,021,663</u>

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 TAX STATUS OF THE SCHEME

Kenya Forestry Research Institute -Defined Contribution Retirement Benefits Scheme has been approved by the Kenya Revenue Authority and is exempt from income tax on its investment income from the registered scheme. Contribution received by the scheme up to a limit of Shs. 20,000 (2020-Shs 20,000) per employee per month are invested in registered fund, which is exempted from taxation. The remainder of the contribution is invested in an unregistered fund whose investment income is taxed at the corporate tax rate of 30% (2021 –25% and 30%).

	2022 Shs	2021 Shs
Corporate tax on Income from Unregistered Scheme	<u>9,200,587</u>	<u>6,274,267</u>
Balance at start of year	1,103,343	1,810,092
Tax provision for the year	9,200,587	6,274,267
Tax paid during the year	<u>(8,025,035)</u>	<u>(6,981,016)</u>
Balance at end of year	<u>2,278,895</u>	<u>1,103,343</u>

23 RELATED TRANSACTIONS

Related parties comprise the trustees, the founder, and companies which are related to the parties through common shareholdings or common directorships. Balances received and due from the sponsor Kenya Forestry Research Institute, in respect of contributions receivable are disclosed in Notes 4 and 17 and administrative expenses are disclosed in Note 8.

24 CONTINGENT LIABILITIES

Other than the liability to pay future pensions and other benefits, there were no contingent liabilities of the scheme at 30 June 2022.

25 CURRENCY

The financial statements are presented in Kenya Shillings (Shs).

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

BENEFITS HELD IN TRUST

Appendix 1

STATEMENT OF NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2022

	2022 Shs	2021 Shs
ASSETS		
Treasury bonds	89,565,795	94,094,886
Treasury bills	-	6,566,811
Corporate bonds	4,000,000	4,000,000
Term deposits and money market	6,720,318	900,154
Bank balance	5,155,279	31,529,866
	<hr/>	<hr/>
	105,441,392	137,091,717
	<hr/>	<hr/>
LIABILITIES		
Investment management fees payable	80,522	47,677
Custodian fees payable	12,497	14,246
	<hr/>	<hr/>
	93,019	61,923
	<hr/>	<hr/>
NET ASSETS	105,348,373	137,029,794
	<hr/> <hr/>	<hr/> <hr/>
REPRESENTED BY:		
Member balances	105,348,373	137,029,794
	<hr/> <hr/>	<hr/> <hr/>

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

BENEFITS HELD IN TRUST

Appendix 1 continued

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

	2022 Shs	2021 Shs
BENEFITS RECEIPTS AND PAYMENTS		
Receipts	20,363,126	48,736,568
Payments	(63,140,899)	(28,476,549)
Net withdrawals	<u>(42,777,773)</u>	<u>20,260,019</u>
INVESTMENT INCOME		
Interest on treasury bonds	10,931,477	10,752,352
Interest on treasury bills	138,034	1,117,508
Interest on term deposits	517,589	446,025
	<u>11,587,100</u>	<u>12,315,885</u>
Investment management expenses		
Management fees	(253,248)	(238,702)
Custody fees	(170,845)	(175,374)
Bank charges	(66,655)	(30,646)
	<u>(490,748)</u>	<u>(444,722)</u>
Net investment income	<u>11,096,352</u>	<u>11,871,163</u>
(Decrease)/increase in net assets	<u><u>(31,681,421)</u></u>	<u><u>32,131,182</u></u>

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

GOVERNANCE STATEMENT

Appendix II

Trustees in office during the year

Name of Trustee	Age	Category (sponsor/member)	No. of meetings attended	Certified?	Highest academic qualification	Member of other pension boards
Dr. George Muthike	58	Member	9	Yes	Doctorate Degree	No
Mrs. Sarah Mogaka	51	Member	9	Yes	Masters Degree	No
Dr. Sammy Letema	51	Sponsor	7	Yes	Doctorate Degree	No
Dr. Joshua Cheboiwo	64	Sponsor	9	Yes	Doctorate Degree	No
Dr. Agnes Ogada	62	Sponsor	6	Yes	Doctorate Degree	No
Ms. Rose Osoro	51	Sponsor	7	Yes	Masters Degree	No
Mr. Charles K. Koech	52	Member	9	Yes	Masters Degree	No
Mr. Timothy Wanjala	46	Member	7	Yes	Masters Degree	No

Trustees meetings

The Board of trustees held nine (9) meetings during the year ended 30 June 2022. The meetings were held on the dates set out hereunder:

- (a) Special meeting held on 16th July 2021
- (b) 1st quarter meeting held on 24th August 2021
- (c) 2nd quarter meeting held on 19th November 2021
- (d) Special meeting held on 9th December 2021
- (e) Special meeting held on 12th January 2022
- (f) 3rd quarter meeting held on 15th February 2022
- (g) Special meeting held on 15th March 2022
- (h) Special meeting held on 19th April 2022
- (i) 4th quarter meeting held on 23rd May 2022

Committees of the Board

Name of committee	Number of meetings held	Any external adviser invitees to the meeting	Allowances paid Kshs.
Administration and Communication	4	None	255,000
Finance and Investments	4	None	253,920
Audit and Risk Management	4	None	266,595
Investigating Committee (ad hoc)	4	None	317,595
Disciplinary Committee (ad hoc)	4	Yes	332,450

Fiduciary Responsibility

The Board of Trustees is the governing body of Kenya Forestry Research Institute Defined Contribution Retirement Benefits Scheme and is responsible for the corporate governance of the Scheme. The trustees are responsible for ensuring that the administration of the Scheme is conducted in the best interests of the Scheme's members and the sponsor. To achieve this, the Directors embraced their fiduciary responsibility by:

- a. Acting honestly and did not improperly use 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.

Fiduciary Responsibility (Continued)

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 investment manager has carried out all Scheme investments and that all Scheme assets and funds are held by the custodian.

The Trustees have also developed a board strategy for the Scheme.

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. Supporting innovation and developing solutions that meet the members' and sponsor's needs; and
- c. Ensuring that the Scheme's administrative processes remain transparent and accessible to members and the sponsor.

The Board of Trustees will measure the progress towards these outcomes through:

- a. Triennial members' survey score.
- b. Regular reports and feedback from the sponsor.

Annual general meeting

The Board of Trustees held Annual General Meetings between 5th October 2021 and 7th October 2021 where 421 members attended the meetings making up 55.1% of Scheme membership. The Board adequately addressed the members' concerns.

Members' sensitization

The Board conducted the following sensitization activities:

Name of forum	Attendants
Member Education	160

Trustees' remuneration

During the year under review, the Trustees were paid a gross sum of Shs. 4,392,394

The payments complied with the limits approved by members during the Annual General Meetings held between 8th October 2020 and 14th October 2020.

KENYA FORESTRY RESEARCH INSTITUTE
DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEME

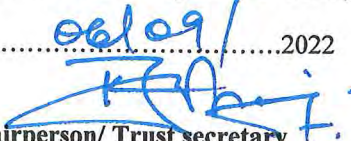
GOVERNANCE STATEMENT

Appendix II continued

Board of Trustees' evaluation

The Board and individual Trustees did not undertake evaluation during the year under review. The Board will endeavor to achieve this during the year ending 30 June 2023.

.....2022


Chairperson/ Trust secretary
For the Board of Trustees