

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*Paper laid*  
*By Hon. Aden Duale, MP (Lom)*  
*on Thurs. 23.08.2018 (pm)*  
*ADU*



**REPORT**

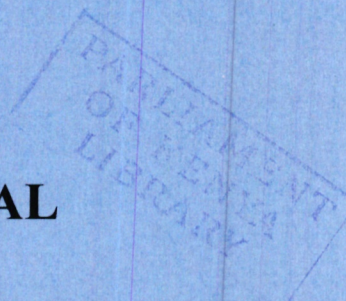
**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
NATIONAL SOCIAL SECURITY FUND**

**FOR THE YEAR ENDED  
30 JUNE 2017**







**NSSF**  
Growing You. For Good

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30TH JUNE 2017**

*Prepared in accordance  
with the Accrual Basis of  
Accounting Method  
under the International  
Financial Reporting Standards  
(IFRS)*

**National Social Security Fund  
NSSF Building  
Off Bishop Road, P.O. Box 30599 - 00100, Nairobi, Kenya  
Tel: (020) 2729911, 27210552  
Email: [info@nssfkenya.co.ke](mailto:info@nssfkenya.co.ke)  
ISO 9001:2015 Certified**

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## PART I: ANNUAL REPORT

### I. KEY CORPORATE INFORMATION

#### 1. Background and Branch Network

NSSF draws in its mandate from the NSSF Act no. 45 of 2013 that came into effect on 10<sup>th</sup> January 2014. The Fund is domiciled in Kenya with a branch network shown below:



**National Social Security Fund**  
**Reports and Financial Statements for the**  
**Year ended 30 June 2017**



**Branch Network and Contact Information**

**Western & Nyanza Region:**

|  |   |   |   |  |  |
|--|---|---|---|--|--|
| <p><b>Regional Office</b><br/>                     Al Imran Plaza, 3<sup>rd</sup> Floor<br/>                     Oginga Odinga Street<br/>                     P.O. Box 1037 - 40100<br/>                     Kisumu.<br/>                     Tel:+254732680019</p>   | <p><b>Kakamega Branch</b><br/>                     1<sup>st</sup> Floor, Ambwere Furaha<br/>                     Centre, Sudi Road,<br/>                     P.O Box 833 -50100,<br/>                     Kakamega.<br/>                     Tel:0562031489/056<br/>                     2030428/+254737409418</p>  | <p><b>Bungoma Branch</b><br/>                     Catholic Building, 1<sup>st</sup> Floor,<br/>                     Mumias Road<br/>                     P.O Box 572 - 50200<br/>                     Bungoma.<br/>                     Tel: 055-2030123 /<br/>                     +254737409456</p> | <p><b>Vihiga Sub Branch</b><br/>                     1<sup>st</sup> Floor, Cherry House<br/>                     P.O Box 1446 - 50300,<br/>                     Maragoli,<br/>                     Tel: 056 02031110</p>  | <p><b>Kisumu Branch</b><br/>                     Al Imran Plaza, 3<sup>rd</sup> Floor<br/>                     Oginga Odinga Street<br/>                     P.O. Box 1037 - 40100<br/>                     Kisumu.<br/>                     Tel: +254737409447 &amp;<br/>                     057 2024338</p> | <p><b>Homabay Branch</b><br/>                     Luore Plaza, 1<sup>st</sup> Floor,<br/>                     Bank Road<br/>                     P.O Box 167—40300.<br/>                     Homabay.<br/>                     Tel: +254737409446</p>    |
| <p><b>Busia Branch</b><br/>                     Rasto-Park Plaza, Ground<br/>                     Floor Off Kisumu -Busia<br/>                     Road<br/>                     P. O. Box 109-50400,<br/>                     Busia.<br/>                     Tel. +254055-2322270 /<br/>                     +254737409441</p>     | <p><b>Migori Branch</b><br/>                     Pesoda Plaza, 1<sup>st</sup> Migori<br/>                     CBD, Along Migori-Isibania<br/>                     Highway<br/>                     P.O Box 513- 40400<br/>                     Migori.<br/>                     Tel.+254786222323</p>   | <p><b>Kisii Branch</b><br/>                     1<sup>st</sup> Floor, Magsons Plaza,<br/>                     Hospital Road<br/>                     P.O.Box 898-40200<br/>                     Kisii.<br/>                     Tel. 05820-30206 /<br/>                     +254737409394</p>         | <p><b>Siaya Branch</b><br/>                     Mwalimu Plaza, 1<sup>st</sup> Floor<br/>                     P.O. Box 1169-40600<br/>                     Siaya.<br/>                     Tel: 057 5321747/<br/>                     +254737409 390</p>   | <p><b>Nyamira Sub-Branch</b><br/>                     Happyline Centre, 2<sup>nd</sup><br/>                     Floor<br/>                     P.O Box 249- 40500<br/>                     Nyamira.<br/>                     Tel: 0586144000 / &amp;<br/>                     +254780525249</p>                |  |
| <b>Rift Valley Region</b>  |   |   |   |  |  |
| <p><b>Regional Office</b><br/>                     AFC Building, 1<sup>st</sup> Floor<br/>                     Kijabe Row,<br/>                     P. O. Box 1510-20100<br/>                     Nakuru.<br/>                     Tel: +254 051-2216449</p>   | <p><b>Sotik Branch</b><br/>                     Patnas (Bureti) Sacco<br/>                     Building, opposite Sotik<br/>                     Police Station,<br/>                     P.O Box 947<br/>                     Sotik.<br/>                     Tel: +254737409413</p>   | <p><b>Kitale Branch</b><br/>                     Ambwere Plaza, Ground<br/>                     Floor,<br/>                     P.O. Box 49 – 30200<br/>                     Kitale.<br/>                     Tel: +254 054 30861/<br/>                     +254737409463</p>                         | <p><b>Eldoret Branch</b><br/>                     Uganda Road Kiptagich<br/>                     House, 6<sup>th</sup> Floor<br/>                     P.O. Box 1120-30100<br/>                     Eldoret.<br/>                     Tel: +254 0532062284/<br/>                     0532061476</p>  | <p><b>Narok Branch</b><br/>                     Oltalet Mall – 1<sup>st</sup> Floor -<br/>                     Narok - Mai-Mahiu Rd<br/>                     P.O Box 443-20500,<br/>                     Narok.<br/>                     Tel: +254 050-2222062/<br/>                     +254737409439</p>     | <p><b>Lodwar Branch</b><br/>                     Northlands Blding, Next<br/>                     To Doctor's Mini-Plaza.<br/>                     P.O. Box 106 -30500<br/>                     Lodwar.<br/>                     Tel. +254735 888877</p> |
| <p><b>Elegeyo Markwet/<br/>                     Kapsowar Sub-Branch</b><br/>                     Marakwet Teachers Housing<br/>                     Sacco<br/>                     P.O Box 266- 30705<br/>                     Kapsowar<br/>                     Tel. +254737090120 &amp;<br/>                     +254722647216</p> | <p><b>West Pokot Sub-Branch</b><br/>                     Paves Vetagro Building,<br/>                     1<sup>st</sup> Floor Behind Suntech<br/>                     Supermarket<br/>                     Kitale- Kapenguria Road<br/>                     P.O Box 494—30600<br/>                     Kapenguria<br/>                     Tel.+254732206035</p> | <p><b>Kabarnet Branch</b><br/>                     Mart Properties Plaza<br/>                     Kabarnet / Nakuru Junction.<br/>                     P.O. Box 14-30400<br/>                     Kabarnet.<br/>                     Tel: +254 05322162</p>   | <p><b>Molo Sub Branch</b><br/>                     Maziwa House, 1<sup>st</sup> Floor,<br/>                     Next To Post Bank Opposite<br/>                     Riva Petrol Station Molo<br/>                     Town.<br/>                     P.O Box 214-20106<br/>                     Molo.<br/>                     Tel. +254771889439</p> | <p><b>Kapsabet Branch</b><br/>                     AFC Building 1<sup>st</sup> Floor<br/>                     P.O Box 1122- 30300<br/>                     Kapsabet.<br/>                     Tel: +254 053-5252113 /<br/>                     +254735888887</p>   | <p><b>Nakuru Branch</b><br/>                     Polo Centre 1<sup>st</sup> Floor<br/>                     P.O Box 1510 - 20100,<br/>                     Nakuru.<br/>                     Tel: +254 051-<br/>                     2210952/3</p>         |

|  |  |  |  |   |  |
|--|--|--|--|---|--|
| <b>Naivasha Branch</b><br>Wagi House, Kenyatta Avenue<br>P. O. Box 361 - 20117,<br>Naivasha.<br>Tel: +254737409437   | <b>Kericho Branch</b><br>Sinendet Towers, 2 <sup>nd</sup> Floor<br>Ksm-Nbi Highway<br>P. O. Box 586 - 00200<br>Kericho.<br>Tel.+254737 409 470 | <b>Nandi Hills Branch</b><br>Post Office Building – Opp.<br>Nandi Police Stn.<br>P.O Box 207,<br>Nandi-Hills<br>Tel.+254737 408 423                |  |   |  |
| <b>Nairobi Region</b>  |  |  |  |   |  |
| <b>Regional Office</b><br>Bruce House, 5 <sup>th</sup> Floor<br>P.O Box 50397- 00200<br>Nairobi<br>Mobile +254737409453  | <b>Industrial Area Branch</b><br>Simco Plaza, 3 <sup>rd</sup> Floor<br>P.O Box 30451—00100<br>Nairobi<br>Tel. +254737409457                    | <b>Ongata Rongai Branch</b><br>Maasai Mall 2 Floor<br>P.O Box 665-00511<br>Ongata Rongai<br>Tel. +25445-3123112 /<br>+254731-032 088               | <b>Eastleigh Branch</b><br>Eastleigh Mall, 1 <sup>st</sup> Floor,<br>General Wariunge Street<br>P.O Box 7800-00610,<br>Nairobi.<br>Tel: +254739102003    | <b>Kiambu Branch</b><br>Mapa House, 2 <sup>nd</sup> Flr,<br>Biashara Street<br>P O Box 713 – 00900,<br>Kiambu<br>Tel.+254737 633 914        | <b>Machakos Branch</b><br>Nijrang Building, 1 <sup>st</sup><br>Floor Bolumalu Rd.<br>P.O Box 525- 90100,<br>Machakos<br>Tel. +254737409412 |
| <b>City Centre Branch</b><br>Bruce House, 5 <sup>th</sup> Floor,<br>Standard Street<br>P.O Box 50397—00200<br>Nairobi<br>Tel. +254 020 2228068<br>/+254020 2228276 | <b>Westlands Branch</b><br>Woodvale Centre,<br>Woodvale Grove<br>P.O Box 66575-00800<br>Nairobi<br>Tel. +254737409416                          | <b>Hill Branch</b><br>Social Security House,<br>Block C,<br>P. O. Box 45969 - 00100,<br>Nairobi<br>Tel. 0202713844/46/48/51<br>/0737090169         | <b>Donholm Branch</b><br>The Point-Buruburu Along<br>Rabai Road<br>Opp. Kenol Petrol Station<br>P. O Box 1387-00515,<br>Buruburu<br>Tel: +254773780210   | <b>Kitengela Branch</b><br>Ground And First Floor,<br>Africa House,<br>P. O. Box 529 – 00242,<br>Kitengela<br>Tel. +254739102009            |  |
| <b>Central &amp; Eastern Region</b>  |  |  |  |   |  |
| <b>Regional Office</b><br>Sohan Plaza - 2nd Floor<br>Kimathi Way<br>P. O. Box 308 – 10100,<br>Nyeri<br>Tel: 061 – 2031140  | <b>Nyeri Branch</b><br>Sohan Plaza - 2nd Floor<br>P. O. Box 308—10100,<br>Nyeri.<br>Tel: (061) 2032103/<br>+254737409455                       | <b>Thika Branch</b><br>Thika House Ground Floor<br>On Kwame Nkurumah<br>Street<br>P.O Box 844-01000, Thika<br>Tel. - 067-2222279<br>/+254737409391 | <b>Mwingi Branch</b><br>P.O Box: 432-90400<br>LDP Building Along<br>Mwingi-Garissa Highway,<br>Ground Floor.<br>Tel. 044-822339/822340<br>/+254737409465 | <b>Kitui Branch:</b><br>Muli Mall, Ground Floor,<br>Mukuti Street.<br>P. O. Box 641-90200,<br>Kitui.<br>Tel 044-4422239,<br>+254737 409 417 | <b>Kerugoya Branch</b><br>Bingwa Saaco Building,<br>1st Flo<br>P. O. Box 600-10300,<br>Kerugoya<br>Tel. +254737 409471                     |

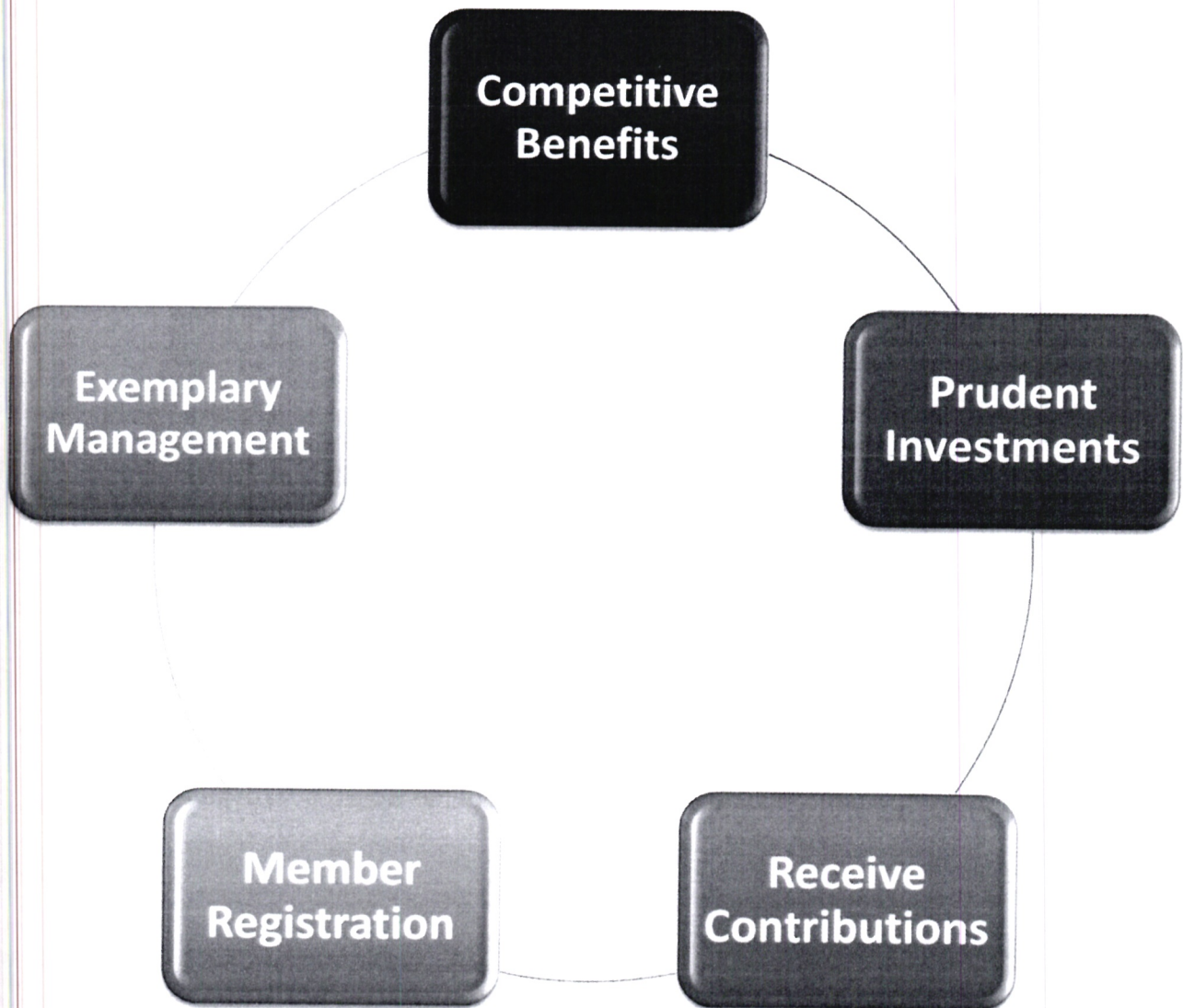
**National Social Security Fund**  
**Reports and Financial Statements for the**  
**Year ended 30 June 2017**



|  |   |   |  |  |   |
|--|---|---|--|--|---|
| <b>Nyahururu Branch</b><br>Barclays Bank House,<br>Sharp Road<br>P O Box 148- 20300,<br>Nyahururu<br>Tel- 065-2032943<br>/ 037409459           | <b>Muranga Branch</b><br>Pala Plaza, Ground Floor<br>Kenyatta Avenue<br>P.O Box 168 -10200,<br>Muranga<br>Tel: 060-2030313<br>/ +254737409473 | <b>Marsabit Branch</b><br>Ngamia Mall, Opposite<br>Shell Petrol Station,<br>P.O Box 88-60500<br>Marsabit<br>Tel. 0702 463901                      | <b>Tharaka Nithi Sub Branch</b><br>New Mutegi Murango<br>Building, Chuka Town,<br>P.O Box 320 - 60400,<br>Chuka, Kenya<br>Tel: +254731883332 | <b>Isiolo Sub Branch</b><br>Saada Arcade Ground<br>Floor<br>Behind Shamz Hotel<br>P.O. Box 730-60300,<br>Isiolo<br>Tel: +254702463888  | <b>Meru Branch</b><br>Ncheege Plaza 1 <sup>st</sup> Flr.<br>Kirikuri Street.<br>P.O. Box 1228-60200,<br>Meru<br>Tel: No 064 3132912<br>Mobile: 0737 409 474 |
| <b>Embu Branch</b><br>Eastern Emporium Bldg.<br>Kenyatta Highway<br>P.O Box 316- 60100,<br>Embu<br>Tel; +254734317315<br>/0737409460           | <b>Maua Sub- Branch</b><br>Nyambene Synod Plaza<br>Ground Floor<br>Meru Maua Road<br>P.O Box 3-60600, Maua<br>Tel: +254731883362              | <b>Maralal Branch</b><br>Saidia Building, Opp<br>County Treasury Offices.<br>P. O. Box 258-20600,<br>Maralal.<br>Tel. 065-5062047<br>/ 0737409433 | <b>Nanyuki Branch</b><br>Silver Plaza, Ground Floor<br>Along Kenyatta Highway<br>P.O Box 226-10400,<br>Nanyuki<br>Tel: +254737409444         |  |   |
| <b>Coast &amp; North Eastern Region</b>  |   |   |  |  |   |
| <b>Regional Office</b><br>Social Security House,<br>Nkrumah Road,<br>P. O. Box 90490-80100,<br>Mombasa<br>Tel.: 041- 2223426/19                | <b>Lamu Sub-Branch</b><br>Majid Swaleh Hemed<br>Building<br>P.O Box 389- 80500, Lamu<br>Tel: 254737409410                                     | <b>Voi Branch</b><br>Haji Plaza, Ground Floor,<br>Biashara Street.<br>P.O. Box 127-80300, Voi<br>Telephone: 043-2030129<br>Mobile: +254737409398  | <b>Wajir Branch</b><br>Juba Building, Orahey-<br>Works Road, Ground Floor<br>P.O Box 326 -70200, Wajir<br>Tel.: +254737409411                | <b>Malindi Branch</b><br>1st Floor Al- Noor Plaza- Jomo Kenyatta Road<br>P. O. Box 290- 80200, Malindi.<br>Telephone :( 254) 42 2130003<br>Fax :( 254) 42 2120819<br>Tel.: +254737409449 |   |
| <b>Mombasa Branch</b><br>Ground Floor, social<br>Security House,<br>Nkurumah Road,<br>P.O. Box 90490-80100,<br>Mombasa<br>Tel: 041- 2223426/19 | <b>Tana River Sub- Branch</b><br>Said Omar House<br>P. O. Box 204 -70101, Hola<br>Tel:+254780002200<br>+2547738110858                         | <b>Ukunda Branch</b><br>Tiosgima Plaza, Beach<br>Road,<br>P.O. Box 1076-80400<br>Ukunda.<br>Tel: +254737 409434                                   | <b>Garissa Branch</b><br>1st Floor, Lilac Centre,<br>Kismayu Road,<br>P.O Box 378-70100,<br>Garissa,<br>Tel: +254737409468                   | <b>Mtwapa Branch;</b><br>Mtwapa Mall, 1st Floor<br>Mombasa-Malindi Road<br>P.O Box 733 – 80109<br>Mtwapa<br>Tel. +254786222322   |   |

## 2. Principal Activity

NSSF mandate as stipulated under Section 4 of the NSSF Act 2013 is to register members, receive their contributions, invest the funds prudently, process and ultimately pay out benefits to eligible members or their dependants.



### 3. Board of Trustees

The Fund is governed by a Board of Trustees constituted as per the NSSF Act No. 45 of 2013 (section 6), with representation from the most representative workers' organization, most representative employers' organization and the Government of Kenya (through the Ministry of East Africa Community, Labour & Social protection, and The National Treasury). The composition of the Board of Trustees is meant to accommodate the views and aspirations of the three social partners in policy formulation and running of the organization.



*From left: A. Munyiri, D. Muhika, M. Kilaka, J. Mugo, F. Atwoli, T. Maina, J.M. Obuya, K. Kassachoon, A. Omerikwa*

During the year 2016/2017 the members of the Board of Trustees were as follows:-

|    | Name of Trustee                         | Date Appointed | Date Exited | Position  |
|----|---|----------------|-------------|---|
| 1  | Hon. Gideon M. Ndambuki, EGH            | 31.05.2016     | -           | Chairman  |
| 2  | Dr. Khadija Kassachoon                  | 25.05.2016     | -           | Trustee - Ministry responsible for Labour           |
| 3  | Dr. Kamau Thugge, CBS                   | 14.10.2015     | -           | Trustee - National Treasury                         |
| 4  | Mr. Mutua Kilaka. CBS, SS               | 14.10.2015     | -           | Alternate Trustee - National Treasury               |
| 5  | Mrs. Jacqueline Mugo, OGW, MBS          | 16.09.2015     | -           | Trustee - Federation of Kenya employers             |
| 6  | Mr. Francis Atwoli, NOM, EBS, MBS, (DZA | 16.09.2015     | -           | Trustee - COTU                                      |
| 7  | Ms. Damaris Wanjiru Muhika              | 02.02.2015     | -           | Trustee - COTU                                      |
| 8  | Ms. Teresa Maina                        | 31.09.2015     | -           | Trustee - Independent                               |
| 9  | Mr. Anthony M. Munyiri                  | 20.02.2017     | -           | Trustee - Independent                               |
| 10 | Mr. Mark J. Obuya                       | 20.02.2017     | -           | Trustee - FKE                                       |
| 11 | Mr. Patrick. Ogola                      | 16.09.2015     | 13.01.2017  | Trustee - Independent                               |
| 12 | Eng. Erastus K. Mwangera CBS, EBS, OGW  | 13.01.2014     | 13.01.2017  | Trustee - FKE                                       |
| 13 | Dr. Anthony O. Omerikwa                 |                |             | Ag. Managing Trustee/CEO (Ex-Officio and Secretary) |

#### 4. Secretary to The Board of Trustees

- Dr. Anthony Omerikwa
- P.O Box 30599 - 00100 Nairobi

#### 5. Registered Office / Corporate Headquarters

- National Social Security Fund,  
 NSSF Building, Bishops Road
- Nairobi

#### 6. Corporate Contacts

- P.O Box 30599 - 00100 Nairobi
- Tel: +2542729911  
 Email: info@nssfkenya.co.ke
- Website: [www.nssf.or.ke](http://www.nssf.or.ke)

#### 7. Main Lawyers

Wetangula, Adan & Co  
 Advocates,  
 12th Floor Bruce House,  
 P O Box 10741 – 00100  
 Nairobi

Cootow & Associates  
 Advocates,  
 NSSF House, 11th Floor, Pent  
 House, Nkrumah Road,  
 P. O. Box 16858 – 80100,  
 Mombasa

TrippleOK Law Advocates,  
 ACK Garden House, 5<sup>th</sup> Floor  
 Block C, 1st Ngong Avenue,  
 P.O. Box: 43170-00100,  
 Nairobi

#### 8. Independent Auditors

Auditor General,  
 Office of Auditor General  
 Anniversary Towers, University way  
 P.O. Box 30084-00100  
 Nairobi.

Tel: 254-20-342330/2227383  
 Oag@Oagkenya.go.ke

#### 9. Main Bankers

KCB Bank Kenya Limited,  
 Moi Avenue,  
 P.O. Box 48400, 00100  
 Nairobi

National Bank of Kenya.  
 Hill Branch, NHIF Building,  
 P. O. Box 45151 – 00100,  
 Nairobi.

Cooperative Bank of Kenya  
 limited  
 Hill Branch, NHIF Building,  
 P. O. Box 45151 – 00100,  
 Nairobi

#### 10. Fund Managers

**Icea Lion Asset Management Ltd,**  
 Icea Lion Centre, Riverside Park, Chiromo  
 Road, Westlands,  
 P.O. Box 46143-00100,  
**Nairobi.**

**GenAfrica Investment Management Ltd,**  
 14 Riverside Business Park, 1<sup>st</sup> Floor,  
 P.O. Box 79127-00200,  
**Nairobi.**

**STANLIB Kenya Limited,**  
 CfC House, Nyerere Road,  
 P.O. Box 30550-00100,  
**Nairobi.**

**Old Mutual Asset Management (K) Ltd,**  
 Old Mutual Building,  
 Mara/Hospital Road,  
 P.O. Box 11589-00400,  
**Nairobi.**

**Britam Asset Management (K) Ltd,**  
 Britam Centre,  
 Mara/Ragati Road Junction, Upperhill  
 P.O. Box 30375-00100,  
**Nairobi.**

**11. Custodians**

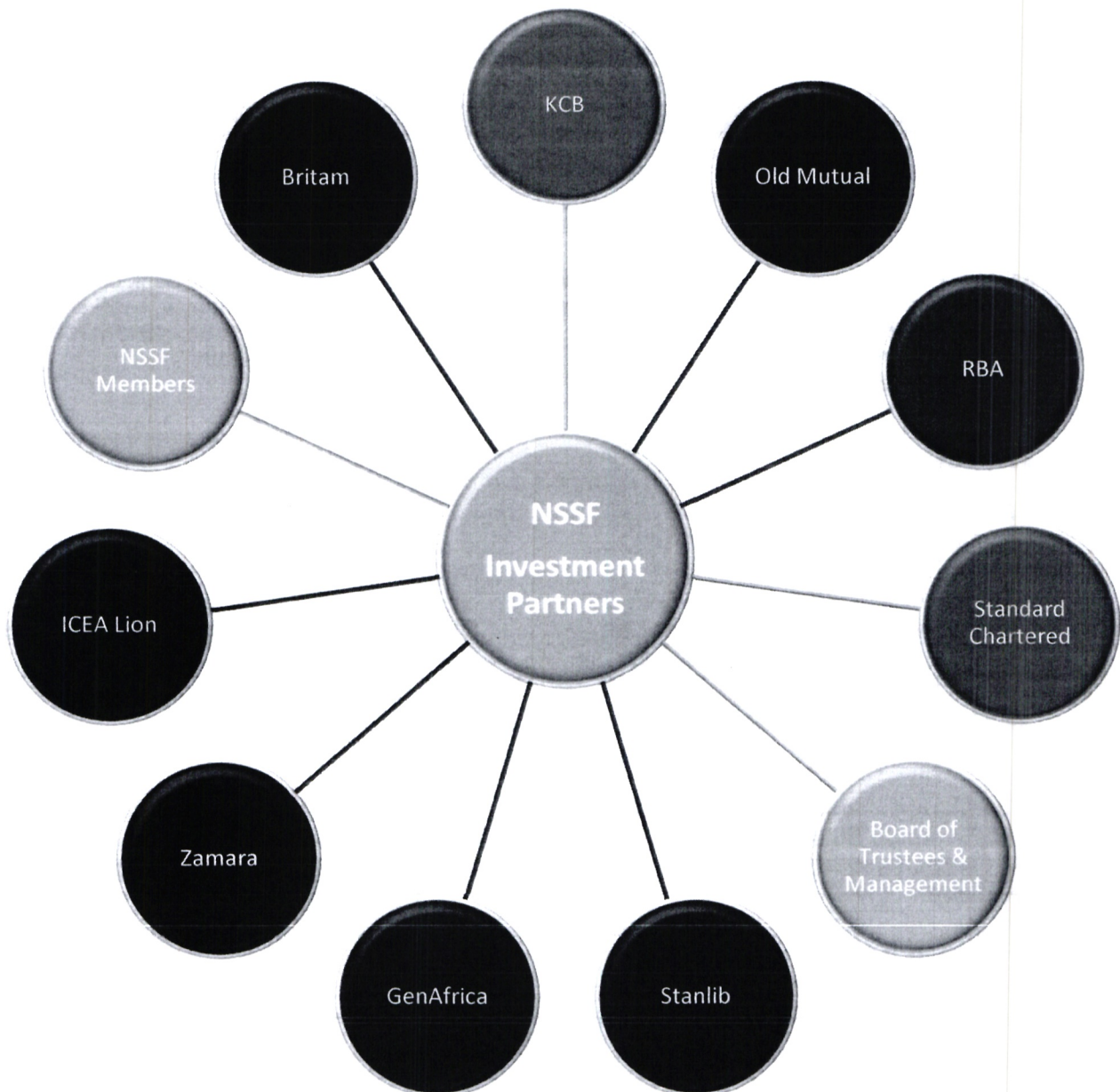
Standard Chartered Securities Services  
Kenya, 48 Westlands Road,  
P.O. Box 40984-00100,  
**Nairobi.**

Kenya Commercial Bank Custody  
Services,  
P.O. Box 30664-00100,  
**Nairobi.**

**12. Actuary**

Zamara (Formerly Alexander Forbes Financial Services),  
Landmark Plaza  
Argwings Kodhek Road  
P.O. Box 52439-00200,  
**Nairobi.**

**Investment Partners RBA Requirement**

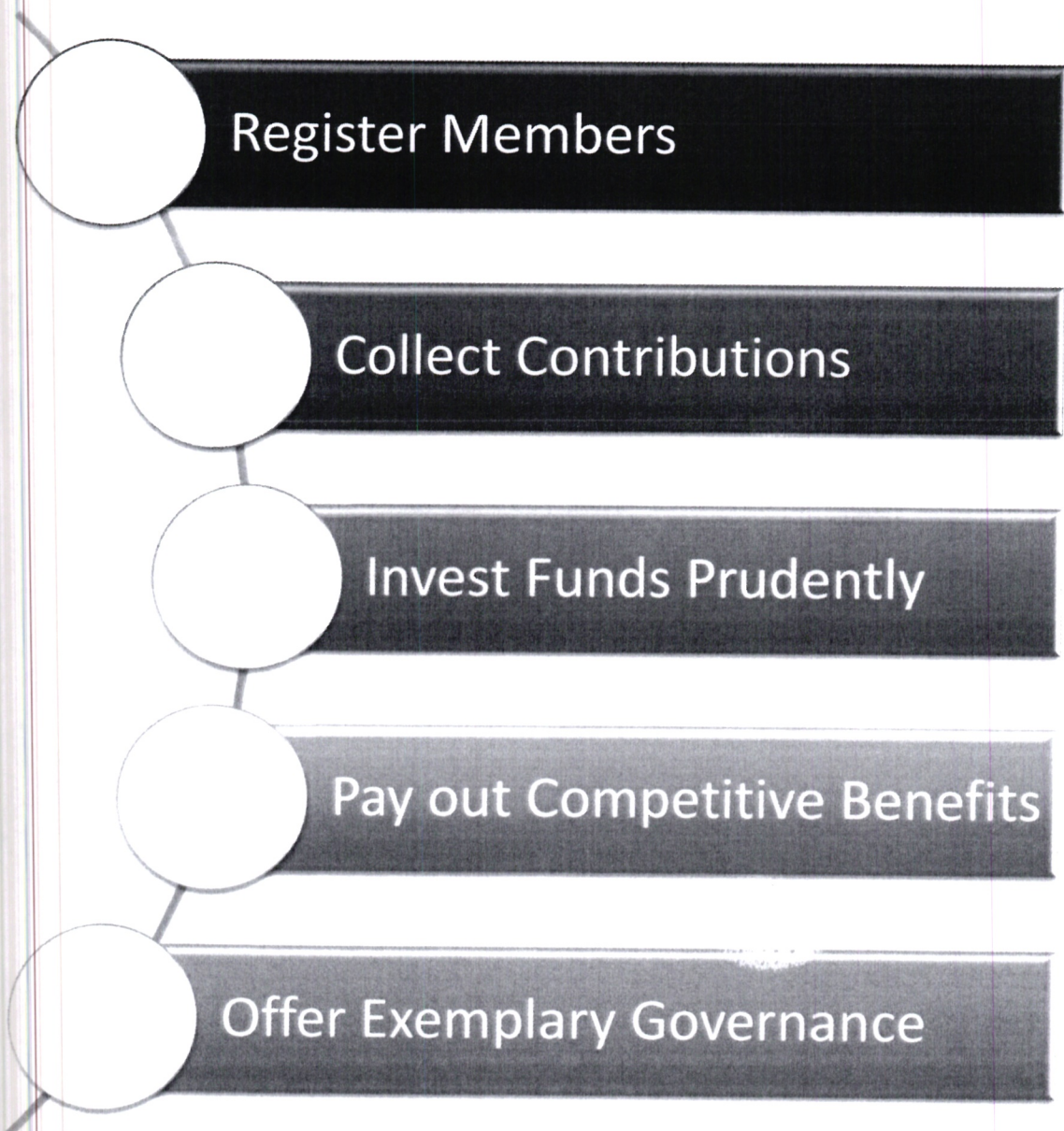


**13. Our vision**

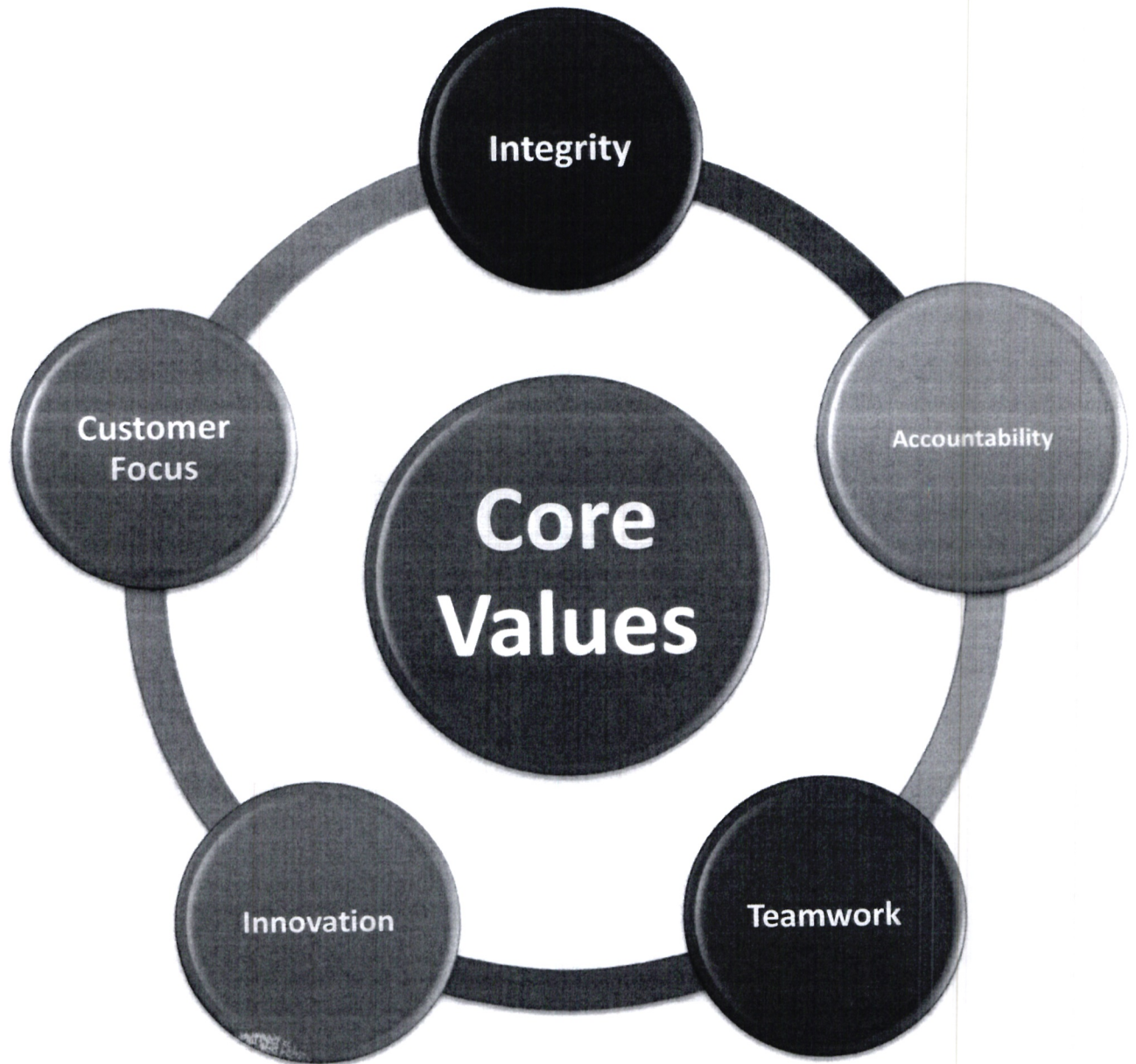
To be a trusted centre of excellence in the provision of Social Security.

**14. Our mission**

To provide social security to members through enhanced coverage, efficient registration and collections, prudent fund management, competitive benefits and exemplary governance.



15. Our core values



## 16. Corporate behaviour



NSSF's vision, anchored on excellence in performance, has influenced corporate behaviour by setting a high performance culture among the Board Members, Management, Staff, and service providers, through monitoring of performance against targets, measuring and rewarding high performance. In an effort to maintain the strategic direction of the Fund, adherence to the core values enhances our corporate behaviour. NSSF attained ISO 9001:2015 Certification in order to enhance service delivery to our esteemed customers. We have implemented various strategies in line with the Strategic Plan 2014-2019 geared towards inculcating high performance behavioural culture at all levels. All managers sign balance scorecard while all other staff sign a performance planning form at the beginning of each year. All employees are appraised at the end of each year and rewarded / sanctioned accordingly. This has led to competitiveness in achieving targets.

## Strategic Themes

The Fund approaches its quest for high performance through a set of strategic themes shown below:



## II BOARD OF TRUSTEES

| Name   | Key details   |
|--|---|
|  <p data-bbox="368 1133 798 1160">Hon. Gideon Ndambuki, EGH - Chairman</p> | <p data-bbox="938 479 1398 1043">Appointed Chairman on 31/05/2016. Born in 1947. Holds an MBA and BSC degrees in business administration from Emporia state university (USA); Holds certificates in banking from Bank of America and small business management from Emporia university. Has experience in banking; Hotel Industry and Public sector, served as minister in Ministries of Planning, Economic and National Development, Higher Education and Lands as well as Office of the President.</p>  |
|  <p data-bbox="464 1778 724 1805">Dr. Kamau Thugge, CBS</p>               | <p data-bbox="944 1160 1407 1756">Born in 1959 and appointed on 26 June 2013 to represent the National treasury. He has vast academic exploits in the field of economics for which he holds a PhD. He is currently the Principal Secretary at the National Treasury. He has previously worked in the Ministry of Finance as head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor. Earlier on, he worked with the International Monetary Fund (IMF) as Economist, Senior Economist and Deputy Division Chief.</p> |



Eng. Erastus Mwangera CBS, EBS, OGW

Appointed trustee on 12/01/2014 and exited on 13/01/2017. Was born in 1949. Holds a BSc Civil Engineering and registered as an Engineer. He is a fellow of the institute of Engineers. Has more than forty years' experience in engineering and public sector having served as a Permanent Secretary in various Ministries.



Ms Damaris Wanjiru Muhika

Appointed trustee on 02/02/2015. Was born in 1977. Holds an MBA and Bachelor of commerce degrees from African Nazarene university and CPA II. Experienced in labour matters, currently serving as programs coordinator, Central Organization of Trade Union. She is also involved in Lecturing and Accounting. Currently pursuing a PhD in finance and business administration at Jomo Kenyatta University of Agriculture & Technology.



Dr. Khadijah Kassachoon, CBS

She is the Principal Secretary for Labour in the Ministry of East African Community, Labour and Social Protection. Born in November 1969. She is currently undertaking a PhD in Business Management from the University of Nairobi. She holds a Masters of Business Administration – Majoring in International Business. She also holds a Bachelor of Veterinary Medicine from the University of Nairobi. She also served as a Principal Secretary in the State Department of Livestock and State Department of Health. She has private sector experience gained at KENAS and UNIDO.



Mr. Patrick O. Ogola

Appointed trustee on 25/06/2015 and exited on 13/01/2017. Born in 1978. Holds a Bachelor of Laws; Diploma in Law from Kenya school of law. He is a member of the International Bar association and Kenya industrial property Institute. He is an expert in intellectual property and also a Commissioner of oaths and notary public. Has experience in legal practice having worked with Ogola & Mujera Advocates, Daley & Figgs Advocates, Mohammed Madhani & Co. Advocates, Kemboy and Ogola Advocates. He is additionally experienced in drafting and negotiating commercial instruments.



Mrs. Jacqueline Mugo, OGW, MBS

Born in 1957 appointed Trustee representing Federation of Kenya Employers on 16/9/2015. Has vast experience in labour matters between employers and employees and currently serving as Executive director of the Federation of Kenya employers.



Mr. Francis Atwoli, NOM (DZA), EBS, MBS,

Born in 1949 and appointed Trustee on 16/09/2015. He has extensive training in labour movement history after a training in Turin college of International Labour Organisation in advanced industrial relations practices / labour economics / collective bargaining techniques / international labour laws / trade union organisation. Has vast experience in labour relations gained in Central Organization of Trade Unions where he is currently serving as Secretary General and from other labour related institutions including The International Labour Organization, KPAWU and The Pan African Labour Organisation of Africa trade union unity.



Mr. Mutua Kilaka, CBS, SS

Born in 1952. He is Alternate Trustee to Principal secretary, the National Treasury. Experienced in the Public Sector having served the Provincial administration and National Government as Financial Secretary. He is currently the Principal Administrative Secretary at the National Treasury.



Ms. Teresa Maina

Born in 1966 and appointed trustee on 31/05/2016. Holds an MBA, MA in International Relations and BA degrees from the University of Nairobi; She also holds HND in Human Resource from the Institute of Human Resource Management. Experienced in Human Resource management gained from Human Capital Resource Centre, Consolidated Bank, Kenya Aerotech and East Africa Portland Cement Company.



Mr. Anthony M. Munyiri

Born in 1971 and appointed Trustee on 20/2/2017. Holds an MBA (St. Mary's University of Minnesota, USA), MA in International Management (Hamline Graduate School of Management, St. Paul, USA), and a BA from Panjab University, India). He has a combined experience of over 20 years in retirement benefits administration, Investments, and Securities Industry, particularly in Fixed Income and Equities trading. He is the Chief Executive of Securities Africa Kenya Limited, a stock brokerage company licenced by the Capital Markets Authority. He is also a member of the Institute of Certified Investment and Financial Analysts (ICIFA), and the Institute of Directors (Kenya).



Mr. Mark J. Obuya



Born in 1957 and appointed Trustee on 20th February 2017. He holds a Master of Laws degree in Law, Science and Technology from the University of Nairobi, LLB (Hon) University of Nairobi, and Diploma in Law from the Kenya School of Law. He is an Advocate of the High Court of Kenya. He is also an Associate of the Chartered Insurance Institute (ACII) London, a Certified Environmental Impact/Risk Auditor and a Patent Agent (KIPI). He is a seasoned and highly experienced professional with a solid knowledge of the law, insurance, finance, investments and social security. He is currently the National President of the Federation of Kenya Employers and the Chief Executive Officer of Corporate Insurance Company Limited.



Dr. Anthony Omerikwa  
Ag. CEO / Managing Trustee

Born in 1977 and appointed Chief Executive Officer / Managing Trustee in acting capacity on 16/04/2015. He holds a PhD; Ed.S; MSc HRD; BA Economics; and Dip Management Information Systems. Experienced in the Public Sector having worked in various Government Agencies. He is the secretary, Board of Trustees.

**III. SENIOR MANAGEMENT TEAM**

| Name  | Key Professional/ Academic Qualifications and Responsibilities  |
|---|---|
|  <p><b>Dr. Anthony Omerikwa</b><br/>                     Ag. CEO/Managing Trustee</p>                             | <p>Born in 1977, he holds a PhD; Ed.S; MSc HRD; BA Economics; and a Diploma in Management Information Systems. As the accounting officer of the Fund, he is In charge of all staff in the Fund and responsible for: strategic leadership; Strategy formulation; implementation of Fund's mandate and Board decisions; corporate policies; and advising the Board from time to time.</p> |
|  <p><b>Mr. Joseph Kimote</b><br/>                     General Manager (Strategy, Research &amp; Development)</p> | <p>Born in 1971. He holds an MBA in Strategic Management, Project Management; and a BA (Economics). He is responsible for strategy formulation and implementation; research; Monitoring and Evaluation; Performance contracting; business process improvement; organizational development; quality management system and business continuity development</p>                            |



**Mr. Moses Cheseto**  
Ag. General Manager (Finance & Investments)

Born in 1974. Holds an MA in Planning; a BA in Land Economics. He is responsible for the identification & implementation of Finance & Investment strategic objectives/ policies; Management of Finance & Investment portfolio; Formulation of strategies to maximize return on members' funds; development and review of Financial / Investment policies. Registered real estate valuer and full member of Institute of Surveyors of Kenya and Lead expert in Environmental Impact and Assessment Audit (EIA).



**Ms. Nancy Mwangi**  
Ag. General Manager (Social Security)  
Appointed 14/02/2017

Born in 1958. She holds Executive MBA, Bachelor of Commerce (Accounting) and CPA II. She is responsible for formulating policies and strategies to increase member coverage, market penetration and efficient benefits processing and payment.



Mr Austin Ouko  
Ag. General Manager Corporate Affairs/ Corporation  
Secretary

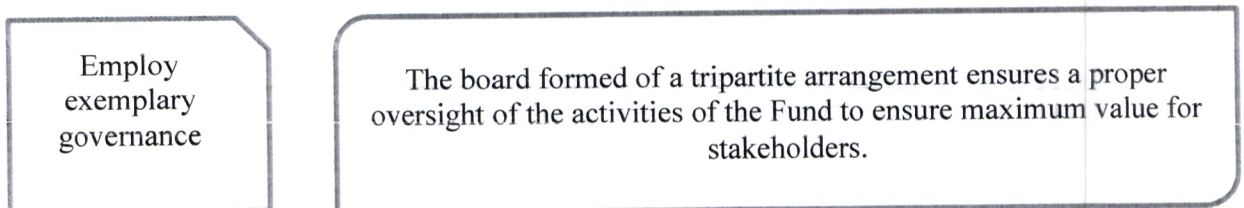
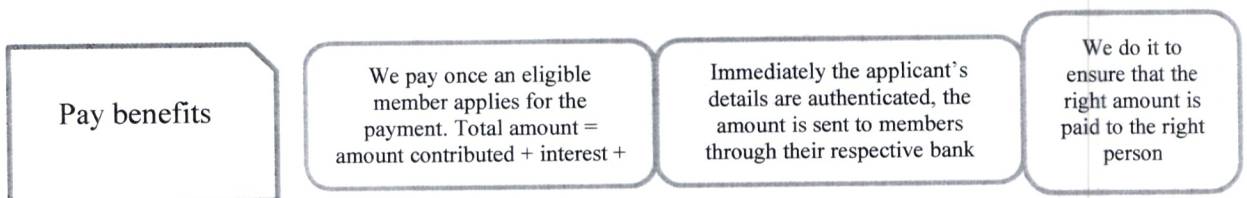
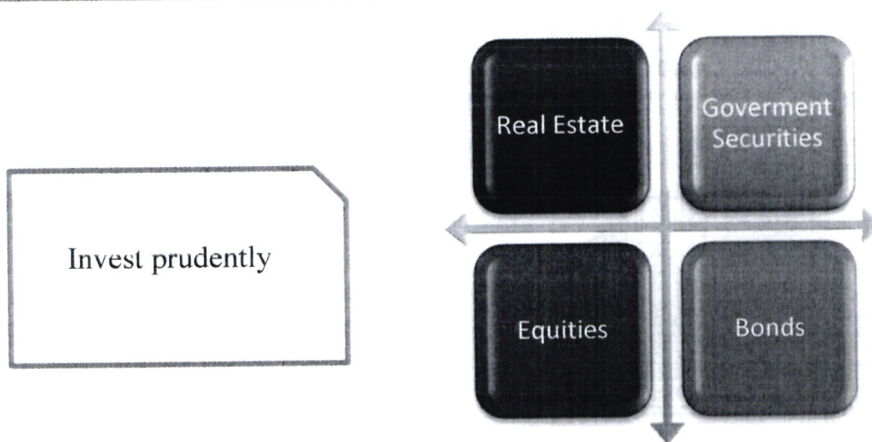
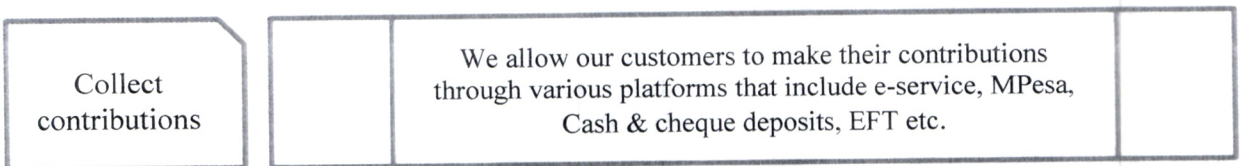
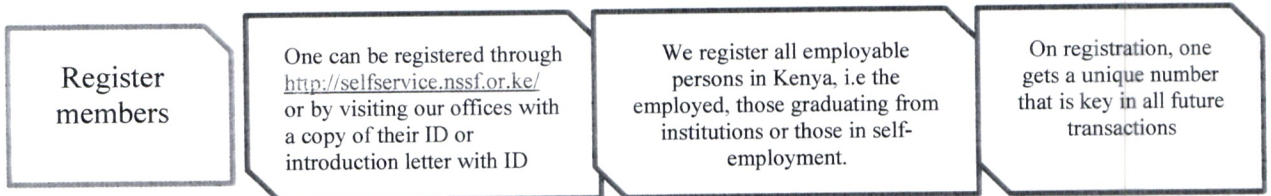
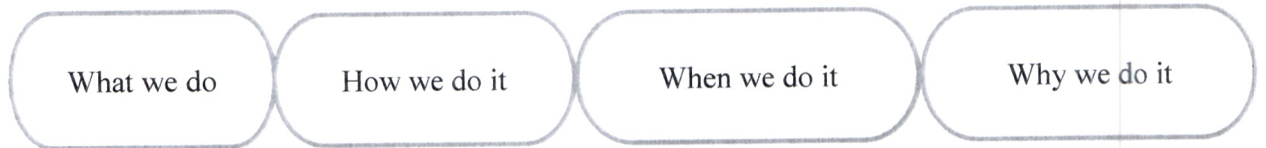
Born in 1981. He holds a Master of Laws (LLM); a Bachelor of Laws (LL.B); a Postgraduate Diploma (KSL); an Advanced Diploma in Business Administration; and a Diploma in Management Information Systems. He is charged with carrying out the Trustees' instructions; Help ensure that the Fund complies with the law and its own constitutional rules; Prepare and maintain the associated Fund's documents; and formulation of the Fund's Corporate strategy and operating plans.



Mr. Pius Metto  
Ag. General Manager, Social Security  
Exited on 14/02/2017

Born in 1967. Holds a Master of Business Administration and a Bachelor of Education. Before exiting on 14/02/2017, he was charged with formulating policies and strategies to increase member coverage; developing strategies for market penetration; ensuring completeness of revenue from both mandatory and voluntary contributors.

### Our Business Model



## History

**1965**

- Sessional Paper No. 10 of 1965 (Poverty, Ignorance & Disease) **NSSF was established as a Government Department in the Ministry of Labour**

**1987**

- NSSF transformed from Government Dept. into a State Corporation & management given to the Board of Trustees.

**2014**

- Transformation after passage of NSSF Act No. 45 of 2013

## History (Total Contributions)

**80/-**

- 1966 (Men Only)

**160/-**

- 1977 (Men & Women)

**400/-**

- December 2001


**2160/-**

- 2014

**NSSF Products**



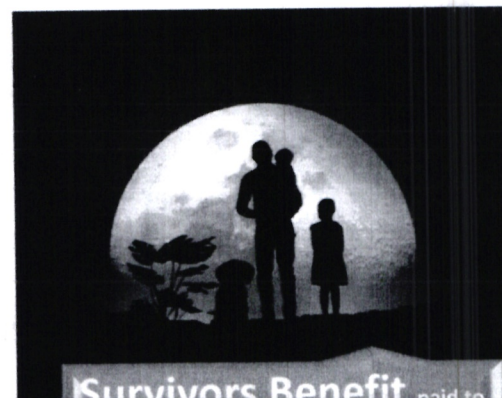
**Age Benefit** paid when a member retires i.e. at or after age of 50




**Withdrawal Benefit** paid when one gets out of the scheme



**Funeral Grant** special amount paid as a "pole" to the next-of-kin of a member who dies after contributing for more than 6 months.



**Survivors Benefit** paid to the next of kin of the deceased member (benefits paid faster when appointed nominees are in our records)



**Invalidity Benefit** paid on infirmity / terminal illness of a member



**Emigration Benefit** paid when a member leaves Kenya with no intention of returning.



**DID YOU KNOW?**



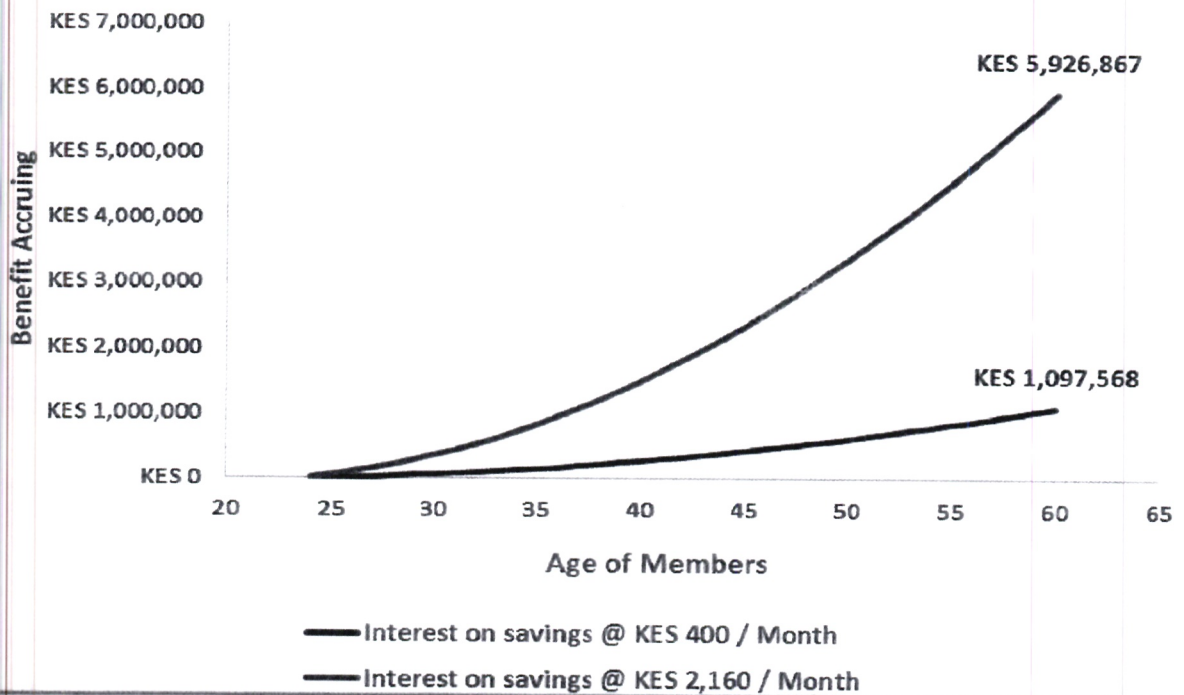
There is no limit to how much you can save monthly with NSSF whether you are formally employed or not

Voluntary contributions top ups will boost your savings for a better future.

You can top up your contribution in cash or even through the NSSF M-pesa business number **333300**

For more details, visit our website on [www.nssf.or.ke](http://www.nssf.or.ke)

### Benefits Accruing at Different Rates





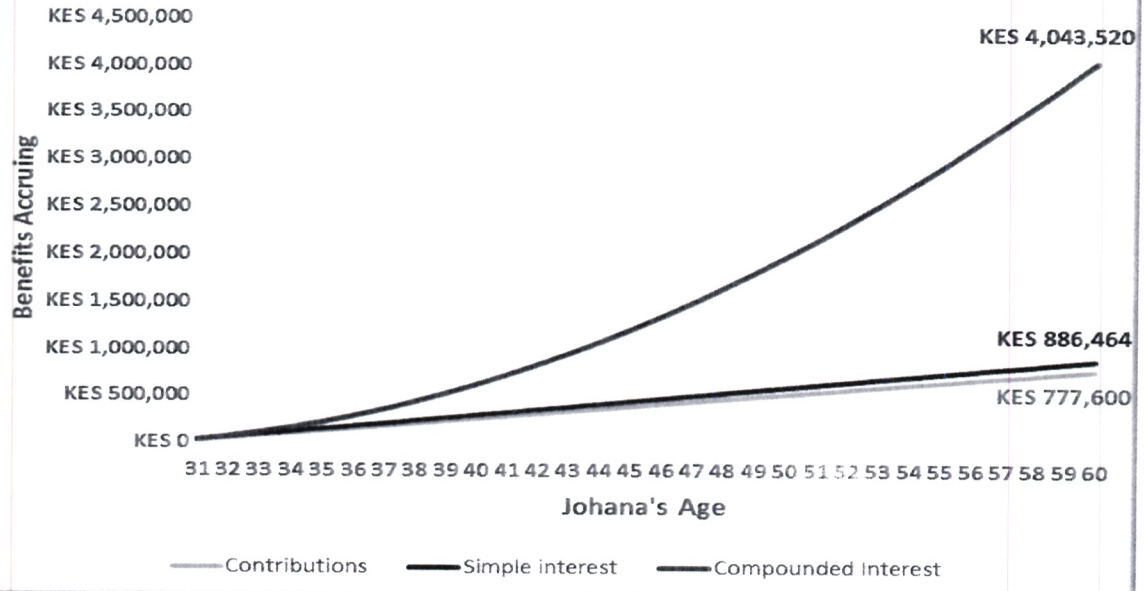
Happiness in old age



# NI TIME YA KUCLAIM

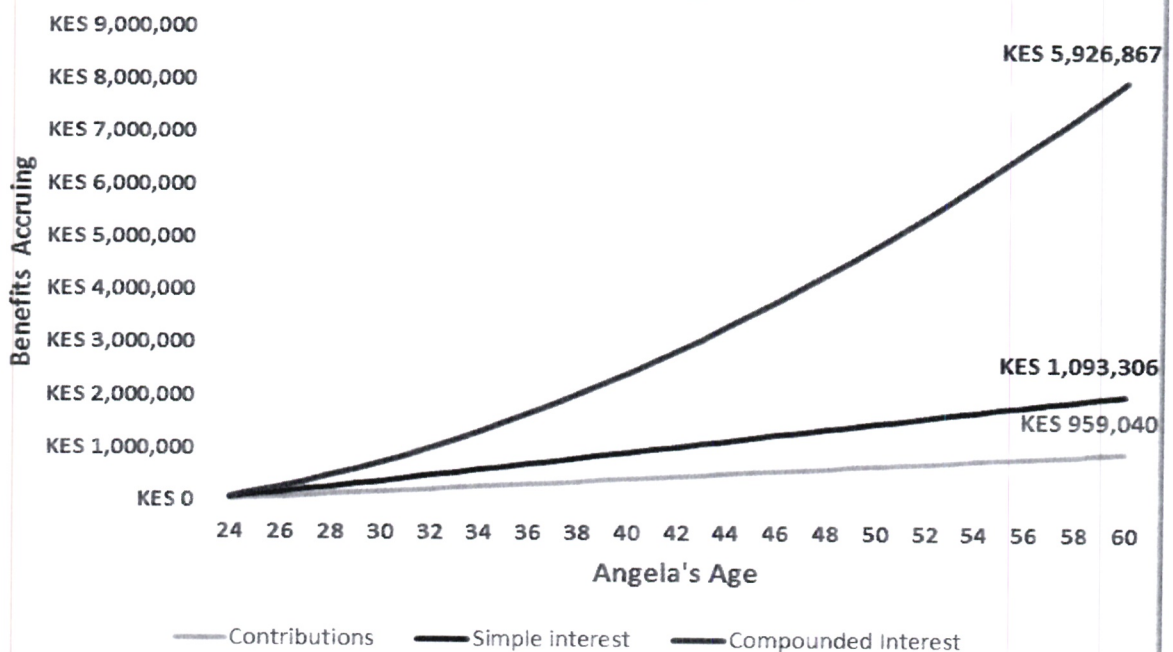
You can claim your  
money anytime after  
50 years should you  
opt for early retirement

### Johana Starts Contributing At Age 31

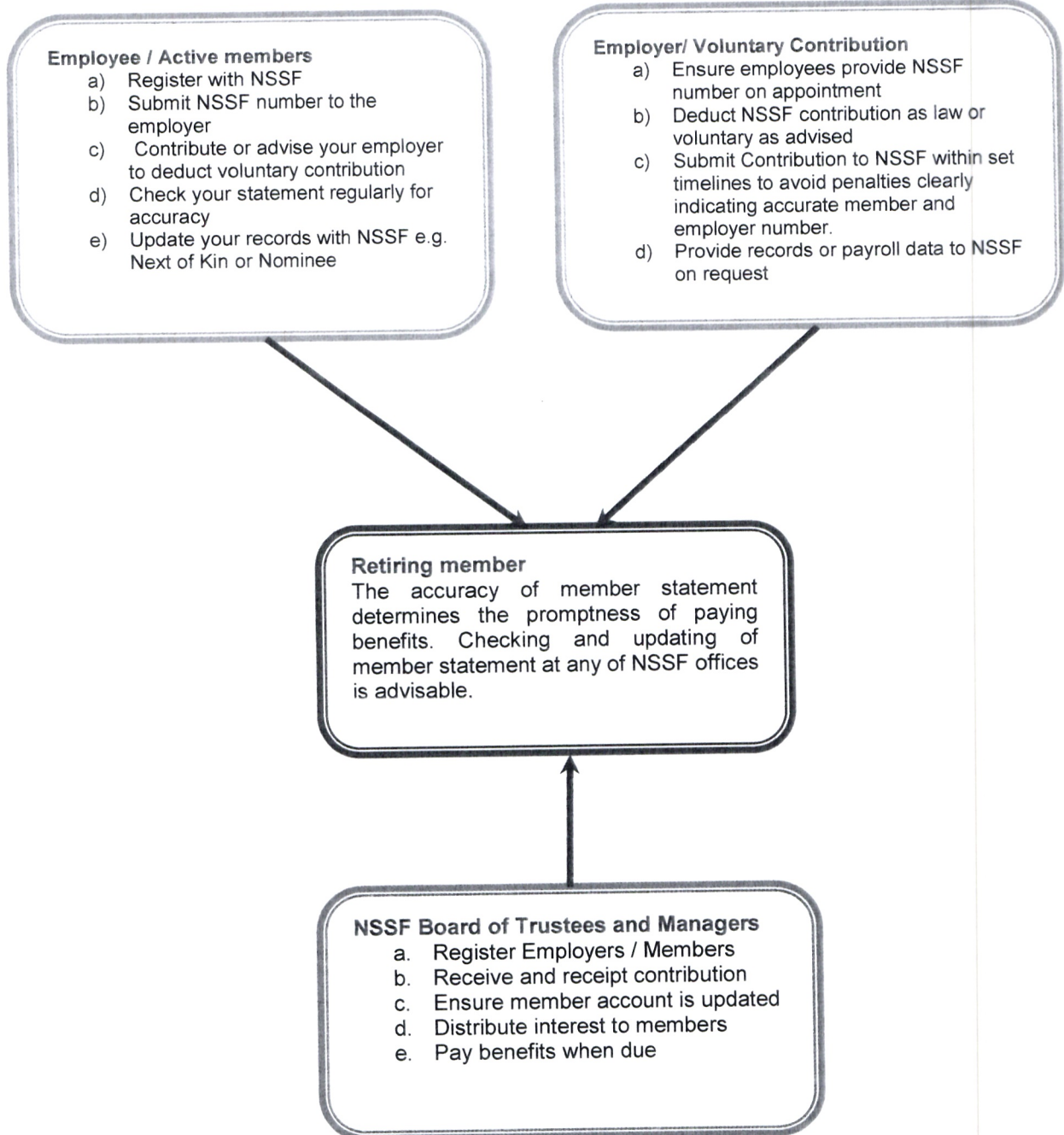


The sooner you begin saving, the more time your money has to grow. Each year's gains can generate their own gains the next year through a powerful wealth-building phenomenon known as compounding as illustrated in these graphs. Angela retires with more cash because she started saving earlier than Johanna.

### Angela Starts Contributing at Age 24



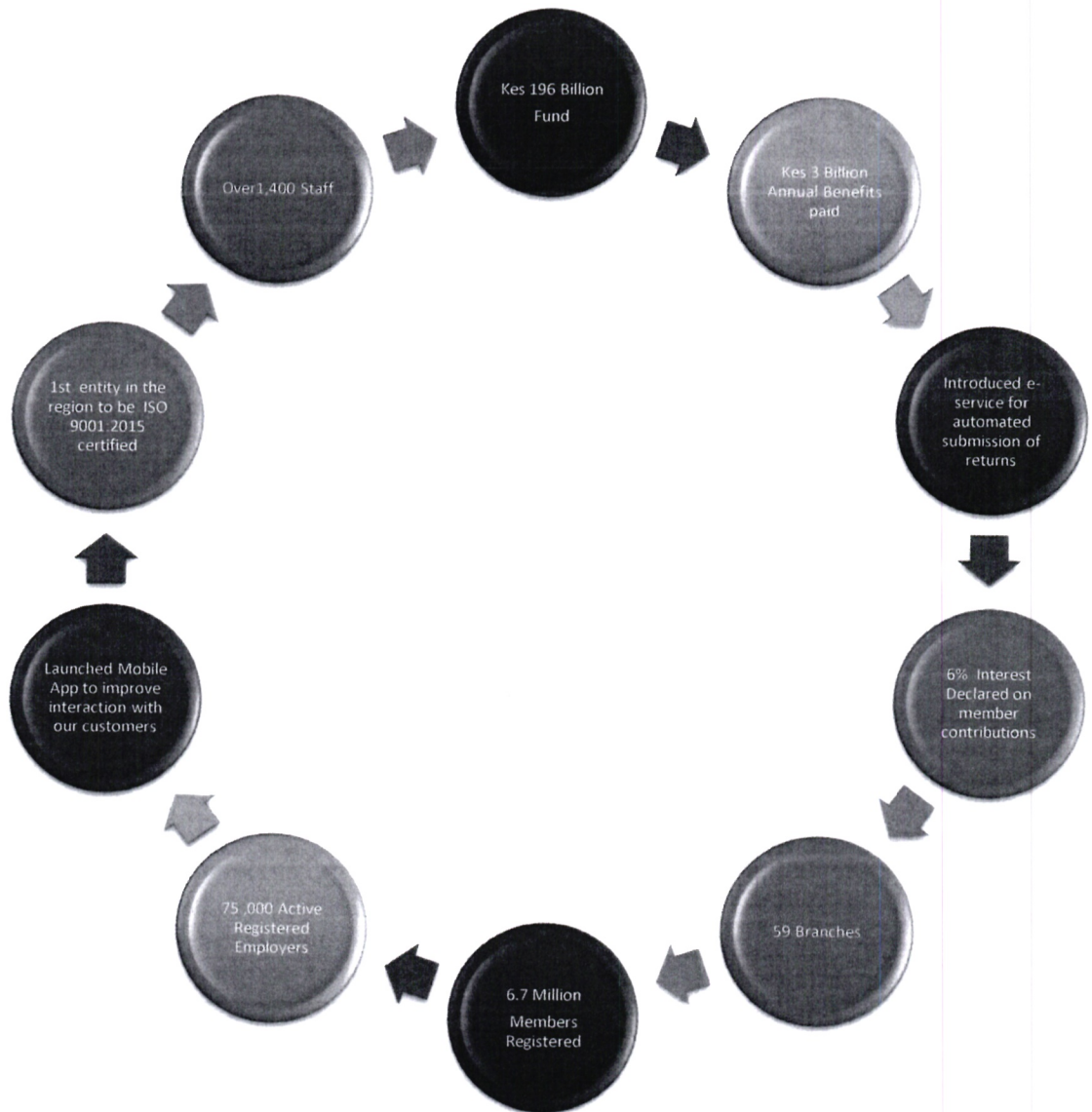
## What is your role?



**COMPARATIVE ANALYSIS OF CONTRIBUTION TO NATIONAL PENSION SCHEMES**

| Country        | % Contribution by Employer | % contribution by Employee | Total (Employee and Employer (%)) |
|----------------|----------------------------|----------------------------|-----------------------------------|
| United Kingdom | 13.8                       | 12.0                       | 25.8                              |
| India          | 12.0                       | 12.0                       | 24.0                              |
| Uganda         | 10.0                       | 5.0                        | 15.0                              |
| Tanzania       | 10.0                       | 10.0                       | 20.0                              |
| Brazil         | 26.8                       | 8.0                        | 34.8                              |
| Ethiopia       | 9.0                        | 7.0                        | 16.0                              |
| Ghana          | 13.0                       | 5.5                        | 18.5                              |
| Kenya          | 6.0                        | 6.0                        | 12.0                              |

**KEY MILESTONES ACHIEVED BY 2016 – 2017**



## VI. CHAIRMAN'S STATEMENT



On behalf of the Board of Trustees and in compliance with the board's mandate as provided for in the National Social Security Fund Act 2013 Section 51, it is my pleasure to present the Annual Report and Financial Statements for the year ended 30 June 2017. The financial performance was affected by both micro and Macroeconomic factors in the local and international environment as highlighted below.

### **Operating Environment**

The employers and employees who contribute to the Fund both from formal and informal sector are spread all over the country and in different sectors of the economy. Further, the contribution received is invested in various investment options which are influenced by global and local economic factors. It is for this reason that I give the summary of economic activities during the year before I present the actual financial performance.

According to the World Bank Publication "Kenya Country Economic Memorandum (March 2016) Domestic savings, private and public, started to increase after 2011, likely driven by the rise in corporate savings. Public savings are relatively low, although on an upward trend. Several factors, including youth unemployment, negative real deposit rate, and low public savings, are the most relevant for the low savings. Demographic trends over the past decade, such as falling youth dependency ratios, should have promoted saving. However, this may not have been the case, given that the effective youth ratio (which takes into account youth employment) has fallen only slightly.

Similar to households in other countries in Sub Saharan Africa, one reason behind low savings is the continued increase in the value of immovable property. International experience shows that it is common for individuals to save in nonmonetary assets in an environment of low returns to saving in financial assets, or low real rates on deposits. And if property values are continuously growing as has been the case in Kenya owners expect such trends to continue and in turn generate future income, thus lowering their need to save.

### **Global Economy**

The year 2016 was characterized by uneven global economic growth, with the US and China economies proving resilient with expected growth of 2.2% and 6.9%, respectively in the year while the United Kingdom and the Eurozone recorded reduced economic growth at 1.6% and 2.1% for the year, respectively. The sluggish start of the year, coupled with the Brexit, led to increased uncertainty facing the global growth leading to the International Monetary Fund (IMF) reducing the world projected growth in their October 2016 report by 0.1% to 3.1% from an earlier projection of 3.2% at the start of the year. Economic growth was largely supported by accommodative Central Banks policies in the advanced economies. The changes in the global economy influence the investment environment in Kenya.

### **Kenyan Economy**

Consistent with its robust performance in recent years, once again economic growth in Kenya was solid in 2016, coming in at an estimated 5.9% – a five-year high. This has been supported by a stable macroeconomic environment, lower oil prices, earlier favourable harvest, rebound in tourism, strong remittance inflows, and an ambitious public investment drive. Firstly, drought led to crop failure, dying herds of livestock, and increased food insecurity. Further, with hydropower being the cheapest source of energy in Kenya, poor rains increased energy costs, their effects spilling over to other sectors. The rise in food and energy prices drove inflation to a five-year high of 10.3% in March.

Secondly, Kenya faced a marked slowdown in credit growth to the private sector. At 4.3%, this remained well below the ten-year average of 19% and weighed on private investment and household consumption. These include potential for fiscal slippages, a more prolonged drought in 2017, and external risks from a weaker than expected growth amongst Kenya's trading partners, as well as uncertainties related to US interest rate hikes and the resultant stronger dollar.

### **Equity Market**

The Nairobi All Share index increased from 3.158 points in April 2017 to 3.441 points in May, 2017, while the total number of shares traded rose from 446 million shares to 697 million shares during the same period. The total value of NSE shares increased from Kes 11.41 billion in April to Kes. 16.36 billion in May 2017. These changes had a direct impact on the Fund's substantial investment in quoted equity of Kes. 53.6 billion, even though, there was an increase of Kes 3.67billion during the year from Kes.49.9 billion in 2015/2016. The changes in the equity market also affect the performance of firms where the Fund has invested. This may affect the dividend receivable either positively or negatively.

### Bond Market

Kenya Government Bond 10y decreased 0.8 percent or 5.67% to 13.30 on 31 December from 14.10 in the previous trading session. Historically, the Kenya Government Bond 10y reached an all-time high of 17.35 in October of 2011 and a record low of -0.35 in May of 2016. During the year, the Fund's investment in treasury bonds was Kes.64.15 billion as compared to Kes.52.74 billion in 2015/2016 and Kes.9.22 billion in corporate bonds compared to Kes.9.00 billion in 2015/2016. Thus any change in the bond markets affect the return expected and this usual influence investment decision

### Interest Rates

The average yield rate for the 91 day Treasury Bills, which is a benchmark for the general trend of interest rates, decreased from 8.77% in April 2017 to 8.71% in May 2017, while the interbank rate fell from 5.31 in April to 4.93 in May 2017. The central bank of Kenya left its benchmark interest rate on hold at 10 percent at its March 27th 2017 meeting, in line with market expectations. Interest Rates in Kenya averaged 14.13 percent from 1991 until 2017, reaching an all-time high of 84.67 percent in July of 1993 and a record low of 0.83 percent in September of 2003. The reintroduction of an interest rate cap in September 2016, limits how much lenders can charge for loans, affected growth during the year as banks continued to reduce lending and became precautionary. This changes had a serious impact on interest income. However is expected the effect of capping interest will improve in the long run. During the year 2016/2017, the Fund had call deposits of Kes.4.11 billion, fixed deposit of Kes.7.40 billion and Treasury bills of 7.98 billion which were affected by changes in interest rates.

### Inflation

Consumer prices in Kenya reduced 2.74% percent year-on-year in June of 2017, following a 0.11 percent decrease in the previous month. It was the highest decrease in inflation rate for the whole year. In 2015/2016, the Kenyan economy grew by 5.9% from 5.6% in 2014/2015. The marginal growth was attributed to growth in infrastructure, slow growth in manufacturing and bearish Nairobi Securities Exchange. We expect 2016 Gross Domestic Product (GDP) growth to stand at 6.1%, mainly supported by increased government spending and resource absorption capacity in the counties.

### Financial Performance

I am therefore delighted to note that in line with our tagline '**Growing you for Good**', the Fund recorded a surplus of **Kes 23.89 billion** as compared to **Kes 5.27 billion** in 2015/2016. Our Net asset base grew from **Kes.172.09 billion** in 2015/2016 to **Kes.196.57 billion** in 2016/2017, an equivalent of 14% increase. The growth in the surplus is as result of increased collection of members' contributions, prudent investment and operational efficiency.

### Outlook

The economy is expected to grow at between 5.8%-6.5% in 2017, according to projections by the World Bank and the International Monetary Fund (IMF). The Fund will endeavour to leverage on our strength, the conducive business environment to

continue championing the socio-economic welfare of our people, to deliver sustainable performance and contribute to the Nation's economic development.

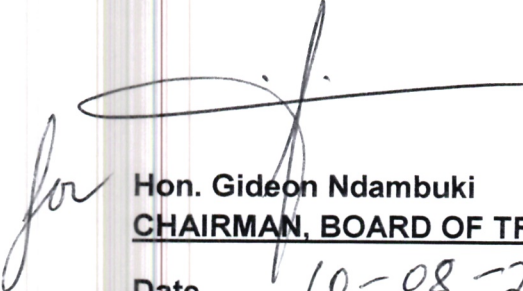
### Conclusion

The board of Trustees is committed in delivering high value to members at minimal cost, taking into account the environmental operating dynamics. This will be enhanced by good corporate governance structures which have been implemented at all levels. In order to enhance good governance practices, the board has implemented the code of Governance for state corporations issued in January 2015 and we are in the process of implementing the Stewardship Code for Institutional Investors 2017, issued by capital markets authority.

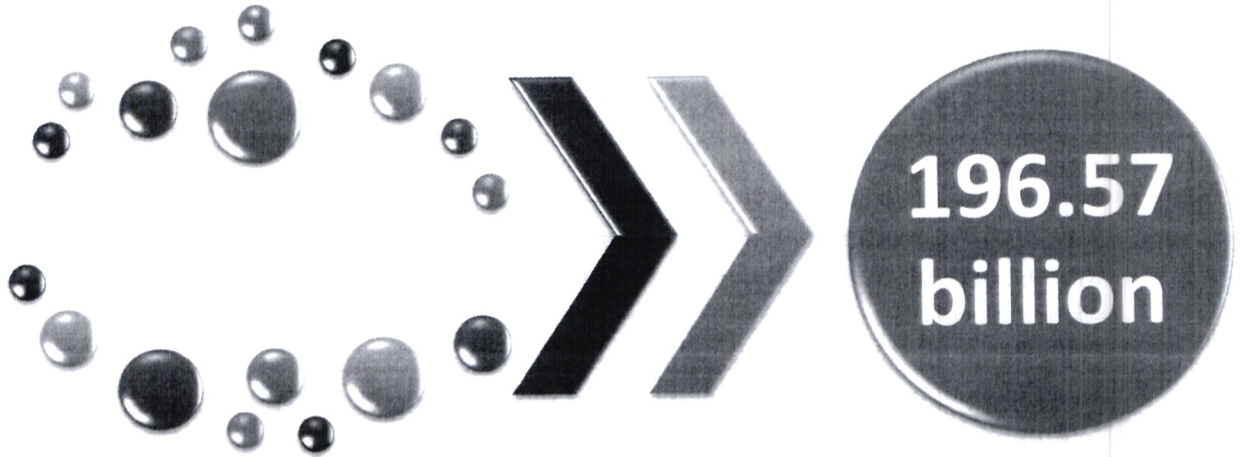
The improved organisation performance of the Fund during the year has been due to the support all our dedicated contributors, employers and tripartite business partners who include The National Government, Central Organisation of Trade Unions and Federation of Kenya Employers. We thank them for their continued support and look forward to cordial working relations in 2017/2018 with an objective of enhancing the adequacy of benefits payable to our members. The adequacy of benefits depends on the amount contributed by the member. Kenya's ambitious growth target of around 7 percent per year requires much higher savings and investment.

To achieve the growth target, savings and investment would need to more than double. Only China and a few other resource-rich countries have achieved such results. One way for Kenyan households to save is through formal contributory pension systems. The Fund therefore plays a critical role in ensuring that the ambitious target is achieved.

Finally, I wish to express my sincere appreciation for the teams that have contributed to make these great strides over the years. I wish to thank my fellow members of the Board of Trustee, the management and staff of NSSF for their commitment to hard work, the Government through the line Ministry of East Africa Community, Labour Social Protection, Employers, Employees, our customers for their continued support and last but not least to all our development partners and other stakeholders who have kept faith in us throughout this journey.

  
for  
**Hon. Gideon Ndambuki**  
**CHAIRMAN, BOARD OF TRUSTEES**

Date..... 10-08-2018



The Board of Trustees is  
committed to delivering high  
value to our members

**Growing you. For  
Good.**



**I have planned my retirement. Have you?**



*President Uhuru Kenyatta presenting NSSF Chairman Hon. Gideon Ndambuki the Number One trophy for the best government services during the ASK show in Mombasa.*

## V. CHIEF EXECUTIVE / MANAGING TRUSTEE'S REPORT



I am pleased to present the Fund's performance highlights for the year ended 30 June 2017. The performance stands on the Fund's corporate strategic plan – 2014/2019, and the year 2016/2017 performance contract signed with the Board of Trustees and cascaded to all levels of Fund operations. The strategic path set by the Board of Trustees continued to yield intended results. Member contributions and return on investment showed marked growth in the year 2016/2017 as compared to the previous financial year ended 30 June 2016.

This growth is a reflection of effort by the Board of Trustees and the management of the Fund in modernising and professionalizing the operations of the Fund. The Fund continued to contribute to the achievement of vision 2030, set by the government, through provision of sustainable retirement benefits to all members. The summary of the Fund's performance is as stated below:

### Financial Results

During the year, member contributions grew by **5.3 %** from **Kes.12.87 billion** in 2016 to **Kes.13.55 billion** in 2017. Benefits paid to members increased by **17.3%** from **Kes. 3.12 billion** paid in 2016 to **Kes. 3.66 billion** paid in 2017. Similar to the previous year, the net return on investment increased from **Kes. 1.03 billion** in 2016 to **Kes. 20.41 billion** in 2017. Total operating expenses increased by **16%** to **Kes. 6.39 billion** in 2017 from **Kes.5.51 billion** in 2016. The increase in operating expenses is attributed to provisions for doubtful assets in the financial statement from **Kes. 0.44 billion** to **Kes.0.735 billion**, and increase in staff costs by **12%** from **Kes 3.4 billion** to **Kes 3.8 billion** attributed to inflation adjustment and the implementation of Collective Bargaining Agreement. A net increase in Scheme Funds of **Kes 23.89 billion** was achieved in 2017 compared to **Kes. 5.27 billion** Achieved in 2016. The Fund's net assets, therefore, increased by **14 %** from **Kes. 172.09 billion** in 2016 to **Kes.196.57 billion** in 2017.

### **Efficient Management of Resources**

The management has embraced the board of Trustees' theme of maximum return at minimal cost. This theme drives all the activities of the Fund at all functional areas of the Fund. Cost optimisation strategies implemented during the year have contributed enormously to efficient use of resources.

### **Investment activities**

The Fund's investment is spread across various sectors of the economy. Objective evaluation is done on investment options available by five Fund managers on a regular basis to ensure quality investment. The activities of the Fund managers are monitored by the Board of Trustees through the management, custodians and the Actuary.

The current investment mix, which has taken into account the risk profile, is 39% in Government securities, 30% stocks in the Nairobi Securities Exchange (NSE), 7% in deposits and 24% in other investment options. As a result, the Fund has achieved an efficient investment portfolio that will maximise the return on investment for our members. The investment is done in compliance with the portfolio mix as required by the Retirement Benefit Authority.

### **Technology**

The Fund implemented e-service platform in 2016/2017 to drive efficiency, and offer better customer service in Employer / Member registration and contribution systems. This has enabled members and Employers to access their account information online through mobile applications and integrated networks through the internet. Further, the strategies implemented have facilitated online payment of contributions in addition to the Mpesa option. The processing speed of benefits payment has also been enhanced through the use of technology. The objective is to offer better service to our members and other stakeholders.

### **Customer Focus**

The objective of management is to deliver best service to our members and other stakeholders. To achieve this objective the Fund has implemented fully integrated systems both at the front and back office to enhance service delivery. Our services have also been brought closer to our members through all Huduma centres countrywide and the wide branch networks in all parts of the country.

In our effort to serve all members and other stakeholders efficiently, the management has embraced the best management practices by applying performance planning and appraisal systems, regular performance reviews, implementing systems and other management processes to facilitate good governance, and regular ISO surveillance audits. The Balanced Score Card performance management system is fully entrenched in our performance monitoring and measurement. The Fund has further enhanced its customer focus by being among the first entities in Africa to achieve ISO 9001:2015 certification.

### **Saving For Retirement**

The achievement of the Fund's mandate depends mainly on the amount contributed by each member and other stakeholders towards a comfortable retirement. The higher the savings through periodical contribution determines the amount to be received by each member after retirement. The mount saved will determine the share of the fund's surplus distributed to each Member on a yearly basis.

The members can enhance their savings through voluntary contribution of any amount according to their ability in addition to the formal contribution as required by law. It is for this reason that I urge our members and other stakeholders to join hands in mobilising Kenyans to save more towards their retirement, with an objective of stabilizing their income after their working lives.

### **Conclusion**

The impressive performance recorded during the year was as a result of the concerted effort by the Board of Trustees, management and the staff of the Fund. Further, this is also attributable to reliable processes, strategic systems and structures implemented in the year under review. Additionally, the cooperation from our members and other stakeholders has made us achieve the good results. It is our expectation that we will get the same cooperation in the financial year 2017/2018. Our strategies will be intensified both in the formal and the informal sector.

On behalf of management, I promise that we will continue to maximize your expected returns in the years to come. However, to enjoy enhanced retirement benefits, it is imperative that members make reasonable contributions to the Fund. It is important that growing old is not an option, we don't have a choice. But we can make choices today that can greatly determine the quality of our lives in retirement.



**Dr. Anthony Omerikwa**  
**AG. MANAGING TRUSTEE / CEO**



## VI. CORPORATE GOVERNANCE STATEMENT

The Board of Trustees implemented various corporate governance strategies geared towards ensuring that good governance practice are carried out by both the Board of Trustees and management. Implementation of the code of governance for state corporations, ISO 9001:2015, reliable systems, various guiding policies and a raft of other strategies are geared towards enhancing corporate governance. The Fund will ensure compliance with the Stewardship Code for Institutional Investors (2017) and the code of corporate governance practices for issuers of security to the Public 2015.

The Fund is committed to the highest standards of corporate governance and business ethics. Recognizing that good corporate governance is key to the enhancement of our business performance, the Board of Trustee seek to discharge their duties and responsibilities in the best interest of the Fund, its shareholders, customers, business partners and the wider community. Our corporate values and ethics are entrenched in our corporate strategic plan (2014-2019) and business objectives and are focused on transforming and accelerating growth in value for the benefit of all our stakeholders.

The Board of Trustees has delegated the authority for day-to-day management of the Fund to the CEO / Managing Trustee. However, it retains the overall responsibility for the Fund's financial performance, compliance with laws and regulations, and monitoring of its operations as well as ensuring efficient and effective management of the business.

### Board of Trustees

The Board of Trustees comprises nine Trustees' and the CEO / Managing Trustee as the ex-officio member of the board, each of whom brings a wide range of skills, knowledge, experience, and independent judgement to the board's deliberations. The membership of the Board of Trustee is as follows:-

- a) Principal Secretary in the Ministry for the time being responsible for matters relating to social security (East Africa Community (EAC), Labour, Social Protection);
- b) Principal Secretary responsible for matters relating to the National Treasury;
- c) Seven persons appointed by the Cabinet Secretary as follows -
  - i. Two persons, one of whom shall be of opposite gender, nominated by the most representative employers' organization with knowledge and experience in matters relating to employers to represent employers in Kenya;
  - ii. Two persons, one of whom shall be of opposite gender, nominated by the most representative workers organization by virtue of their knowledge and experience in matters relating to employees to represent employees in Kenya;
  - iii. Three persons one of whom shall be of opposite gender, not being public officers nor employees or directors of any public company, appointed by the Cabinet Secretary by virtue of their knowledge and experience in matters relating to administration of scheme funds, actuarial science, insurance, accounting and auditing or law. The Cabinet Secretary appoints the Chairperson from amongst these three Trustees.



### Board Meetings Attendance & Trustees Remuneration

The Board of Trustees hold meetings on regular basis as per the Board's annual work plan. Special meetings are called when deemed necessary. The role of the Board and Board committees is as per the Board Charter. The Cabinet Secretary responsible for Labour and Social Services approved the current Trustees' remuneration. The allowances comply with The State Corporations Advisory Agency (SCAC) guidelines. The disclosure is in line with Mwongozo.

### Board Meeting Attendance, Trustees Remuneration

| Name (Member)             | Date of Appointment | No. of Sitings | *Board Allowance    | Other Payment       | Total                |
|---------------------------|---------------------|----------------|---------------------|---------------------|----------------------|
|                           |                     |                | Kes.                | Kes                 | Kes                  |
| Hon. G. Ndambuki          | 31.05.2016          | 23             | 1,150,000.00        | 2,930,000.00        | 4,080,000.00         |
| Eng. E. Mwongera          | 13.01.2014          | 16             | 800,000.00          | 556,000.00          | 1,356,000.00         |
| Dr. K. Kassachoon         | 25.05.2016          | 18             | 900,000.00          | 994,000.00          | 1,894,000.00         |
| Mr. M. Kilaka             | 14.10.2015          | 21             | 1,050,000.00        | 570,000.00          | 1,620,000.00         |
| Mr. P. Ogola              | 16.09.2015          | 12             | 600,000.00          | 204,000.00          | 804,000.00           |
| Mrs. J. Mugo              | 16.09.2015          | 20             | 1,000,000.00        | 960,000.00          | 1,960,000.00         |
| Mr. F. Atwoli             | 16.09.2015          | 18             | 900,000.00          | 249,000.00          | 1,149,000.00         |
| Mrs. D. Muhika            | 02.02.2015          | 14             | 700,000.00          | 694,000.00          | 1,394,000.00         |
| Ms. T. Maina              | 31.09.2015          | 16             | 800,000.00          | 704,000.00          | 1,504,000.00         |
| Mr. J. Obuya              | 20.02.2017          | 2              | 100,000.00          | 100,000.00          | 200,000.00           |
| Mr. A. Munyiri            | 20.02.2017          | 2              | 100,000.00          | 300,000.00          | 400,000.00           |
| <b>Total Remuneration</b> |                     |                | <b>8,100,000.00</b> | <b>8,261,000.00</b> | <b>16,361,000.00</b> |

\*Board Allowances include sitting allowances for committee meetings. Other payments include amounts paid to board members while attending official NSSF functions.

### Committees Attendance & Allowance for the year ended 30/6/ 2017

| Committee         | Finance, investment and Social Security |                   | Human Resources, Legal and strategy |                   | Audit and Risk |                   | Total     |
|-------------------|---|-------------------|-------------------------------------|-------------------|----------------|-------------------|-----------|
|                   | Sittings                                | Allowance<br>Kes. | Sittings                            | Allowance<br>Kes. | Sittings       | Allowance<br>Kes. |           |
| Trustee           |   |                   |                                     |                   |                |                   |           |
| Hon. G. Ndambuki  | 1                                       | 50,000            | 2                                   | 100,000           | -              | 0                 | 150,000   |
| Eng. E .Mwongera  | 2                                       | 100,000           | 1                                   | 50,000            | -              | 0                 | 150,000   |
| Dr. K. Kassachoon | 3                                       | 150,000           | 3                                   | 150,000           | -              | 0                 | 300,000   |
| Mr. M. Kilaka     | 4                                       | 200,000           | 1                                   | 50,000            | 1              | 50,000            | 300,000   |
| Mr. F. Atwoli     | -                                       | 0                 | 3                                   | 150,000           | -              | 0                 | 150,000   |
| Mr. P. O. Ogola   | 2                                       | 100,000           | 1                                   | 50,000            | -              | 0                 | 150,000   |
| Ms. T. Maina      | -                                       | 0                 | 2                                   | 100,000           | 1              | 50,000            | 150,000   |
| Mrs. J. Mugo      | 1                                       | 50,000            | 2                                   | 100,000           | 1              | 50,000            | 200,000   |
| M/s. D. Muhika    | 1                                       | 50,000            | 2                                   | 100,000           | 1              | 50,000            | 200,000   |
| Mr. J. Obuya      | 2                                       | 100,000           | 5                                   | 250,000           | 4              | 200,000           | 550,000   |
| Mr. A. Munyiri    | 2                                       | 100,000           | 1                                   | 50,000            |                | 0                 | 150,000   |
| Total             |   | 900,000           |                                     | 1,150,000         |                | 400,000           | 2,450,000 |

Board Allowances paid include amounts paid while attending official functions for the Fund

#### Committees of the Board

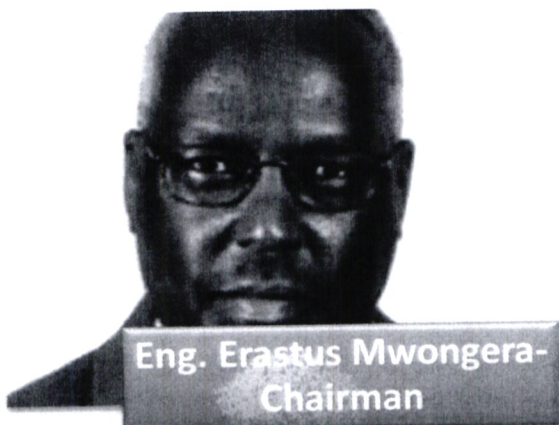
The Board of Trustees has set up three (3) principal Committees namely:

1. Audit and Risk Committee;
2. Finance, Investments and Social Security; and
3. Human Resource, Legal and Strategy;

These committees meet under well-defined terms of reference set up by the full board. This is intended to achieve efficient decision making by the Board of Trustees in discharging its duties and responsibilities.

#### Finance, Investments and Social Security Committee members

1. Eng. Erastus Mwongera- Chairman (Exited 13/02/2017)
2. Mr. Francis Atwoli
3. Mr. Patrick Ogola (Exited 13/02/2017)
4. Dr. Khadija Kassachoon
5. Mr. Mutua Kilaka
6. Mr. Mark J. Obuya
7. Mr Anthony Munyiri



### Responsibilities

Besides directing the investment, financial and social security function of the Fund, the committee assists the Board in fulfilling its core mandate: customer care, marketing, registration, contributions, benefits payment, product development and investment policy oversight. Other responsibilities include review and approval of budgets, periodic performance, review and approval of financial statements, review and guide on ICT strategy and review and approval of accounting policies' and procedures. The committee is chaired by

Eng. Erastus Mwangera who holds a BSc Civil Engineering, a registered Engineer, and a fellow of the institute of Engineers. The other members of the committee have diverse skills, Knowledge and experience in Finance, Investment, legal and other fields.

### Human Resource, Legal and Strategy Committee members

1. **Ms. Teresa Maina - Chairperson**
2. Mr. Francis Atwoli
3. Eng. Erastus Mwangera (exited 13/01/2017)
4. Mr. Patrick Ogola (exited 13/01/2017)
5. Mrs Jacqueline Mugo
6. Mr. Mark J. Obuya
7. Mr Anthony Munyiri

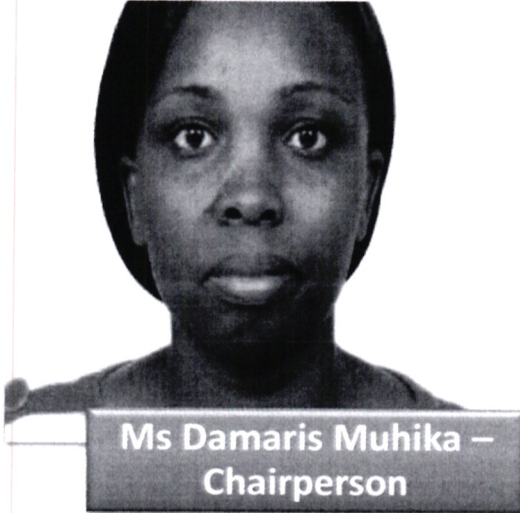


### Responsibilities

The committee reviews and recommends matters relating to Human Resource development, legal cases and the overall corporate strategy of the fund. Their responsibilities include review and guidance on Human Resource policies, legal cases. The committee also monitors strategic changes and oversights good corporate governance. Ms.Teresia Maina holds an MBA, MA in International Relations, BA degrees and HND in human resource management. All the other members of the committee have skills, qualification and knowledge mix, relevant for delivery of the committee mandate.

### Audit and Risk Committee members

1. Ms. Damaris Muhika – Chairperson
2. Mr. Mutua Kilaka
3. Dr. Khadija Kassachoon
4. Ms. Teresa Maina
5. Mrs Jacqueline Mugo



#### Responsibilities

As per Mwongozo 2015 and the National Treasury circular No. 16/2005, the Audit Committee is the only mandatory committee of the board. The committee is entrusted with the responsibility of ensuring overall compliance, governance and risk management. Specific roles include reviewing and approving the board charter, internal and external audit findings and preventive measure, systems and internal controls. The committee may also initiate specific special / investigation of any allegations on corruption and accountability.

Ms Damaris Muhika holds an MBA and Bachelor of commerce degrees in addition to CPA II and is currently pursuing a PhD in finance and business administration.

#### Annual General Meetings

The Fund held its third Annual General Meeting (AGM) on 5<sup>th</sup> August, 2016 for the period ended 30<sup>th</sup> June 2014, as part of its corporate governance practice and to comply with the law and regulations as set up by the Retirement Benefits Authority (RBA). The audit for 2014/2015 and 2015/2016 annual accounts has been finalised. The next AGM will be held on 24<sup>th</sup> November 2017.

#### Accountability and Audit

The Board of Trustees oversees accountability and audit function through its Audit and Risk Committee by reviewing and approving the internal and external audit Program, findings, preventive measures, risk, systems and internal controls. The committee initiates special investigation on allegations on corruption and accountability.

#### Capacity Building for Board of Trustees

During the year, Trustees were trained on the Code of Governance for State Corporations (Mwongozo) and induction was done for new trustees.

#### Internal Controls

The Board of Trustees has put in place adequate internal controls to ensure there is no loss or pilferage of Fund's resources / Assets. Risk mitigation strategies are incorporated into the control structures that include a functional internal audit department.

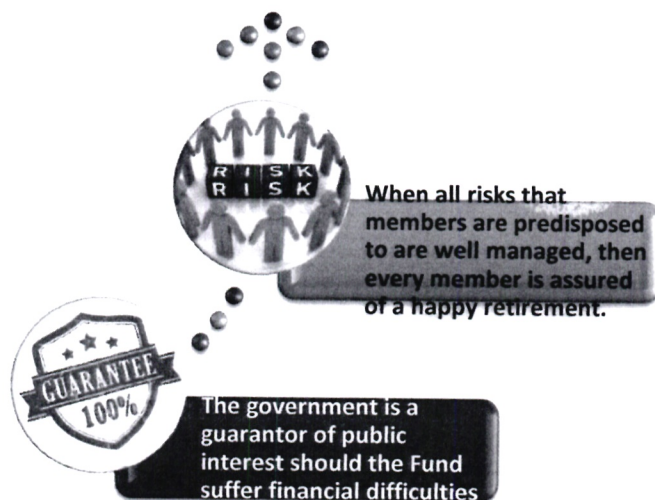
### Quality Policy Statement

The National Social Security Fund is committed to provide quality and sustainable social security to Kenyans, through enhanced coverage, efficient registration and collections, prudent fund management, competitive benefits and exemplary governance. The Fund shall do this by:

- i. Establishing quality objectives at the beginning of every Financial year, based on the corporate strategic plan, which shall be monitored and reviewed on a quarterly and annual basis;
- ii. Seeking to understand and satisfy the needs and expectation of customers and interested parties;
- iii. Continually measuring, analysing and evaluating the effectiveness and efficiency of the quality management system for continual improvement;
- iv. Having committed Trustees and staff performing their roles and responsibilities with integrity and accountably;
- v. Embracing best practice, innovation and appropriate technology in all operation; and
- vi. Ensuring that all activities are aligned to NSSF Act No. 45 of 2013

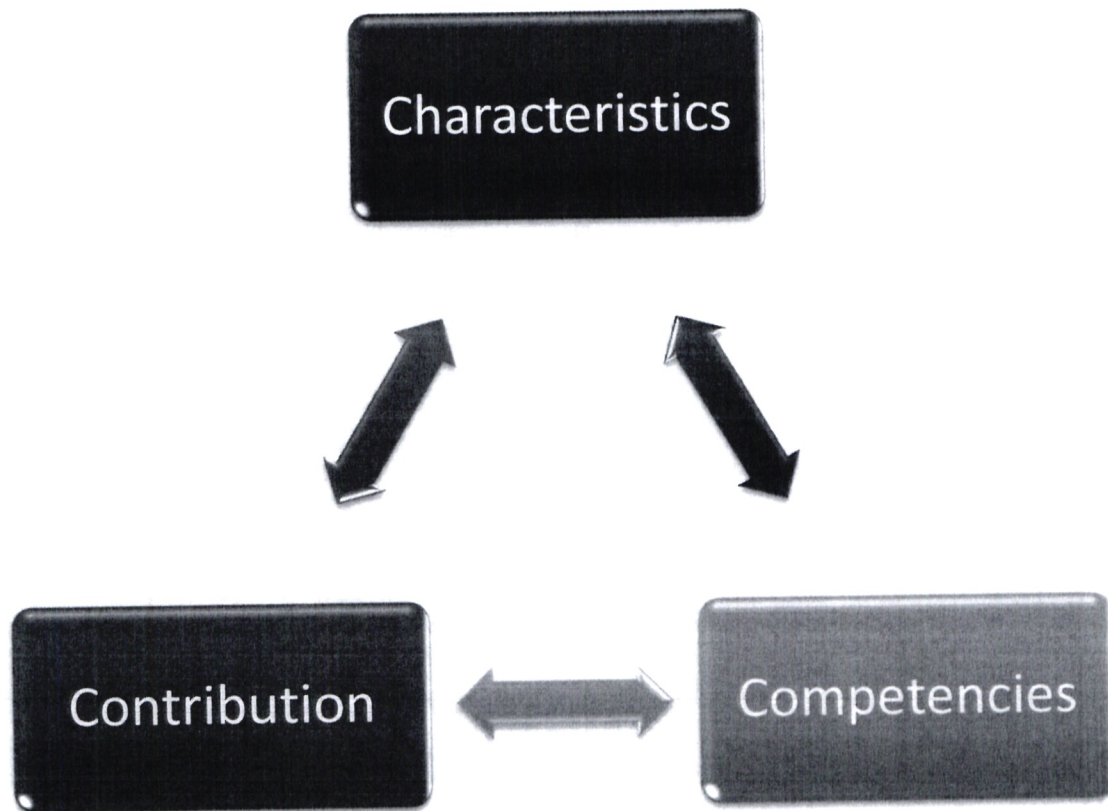
## Enterprise Risk Management

An effective risk enterprise management framework is essential to tame the risks associated with growing incidences of poverty upon retirement. The Board of Trustees and Management is cognisant of the fact that all risks cannot be eliminated completely. However, the Fund endeavours as much as possible, within the available resources, to manage risks to acceptable levels in all its activities. The Fund is committed to embedding risk management principles and practices into strategic and operational plans; decision making process; all levels of the Fund; on major projects undertaken major transactions entered into with third Parties.



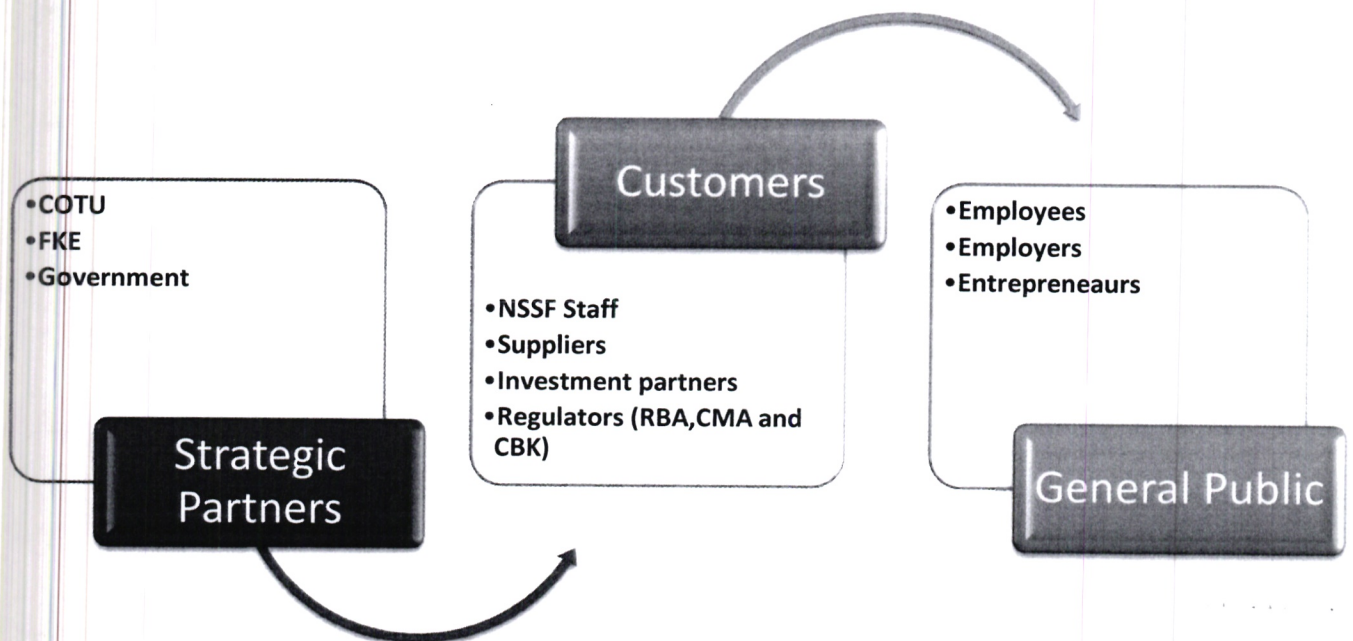
### Board Evaluation Results

Board evaluation was not done during the year but it has been scheduled for November 2017. The evaluation is required for purposes of complying with Mwongozo and as the best practice in corporate governance.



### Key Stakeholders

The key stakeholders are members of the Fund and their employers. The members contribute monthly prescribed amount to the Provident Fund and the Pension Scheme in accordance with the NSSF Act No 45 2013 through various employers and through their voluntary initiatives. The members expect various benefits from the Fund depending on the amount contributed in compliance with predetermined terms. All members have the same influence on the sustainability of the Fund.



### Senior Management Emoluments and Commitments

During the year, the senior management were paid personal emoluments of Kes 111,739,252 as at 30 June 2017, they had outstanding staff loans amounting to Kes 70,223,493.52. Among the top management team, 4 of them were in acting capacity.

## VII. MANAGEMENT DISCUSSION AND ANALYSIS

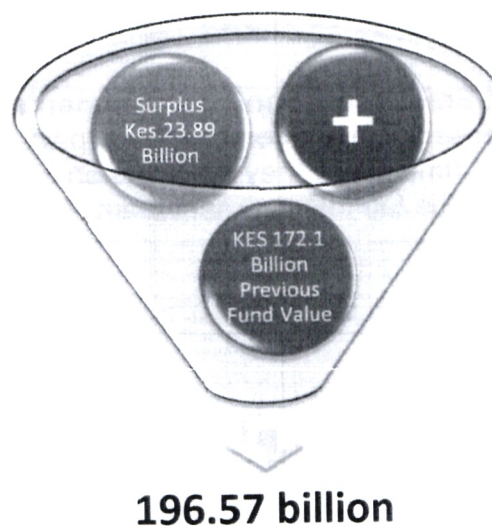


The Funds operational and financial performance were based on 2014-2019 strategic plan, Budget 2016/2017 and the targets set in the 2016/2017 Performance contracts signed by the board of trustees and cascaded to all staff.

### The Funds Operational and Financial Performance

#### Overall Performance

A net surplus in Scheme Funds increased to **Kes 23.89 billion** from **Kes.5.27 billion** in 2016. The Fund's net assets, therefore, increased by **15.02%** to **Kes 196.57 billion** as compared to **Kes.172.09 Billion** in 2016.



### Key Performance Ratios

A summary of key performance ratios for the year as shown here below.

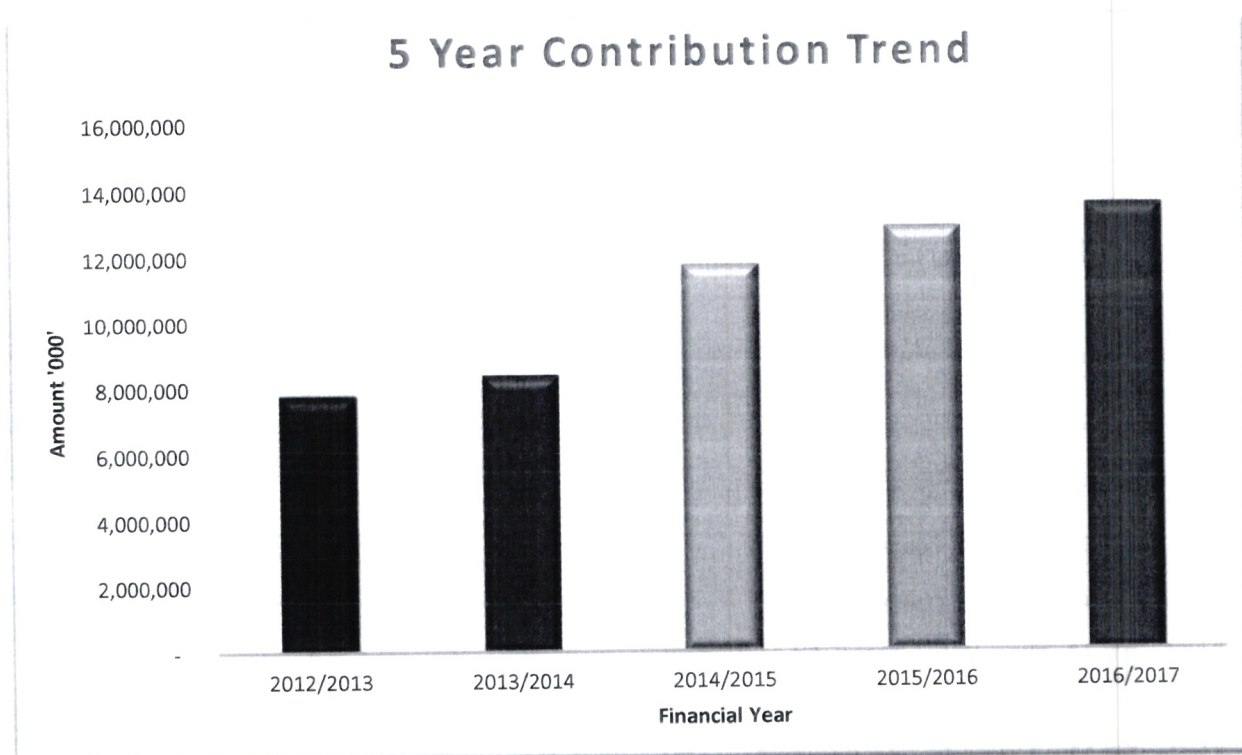
| DETAILS                              | Actual      | Actual      | Actual      | Actual      | Actual      |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
|                                      | 2012/2013   | 2013/2014   | 2014/2015   | 2015/2016   | 2016/2017   |
|                                      | Kes'000     | Kes'000     | Kes'000     | Kes'000     | Kes'000     |
| Staff costs                          | 3,698,602   | 3,166,642   | 3,326,632   | 3,420,644   | 3,883,544   |
| Admin Costs                          | 1,284,670   | 1,203,298   | 1,318,900   | 1,647,568   | 1,780,400   |
| Basic Operating Costs                | 4,983,272   | 4,369,940   | 4,645,532   | 5,068,212   | 5,531,102   |
| Depreciation & Provisions            | 1,457,721   | 119,927     | 1,517,527   | 441,051     | 735,507     |
| Total Operating Costs                | 6,440,992   | 4,489,867   | 6,169,284   | 5,509,264   | 6,399,442   |
| Return on investments                | 27,322,831  | 15,910,587  | 10,714,096  | 1,027,875   | 20,410,090  |
| Contribution                         | 7,800,358   | 8,405,813   | 11,748,588  | 12,874,685  | 13,546,886  |
| Net Assets                           | 134,932,875 | 153,028,834 | 165,580,764 | 172,086,297 | 196,574,407 |
| <u>Ratios:</u>                       |             |             |             |             |             |
| Staff costs to Operating Costs       | 57.42%      | 70.53%      | 53.92%      | 62.09%      | 60.69%      |
| Admin cost to Operating Costs        | 19.95%      | 26.80%      | 21.38%      | 29.91%      | 27.82%      |
| Operating Costs to Investment income | 23.57%      | 28.22%      | 57.58%      | 535.99%     | 31.35%      |
| Operating Costs to Contributions     | 82.57%      | 53.41%      | 52.51%      | 42.79%      | 47.24%      |
| Return on investments to Net Assets  | 20.25%      | 10.40%      | 6.47%       | 0.60%       | 10.38%      |
| Total Operating Costs to Net Assets  | 4.77%       | 2.93%       | 3.73%       | 3.20%       | 3.26%       |

### Major Factors that affected the Financial Performance

- The court cases challenging implementation of the NSSF Act 2013 impacted on the amount of contribution receivable and the adequacy of benefit payable;
- The volatility of the Nairobi Securities Exchange (NSE);
- The capping of interest rates in the banking sector leading to credit squeeze in the financial sector;
- The continued effect of terrorism especially in the Coast and North Eastern region leading to underperformance of the tourism sector; and
- The drive to implement the Fund's mandate of providing social security to all workers and wide coverage directly affecting cost levels.

### Contributions Collected in the last 5 years

| Financial Year       | 2012/2013      | 2013/2014      | 2014/2015      | 2015/2016      | 2016/2017      |
|----------------------|----------------|----------------|----------------|----------------|----------------|
|                      | <b>Kes 000</b> | <b>Kes 000</b> | <b>Kes 000</b> | <b>Kes 000</b> | <b>Kes 000</b> |
| <b>Contributions</b> | 7,800,358      | 8,405,813      | 11,748,588     | 12,874,685     | 13,546,886     |

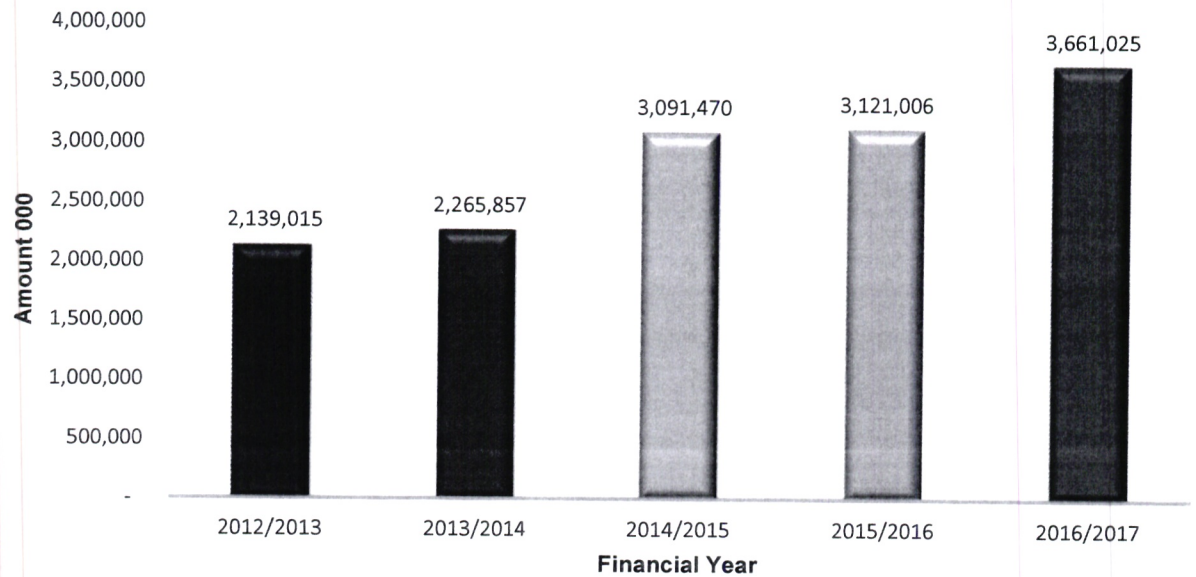


The graph above shows the trend of contributions for the last 5 years. The Fund collected an annual contribution average of Kes 10.8 billion over the last 5 financial years. The year 2016-2017 was the highest performance year so far due to the aggressive effort made to achieve targets for the year. The steady increase in total contributions collected has been boosted by an increase in voluntary contributions.

### Benefits Paid in the last 5 Years

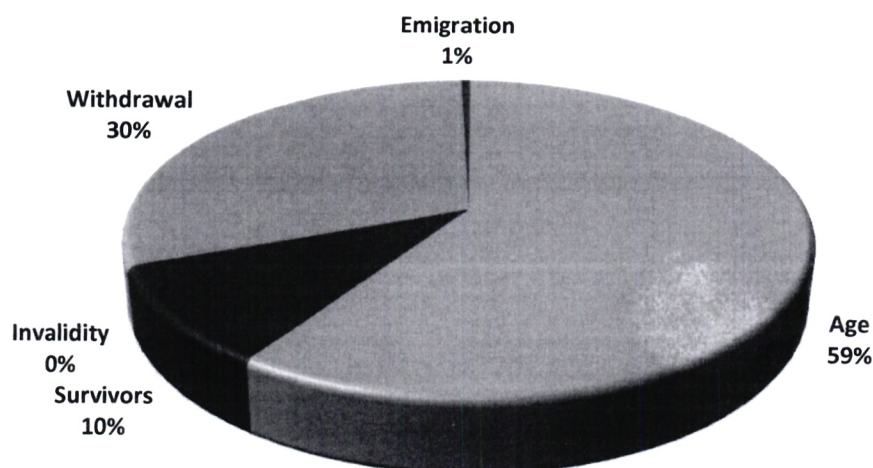
| Financial Year       | 2012/2013      | 2013/2014      | 2014/2015      | 2015/2016      | 2016/2017      |
|----------------------|----------------|----------------|----------------|----------------|----------------|
|                      | <b>Kes.000</b> | <b>Kes.000</b> | <b>Kes.000</b> | <b>Kes.000</b> | <b>Kes.000</b> |
| <b>Benefits Paid</b> | 2,139,015      | 2,265,857      | 3,091,470      | 3,121,006      | 3,661,025      |

### 5 Year Benefits Paid



The Fund continues to pay higher amounts of benefits to its members. In 2016/2017 financial year, KES 3.66 billion was paid to beneficiaries. The amount paid to a member includes the contributions made during one’s working life plus interests accrued generated out of investment income over the years.

### Proportion of Benefits Paid By Type

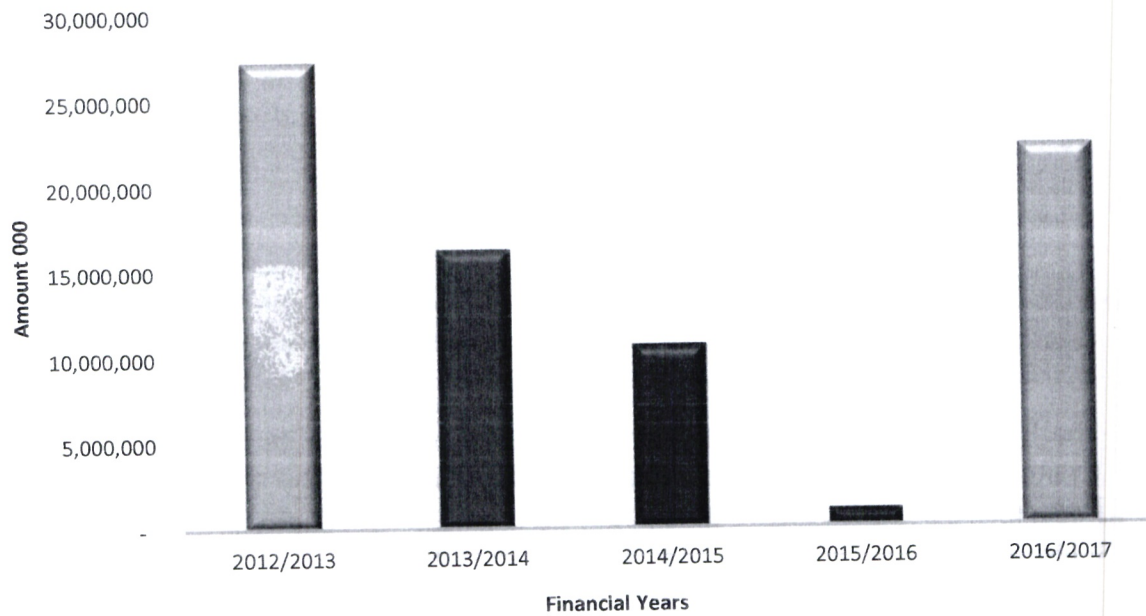


Out of the total benefits paid for the year, 59% were paid to members who had reached the mandatory retirement age of 60 years, while 30% was paid to members who were eligible under the withdrawal benefit.

Investment Income growth for the last 5 years

| Financial Year              | 2012/2013      | 2013/2014      | 2014/2015      | 2015/2016      | 2016/2017      |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
|                             | <b>Kes.000</b> | <b>Kes.000</b> | <b>Kes.000</b> | <b>Kes.000</b> | <b>Kes.000</b> |
| <b>Return on Investment</b> | 27,322,831     | 16,307,114     | 10,714,450     | 1,027,875      | 20,410,090     |

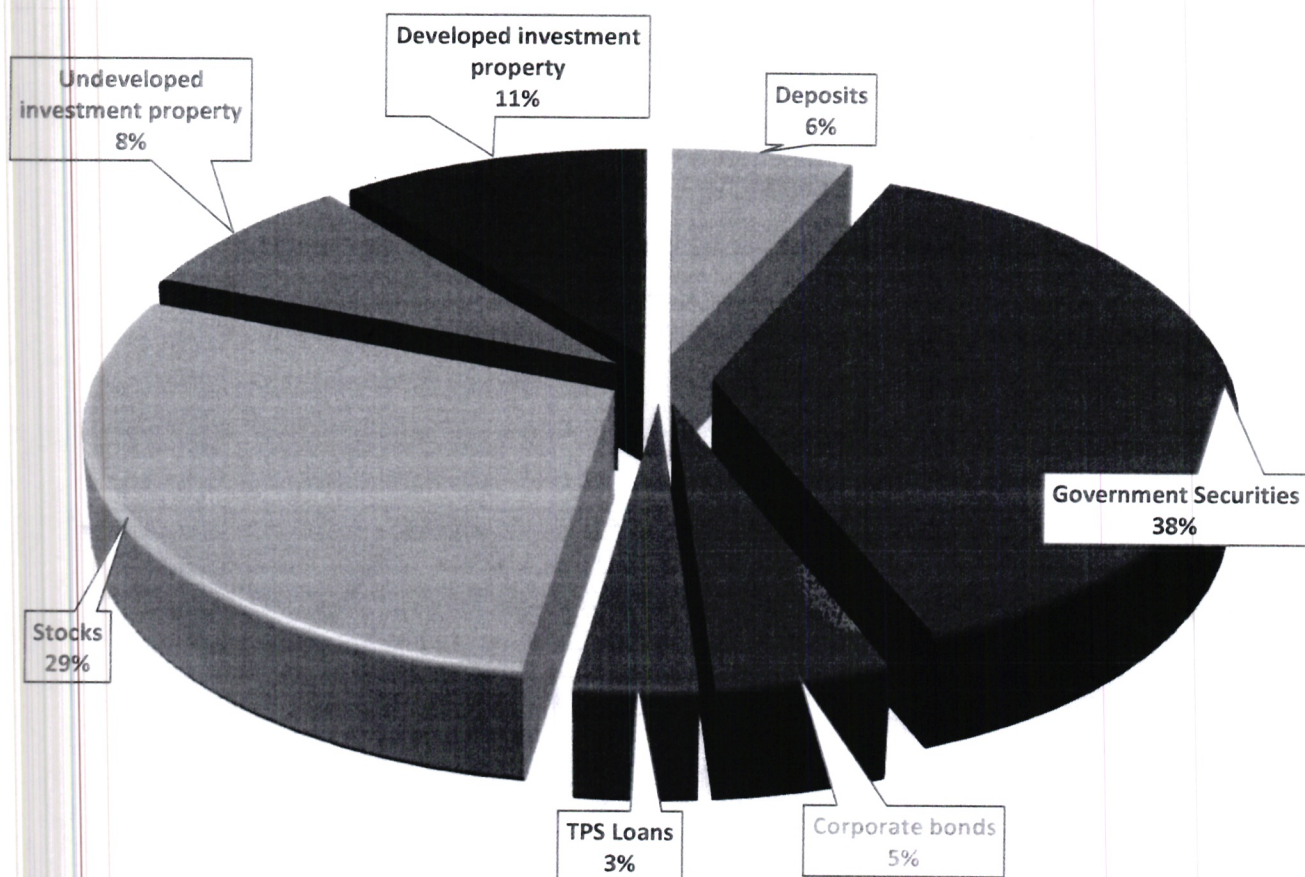
Return on Investment



As shown above, the profitability of the Fund has remained on an increasing trajectory in the last five years.

| ASSET CLASSES AS AT 30 JUNE 2017 | KES                    |
|----------------------------------|------------------------|
| <b>Deposits</b>                  | 12,385,529,517         |
| <b>Corporate bonds</b>           | 9,222,122,293          |
| <b>Government Securities</b>     | 72,125,570,529         |
| <b>Stocks</b>                    | 53,572,123,661         |
| <b>Property</b>                  | 36,543,176,392         |
| <b>TPS Loans</b>                 | 6,368,874,578          |
| <b>Unquoted Stocks</b>           | 1,672,681,264          |
| <b>Total</b>                     | <b>191,890,078,234</b> |

### Portfolio Allocation



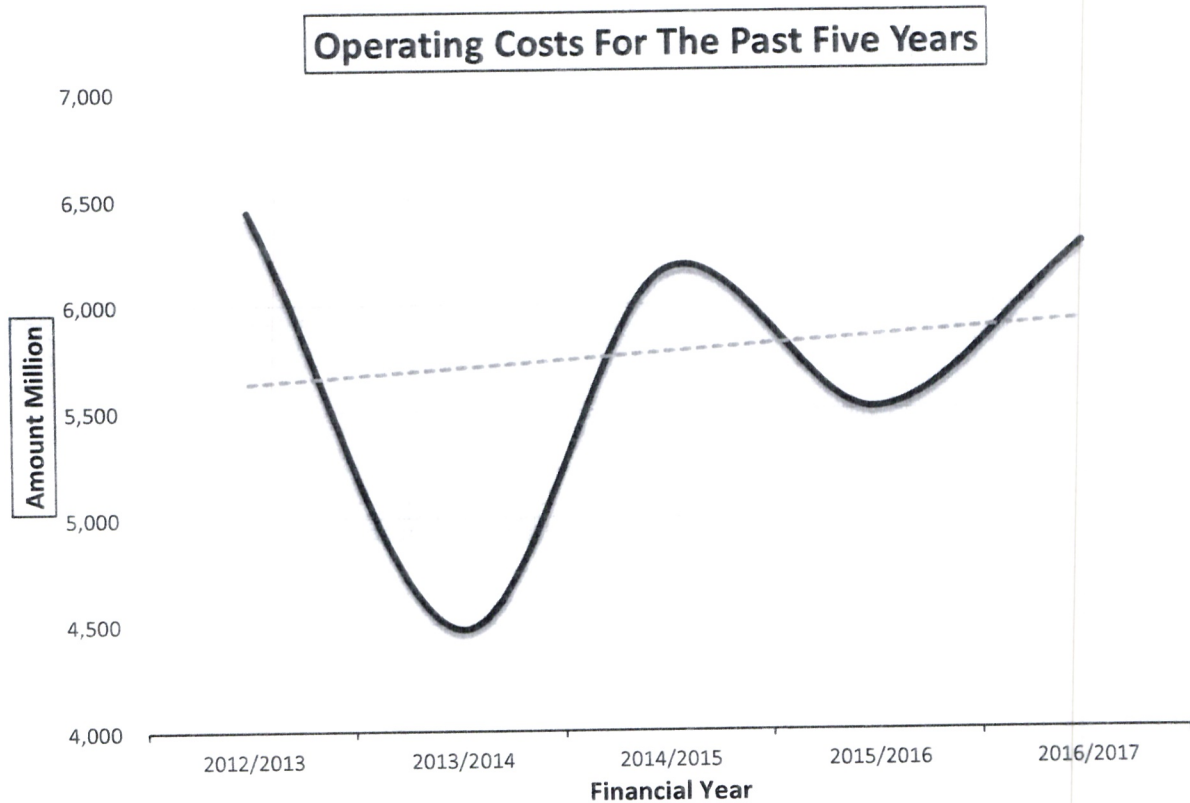
As shown above, the bulk of the Funds' portfolio is made of 39% government securities, 30% Equities and 11% developed investment property.

### Portfolio Distribution

| Asset Class            | Ratio | RBA Limit | Excess Capacity |
|------------------------|-------|-----------|-----------------|
| Cash and Call Deposits | 6%    | 5%        | -1%             |
| Deposits               | 5%    | 30%       | 25%             |
| Corporate Bonds        | 38%   | 15%       | 23%             |
| Treasury Bills / Bonds | 28%   | 90%       | 62%             |
| Stocks                 | 19%   | 70%       | 51%             |
| Property               | 3%    | 30%       | 27%             |
| TPS                    | 1%    | 10%       | 9%              |
| Unquoted Stocks        | 6%    | 5%        | -1%             |
| Offshore               | -     | 15%       | 15%             |

**Operating Costs for the last 5 years**

| Financial Year        | 2012/2013           | 2013/2014           | 2014/2015           | 2015/2016           | 2016/2017           |
|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                       | <b>Kes.<br/>000</b> | <b>Kes.<br/>000</b> | <b>Kes.<br/>000</b> | <b>Kes.<br/>000</b> | <b>Kes.<br/>000</b> |
| <b>Operating Cost</b> | 6,440,993           | 4,474,306           | 6,163,060           | 5,509,264           | 6,399,442           |

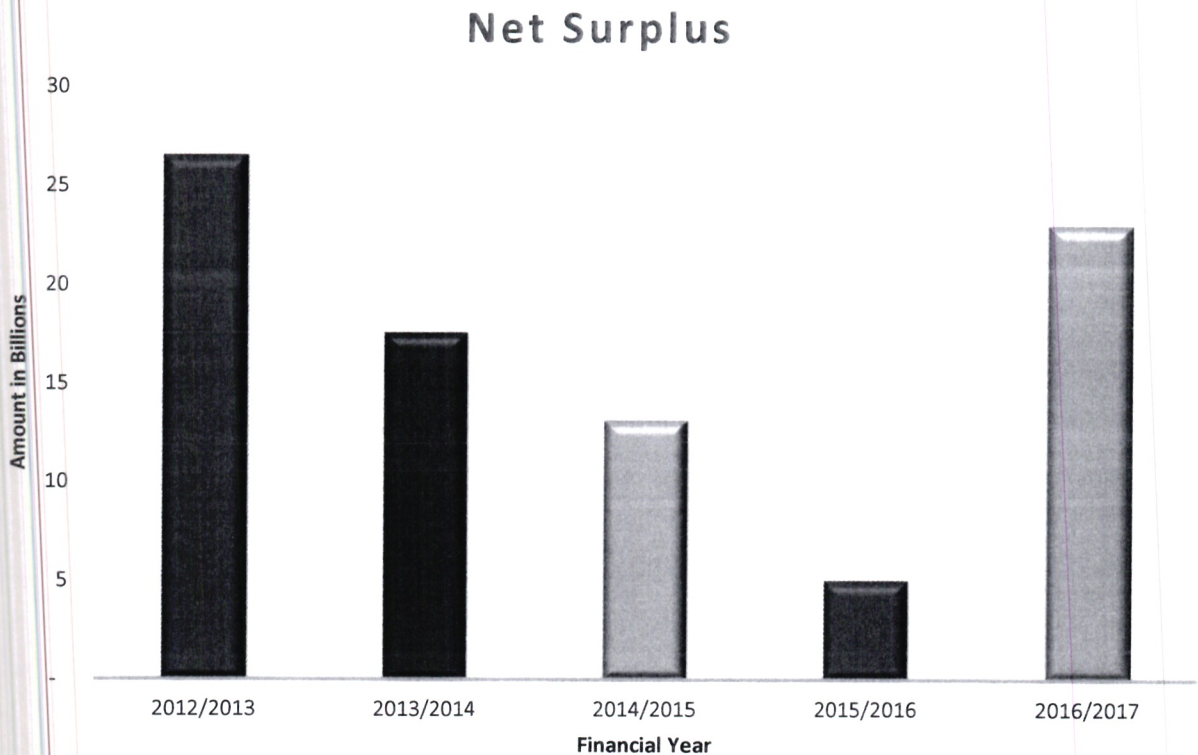


With wider mandate to cover all workers, conferred upon the Fund by the NSSF Act No. 45 of 2013, the Fund is expected to cover every Kenyan, a process that calls for more costly operational structure and outlay. Despite this, the Fund has made efforts to manage costs in line with legal requirements and invest more funds to generate more benefits for members.

**Surplus for the year for the last 5 years**

| Financial Year     | 2012/2013   | 2013/2014   | 2014/2015   | 2015/2016   | 2016/2017   |
|--------------------|-------------|-------------|-------------|-------------|-------------|
|                    | Kes Billion | Kes Billion | Kes Billion | Kes Billion | Kes Billion |
| <b>Net Surplus</b> | 27          | 18          | 13          | 5           | 24          |

**Net Surplus**

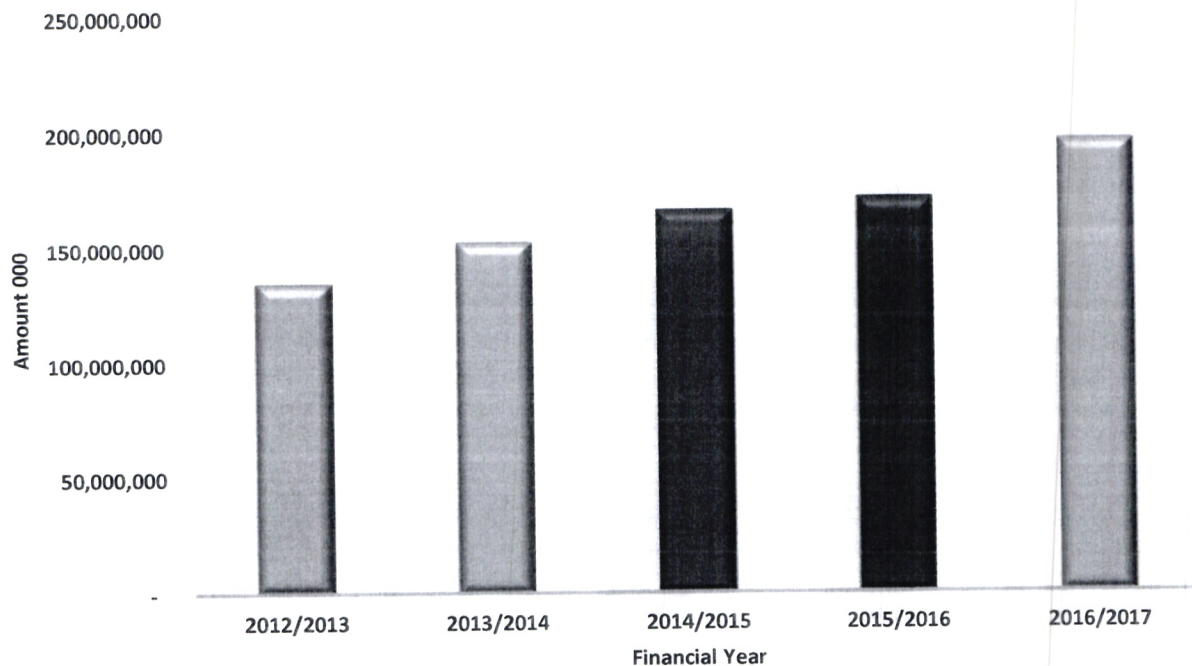


As shown above, the Funds achieved the highest net surplus in the financial year 2012/2013 of Kes. 27 billion followed by a gradual decline of the net surplus from 2013/2014 to 2015/2016 due to poor performance of the Nairobi Stock Exchange where the Fund had sizeable investments. However, the Fund performance bounced back this year to a record high of 23 billion due to prudent investment measures put in place.

**Growth in Fund Value for the last 5 years**

| Year              | Actual<br>2012/13<br>Kes 000 | Actual<br>2013/14<br>Kes 000 | Actual<br>2014/15<br>Kes 000 | Actual<br>2015/16<br>Kes 000 | Actual<br>2016/17<br>Kes 000 |
|-------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Net Assets</b> | 134,932,875                  | 153,028,834                  | 165,580,760                  | 172,086,297                  | 196,574,460                  |

**FUND VALUE**



The assets of the Fund are growing at a steady rate. Moreover, most members are increasing their contributions to take advantage of this unprecedented growth reflecting financial stability and better benefits for members.

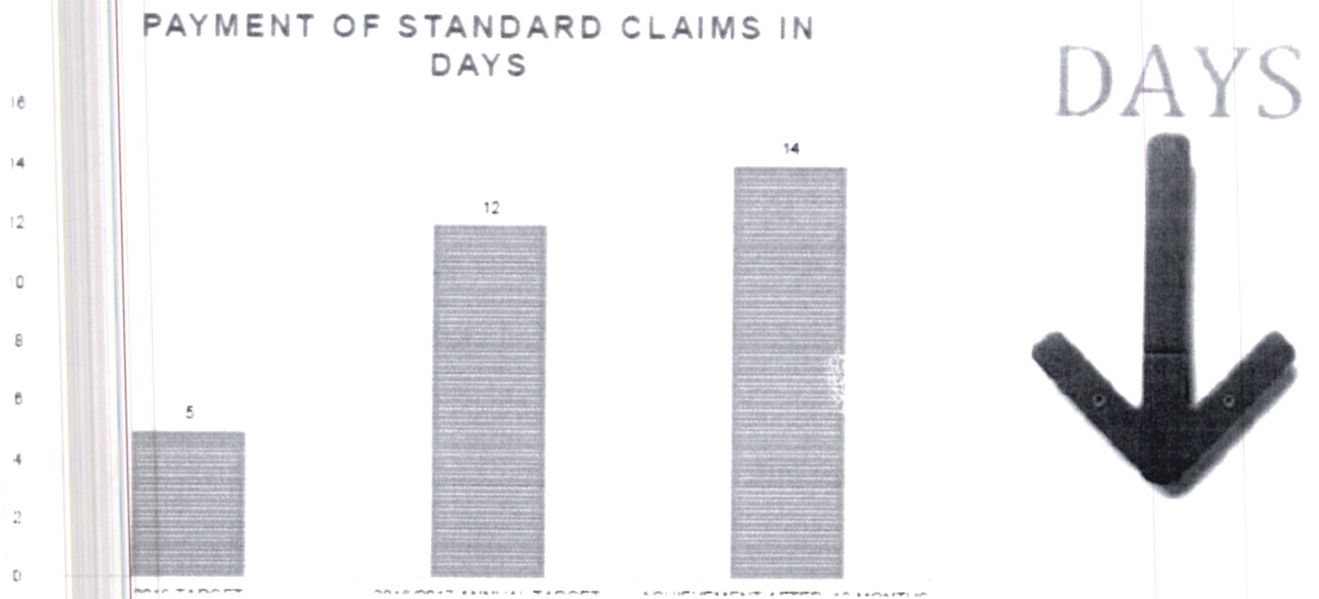
**Growth Strategy**

The Fund has continued to implement the best management practices by applying performance planning and appraisal systems, regular performance reviews, and ISO surveillance audits. The Balanced Score Card performance management system is fully entrenched in our performance monitoring and measurement. The Fund has further enhanced its customer focus by being among the first countries in Africa to achieve ISO 9001:2015 certification.

**Balanced Scorecard review**

**Payment of Standard Benefits Claims in Days**

|                                    | 2019 CSP TARGET | 2016/2017 ANNUAL TARGET | ACHIEVEMENT AFTER 12 MONTHS |
|------------------------------------|-----------------|-------------------------|-----------------------------|
| Payment of Standard Claims in Days | 5               | 12                      | 14                          |



| S/N<br>O | STRATEGIC OBJECTIVE   | 2019<br>TARGET | 2016/2017<br>TARGETS | ACHIEVEMENT<br>AFTER<br>36 MONTHS | VARIANCE ANALYSIS<br>36 MONTHS<br>ACHIEVEMENT VS.<br>2019 TARGET | VARIANCE<br>ANALYSIS 36<br>MONTHS<br>ACHIEVEMENT<br>VS. 2016/17 |
|----------|---|----------------|----------------------|-----------------------------------|--|---|
| 1*       | To provide a minimum guaranteed return of 6% on members contributions                               | 6%             | 10                   | 3                                 | (3)  | (7)   |
| 2.       | To grow the number of active (tier 1 and Voluntary) members from 1.5 million to 3.9 million by 2019 | 3.9            | 3.1                  | 2.9                               | (1.0)  | (0.2)   |
| 3.       | To grow the annual contributions from Kes. 13 billion in 2015 to Kes. 29 billion in 2019            | 29             | 17.1                 | 13.5                              | (15.5)   | (3.6)   |
| 4.       | Cap the administrative costs to total fund value at 2.3% by 2019                                    | 2.3%           | 2.5                  | 2.9                               | (0.6)  | (0.4)   |
| 5*       | To attain a customer satisfaction index of above 80% annually                                       | 80%            | 80%                  | 77                                | (3)  | (3)   |
| 6.       | Reduce benefits processing time for standard claims to 5 working days by 2019                       | 5              | 12                   | 14                                | (9)  | (2)   |
| 7.       | Ensure optimum automation of social security by 2019  | 100%           | 79%                  | 76                                | (24)   | (3)   |
| 8.       | Achieve 100% compliance to legislation, the Act, Regulations and Governance framework               | 100%           | 100%                 | 100                               | 0.00   | 0.00  |
| 9.       | Grow Fund value to Kes. 260.6 billion by 2019   | 260.6          | 198.9                | 196                               | (64.6)   | (2.9)   |
| 10.      | Enhance Investment Income to Kes 17.1 billion by 2019   | 17.1           | 14.5                 | 22.5                              | 5.4  | 8   |
| 11.      | Benefits paid out Kes. (Billions)   | 6.7            | 4.7                  | 3.7                               | (3.0)  | (1.0)   |
| 1*       | As per 2015/16 award  |                |                      |                                   |  |   |
| 5*       | As per Customer Satisfaction survey 2015/16   |                |                      |                                   |  |   |

### **Challenges and opportunities**

The challenges experienced during the year were mainly influenced by the following factors:

- a) The uncertainty involving the implementation of the NSSF Act No 45 2013 impacted on the amount of contribution receivable and the adequacy of benefit payable;
- b) The instability in the Nairobi Securities Exchange and frequent changes in the financial sector; and
- c) The drive to implement the Fund's mandate of providing social security to all Kenyans directly impacting on cost levels.

However, despite the challenges the Fund has a lot of opportunities in voluntary contribution, wide coverage to all parts of the country, and development of the available land for investment income generation.

### **Procurement Policy Statement**

The Fund procures goods, works and services as per the provisions of the Public Procurement and Asset Disposal Act 2015, other relevant laws and Government guidelines with the objective of optimal use of the Fund's resources.

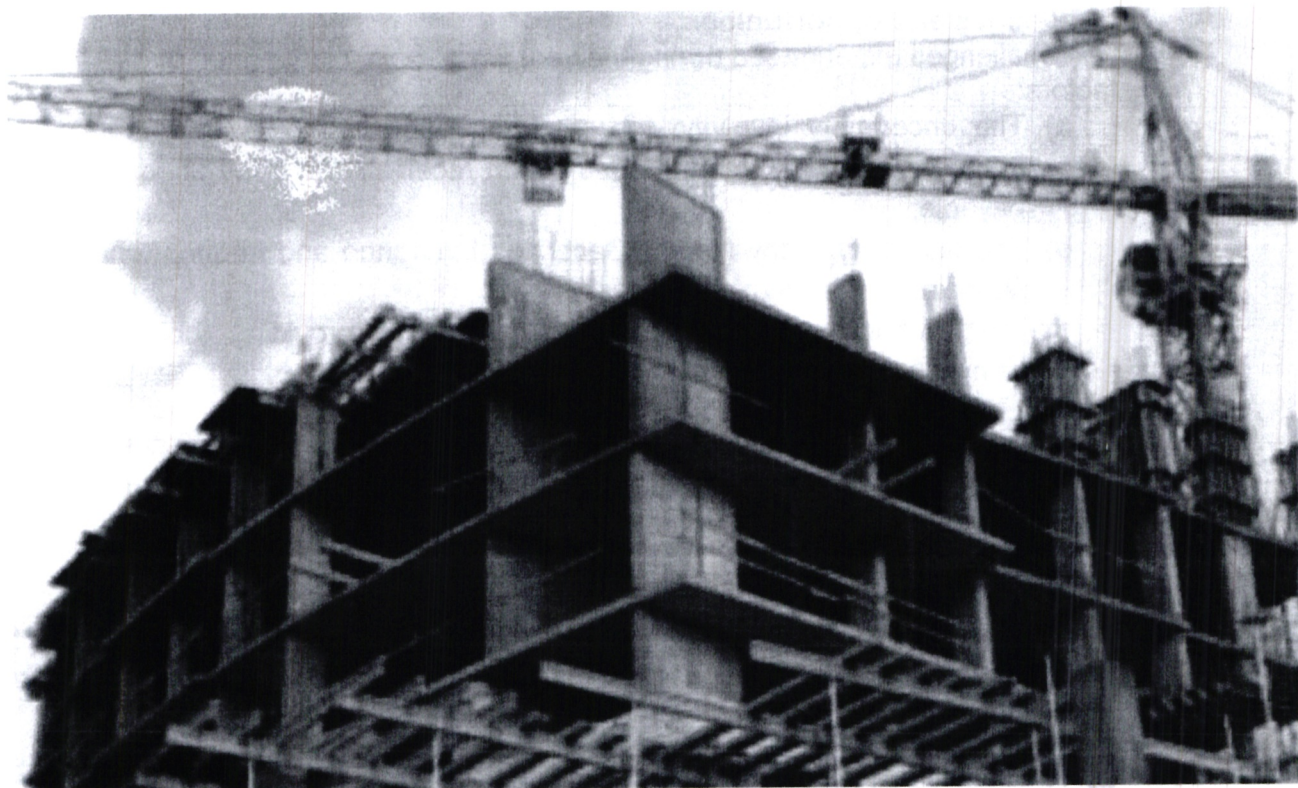
All purchases are effected in accordance with the relevant budget and the procurement plan.

### **Key Projects and investment decisions implemented**

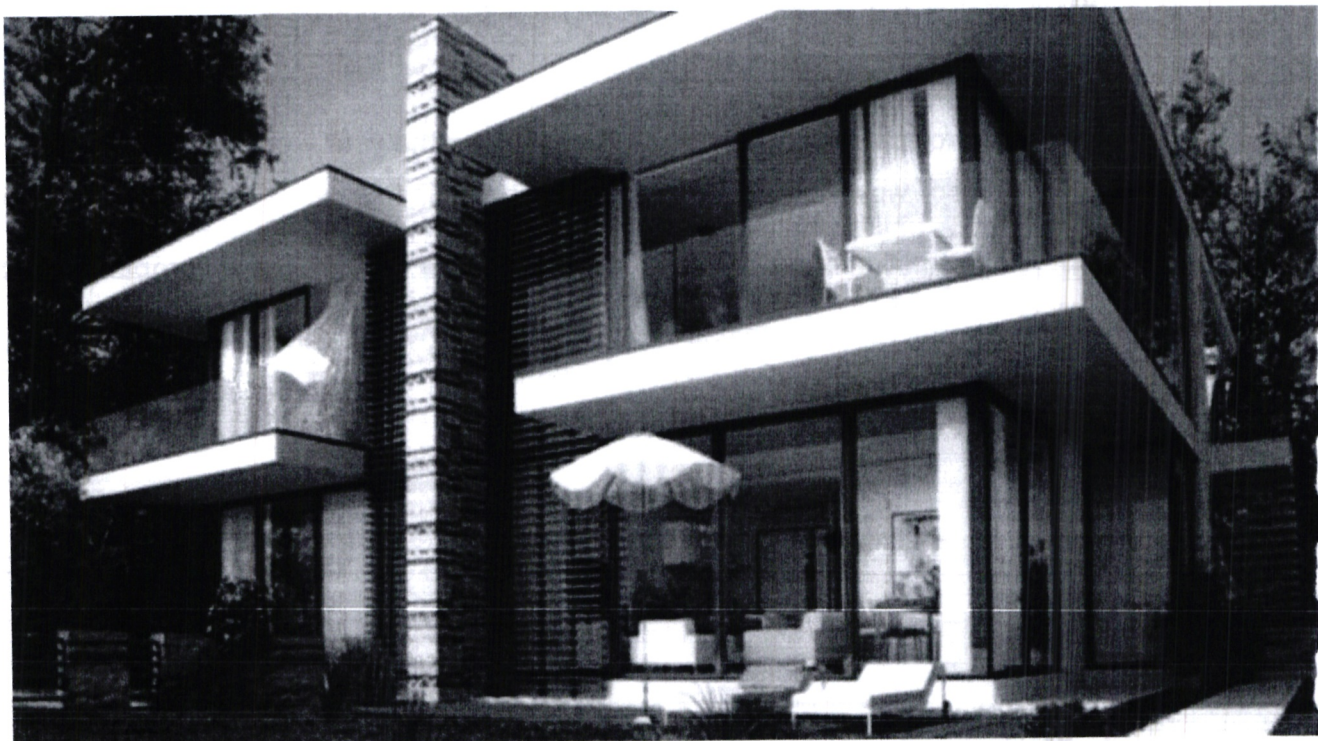
#### **a) Projects**

The main projects which were in progress during the year were as follows:

- i. Project works at Nyayo Estate Embakasi, Phase VI at an expected cost of Kes.2.1 billion halted by litigation.
- ii. Construction of up-market apartments at the NSSF Milimani property at a cost of Kes.1, 490,836,240.36 is ongoing.
- iii. Construction of Hazina Trade Centre at cost Kes.6, 715,218,188.00 is in progress stalled on account of litigation.



Some of our development projects: Hazina Trade centre, above, and Milimani Executive Apartments below.

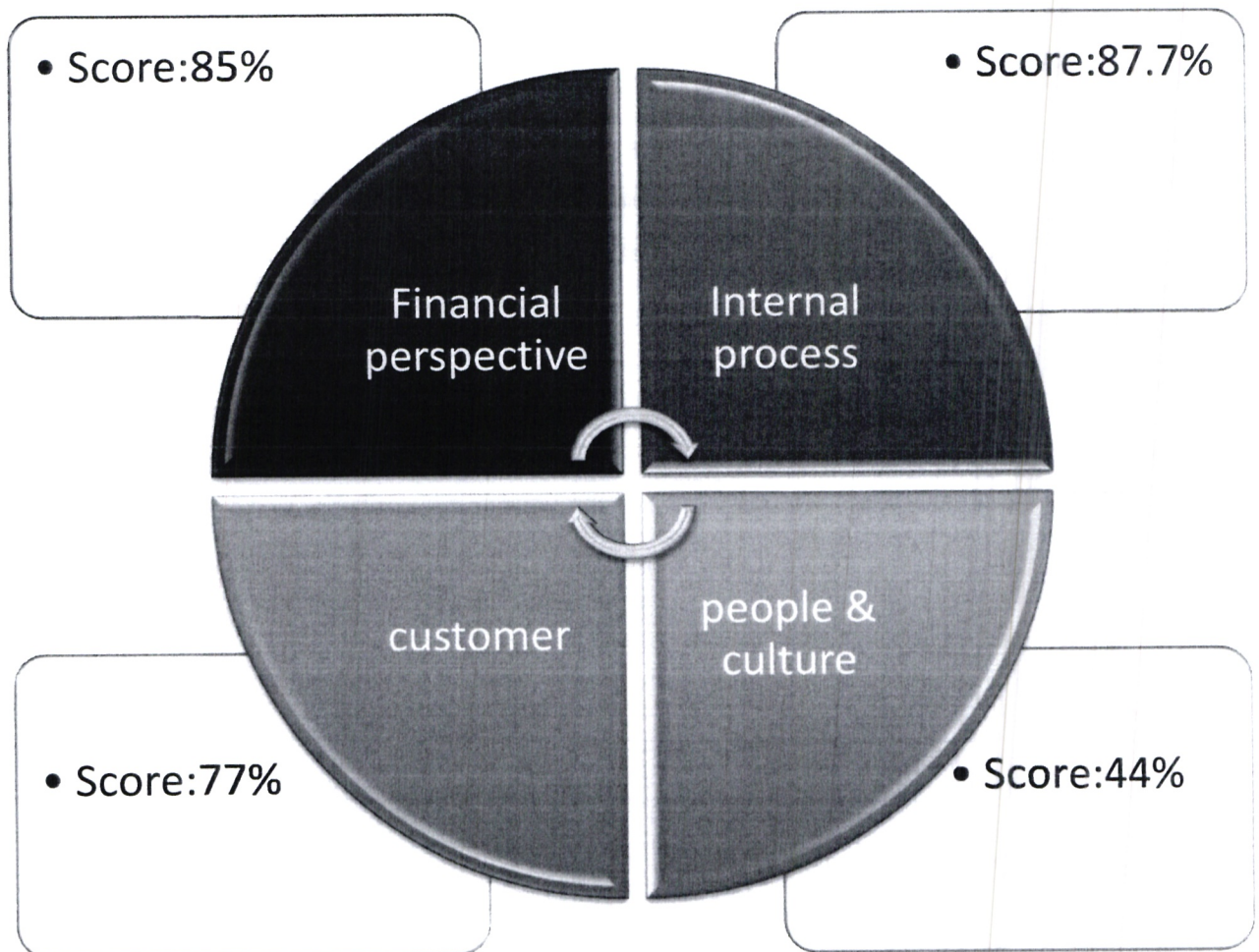


**b) Major Tenders during the Year**

| No | Tender No               | Nature Of Item / Contract  | Date Awarded | Firm Awarded  | Amount (Inclusive of V.A.T)                  |
|----|-------------------------|--|--------------|---|--|
| 1. | Tender No. 23/2015-2016 | Repair of Roof at Social Security House Block 'B' Parking Canopy and View Park Towers Roofs – Nairobi                  | 05.08.2016   | Scan Construction Limited   | 6,841,000.00                                 |
| 2. | Tender No. 24/2015-2016 | Repair of Roof at Bruce House, Nairobi   | 05.08.2016   | Scan Construction Ltd   | 11,957,600.00                                |
| 3. | Tender No. 27/2015-2016 | Provision of Collocation for Information Communication Technology Disaster Recovery (DR) Site and Associated Services. | 08.08.2016   | Safaricom Limited   | 62,182,388.00                                |
| 4. | Tender No. 28/2015-2016 | Provision of Security Services for Fund Commercial Priorities.   | 15.07.2016   | Hatari Security   | 40,616,544.00                                |
| 5. | Direct Procurement      | Provision of IDEA Software   | 10.08.2016   | KPMG  | USD33,930.00                                 |
| 6. | Tender No. 01/2016-2017 | Provision of Asset Valuation Services  | 07.09.2016   | 1.Value Zone Limited<br>2.Crystal Valuers Limited<br>3.Ebony Estate Limited | 4,000,000.00<br>7,000,000.00<br>2,800,000.00 |

### Going Concern

The Fund implemented Actuate Birth Balance Score Card Performance Management System in June 2012. It facilitates the evaluation of performance of the Fund through four perspectives namely: Financial, internal process, customer, and people & culture perspectives. This is in line with the requirement of Mwongozo that the going concern of an organisation be measured using the Triple Bottom Line concept which focuses not only on profit, but also on people and the planet.



The implementation of the balance scorecard has facilitated the inculcation of performance oriented culture among staff and based on various surveys carried out by external consultants, the trend of Fund repositioning positively is on the increase. During the year, performance reports have been generated using the birth balance score card performance management system.

### **Code of Ethics and Conduct and Whistle-Blowing policy**

The Board of Trustees and staff are committed to enhancing ethics and integrity in the Fund in accordance with Chapters 6 and Article 232 of the Constitution of Kenya on Leadership and Integrity and Values and Principles of Public Service respectively.

The commitment is demonstrated by formulation of the Leadership & Integrity Code and Whistle Blower Policy. The two policies have been posted in the NSSF website for all stakeholders to familiarise themselves with them. The aim of posting is to enlist support from the stakeholders in enhancing ethics and integrity in the Fund.

In addition, all employees are required to sign an Acknowledgement Form confirming that they have read, understood and will abide by the Code.

### **Compliance with statutory Requirements**

The Fund is fully compliant with statutory requirements

### **Compliance with Retirement Benefits ACT**

The NSSF Act No 45 of 2013 provides that NSSF shall be subject to all the provisions of the Retirement Benefits Act. Rule 28 (2) of the occupational rules for a retirement benefit scheme requires the Fund to maintain an account under which all transactions should be recorded.

### **Key Exposure Risks**

Based on the enterprise risk management framework, the following key exposure risks have been identified and strategies put in place to manage them:

- a) Corporate Governance risk due to frequent changes in the Board of Trustees and the office of the Chief Executive.
- b) General economic downturn leading to low numbers of new business, downsizing, increase in closure of business.
- c) Market risks caused by:
  - i) Price risks due to decline in stock market prices, and volatility in the exchange rates.
  - ii) Interest rate volatility affected by shifts in market forces, Government policies, and intervention in the money market.
- d) Court cases affecting business especially the petition on the Fund to collect contribution as per the NSSF Act 2013.

### **Material Arrears in Statutory and Other Financial Obligations**

The Board of Trustees confirm that the Fund does not have any material pending bills, outstanding taxes, outstanding staff & pension obligations. The Fund does not have any actuarial deficit on its pension scheme obligation. The Fund operates under three schemes i.e. the Old provident Fund, New provident Fund and the Pension Fund as provided in NSSF Act No. 45 of 2013. However full implementation of the Act has been contested in court especially section 18, 19 and 20.

#### VIII. STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is an integral component in the NSSF Strategic Plan 2014-2019. In as much as we deliver our social security mandate, the Fund aspires to positively reposition and engage in the society within which we operate. The five key focus areas within the CSR Policy are Education, Public Health, Social Welfare, Sports, Environmental Conservation, and Entrepreneurship among the youth and supporting the elderly.

NSSF commitment to corporate social responsibility proves that there are tremendous opportunities for innovation and growth in tackling social problems as part of its core business objectives. We also understand that addressing societal pain points through innovative initiatives, serves to unlock the economic transformation of entire communities. Our long term strategy is to engage in strategic CSR which we believe will not only benefit our stakeholders but will also reinforce the Fund's corporate strategy and leverage on key focus areas.

**'The five key focus areas within the CSR Policy are Education, Public Health, Social Welfare, Sports, Environmental Conservation, and Entrepreneurship among the youth and supporting the elderly'**



**Overview of CSR Activities during the year ended 30<sup>th</sup> June 2017**

As a caring corporate, the Fund supported various CSR activities during the year. They are as follows:

| Focus Area                          | Activity   | Amount    |
|-------------------------------------|--|-----------|
| <b>Health</b>                       | Treatment of children infested with jiggers      | 1,600,000 |
|                                     | Blood Donation                                   |           |
|                                     | Distribution of Shoes                            |           |
|                                     | Distribution of dignity pact to adolescent girls |           |
| <b>Education</b>                    | Construction of dining hall                      | 1,000,000 |
|                                     | Construction of dormitory                        | 500,000   |
|                                     | Construction of classrooms                       | 500,000   |
|                                     | Buying of books                                  | 250,000   |
| <b>Social Welfare</b>               | Distribution of food                             | 1,124,060 |
|                                     | Installation of water storage                    | 1,700,000 |
| <b>Environmental Sustainability</b> | Tree planning                                    | 640,000   |
| <b>Sports</b>                       | Golf tournament                                  | 300,000   |



**DID YOU KNOW?**

There is no limit to how much you can save with NSSF.

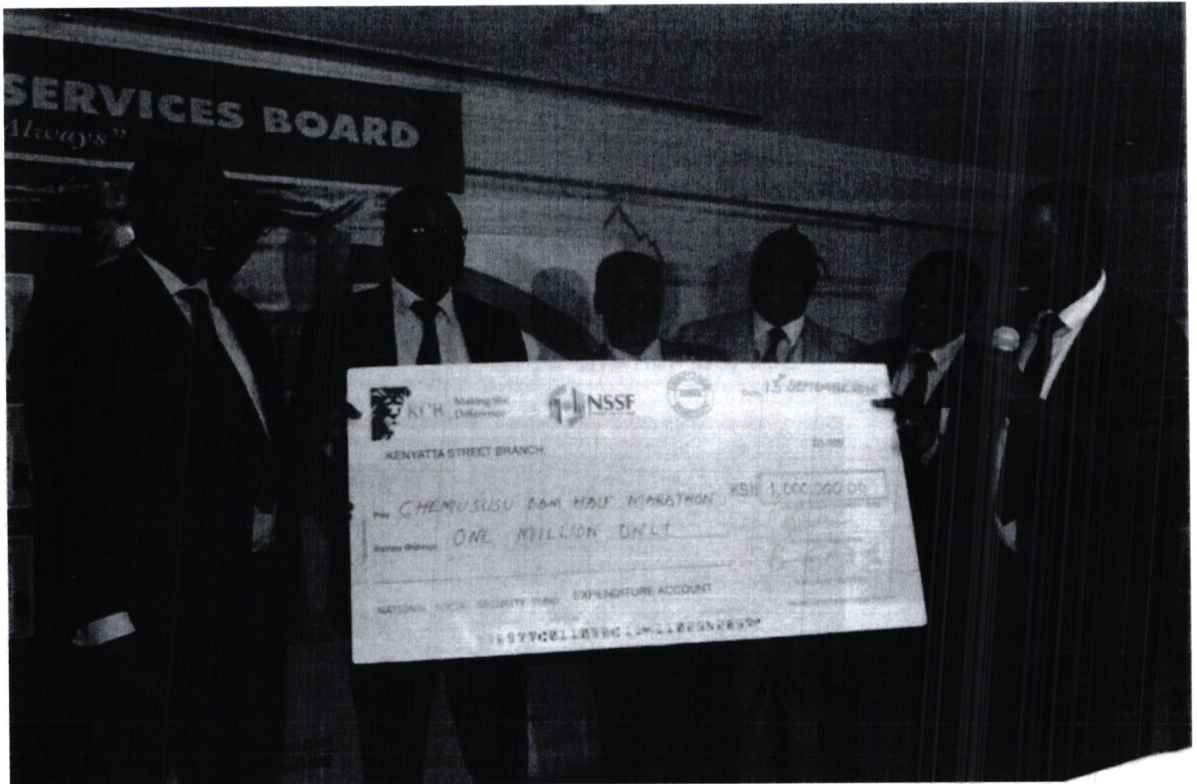
All our members, both in the formal and informal sector can top up their contribution voluntarily in cash or through the MPesa business number 333300

For more detail Visit our website on [www.nssf.or.ke](http://www.nssf.or.ke)



i. **Annual Chemususu Dam Half Marathon**

The charity marathon proceeds was geared towards the following activities: Conservation of Chemususu dam catchment area; Infrastructure support to the Uzalendo School that caters for free secondary education of students from poor economic background; Establishment of a police post and construction of a perimeter fence around the dam and; Construction of an information Centre. The Fund sponsored Kshs.1, 000,000.00. The marathon took place on 17<sup>th</sup> September 2016.



**Impact:** Proceedings have supported improved environmental conservation around Eldama Ravine in Baringo. This has also supported Uzalendo School that caters for students from disadvantaged background. The event has been used to promote sports and tapping athletics talent among the youth.



- ii. **Distribution of dignity Packs at Kamolo Primary School in Busia County**  
The Fund took the initiative to support the girl child in Busia County in September 2016.  
**Impact:** The initiative has helped keep hundreds of teenage girls in schools in Teso North. The program include educating the youth on hygiene and reproductive health.



iii. **Bugengi Primary School in Busia County**

The Fund supported in the construction of Classrooms for Children with special needs by contributing Kes 1,000,000.

**Impact:** More children with special needs have now come out and enrolled in the newly constructed school with exclusive accommodation for them.



iv. **Joyful Women Organization (JoyWo)**

JoyWo is a transformative organization dedicated to the holistic empowerment of women. The Fund sponsored Kshs.3, 000,000 towards the worthy cause on 1<sup>st</sup> November 2016.

**Impact:** The sponsorship has improved the social economic welfare of women in this area through women empowerment in table-banking activities.

v. **Tree Planting at AIC Mukuyuni Primary School in Makueni County**

In a bid to conserve the environment, the Fund participated in tree planting at AIC Mukuyuni Primary School. The Fund sponsored Kes 1,000,000 towards construction of Dinning Hall.

**Impact:** Over 600 students of this school can now have a place to hold various activities in the multi-purpose hall including dinning. The NSSF team also lead the children in environmental conservation through tree planting.



vi. **Chepkukui Mixed Primary School in West Pokot**

The Fund supported in the construction of a girl's dormitory by contributing Kes 500,000 to the worthy cause. The Cheque was presented on 22<sup>nd</sup> April 2017.

**Impact:** The initiative has boosted the effort of keeping FGM escapees in school and the general promotion of the girl-child education in the area.



iv.

**PCEA Namelok Primary School in Kajiado County**

The Fund sponsored building of classrooms for the boy-child in Kajiado Central.

**Impact:** The boys who have been neglected have now a place to study in a decent environment.



v. **Anti-Jigger Campaign in Homabay**

The Fund sponsored anti jigger campaign and distribution of dignity packs through Ahadi Trust Kenya. The event took place on 22<sup>nd</sup> June 2017 at Sibuoche Primary School in Ndhiwa Constituency, Homa Bay County.

**Impact:** The activities among them fumigation of home and jigger treatment have helped in improving hygiene among children and elderly people. The distribution of dignitary packs to girls has helped keep girls in school without staying away for days during their menstrual period.



## IX. REPORT OF THE TRUSTEES FOR THE YEAR ENDED 30 JUNE 2017

### Principal activities

The principal activity of the Fund is the provision of social security to members through enhanced coverage, efficient registration and collections, prudent fund management, competitive benefits and exemplary governance.

### Results for the Year

The Trustees hereby submit their report together with the unaudited Financial Statements for the year ended 30 June 2017, which shows the state of the Fund's affairs. The results of the Fund for the year ended 30 June 2017 are set out on pages 78-120.

### Interest to Members

Section 2 of the NSSF Act 2013 requires that investment income be credited to the accounts of individual members, at such rates as the Board may, in consultation with the Actuary or such other qualified person, determine and approve at least annually, having regard to the income on the Fund's assets. In the year ended 30 June 2016, the Board of Trustees approved interest of 6.0 % after actuarial valuation of the Fund by Alexander Forbes Financial Services. Interest declared and paid in the last five years is as follows:

| Financial Year | Declared interest% |
|----------------|--------------------|
| 2012/2013      | 7                  |
| 2013/2014      | 12.5               |
| 2014/2015      | 3.0                |
| 2015/2016      | 6.0                |
| 2016/2017      | Yet to be declared |

The interest for the financial year ended 30 June 2017 is under consideration by the Actuary, Zamara (formerly Alexander Forbes) before submission to the Board of Trustees for approval after which the distribution of interest will be done.

### Trustees

The members of the Board of Trustees and changes during the year are shown on page 13-19.

### Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the financial year ended June 30, 2017.

By Order of the Board.



**Dr. Anthony Omerikwa**  
**CEO/SECRETARY, BOARD OF TRUSTEES**

Date: ..... 10/8/2018 .....

## **X. STATEMENT OF TRUSTEES' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012, NSSF Act no. 45 of 2013, The Retirement Benefits Act No. 3 of 1997 and its regulations, as well as The State Corporations Act No. 446 require the Trustees to prepare financial statements in respect of the Fund, which give a true and fair view of the state of affairs of the Fund at the end of the financial year and the operating results of the Fund for that year. The Trustees are also required to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Fund. The Trustees are also responsible for safeguarding the assets of the Fund.

As per section 10. (1) of the NSSF Act No. 45 the responsibilities of The Board shall include:

- (a) Acquire, control, and supervise the funds and assets of the Fund in such manner that best promotes the objects for which the Fund is established;
- (b) Impose levies, fees or charges for such services as the Fund may offer;
- (c) lay down such policies and guidelines as may be necessary for the proper operations and management of all the contributions and funds collected by the Fund and for any other matter concerning the Fund;
- (d) Receive grants, gifts, donations or endowments and make legitimate disbursements;
- (e) Approve contracts, undertakings, hiring of senior staff and other activities entered into by the Management or otherwise undertaken in the name of the Fund whose value requires Board approval;
- (f) Appoint any agent the Board may require or subcontract any person or firm of proven experience in the particular function for which appointment or subcontracting is necessary, to perform any of its functions under this Act;
- (g) Invest any funds of the Fund not immediately required for its purposes in the manner allowed by this Act;
- (h) Out of its own funds and together with funds it may require its employees and officers to contribute, establish and make contributions to pension, superannuation, provident or medical social security scheme for the benefit of its employees or officers and, grant pensions, gratuities or retirement allowances to its officers or employees from the funds established;
- (i) Open and operate an account in a bank, registered building society, and or any registered financial institutions.
- (j) Exercise such other powers as may be conferred upon the Board by this Act or any other written law.

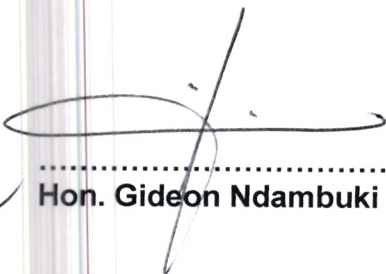
The National Social Security Fund Act No.45 of 2013 requires the Trustees to prepare Financial Statements for each financial year which include, a balance sheet (statement of assets available for benefits) showing in detail the assets and liabilities of the Fund, a statement of income and expenditure (statement of changes in net assets available for benefits) and such other statements that the Trustees may deem necessary. It also requires the Trustees to ensure that the Fund keeps proper books of account and other books and records in relation to the Fund, and, to all the undertakings of the Fund's investments.

The Trustees take responsibility for the annual Financial Statements which have been prepared using appropriate accounting policies, supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and in the manner required by the National Social Security Fund Act 2013 as well as the Retirement Benefits Act 1997, Section 34. The Trustees are of the opinion that the Financial Statements give a true and fair view of the state of the financial affairs of the Fund and of its operating results. The Trustees further take responsibility for keeping proper books of accounts. The Trustees hereby confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Funds Financial Statements as well as the adequacy of the systems of internal control in all operations of the Fund.

The Trustees certify that to the best of their knowledge and belief the information furnished to the Auditors for the purpose of the audit was correct and complete in every respect. Nothing has come to the attention of the Trustees to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the Financial Statements**

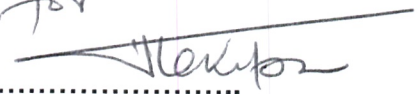
The Fund's Financial Statements were approved by the Board of Trustees on 27 September 2017 and signed on its behalf by:

*for* 

.....  
**Hon. Gideon Ndambuki**

**CHAIRMAN, BOARD OF TRUSTEES**

*10-08-2018*  
.....  
**Date**

*Signing for* 

.....  
**Mr. Anthony Munyiri**

**TRUSTEE**

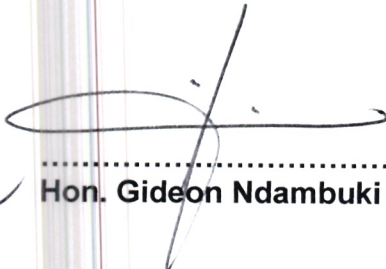
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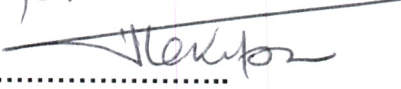
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*for*   
.....  
**Hon. Gideon Ndambuki**  
**CHAIRMAN, BOARD OF TRUSTEES**

*10-08-2018*  
.....  
**Date**

*Signis for*   
.....  
**Mr. Anthony Munyiri**  
**TRUSTEE**

.....  
**Date**

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON NATIONAL SOCIAL SECURITY FUND FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of the National Social Security Fund (NSSF) set out on pages 78 to 122, which comprise the statement of net assets available for benefits as at 30 June 2017, and the statement of changes in accumulated members funds, statement of cash flows, statement of comparison of budget and actual for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Social Security Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the National Social Security Fund Act, 2013.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that public money has been applied lawfully and in an effective way.

#### Basis for Qualified Opinion

##### 1. Unaccounted for Members Contributions

##### 1.1 Unremitted Members Contributions

As previously reported contributions totalling Kshs.754,995,367 had not been remitted in the stipulated time period according to twenty (20) sampled employer files maintained in nine (9) NSSF branches. This was contrary to Section 8(a) of the NSSF Act, 2013 which required employers to remit into the Fund contributions deducted from members in full and in time.

---

*Report of the Auditor-General on the Financial Statements of National Social Security Fund (NSSF) for the year ended 30 June 2017*

Although management took action by issuing demand letters and also made alternative payment arrangements with employers such as instalment payments before considering legal action, it has not been established whether any amounts have been realized from these arrangements.

As a result, recoverability of the unremitted members contributions of Kshs.754,995,367 remains doubtful for over two years.

## **1.2 Unidentified and Unposted Members Contributions**

The financial statements under statement of changes in net assets available for benefits reflects a net surplus from dealings with members of Kshs.9,885,860,827 for the year under review. In compliance with Retirement Benefits Act, 1997, NSSF maintains employer contribution clearing accounts for benefit payment upon qualification as per the Act. During the year under review, the contributions in transit balance changed marginally from Kshs.764 million as at 30 June 2016 to Kshs.762 million as at 30 June 2017.

No reasons have been provided for not posting the Kshs.762 million which has accumulated over the years to the respective member's accounts despite the Fund having acquired a Social Security Pension Administration System (SSPAS) and compliance officers to assist safeguard member's funds.

Consequently, the fund may not have gotten value for money for SSPAS procured in the year 2011/2012 at a cost of Kshs.300,000,000 and members risk loss of accrued interest especially those claiming benefits in the intervening period.

## **2. Investments in Imperial Bank and Chase Bank**

### **2.1 Fixed Deposits (Held to Maturity)**

Note 17(b) to the financial statements as at 30 June 2017 reflects fixed deposits (held to Maturity) totalling Kshs.7,729,907,953 which included deposits in Chase Bank of Kshs.70,000,000 and Imperial Bank of Kshs.259,500,000. These fixed deposits were invested between 8 September 2015 and 3 March 2016 and were to mature between December, 2015 and May 2016. The deposits did not mature nor have they been recovered as at 30 June 2017.

## **3. Corporate Bonds**

Note 20 to the financial statements as at 30 June 2017 reflects corporate bonds balance of Kshs.9,222,122,293 which includes Kshs.132,200,000 invested in Imperial Bank and Kshs.534,700,000 invested in Chase Bank which were invested between 28 September 2015 and 6 October 2015 to mature within February 2022 and September 2022 as tabulated below:

| Bank                  | Fund Manager                 | Nominal Amount        | Investment Date | Maturity Date | Recovery             |
|-----------------------|------------------------------|-----------------------|-----------------|---------------|----------------------|
| <b>Fixed Deposits</b> |                              |                       |                 |               |                      |
| <b>Imperial Bank</b>  | GenAfrica Asset Managers Ltd | 30,000,000.00         | 9/22/2015       | 12/21/2015    | 3,070,194.40         |
|                       | GenAfrica Asset Managers Ltd | 20,000,000.00         | 9/8/2015        | 1/4/2016      | 2,134,730.55         |
|                       | GenAfrica Asset Managers Ltd | 8,500,000.00          | 9/11/2015       | 1/4/2016      | 907,260.50           |
|                       | Old Mutual Investments Group | 201,000,000.00        | 9/30/2015       | 11/30/2015    | 20,570,302.50        |
| <b>Chase Bank</b>     | Britam Asset Managers Ltd    | 70,000,000.00         | 3/3/2016        | 5/9/2016      |                      |
| <b>Sub Total</b>      |                              | <b>329,500,000.00</b> |                 |               | <b>26,682,487.95</b> |
| <b>Corporate Bond</b> |                              |                       |                 |               |                      |
| <b>Imperial Bank</b>  | Britam Asset Managers Ltd    | 90,000,000.00         | 9/28/2015       | 9/22/2020     | -                    |
|                       | Old Mutual Investments Group | 42,200,000.00         | 9/28/2015       | 9/22/2020     | -                    |
| <b>Chase Bank</b>     | GenAfrica Asset Managers Ltd | 160,000,000.00        | 10/6/2015       | 2/6/2022      | -                    |
|                       | Old Mutual Investments Group | 174,700,000.00        | 10/6/2015       | 2/6/2022      | -                    |
|                       | Britam Asset Managers Ltd    | 100,000,000.00        | 10/6/2015       | 2/6/2022      | -                    |
|                       | Stanlib Kenya Ltd            | 100,000,000.00        | 10/6/2015       | 2/6/2022      | -                    |
| <b>Sub Total</b>      |                              | <b>666,900,000.00</b> |                 |               | -                    |
| <b>Total</b>          |                              | <b>996,400,000.00</b> |                 |               | <b>26,682,487.95</b> |

Recovery of interest on the corporate bonds for the period upto 30 June 2017 remains outstanding safe for the paltry Kshs.26,682,488 from chase bank.

#### 4. Banks Holding Deposits placed under Receivership by the Central Bank of Kenya

Available information confirmed that the Central Bank of Kenya (CBK) placed Imperial Bank Ltd under receivership on 13<sup>th</sup> October, 2015 and immediately appointed the Kenya Deposit Insurance Corporation as receiver. The main reasons being irregularities and malpractices in the bank's management.

The CBK also placed Chase Bank under receivership on 7<sup>th</sup> April 2016 and appointed the Kenya Deposit Insurance Corporation as receiver the main reasons being liquidity problems. At the time the banks were placed under receivership by CBK, the Fund, through appointed Fund managers had invested a total of Kshs.391,700,000 in Imperial Bank and Kshs.604,700,000 in Chase bank all totaling Kshs.996,400,000.

According to documents availed for audit, out of the total investments of Kshs.996,400,000, the Fund managers have been able to recover only Kshs.26,682,487 from Imperial Bank leaving a total balance of Kshs.969,717,513 outstanding and in addition, no disclosure note was made in the financial statements as required.

In the circumstances, the safety of deposits totalling Kshs.969,717,513 made by the Fund managers could not be confirmed. The Fund does not appear to have received value for money from the Kshs.181,518,979 paid to the Fund managers during the year under review. It is also not clear whether the deposits were insured.

The three year (3) contracts of the current Fund managers were renewed in the year 2014/2015 and it is recommended that the Fund managers be changed on expiry of their contracts.

The Fund has however, indicated the likelihood of recovering most of the investments after the CBK carried out an expression of interest and received initial bids to sell Imperial Bank to pay off depositors while Chase Bank was reopened and was reportedly acquired by SBM Kenya Limited, a subsidiary of SBM Holdings Limited of Mauritius.

## **5. Stalled Project - Hazina Trade Centre Nairobi**

The statement of net assets available for benefits as at 30 June 2017 reflects a balance of Kshs.20,777,695,787 under Developed Investment Property. Included in this figure is Kshs.1,500,000,000 in respect to fair value of the Hazina Trade Centre, Nairobi.

As previously reported, the construction of Hazina Trade Centre, Nairobi commenced on 17 June 2013 and was to be undertaken in 155 weeks with an expected completion date of July 2016. However, as at 14 March 2018 the building was still incomplete and builders work had stalled after reaching 15<sup>th</sup> floor or 38 % and Kshs.1,887,744,544 spent on the project out of the total contract cost of Kshs.6,715,218,188. All efforts should be made to ensure completion of the building to safeguard members' contributions.

## **6. Unresolved Prior Year Matters**

### **6.1 Irregular Disposal of Undeveloped Land - Mavoko**

As previously reported, undeveloped land in Mavoko Municipality measuring 69.16 acres was subdivided into seven (7) plots of 9.88 acres and disposed-off at Kshs.18,000,000 each. The plots were sold to AMS Properties Limited on the basis of an agreement dated 21 November, 2011 at a total cost of Kshs.126,000,000. However, only Kshs.12,600,000 or 10% was paid vide Miscellaneous Receipt M010022315 dated 23 August, 2011. The balance of Kshs.113,400,000 which was to be paid within 90 days from the date of execution of the agreement has not been settled to date.

No reasons were provided for the failure to terminate the sale agreement upon the expiry of the 90 days execution period provided for in the contract agreement. The Fund risks loss of the land which by now has appreciated in value and possible additional costs. No legal action appears to have been taken by the Fund as at 30 June 2017.

In consequence, loss of the Kshs.113,400,000 and or the land together with accrued interest remains real plus risk of additional litigation costs.

### **7. Non – Beneficial Lease of Hazina Plaza Mombasa – LR. NO.MSA/BLK XX/328 & 329**

As previously reported, the Fund acquired Hazina Plaza formally known as Polana Hotel at a cost of Kshs.450 Million in 1994. The Plaza comprised of a nine storey building which was leased and operated as a four-star hotel at an annual rent of Kshs.60 Million.

However, the hotel reportedly remained partially closed since 2001 due to failure by the then tenant to meet rent obligations. The building was later advertised for sale on 3 September 2009 at a reserved price of Kshs.300 million, however the bids received were below the reserve price.

On 25 May 2010, the premises were again leased to M/s Techno Holdings Ltd at a monthly rent of Kshs.2.25 million or 27 million annually net of all taxes with an escalation cost of 10% after every two (2) years.

According to the lease agreement entered between the Fund and M/s Techno Holdings Ltd, the lessee was to pay a total of Kshs.164,837,000 to the Fund for the hire of the building as a hotel for a period of ten (10) years from 1 August 2010 to 30 July 2020.

M/s Techno Holdings Ltd was granted a two-year grace period commencing 2 May, 2014 when they formerly got vacant possession. Rent payment was therefore effective from 1 May 2016 which was also extended by a further six (6) months to 31 December 2016 by the Board of Trustees to enable the firm repair the building which was in a dilapidated state.

By September, 2016 the building had accumulated rent due of Kshs.323,585,144 but only Kshs.66,500,000 had been realized leaving a balance of Kshs.239,500,000 unpaid up to date. So far, the Fund, has not realized any value for money from the investment of Kshs.450 million in Hazina Plaza Mombasa since 1994.

In view of the foregoing, the unrealized benefit from the investments in Mombasa Plaza cast doubts on prudent financial management of the lease for the interest of contributors as at 30 June 2017.

## **8. Unrecovered Investment Returns - Kisumu Milimani Upmarket Houses**

As previously reported, land LR.KISUMU/MUN/8/258 measuring 0.7740 Ha. situated in Milimani Estate, Kisumu County was on 26 November 2012 swapped to offset a debt of Kshs.150 million owed to the Fund by the then Municipal Council of Kisumu. The land is currently valued at Kshs.178,000,000. Within the land is a flat comprising of eight (8) two (2) bedrooms apartments and three separate maissonettes of three (3) bedrooms each with a servant quarter.

Although the Fund allowed the houses to be occupied by NSSF staff, only Kshs.66,000 was being received as rental income from these upmarket houses. Despite lack of rental income from these houses over the years, the Fund continued to provide security and other services. No reasons have so far been provided for the failure to review the rent payable since taking over the property in 2012. Review of the status in 2016/2017 revealed that no action has been taken to remedy this anomaly in the management of investment property.

Consequently, value for money has not been realized from the investment worth Kshs.178,000,000 over the last five (5) years upto 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Social Security Fund in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key Audit Matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the effect of the matters

described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that there were no Key Audit Matters to report in the year under review.

## **Other Matter**

### **1. Governance – Senior Management in Acting Appointments**

Among the top management team, there were a total of thirteen (13) staff including that of the Chief Executive Officer/Managing Trustee who have been serving in acting capacity with some acting for more than four (4) years without being confirmed.

No reasons have been provided for the continuous holding of senior management positions and staff in acting capacities.

### **2. Refurbishment of Mombasa Social Security House**

The Fund on 12<sup>th</sup> January 2012 entered into a contract with M/s EPCO Builders Ltd through Tender No. 27/2010-2011 after competitive bidding for the refurbishment and associated services of the Mombasa Social Security House at a cost of Kshs.217,530,427. The contract was to be executed within a period of forty (40) weeks after engagement.

Information availed indicate that the project was completed and a certificate of practical completion issued by the project consultants on 7<sup>th</sup> November 2013 while a certificate of making good the defects was issued on 30 November 2015 and payments totalling to Kshs.226,218,458 made to the contractor.

However, part of the main contract entailed the installation of Closed Circuit Television (CCTV) system at a cost of Kshs.48,666,664.

A physical inspection carried out on 30 May 2018 at the Social Security House - Mombasa revealed that the CCTV system installed was not functioning despite the fact that they had been partly paid for. In response to our enquiries, the management explained that the CCTV system was in proper working condition at the time of hand-over and worked effectively for the first two (2) years before developing technical issues due to lack of maintenance and a dispute on the amounts payable.

No reasons were provided for the failure to include a service maintenance clause in the contract signed or for the failure to resolve the dispute and have the system working.

In view of the foregoing, the Fund did not obtain value for money from the Kshs.48,666,664 CCTV contract thereby posing a security risk to the building.

### **3. Budget and Budgetary Performance**

#### **3.1 Income**

The Fund had budgeted for income totalling Kshs.28,332,942,000 during the year ended 30 June 2017 as tabulated below:

### Summarized Income Analyses

| Item                                  | Budget                | Actual                | Over/Under (-)       | Over/Under (-) |
|---------------------------------------|-----------------------|-----------------------|----------------------|----------------|
|                                       | Kshs.                 | Kshs.                 | Kshs.                |                |
| Revenue                               |                       |                       |                      |                |
| Contributions Receivable              | 15,574,316,000        | 13,546,886,133        | -2,027,429,867       | -15%           |
| Benefits Payable                      | -4,505,000,000        | -3,661,025,306        | 843,974,694          | -23%           |
| Investment Income                     | 12,319,616,000        | 14,246,254,583        | 1,926,638,583        | 14%            |
| Other investment income               | 0                     | 42,128,382            | 42,128,382           | 100%           |
| Realized gain on sale of Investment   | 512,000,000           | 331,070,043           | -180,929,957         | -55%           |
| Unrealized gain on sale of investment | 4,402,010,000         | 5,982,386,547         | 1,580,376,547        | 26%            |
| Other Income                          | 30,000,000            | 135,103,327           | 105,103,327          | 78%            |
| <b>Total</b>                          | <b>28,332,942,000</b> | <b>30,622,803,709</b> | <b>2,289,861,709</b> | <b>7%</b>      |

However, the actual income realized amounted to Kshs.30,622,803,709 resulting to over collection of Kshs.2,289,861,709. No reasons have been provided for the failure to pay budgeted benefits payable totalling to Kshs.843,974,694.

### 3.2 Expenditure

Actual expenditure amounted to Kshs.6,726,294,791 against the approved budget of Kshs.7,274,770,000 resulting to an under expenditure of Kshs.668,955,937 as follows:

#### Summarized Expenditure analyses

| Item                           | Budget               | Actual               | Over/Under (-)      | Over/Under(-) |
|--------------------------------|----------------------|----------------------|---------------------|---------------|
|                                | Kshs.                | Kshs.                | Kshs.               |               |
| Staff Costs                    | 3,883,534,618        | 3,883,534,618        | 0                   | 0%            |
| General Administrative Costs   | 2,961,067,382        | 2,515,907,607        | -445,159,775        | -18%          |
| Investment management expenses | 430,168,000          | 326,852,566          | -103,315,434        | -32%          |
| <b>Total</b>                   | <b>7,274,770,000</b> | <b>6,726,294,791</b> | <b>-548,475,209</b> | <b>-8%</b>    |

The overall under absorption of Kshs.548,475,209 or 8% especially on General administrative costs and investment management expenses implies that these items were over budgeted.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines 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, management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

The audit 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 my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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 conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I 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 my 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 and for the purpose of giving an assurance on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern accounting concept and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- 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 Fund's activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**13 August 2018**

## PART II: FINANCIAL STATEMENTS

### XI. STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS For the year ended 30 June 2017

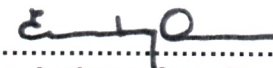
|  |    | As Restated            |                        |
|--|----|------------------------|------------------------|
|  |    | 2017                   | 2016                   |
|  |    | Kes                    | Kes                    |
| <b>Dealings with Members</b>                   |    |                        |                        |
| Contributions Receivable                       | 6  | 13,546,886,133         | 12,874,684,506         |
| Benefits Payable                               | 7  | (3,661,025,306)        | (3,121,006,201)        |
| <b>Net Surplus from dealings with members</b>  |    | <b>9,885,860,827</b>   | <b>9,753,678,305</b>   |
| <b>Return On Investments</b>                   |    |                        |                        |
| Investment Income                              | 8  | 14,288,382,965         | 13,048,066,718         |
| Investment Management Expenses                 | 9  | (326,852,566)          | (279,468,444)          |
| Fair value gain on revaluation of Investments  | 10 | 5,982,386,547          | (11,785,920,131)       |
| Gain on realization of investments             | 11 | 331,070,043            | (18,038,480)           |
| Other Income                                   | 12 | 135,103,327            | 63,235,443             |
| <b>Net returns on investments</b>              |    | <b>20,410,090,317</b>  | <b>1,027,875,106</b>   |
| <b>Less: Operating Cost</b>                    |    |                        |                        |
| Staff cost                                     | 13 | 3,883,534,618          | 3,420,643,958          |
| General administrative cost                    | 14 | 1,780,400,196          | 1,647,568,379          |
| Provisions                                     | 15 | 735,507,409            | 441,051,388            |
| <b>Total operating cost</b>                    |    | <b>(6,399,442,223)</b> | <b>(5,509,263,726)</b> |
| <b>Net Increase in net assets for the year</b> |    | <b>23,896,508,921</b>  | <b>5,272,289,685</b>   |
| <hr/>  |    |                        |                        |
| As previously reported                         |    | 172,086,349,056        | 165,580,763,000        |
| Prior year adjustment                          |    | 591,602,151.95         | 1,233,296,371          |
| <b>As restated</b>                             |    | <b>172,677,951,208</b> | <b>166,814,059,371</b> |
| <b>Net Assets as at 30 June</b>                |    | <b>196,574,460,129</b> | <b>172,086,349,056</b> |

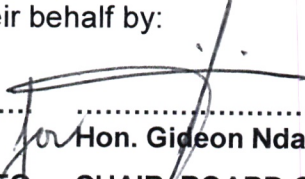
**XII. STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**  
**As at 30 June 2017**

|  | Note | As Restated            |                        |
|--|------|------------------------|------------------------|
|  |      | 2017<br>Kes            | 2016<br>Kes            |
| <b>ASSETS</b>                          |      |                        |                        |
| Cash and bank balances                 | 16   | 72,797,873             | 334,566,010            |
| Call and Fixed Deposits                | 17   | 11,506,207,953         | 8,163,690,000          |
| Government Securities-(Treasury bills) | 18   | 7,975,752,827          | 3,459,382,460          |
| Government Securities-(Treasury bonds) | 19   | 64,149,817,702         | 52,735,960,605         |
| Corporate bonds                        | 20   | 9,222,122,293          | 8,995,873,101          |
| Accrued Income                         | 21   | 2,356,502,164          | 3,240,555,469          |
| Stores and Supplies                    | 23   | 48,792,563             | 36,412,216             |
| Receivables and Prepayments            | 24   | 3,877,278,325          | 3,626,392,212          |
| TPS Loans                              | 26   | 6,368,874,578          | 7,368,245,139          |
| Long-term deposits                     | 27   | 806,523,691            | 531,586,879            |
| Quoted Stocks                          | 28   | 53,572,123,661         | 49,901,025,906         |
| Unquoted Stocks                        | 29   | 1,672,681,264          | 1,672,681,264          |
| Undeveloped investment property        | 30   | 10,215,428,051         | 9,816,628,051          |
| Developed investment property          | 31   | 20,777,695,787         | 19,908,755,787         |
| Assets under construction              | 32   | 5,550,052,554          | 4,860,633,722          |
| Intangible Assets -(ICT Software)      | 33   | -                      | 173,705,388            |
| Property, plant and equipment          | 33   | 364,389,267            | 338,449,159            |
| <b>TOTAL ASSETS</b>                    |      | <b>198,537,040,553</b> | <b>175,164,543,268</b> |
| <b>LIABILITIES</b>                     |      |                        |                        |
| Payables and accruals                  | 34   | (1,962,580,424)        | (3,078,194,212)        |
| <b>NET ASSETS</b>                      |      | <b>196,574,460,129</b> | <b>172,086,349,056</b> |
| <b>REPRESENTED BY</b>                  |      |                        |                        |
| <b>FUND BALANCE</b>                    |      | <b>196,574,460,129</b> | <b>172,086,349,056</b> |

The financial statements on pages 78 to 120 were approved and authorised by the Board of Trustees on 27 September 2017. Signed on their behalf by:

  
.....  
**CPA Marietta Mutinda**  
**AG. MANAGER, FINANCE**  
ICPAK 6710

  
.....  
**Dr. Anthony Omerikwa**  
**AG. MANAGING TRUSTEE/CEO**

  
.....  
**Hon. Gideon Ndambuki**  
**CHAIR, BOARD OF TRUSTEES**

10/8/2018  
.....  
Date

10/8/2018  
.....  
Date

10-08-2018  
.....  
Date

**XIII. STATEMENT OF CHANGES IN ACCUMULATED MEMBERS' FUNDS**  
**As at 30 June 2017**

|   | <b>Members' Funds<br/>Kes</b> | <b>Accumulated<br/>Reserves Kes</b> | <b>Total<br/>Kes</b>   |
|---|-------------------------------|-------------------------------------|------------------------|
| <b>Balance as at 30 June 2014</b>                     | <b>92,979,706,000</b>         | <b>60,049,127,000</b>               | <b>153,028,833,000</b> |
| Prior Year Adjustments                                | -                             | (650,000,000)                       | (650,000,000)          |
| Net Increase/(Decrease) in Surplus                    | -                             | 13,201,930,000                      | 13,201,930,000         |
| Adjustment to member funds as per actuarial Valuation | 58,038,893,000                | (58,038,893,000)                    | -                      |
| <b>Balance as at 30 June 2015</b>                     | <b>151,018,599,000</b>        | <b>14,562,164,000</b>               | <b>165,580,763,000</b> |
| Prior Year Adjustments                                | 52,371                        | 1,233,244,000                       | 1,233,296,371          |
| Net Increase/(Decrease) in Surplus                    | -                             | 5,272,289,685                       | 5,272,289,685          |
| <b>Balance as at 30 June 2016</b>                     | <b>151,018,651,371</b>        | <b>21,067,697,685</b>               | <b>172,086,349,056</b> |
| Reversal of Previous Year's Accrued Contribution      | 591,602,152                   | -                                   | 591,602,152            |
| Prior Year Adjustments                                | -                             | -                                   | -                      |
| Net Increase/(Decrease) in Surplus                    | -                             | 23,896,508,921                      | 23,896,508,921         |
| <b>Balance as at 30 June 2017</b>                     | <b>151,610,253,523</b>        | <b>44,964,206,606</b>               | <b>196,574,460,129</b> |

**\*Prior Year Adjustments (2015/2016)**

Court cases involving Mutula Kilonzo & Co. Advocates, Kes 293,836,000 B. M. Musau Kes 29,250,000 and Okoth, Okendo & Kiplagat Advocates Kes 7,278,000. The above court cases are still in court and neither the date of determination of the cases nor the outcome is known. As per IAS 37 such contingent liabilities should only be disclosed in the financial statements and as such cannot be accrued. In the previous year's financial statements, the above cases were erroneously accrued as sundry creditors in contravention of IAS 37. The provisions on the above cases were reversed in compliance with IAS 37.

| <b>Reversed sundry creditor</b> | <b>Note</b> | <b>Reason for reversal of prior years' accruals</b>          | <b>Amount<br/>Kes</b> |
|---------------------------------|-------------|--|-----------------------|
| Mutula Kilonzo                  | 32          | Court case erroneously accrued                               | 293,836,000           |
| B.M Musau                       | 32          | Court case erroneously accrued                               | 29,250,000            |
| Okoth, Okendo & Kiplagat        | 32          | Court case erroneously accrued                               | 7,278,000             |
| Benefits sundry debtor          | 23          | Balance of benefits paid in error whose recovery is doubtful | (2,024,000)           |
| <b>Total</b>                    |             |  | <b>328,340,000</b>    |

#### XIV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

|   | Note  | 2017<br>Kes             | As Restated<br>2016<br>Kes |
|---|-------|-------------------------|----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>               |       |                         |                            |
| Net increase in assets                                    |       | 23,896,508,921          | 5,272,289,685              |
| <b>Adjustments:</b>                                       |       |                         |                            |
| Depreciation on PPE                                       | 11    | 212,566,420             | 211,090,560                |
| Amortisation of intangible assets                         | 11    | 173,705,388             | 189,496,787                |
| Increase/(decrease) in provisions                         | 12    | 294,456,021             | 441,051,648                |
| Fair value gain/(loss) on revaluation                     | 7     | (5,982,386,547)         | 11,785,920,131             |
| <b>Operating surplus before working capital changes</b>   |       | <b>18,594,850,202</b>   | <b>17,899,848,811</b>      |
| <b>Changes in Working Capital:</b>                        |       |                         |                            |
| Decrease/(increase) in inventories                        | 21    | (12,380,347)            | (4,721,216)                |
| Decrease/(increase) in debtors & prepayments              | 22    | (253,736,779)           | (889,534,632)              |
| Decrease/(increase) in accrued income                     | 20    | 884,053,305             | (857,873,865)              |
| increase/(decrease) in payables and accruals              | 31    | 1,115,613,788           | (420,726,499)              |
|   |       | 1,733,549,968           | (2,172,856,213)            |
| <b>Net cash flows generated from operating activities</b> |       | <b>20,328,400,171</b>   | <b>15,726,992,598</b>      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>               |       |                         |                            |
| Purchase/sale of equities                                 | 25    | (2,031,543,860)         | (3,604,231,214)            |
| Purchase/sale or redemption of treasury bonds             | 18    | (8,564,449,136)         | (16,524,390,000)           |
| Purchase/sale or redemption of treasury bills             | 17    | (4,516,370,366)         | (2,272,212,860)            |
| Purchase/sale or redemption of corporate bills            | 19    | (605,644,500)           | (834,651,000)              |
| Placement of deposits with financial institutions         | 15-16 | (3,412,517,953)         | 4,040,190,000              |
| Development of land and buildings                         |       | (689,418,832)           | (211,559,331)              |
| Proceeds from sale of plots/houses                        |       | -                       | 720,638,883                |
| Receipts from TPS scheme                                  | 23    | (599,167,557)           | 3,145,641,251              |
| Purchase/sale of PPE                                      | 30    | (171,056,103)           | (29,831,284)               |
| <b>Net cash flows from investing activities</b>           |       | <b>(20,590,168,307)</b> | <b>(15,570,405,555)</b>    |
| Net increase/(decrease) in cash and cash equivalents      |       | (261,768,137)           | 156,587,043                |
| Cash and cash equivalents as at 1 July                    |       | 334,566,010             | 177,978,967                |
| <b>Cash and cash equivalents as at 30 June</b>            |       | <b>72,797,873</b>       | <b>334,566,010</b>         |

**XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2017**

|                                | Original budget       | Adjustments | Final budget          | Actual on comparable  | Performance difference |
|--------------------------------|-----------------------|-------------|-----------------------|-----------------------|------------------------|
|                                | 2016-2017             | 2016-2017   | 2016-2017             | 2016-2017             | 2016-2017              |
|                                | Kes                   | Kes         | Kes                   | Kes                   | Kes                    |
| <b>Revenue</b>                 |                       |             |                       |                       |                        |
| Contribution                   | 15,574,316,000        | -           | 15,574,316,000        | 13,546,886,133        | (2,027,429,867)        |
| Benefits                       | (4,505,000,000)       | -           | (4,505,000,000)       | (3,661,025,306)       | 843,974,694            |
| <b>Net Dealings</b>            | <b>11,069,316,000</b> | <b>-</b>    | <b>11,069,316,000</b> | <b>9,885,860,827</b>  | <b>(1,183,455,173)</b> |
| Dividend income                | 2,600,000,000         | -           | 2,600,000,000         | 3,010,157,102         | 410,157,102            |
| Interest income                | 7,700,000,000         | -           | 7,700,000,000         | 9,243,599,126         | 1,543,599,126          |
| Rent income                    | 1,019,616,000         | -           | 1,019,616,000         | 1,169,509,330         | 149,893,330            |
| TPS interest income            | 1,000,000,000         | -           | 1,000,000,000         | 822,989,025           | (177,010,975)          |
| Other investment income        | -                     | -           | -                     | 42,128,382            | 42,128,382             |
| Unrealised gain on investments | 4,402,010,000         | -           | 4,402,010,000         | 5,982,386,547         | 1,580,376,547          |
| Realised gain on investments   | 512,000,000           | -           | 512,000,000           | 331,070,043           | (180,929,957)          |
| Other income                   | 30,000,000            | -           | 30,000,000            | 135,103,327           | 105,103,327            |
| <b>Total Income</b>            | <b>28,332,942,000</b> | <b>-</b>    | <b>28,332,942,000</b> | <b>30,622,803,710</b> | <b>2,289,861,710</b>   |
| <b>Expenses</b>                |                       |             |                       |                       |                        |
| Management investment expenses | 430,168,000           | -           | 430,168,000           | 326,852,566           | 103,315,434            |
| Compensation of employees      | 3,262,476,000         | 621,058,618 | 3,883,534,618         | 3,883,534,618         | -                      |
| Trustee' Emoluments            | 40,000,000            | 8,982,233   | 48,982,233            | 48,982,233            | -                      |
| Travelling Costs               | 133,745,000           | 54,032,128  | 187,777,128           | 187,777,128           | -                      |

**National Social Security Fund**  
**Reports and Financial Statements for the**  
**Year ended 30 June 2017**



|  |                       |               |                       |                       |                      |
|--|-----------------------|---------------|-----------------------|-----------------------|----------------------|
| Transport Costs                            | 86,987,000            | (22,225,249)  | 64,761,751            | 42,592,429            | 22,169,322           |
| Rent Expense                               | 235,206,000           | 4,597,056     | 239,803,056           | 239,803,056           | -                    |
| Printing, Stationery & Photocopying        | 54,660,000            | -             | 54,660,000            | 42,987,336            | 11,672,664           |
| Postage, Tel. & Internet Expenses          | 29,185,000            | 36,132,199    | 65,317,199            | 65,317,199            | -                    |
| Electricity, Water, Security & Conservancy | 70,986,000            | -             | 70,986,000            | 49,884,397            | 21,101,603           |
| Training Expenses                          | 72,800,000            | -             | 72,800,000            | 68,565,493            | 4,234,507            |
| Repairs and Maintenance                    | 83,702,000            | 39,266,510    | 122,968,510           | 122,968,510           | -                    |
| Hospitality Material and services          | 6,897,000             | -             | 6,897,000             | 1,040,414             | 5,856,586            |
| Consultancy and Professional Expenses      | 50,000,000            | -             | 50,000,000            | 39,384,632            | 10,615,368           |
| Legal Expense                              | 150,000,000           | (83,255,332)  | 66,744,669            | 31,339,656            | 35,405,013           |
| Audit Fees                                 | 6,000,000             | -             | 6,000,000             | 6,000,000             | -                    |
| SS Policy Development                      | 50,000,000            | 12,075,098    | 62,075,098            | 62,075,098            | -                    |
| General Insurance                          | 49,450,000            | -             | 49,450,000            | 37,487,743            | 11,962,257           |
| Advertising and Publicity                  | 120,000,000           | -             | 120,000,000           | 115,735,441           | 4,264,559            |
| Corporate Social Responsibility            | 50,000,000            | -             | 50,000,000            | 38,652,952            | 11,347,048           |
| Finance Expense                            | 10,000,000            | 15,977,508    | 25,977,508            | 25,977,508            | -                    |
| Project Claims                             | 500,000,000           | (60,000,000)  | 440,000,000           | -                     | 440,000,000          |
| Rationalization Expense                    | 100,000,000           | -             | 100,000,000           | 26,365,386            | 73,634,614           |
| Other Administrative Expense               | 369,619,000           | (92,563,784)  | 277,055,216           | 141,191,779           | 135,863,437          |
| Depreciation                               | 191,822,000           | 20,744,420    | 212,566,420           | 212,566,420           | -                    |
| Amortisation                               | 121,067,000           | 52,638,388    | 173,705,388           | 173,705,388           | -                    |
| VERS                                       | 1,000,000,000         | (607,459,792) | 392,540,208           | -                     | 392,540,208          |
| Provision                                  | -                     | -             | -                     | 735,507,409           | (735,507,409)        |
| <b>Total Expenditure</b>                   | <b>7,274,770,000</b>  | <b>-</b>      | <b>7,274,770,000</b>  | <b>6,726,294,789</b>  | <b>548,475,211</b>   |
|  | <b>21,058,172,000</b> | <b>-</b>      | <b>21,058,172,000</b> | <b>23,896,508,921</b> | <b>1,741,386,499</b> |
| <b>Surplus for the period</b>              |                       |               |                       |                       |                      |

**Notes to the statement of budget**

**1) Contributions receivable**

Contributions collected fell short of budget by Kes. 2.09 billion. This was caused by inability of the Fund to fully implement the new rates of contributions as per the NSSF Act no. 45 of 2013 due to numerous court cases which have led to suspension of the new rates.

**2) Benefits Payable**

The shortfall on benefits payable of Kes. 843 million was caused by eligible members who expected to lodge claims for their benefits but failed to apply within the financial year.

**3) Tenant purchase Schemes**

Tenant purchase schemes recorded a negative variance of Kes. 177.01 million due to early redemption of loans.

**4) Provisions**

The Fund budgeted for contingencies arising out of legal claims amounting to Kes. 607.6 million to cater for project claims on various stalled projects and court cases which did not crystalize during the year.

**XVI. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30 2017**

**1. GENERAL INFORMATION**

NSSF is established by and derives its authority and accountability from the NSSF Act No. 45 of 2013. NSSF is domiciled in Kenya and its principal activity is provision of social security to all workers in Kenya.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed where applicable.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Fund.

The financial statements have been prepared in accordance with the Public Finance Management Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented. The principal accounting policies adopted are set out below: Adoption of new and revised International Financial Reporting Standards (IFRSs) and International Financial Reporting interpretations Committee (IFRIC), The National Treasury guidelines and the Code of Conduct for State Corporations (Mwongozo, 2015), Retirement Benefits Authority Act 1997 and the Retirement Benefits Authority Regulations 2000, both as amended and Income Tax (NSSF Exemption) Rules 2002.

**3. ADOPTION OF NEW AND REVISED STANDARDS**

**New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017.**

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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

**i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2017**

| Standard/Amendment to a Standard  | Effective Date           | Impact  |
|---|--------------------------|---|
| <b>IFRS 14 Regulatory Deferral Accounts (issued in January 2014)</b>  | 1 <sup>st</sup> Jan 2016 | The new standard, effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to apply their existing policy for regulatory deferral account balances, but requires certain disclosures. No major impact expected.  |
| <b>Amendments to IFRS 11 titled Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)</b>                   | 1 <sup>st</sup> Jan 2016 | The amendments, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). No major impact is anticipated as the Fund does not currently have any joint ventures.   |
| <b>Amendments to IAS 16 and IAS 38 titled Clarification of Acceptable Methods of Depreciation and Amortization (issued in May 2014)</b> | 1 <sup>st</sup> Jan 2016 | The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. No impact to the Fund is expected, as the Funds policy has been to use useful life and not revenue streams for depreciation estimation. |

|   |                          |   |
|---|--------------------------|---|
| <b>Amendments to IAS 27 titled Equity Method in Separate Financial Statements (issued in August 2014)</b>                                   | 1 <sup>st</sup> Jan 2016 | The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. This standard will impact on the way the Fund accounts for its investment.   |
| <b>Amendment to IAS 19 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014)</b>   | 1 <sup>st</sup> Jan 2016 | The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. The post-employment contributions are transferred to an autonomous Defined contributions staff pension scheme. The employers obligations end there hence there will be no impact. |
| <b>Amendment to IFRS 5 (Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014)</b>  | 1 <sup>st</sup> Jan 2016 | The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued. No impact is expected from this change.   |
| <b>Amendment to IFRS 7 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014)</b>   | 1 <sup>st</sup> Jan 2016 | The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. No impact is expected from this change.   |
| <b>Amendments to IFRS 10, IFRS 12 and IAS 28 titled Investment Entities: Applying the Consolidation Exception (issued in December 2014)</b> | 1 <sup>st</sup> Jan 2016 | The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. This will affect the way the Fund accounts for its investment in National Bank of Kenya.  |
| <b>Amendments to IAS 1 titled Disclosure Initiative (issued in December 2014)</b>   | 1 <sup>st</sup> Jan 2016 | The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. No major change expected in the presentation of the financial statements.  |

**Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)**      1<sup>st</sup> Jan 2017      The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. There will be no material impact by applying this standard.

**Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 Disclosure of interests in other entities**      1<sup>st</sup> Jan 2017      Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The standard will not have any material impact since most investment assets are currently held at fair market value.

ii) **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017**

| Standard  | Effective Date | Impact  |
|---|----------------|---|
| <b>IFRS 15 Revenue from Contracts with Customers (issued in May 2014)</b> | 1 Jan 2018     | The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance. There will be no major impact as most of the Fund's revenue is generated from contributions and investment income. |
| <b>IFRS 9 Financial Instruments (issued in July 2014)</b>                 | 1 Jan 2018     | This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition: <ul style="list-style-type: none"> <li>• IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair</li> </ul>   |

value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

- For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch
- For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.
- For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures.
- The derecognition provisions are carried over almost unchanged from IAS 39.
- The above changes will affect the measurement of investment income as this forms the bulk of the Fund’s assets and income

**IFRS 16: Leases** 1 Jan 2019  
(issued in  
January 2016)

The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. This will affect reporting for long-term rental leases.

The Trustees do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the Fund’s financial statements.

**Early adoption of standards**

The Fund did not early-adopt new or amended standards in 2016/2017. Amendment to an existing standard and issue of a new standard will become

mandatory for the Fund's accounting periods beginning 1st January 2017, but which the Fund has not early-adopted:

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principle accounting policies adopted in the preparation of these financial statements are set out below:

**a. Revenue Recognition**

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Fund and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Fund's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Fund's activities as described below.

**i. Contributions from employers / employees**

Contributions due from members are accounted for on accrual basis in the year due.

**ii. Benefit payments to members**

Benefit payments to members are accounted for on accrual basis in the year due. Interest payable on members accumulated contributions (standard contributions plus interest) is accrued annually in accordance with section 19(2) and (3) of the National Social Security Fund Act No. 45, 2013.

**iii. Dividend Income**

Dividend income from investments is recognized in the Statement of Changes in Net Assets, when the Fund's right to receive payment as a shareholder have been established or declared in the Annual General Meeting.

**iv. Interest Earned on Deposits with Financial Institutions (Finance Income)**

This comprises interest receivable from bank deposits with financial institutions and is recognised in the Statement of Changes for Net Assets on a time proportion basis using the effective interest rate method. It is accounted for on accrual basis.

**v. Interest / Discounts on Treasury Bills and Treasury Bonds**

Interest on Treasury Bills and Bonds is credited to income on a straight-line basis over the maturity period of the investment instruments.

**vi. Coupon Interest on Government Securities**

Coupon interest on Government Securities is accounted for on accrual basis.

**vii. Rental Income**

Rental Income is recognised in the Statement of Net Assets, as it accrues using the effective lease agreements.

**viii. Other Income (Miscellaneous Income)**

This is recognised as it accrues.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**ix. Tenant Purchase Scheme and loan Advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides loans, money or services directly to debtors with no intention of trading the receivables. All loans and receivables fall under this category and are stated at amortized costs. Receivables which do not carry interest rate are stated at their invoice price.

**b. Property, Plant and Equipment (PPE)**

**i. Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

Low value assets up to Kes. 10,000.00 are recognised as assets during the year but are fully expensed during the year of purchase

**ii. Depreciation and impairment of property, plant and equipment Investment**

Assets and capital work in progress are not depreciated. Asset under construction relates mainly to the cost of ongoing but incomplete works on building and ICT projects.

Depreciation is recognised in the income statement on a straight-line basis to write down the cost of each asset or the revalued amount to its residual value over its estimated useful life. The annual rates in use are:

| <b>Particulars</b>                    | <b>%</b> |
|---------------------------------------|----------|
| Freehold and Long Term Leasehold Land | Nil      |
| Low Value Assets                      | 100      |
| Motor Vehicles                        | 20       |
| Computer and Microfilming Equipment   | 33.33    |
| Amortization of Intangible Assets     | 33.33    |
| Office Furniture                      | 10       |
| Office Equipment                      | 12.5     |
| Fittings and Furnishings              | 20       |

Depreciation charge is recognised on prorata basis.

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### iii. Subsequent costs

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Fund. Recurrent repairs and maintenance costs are expensed as incurred.

### iv. Intangible assets

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than the estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

### v. Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

### c. Investments

#### i. Quoted Equities

Equities are stated at market value. Differences between cost and market value are debited/ (credited) to the revenue account. Upon sale of the investment, the surplus/ (deficit) relating to the transaction is dealt within the revenue statement.

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange (NSE) or other regional and international securities exchanges. Quoted investments are stated at fair value.

#### ii. Unquoted Equities

Unquoted equities are stated at cost/valuation less provision for any permanent diminution in value.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**iii. Fixed Interest Investments (Bonds) Treasury Bills and Bonds and Government Bearer Bonds**

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK), long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss account.

Treasury bills and bonds and Government bearer bonds which are held to maturity, are stated at amortized value.

**d. Investments Property (Land, Buildings and Plots)**

Land and buildings and undeveloped land / plots are stated at valuation / fair value. Investment properties under construction are measured at cost. Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by external valuers. Changes in fair values are included in profit or loss in the income statement.

**e. Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

**f. Trade and other Receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted, but recognised as miscellaneous income once recovered after write off.

**g. Taxation**

**Current Income Tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

**Deferred tax**

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### h. Cash and Cash Equivalents

For purposes of presentation in the cash flow statement, cash and cash equivalents comprise bank balances, short-term deposits maturing within 3 months.

### i. Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any cost of issue and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

### j. Impairment and un-collectability of Financial Assets

At the end of each reporting period, the Scheme 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 statement of changes in net assets available for benefits whenever the carrying amount of the asset exceeds its recoverable amount.

### k. Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

### l. Valuation of Assets

Valuation of Investments in land and buildings, and undeveloped land was done during the year by professional valuers and a report issued based on balances as at 30 June 2016. The professional valuers were Ms Crystal Valuers, Ebony and Value zone. The valuations were carried out in September 2016.

### m. Retirement Benefits Obligations

Full time Fund employees are eligible for retirement benefits under a defined contribution plan. Contributions to the defined contributions plan are expensed through the statement of changes in net assets, as they are incurred. Any difference between the amount expensed and the annual contributions recorded to the statement of changes in net assets and the annual contributions paid is recorded in the Statement of Net Assets under other liabilities/assets.

The staff retirement pension scheme is administered independently by Eagle Africa. The rates of contributions are 8% staff and 16 % Employer.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

The Fund staff also contribute to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme administered as per The National Social Security Act No. 45 of 2013. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at 16% of basic salary per employee per month.

**n. Actuarial Valuation 30 June 2016**

An actuarial valuation was carried out by Alexander Forbes Limited in 2016 and a report issued on balances as at 30 June 2016. The valuation was done on an attained Age method. The actuarial report indicates that the value of liabilities of the scheme as at 30 June 2016 was Kes. 155.75 billion compared to the value of assets amounting to Kes. 171.17 billion (Per draft financial statements) giving rise to a surplus of Kes.15.41 billion resulting to a Funding level of 109.9%.

The valuation for the financial year ended 30 June 2017 is currently being undertaken by Alexander Forbes Financial Services.

**o. Provision for Staff Leave Pay**

Employees' entitlement to annual leave is recognised as it accrues to the employees. A provision is made for the estimated liability for annual leave at the reporting date.

**p. Exchange Rate differences**

Monetary assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at year end. Transactions during the year in foreign currencies are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are included in the statement of changes in net assets available for benefit.

**q. Budget information**

The original budget for FY 2016-2017 was approved by the Board of Trustees on 27 January 2016 and by The National Treasury on 2 June 2016. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Fund upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded reallocation of Funds in the month of May 2017 on the 2016-2017 budget following the governing body's approval.

The Fund's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

r. **Comparative Figures**

Comparative figures for the previous financial year have been represented to conform to the required changes in presentation.

s. **Subsequent Events**

There have been no events subsequent to the financial year end with a significant impact on the Financial Statements for the year ended 30 June 2016.

5. **SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION OF UNCERTAINTIES**

The preparation of the Fund's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Scheme's accounting policies, Trustees have 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:

i. **Estimates and Assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

ii. **Useful lives and residual values**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

The condition of the asset based on the assessment of experts employed by the Entity.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

### iii. Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in **Note 15**.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

| <b>6. CONTRIBUTIONS</b>                    | <b>2017</b>           | <b>2016</b>           |
|--|-----------------------|-----------------------|
|  | <b>Kes</b>            | <b>Kes</b>            |
| Pension Contribution                       | 12,509,466,439        | 11,804,607,028        |
| Old provident                              | 160,262,714           | 262,435,603           |
| New Provident                              | 425,384,026           | 400,066,305           |
| Fines and penalties                        | 386,288,368           | 470,488,432           |
|  | <b>13,481,401,546</b> | <b>12,937,597,368</b> |
| <b>Add:</b> Accruals at end of the year    | 657,086,739           | 591,602,152           |
| <b>Less:</b> Accruals at start of the year | (591,602,152)         | (654,515,014)         |
|  | <b>13,546,886,133</b> | <b>12,874,684,506</b> |

Contributions of Kes 13.55 billion were collected in the year compared to Kes 12.87 billion in the previous year. This performance is higher by Kes 0.672 billion. The slow growth is mainly due to lower rate of contributions as tier 1 rates have not fully taken effect because of the court cases that bar full implementation of NSSF Act 2013.

| <b>7. BENEFITS</b> |                      |                      |
|--------------------|----------------------|----------------------|
| Age benefit        | 2,164,213,691        | 1,610,764,537        |
| Survivors benefit  | 359,918,867          | 356,264,615          |
| Invalidity benefit | 11,987,705           | 24,119,063           |
| Withdrawal benefit | 1,104,397,380        | 1,113,123,507        |
| Emigration benefit | 16,907,663           | 12,651,980           |
| Funeral grant      | 3,600,000            | 4,082,500            |
|                    | <b>3,661,025,306</b> | <b>3,121,006,201</b> |

There was an overall increase of 17% compared to same period last year. The benefits paid depends on the qualifying applications received and processed. A detailed breakdown of the benefits paid in the year is shown in the schedule above

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

| 8. INVESTMENT INCOME      | 2017                  | 2016                  |
|---------------------------|-----------------------|-----------------------|
|                           | Kes                   | Kes                   |
| Interest Income           | 9,243,599,126         | 8,507,771,651         |
| Rent income (note 36)     | 1,169,509,330         | 1,153,902,597         |
| Dividend Income (note 37) | 3,010,157,102         | 2,412,045,512         |
| Interest on TPS loans     | 822,989,025           | 966,990,799           |
| Other investment income   | 42,128,382            | 7,356,159             |
|                           | <b>14,288,382,965</b> | <b>13,048,066,718</b> |

- Dividend income** recorded a 25% positive variance compared to the same period last year.
- Rental income** recorded a 1.3% positive variance in performance compared to last year.
- Interest and discounts** recorded a favorable variance of 8.7% increase compared to same period last year. This is due to tactical decisions by management to invest in counters with better returns.
- Interest from TPS** recorded a negative variance of 15% compared to last year. This is due to early redemption of loans.
- Other Investment Income.** This amount includes agency commissions and credit interest earned on investment transactions. Out of the amount of Kes. 42,128,382 earned, Kes. 35,918,257.75 was received on account of Shah Munge and Partners, being part recovery of the investment made by The Fund at the collapsed Eurobank and written off in the financial year 2012/2013.

| 9. INVESTMENT MANAGEMENT EXPENSE       | 2017               | 2016               |
|--|--------------------|--------------------|
| Fund managers' fees                    | 181,518,979        | 140,963,535        |
| Custodian fees                         | 50,568,964         | 44,394,517         |
| Actuarial & investment management fees | 31,514,369         | 35,470,658         |
| Land rent & rates                      | 41,355,577         | 56,252,305         |
| Asset valuation expense                | 21,894,677         | 2,387,430          |
|  | <b>326,852,566</b> | <b>279,468,444</b> |

There was a 17% increment in investment management expense; this is due to the increased volume of activity during the year.

| 10. FAIR VALUE GAIN ON REVALUATION | 2017                 | 2016                    |
|------------------------------------|----------------------|-------------------------|
| Corporate bonds                    | 154,624,691          | (231,280,813)           |
| Treasury bonds                     | 2,849,407,961        | (2,156,955,267)         |
| Quoted equities                    | 1,639,553,895        | (10,741,184,051)        |
| Undeveloped investment property    | 398,800,000          | 716,500,000             |
| Developed investment property      | 940,000,000          | 627,000,000             |
|                                    | <b>5,982,386,547</b> | <b>(11,785,920,131)</b> |

Net increase in market value of investment assets amounted to Kes 5.98 billion.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

This is made up of Kes 0.398 billion from quoted equities, Kes 0.154 billion corporate bonds and Kes 2.84 billion from treasury bonds. This overall good performance is mainly due to tactical investments by the Fund through the appointed Fund Managers

| <b>11. GAIN ON REALISATION OF INVESTMENTS</b> | <b>2017</b>        | <b>2016</b>         |
|---|--------------------|---------------------|
|   | <b>Kes</b>         | <b>Kes</b>          |
| Corporate bonds                               | 551,946            | (1,214,000)         |
| Treasury bonds                                | 185,812,271        | (26,055,000)        |
| Quoted equities                               | 144,705,826        | 9,230,520           |
|   | <b>331,070,043</b> | <b>(18,038,480)</b> |

| <b>12. OTHER INCOME</b>      |                    |                   |
|------------------------------|--------------------|-------------------|
| Profit on sale of PPE        | 17,856,000         | -                 |
| Sale of Tender forms         | 72,502,786         | 39,515,615        |
| Interest on staff loans      | 35,825,915         | 14,656,236        |
| Fines and penalties          | 7,151,829          | 6,476,036         |
| Other miscellaneous receipts | 1,766,797          | 2,587,556         |
|                              | <b>135,103,327</b> | <b>63,235,443</b> |

| <b>13. STAFF COST</b>   |                      |                      |
|-------------------------|----------------------|----------------------|
| Salaries and Allowances | 3,203,475,461        | 2,789,175,863        |
| Pension and Gratuity    | 345,742,387          | 286,009,322          |
| Medical Expenses        | 258,752,207          | 226,155,128          |
| Staff Welfare           | 37,802,503           | 40,365,830           |
| Insurance               | 37,762,061           | 31,437,815           |
| Provision for Leave pay | -                    | 47,500,000           |
|                         | <b>3,883,534,618</b> | <b>3,420,643,958</b> |

Staff expenses recorded an increase of 14% compared to last year as a result of implementing CBA and inflation adjustment on personal emoluments.

| <b>14. GENERAL ADMINISTRATIVE COST</b>       |             |             |
|--|-------------|-------------|
| Trustee' Emoluments                          | 48,982,233  | 22,682,514  |
| Travelling Costs                             | 187,777,128 | 136,897,073 |
| Transport Costs                              | 42,592,429  | 43,231,803  |
| Rent Expense                                 | 239,803,056 | 218,219,132 |
| Printing, Stationery and Photocopying        | 42,987,336  | 39,207,784  |
| Postage, Telephone and Internet Expenses     | 65,317,199  | 62,384,383  |
| Electricity, Water, Security and Conservancy | 49,884,397  | 53,912,302  |
| Training Expenses                            | 68,565,493  | 42,596,869  |
| Repairs and Maintenance                      | 122,968,510 | 96,766,045  |
| Hospitality Material and services            | 1,040,414   | 1,537,574   |
| Consultancy and Professional Expense         | 39,384,632  | 24,252,386  |

|                                 |                      |                      |
|---------------------------------|----------------------|----------------------|
| Legal Expense                   | 31,339,656           | 57,082,260           |
| Audit Fees                      | 6,000,000            | -                    |
| SS Policy Development           | 62,075,098           | 51,616,161           |
| Bad/erroneous debts written off | -                    | 157,024,739          |
| General Insurance               | 37,487,743           | 29,003,198           |
| Advertising and Publicity       | 115,735,441          | -                    |
| Corporate Social Responsibility | 38,652,952           | 14,305,208           |
| Finance Expense                 | 25,977,508           | 2,538,216            |
| Project Claims                  | -                    | 80,998,033           |
| Rationalization Expense         | 26,365,386           | 21,608,010           |
| Other Administrative Expense    | 141,191,779          | 91,117,339           |
| Depreciation                    | 212,566,420          | 211,090,560          |
| Amortisation                    | 173,705,388          | 189,496,787          |
|                                 | <b>1,780,400,196</b> | <b>1,647,568,377</b> |

Kes 1.80 billion was incurred on operating costs during the year. This level of costs was however higher than what was incurred the same period last year by 9.3%.

| <b>15. PROVISIONS</b>                      |                    |                    |
|--|--------------------|--------------------|
| Corporate bond                             | 534,700,000        | 132,200,000        |
| Accrued Income                             | -                  | 1,095,510          |
| Interest from Chase bank and Imperial Bank | 127,956,743        | 37,029,878         |
| Fixed Deposits                             | 70,000,000         | 259,500,000        |
| Bad and doubtful debts                     | 2,850,666          | 11,226,000         |
|  | <b>735,507,409</b> | <b>441,051,388</b> |

A provision of Kes, 0.73 billion was made during the year as compared to Kes.0.44 billion last year.

| <b>16. CASH AND BANK BALANCES</b> |                   |                    |
|-----------------------------------|-------------------|--------------------|
| Cash balances                     | 3,962,716         | 4,473,436          |
| KCB Bank Kenya Limited            | (45,135,881)      | (354,397,878)      |
| National Bank of Kenya            | (25,717,783)      | 32,892,788         |
| Standard Chartered Bank           | 65,772,450        | 651,597,665        |
| Cooperative Bank                  | 73,916,371        | -                  |
|                                   | <b>72,797,873</b> | <b>334,566,010</b> |

| <b>17. DEPOSITS</b>  |                       |                      |
|----------------------|-----------------------|----------------------|
| Call deposits (17a)  | 4,105,800,000         | 5,147,890,000        |
| Fixed deposits (17b) | 7,400,407,953         | 3,015,800,000        |
|                      | <b>11,506,207,953</b> | <b>8,163,690,000</b> |

As at 30 June 2017, the Fund held Call Deposits amounting to Kes 4.11 billion from 5.15 billion placed by Fund Managers last year. Fixed deposits stood at Kes 7.4 billion, up from Kes 3.01 billion in the previous year.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

| <b>17a. CALL DEPOSITS (Held to Maturity)</b> | <b>2017</b>          | <b>2016</b>          |
|--|----------------------|----------------------|
|  | <b>Kes</b>           | <b>Kes</b>           |
| Commercial Bank of Africa                    | 112,500,000          | 218,500,000          |
| Stanbic bank                                 | 273,000,000          | 39,600,000.00        |
| Cooperative bank                             | 518,400,000          | 380,690,000          |
| Diamond Trust bank                           | 91,000,000           | 430,500,000          |
| Equity bank                                  | 457,900,000          | 598,900,000          |
| KCB Bank Kenya Ltd                           | 360,700,000          | 605,100,000          |
| I&M bank                                     | 292,300,000          | -                    |
| National bank                                | 2,000,000,000        | 2,050,000,000        |
| NIC bank                                     | -                    | 424,600,000          |
| STANLIB MMF                                  | -                    | 400,000,000          |
|  | <b>4,105,800,000</b> | <b>5,147,890,000</b> |

| <b>17b. FIXED DEPOSITS (Held to Maturity)</b> |                      |                      |
|---|----------------------|----------------------|
| Commercial Bank of Africa                     | 1,582,064,689        | 449,000,000          |
| Cooperative bank                              | 1,767,938,262        | 1,294,300,000        |
| Diamond Trust Bank                            | 1,444,700,000        | 242,500,000          |
| Equity bank                                   | 903,631,578          | 259,500,000          |
| Family Bank Ltd                               | -                    | 80,000,000           |
| Housing Finance                               | 600,000,000          | 120,000,000          |
| I&M bank                                      | -                    | 40,500,000           |
| KCB Bank Kenya Ltd                            | 365,000,000          | 310,000,000          |
| NIC bank                                      | 434,173,425          | 150,000,000          |
| Stanbic Bank                                  | 302,900,000          | -                    |
| Chase bank                                    | 70,000,000           | 70,000,000           |
| Imperial bank                                 | 259,500,000          | 259,500,000          |
|   | <b>7,729,907,953</b> | <b>3,275,300,000</b> |
| Less: Provision for doubtful deposits         | (329,500,000)        | (259,500,000)        |
|   | <b>7,400,407,953</b> | <b>3,015,800,000</b> |
| <b>Maturity analysis:</b>                     |                      |                      |
| Already due                                   | 329,500,000          | 329,500,000          |
| Maturing within 90 days                       | 7,400,407,953        | 2,179,800,000        |
| Maturing over 90 days                         | -                    | 766,000,000          |
|   | <b>7,729,907,953</b> | <b>3,275,300,000</b> |

Provision relates to deposits held in Imperial Bank of Kes 259,500,000 and 70,000,000 in Chase Bank. These banks were put under statutory management by Central Bank of Kenya (CBK).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

| <b>18. TREASURY BILLS (held to maturity)</b> |                      |                      |
|--|----------------------|----------------------|
| Balance at the beginning of the year         | 3,459,382,460        | 1,187,169,600        |
| Additions                                    | 11,287,699,300       | 3,554,379,260        |
| Proceeds on maturity/disposals               | (6,771,328,934)      | (1,282,166,400)      |
| <b>Balance at the end of the year</b>        | <b>7,975,752,827</b> | <b>3,459,382,460</b> |

| <b>19. TREASURY BONDS (available for sale)</b> | <b>2017</b>           | <b>2016</b>           |
|--|-----------------------|-----------------------|
|  | <b>Kes</b>            | <b>Kes</b>            |
| Balance at the beginning of the year           | 52,735,960,605        | 38,368,525,872        |
| Additions                                      | 22,536,700,000        | 23,990,050,000        |
| Proceeds from disposal/redemption              | (13,972,250,864)      | (7,465,660,000)       |
| Add: Fair value gain/(loss)                    | 2,849,407,961         | (2,156,955,267)       |
|  | <b>64,149,817,702</b> | <b>52,735,960,605</b> |

| <b>20. CORPORATE BONDS</b>                          |                      |                      |
|---|----------------------|----------------------|
| Balance at the beginning of the year                | 9,128,753,101        | 8,525,382,914        |
| Additions   | 889,000,000          | 1,616,600,000        |
| Proceeds from disposal / redemption                 | (283,355,500)        | (781,949,000)        |
| Add: Fair value gain/(loss)                         | 154,624,691          | (231,280,813)        |
|   | <b>9,889,022,293</b> | <b>9,128,753,101</b> |
| <b>Less: Provision for doubtful bonds (Note 38)</b> | <b>(666,900,000)</b> | <b>(132,200,000)</b> |
|   | <b>9,222,122,293</b> | <b>8,996,553,101</b> |

Provision relates to Imperial bank bond. Imperial bank was put under statutory management by Central Bank of Kenya.

| <b>21. ACCRUED INCOME</b>      |                      |                      |
|--------------------------------|----------------------|----------------------|
| Accrued Dividend Income (22 a) | 451,565,618          | 750,939,876          |
| Rent                           | -                    | 25,557,475           |
| Interest                       | 1,904,936,545        | 2,464,058,117        |
|                                | <b>2,356,502,164</b> | <b>3,240,555,469</b> |

| <b>22a. ACCRUED DIVIDEND INCOME</b> |             |             |
|-------------------------------------|-------------|-------------|
| Bamburi Cement                      | 341,439,840 | 398,346,480 |
| KCB Bank Kenya Ltd.                 | -           | 185,870,068 |
| Jubilee Holdings Limited            | 310,058     | 160,058     |
| Nairobi Securities Exchange         | 441,450     | 605,150     |
| Nation Media Group                  | 68,825,387  | 68,823,930  |
| Standard Chartered Bank             | 5,704,940   | -           |
| UAP Holdings                        | 1,806,313   | -           |
| Stanbic Bank Uganda                 | 331,110     | -           |
| Diamond Trust Bank                  | 5,396,097   | -           |
| Kenya Re-insurance Corporation      | 17,479,119  | 16,386,674  |
| TPS Eastern Africa Limited          | 678,825     | 484,875     |
| CFC Stanbic Holdings                | -           | 22,694,315  |
| The Co-operative Bank of Kenya      | -           | 43,446,973  |
| Umeme                               | 6,268,680   | 14,121,353  |

|  |                    |                    |
|--|--------------------|--------------------|
| Uchumi Supermarket                         | 1,095,510          | 1,095,510          |
| Scangroup                                  | 2,883,800          | -                  |
|  | <b>452,661,128</b> | <b>752,035,386</b> |
| <b>Less: Provision for Doubtful Income</b> | (1,095,510)        | (1,095,510)        |
|  | <b>451,565,618</b> | <b>750,939,876</b> |

The provision for doubtful income of KES 1,095,510 is in respect to Uchumi Supermarkets.

| <b>22b. ACCRUED INTEREST INCOME</b>             | <b>2017</b>          | <b>2016</b>          |
|---|----------------------|----------------------|
|   | <b>Kes</b>           | <b>Kes</b>           |
| Deposits  | 42,474,299           | 544,641,894          |
| Treasury bills                                  | 189,602,876          | 188,224,054          |
| Treasury bonds                                  | 1,428,106,490        | 1,453,376,427        |
| Corporate bonds                                 | 372,709,624          | 314,845,621          |
|   | <b>2,032,893,288</b> | <b>2,501,087,995</b> |
| Less: Provision for doubtful interest (Note 15) | (127,956,743)        | (37,029,878)         |
|   | <b>1,904,936,545</b> | <b>2,464,058,117</b> |

| <b>23. STORES AND SUPPLIES</b>   |                   |                   |
|----------------------------------|-------------------|-------------------|
| General office stationery        | 38,991,857        | 29,011,542        |
| Office and computer accessories  | 7,430,006         | 4,521,955         |
| Tools and electrical accessories | 788,921           | 1,152,199         |
| Safety materials and clothing    | 82,653            | 76,631            |
| Hospitality materials            | 1,499,126         | 1,649,889         |
|                                  | <b>48,792,563</b> | <b>36,412,216</b> |

Stores and supplies represent the value of items of stationery, consumables and other materials held in the stores as at 30 June 2017. A stock take to ascertain the value is carried at the end of every financial year and reconciliation carried out.

| <b>24. RECEIVABLES AND PREPAYMENTS</b>   |                      |                      |
|--|----------------------|----------------------|
| Rent debtors                             | 165,209,052          | 122,536,233          |
| TPS debtors                              | 413,965,923          | 394,195,887          |
| Sundry debtors (note 25a)                | 424,974,765          | 338,128,412          |
| Deposits and advances                    | 1,020,698,133        | 988,122,154          |
| Prepayments                              | 150,000              | 150,000              |
| Staff debtors (note 25b)                 | 331,347,755          | 300,073,080          |
| Prepaid rent                             | -                    | 26,548,087           |
| Benefit debtors                          | -                    | 2,024,327            |
| Contributions debtors (Note 25c)         | 657,086,739          | 591,602,152          |
| Tax receivables                          | 922,961,523          | 919,276,779          |
|  | <b>3,936,393,890</b> | <b>3,682,657,111</b> |
| Less: Provision for bad debts (Note 25c) | (59,115,565)         | (56,264,899)         |
|  | <b>3,877,278,325</b> | <b>3,626,392,212</b> |

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

| <b>25a. SUNDRY DEBTORS</b> |                    |                    |
|----------------------------|--------------------|--------------------|
| Unpaid Cheques             | 37,627,955         | 34,777,289         |
| ECASSA debtors             | 9,211,610          | 9,211,610          |
| Mutula Kilonzo             | 5,015,000          | 5,015,000          |
| Lloyd Masika Ltd           | 4,787,000          | 4,787,000          |
| City Council of Nairobi    | 2,474,000          | 2,474,000          |
| Staff pension debtor       | 4,587,969          | 4,587,969          |
| Service Charge Debtors     | 361,271,230        | 277,275,543        |
|                            | <b>424,974,765</b> | <b>338,128,412</b> |

| <b>25b. STAFF DEBTORS</b> | <b>2017</b>        | <b>2016</b>        |
|---------------------------|--------------------|--------------------|
|                           | <b>Kes</b>         | <b>Kes</b>         |
| Commuted pension          | 2,645,193          | 2,645,193          |
| Staff mortgage loans      | 6,917,601          | 6,401,161          |
| Other loans               | 2,426,170          | 4,220,609          |
| Advances and imprest      | 17,936,339         | 9,854,992          |
| Staff Car loans           | 301,422,453        | 276,951,125        |
|                           | <b>331,347,755</b> | <b>300,073,080</b> |

Staff debtor's balances represent various loans, advances and imprest to members of staff outstanding as at 30 June 2017. Staff car loans are advanced at an interest rate of 4% for a maximum of six years. The interest earned in the period has been recognised as other miscellaneous income.

| <b>25c. CONTRIBUTION DEBTORS</b>     |                    |                    |
|--------------------------------------|--------------------|--------------------|
| Outstanding for less than 30 days    | 657,086,739        | 591,602,152        |
| Outstanding for more than 30 days    | -                  | -                  |
|                                      | <b>657,086,739</b> | <b>591,602,152</b> |
| <b>Less: Provision for bad debts</b> |                    |                    |
| ECASSA debtors                       | 9,211,610          | 9,211,610          |
| City Council of Nairobi              | 2,474,000          | 2,474,000          |
| Mutula Kilonzo                       | 5,015,000          | 5,015,000          |
| Lloyd Masika Ltd                     | 4,787,000          | 4,787,000          |
| Bounces cheques                      | 37,627,955         | 34,777,289         |
| <b>Total provision</b>               | <b>59,115,565</b>  | <b>56,264,899</b>  |

| <b>25d. SERVICE CHARGE DEBTORS</b> |                    |                    |
|------------------------------------|--------------------|--------------------|
| Opening                            | 277,275,543        | 192,539,000        |
| Addition                           | 83,995,687         | 84,736,543         |
| Reduction                          | -                  | -                  |
|                                    | <b>361,271,230</b> | <b>277,275,543</b> |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

| <b>26. TPS LOANS</b>             |                      |                      |
|----------------------------------|----------------------|----------------------|
| TPS Loans-held by NSSF Employees | 1,298,562,287        | 1,397,315,486        |
| TPS Loans-held by Public         | 5,070,312,291        | 5,970,929,654        |
|                                  | <b>6,368,874,578</b> | <b>7,368,245,139</b> |

| <b>27. LONGTERM DEPOSITS</b>            |                    |                    |
|---|--------------------|--------------------|
| Savings and Loan Ltd (Security deposit) | 56,893,897         | 56,893,897         |
| Savings and Loan Ltd (Revolving Funds)) | 14,029,483         | 14,029,483         |
| Housing Finance                         | 428,210,804        | 314,724,524        |
| National Bank of Kenya                  | 307,389,506        | 145,938,975        |
|   | <b>806,523,691</b> | <b>531,586,879</b> |

Long-term deposits are made up of staff mortgage security deposits and balances of mortgage revolving funds bank accounts. The Fund has a staff mortgage scheme advanced at 5% interest to staff. All cadres of staff enjoy the facility according to the Human Resource Policy

| <b>28. QUOTED EQUITIES</b>                | <b>2017</b>           | <b>2016</b>           |
|---|-----------------------|-----------------------|
|   | <b>Kes</b>            | <b>Kes</b>            |
| Balance at beginning of the year          | 49,901,025,906        | 57,037,978,744        |
| Purchases                                 | 2,615,521,952         | 5,770,217,532         |
| Sales                                     | (583,978,092)         | (2,165,986,318)       |
| Less: Fair Value gain/(loss) on valuation | 1,639,553,895         | (10,741,184,051)      |
| <b>Balance at end of the year</b>         | <b>53,572,123,661</b> | <b>49,901,025,906</b> |

| <b>29. UNQUOTED EQUITIES</b>                 | <b>NO. OF UNITS</b> |                       |                      |
|--|---------------------|-----------------------|----------------------|
| <b>Consolidated Bank Ltd</b>                 |                     |                       |                      |
| i. 4% Kes. 20 Cumulative preference shares   | 8,050,000           | 86,694,264            | 86,694,264           |
| ii. Kes. 20 Ordinary shares                  | 2,225,000           | 161,000,000           | 161,000,000          |
| <b>UAP Holdings Ltd</b>                      |                     | 249,987,000           | 249,987,000          |
| <b>National Bank N/Cum preference shares</b> | 235,000,000         | 1,175,000,000         | 1,175,000,000        |
|  |                     | <b>1,672,681,264</b>  | <b>1,672,681,264</b> |
| <b>30. UNDEVELOPED LAND</b>                  |                     |                       |                      |
| Opening balance                              |                     | 9,976,628,051         | 9,389,128,051        |
| Disposal Proceeds                            |                     | -                     | (126,000,000)        |
| Gain/(loss) on revaluation                   |                     | 398,800,000           | 713,500,000          |
|  |                     | <b>10,375,428,051</b> | <b>9,976,628,051</b> |
| <b>Less: Provision</b>                       |                     | (160,000,000)         | (160,000,000)        |
|  |                     | <b>10,215,428,051</b> | <b>9,816,628,051</b> |

The disposed undeveloped land in financial year 2016 relates to pieces of land in Mavoko.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

| <b>31. DEVELOPED LAND</b>  |                       |                       |
|----------------------------|-----------------------|-----------------------|
| Opening balance            | 19,908,755,787        | 19,569,655,787        |
| Disposal Proceeds          | (71,060,000)          | (290,900,000)         |
| Gain/(loss) on revaluation | 940,000,000           | 630,000,000           |
|                            | <b>20,777,695,787</b> | <b>19,908,755,787</b> |

Disposed developed land relates to sale of houses in Nyayo Embakasi.

| <b>32. ASSETS UNDER CONSTRUCTION</b> |                      |                      |
|--------------------------------------|----------------------|----------------------|
| Mavoko Project                       | 1,805,621            | 1,805,621            |
| Tassia Scheme                        | 37,295,209           | 37,295,209           |
| Parking Silo                         | 764,812,886          | 695,388,321          |
| Hazina Trade Centre                  | 1,887,744,544        | 1,681,749,471        |
| Kitisuru Roads                       | 36,432,620           | 36,432,620           |
| Milimani Flats                       | 2,151,534,571        | 1,879,633,141        |
| Field Office Refurbishment           | 71,274,299           | 12,419,090           |
| SPSS Software                        | 1,878,520            | 1,878,520            |
| Nyayo Embakasi                       | 253,693,803          | 217,348,795          |
| SSH Mombasa Refurbishment            | 44,574,874           | 29,253,913           |
| SSH Block C Refurbishment            | 75,824,042           | 75,824,042           |
| SSPAS Reimplementation               | 149,897,557          | 95,928,927           |
| SAP project costs                    | -                    | 26,319,000           |
| Hazina Estate South B                | 1,792,800            | 5,684,000            |
| Electronic Shelves                   | 57,308,640           | 57,308,640           |
| Viewpark Towers roof Repairs         | 10,668,107           | 6,364,412            |
| Hazina Towers Repairs                | 3,514,460            | -                    |
|                                      | <b>5,550,052,554</b> | <b>4,860,633,722</b> |

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**33. PROPERTY PLANT & EQUIPMENT MOVEMENT SCHEDULE 2016-2017 FY**

|                                     | Motor Vehicle      | ICT                  | Furniture          | Equipment          | Fittings          | Software           | Totals               |
|-------------------------------------|--------------------|----------------------|--------------------|--------------------|-------------------|--------------------|----------------------|
|                                     | Kes                | Kes                  | Kes                | Kes                | Kes               | Kes                | Kes                  |
| <b>Cost/Valuation</b>               |                    |                      |                    |                    |                   |                    |                      |
| Opening carrying value              | 408,853,906        | 1,198,834,769        | 252,969,844        | 294,354,117        | 45,148,297        | 568,490,361        | 2,768,651,294        |
| Additions During the year           | 136,578,837        | 59,176,796           | 21,696,295         | 20,157,157         | 1,226,343         | -                  | 238,835,428          |
| Disposal                            | 57,494,256         | -                    | 8,786,019          | 1,470,850          | -                 | -                  | 67,751,125           |
| Reclassification to Low asset value | -                  | -                    | -                  | -                  | -                 | -                  | -                    |
| <b>TOTALS (30th June 2017)</b>      | <b>487,938,487</b> | <b>1,258,011,565</b> | <b>265,880,120</b> | <b>313,040,424</b> | <b>46,374,640</b> | <b>568,490,361</b> | <b>2,939,735,597</b> |
| <b>Depreciation</b>                 |                    |                      |                    |                    |                   |                    |                      |
| As at 30 June 2016                  | 340,387,564        | 1,070,055,825        | 165,325,143        | 245,329,635        | 40,613,607        | 394,784,973        | 2,256,496,747        |
| Disposal                            | 57,494,256         | -                    | 8,457,119          | 1,470,850          | -                 | -                  | 67,422,225           |
| Charge for the year                 | 51,675,706         | 132,466,092          | 16,032,210         | 10,789,073         | 1,603,339         | 173,705,388        | 386,271,808          |
| Reclassification to Low asset value | -                  | -                    | -                  | -                  | -                 | -                  | -                    |
| <b>TOTALS(30th June 2017)</b>       | <b>334,569,013</b> | <b>1,202,521,917</b> | <b>172,900,234</b> | <b>254,647,859</b> | <b>42,216,946</b> | <b>568,490,361</b> | <b>2,575,346,330</b> |
| <b>NBV As at 30 June 2016</b>       | <b>68,466,342</b>  | <b>128,778,944</b>   | <b>87,644,701</b>  | <b>49,024,482</b>  | <b>4,534,690</b>  | <b>173,705,388</b> | <b>512,154,547</b>   |
| <b>NBV As at 30 June 2017</b>       | <b>153,369,474</b> | <b>55,489,648</b>    | <b>92,979,886</b>  | <b>58,392,566</b>  | <b>4,157,694</b>  | <b>-</b>           | <b>364,389,267</b>   |

\*Net book value balances as at 30 June 2016 have been restated to correct an error which was in last year's statements. Last year's balances were under cast by Kes 52,371. Management does not consider the amount material to affect the position reported in 2015/2016 statements.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

| <b>34. PAYABLES AND ACCRUALS</b>                  | <b>2017</b>          | <b>2016</b>          |
|---|----------------------|----------------------|
|   | <b>Kes</b>           | <b>Kes</b>           |
| Payables due to Vendors                           | 459,239,919          | 210,425,371          |
| House Purchase deposits                           | 548,455,705          | 529,429,835          |
| Tassia infrastructure deposits                    | 343,807,935          | 361,635,232          |
| Sundry creditors and accruals (note 34 a)         | 256,616,291          | 1,618,328,280        |
| Statutory deductions                              | 34,213,844           | 34,261,728           |
| Returned benefits                                 | 272,746,731          | 276,613,765          |
| Provisions for leave pay and gratuity (note 34 b) | 47,500,000           | 47,500,000           |
|   | <b>1,962,580,424</b> | <b>3,078,194,212</b> |

| <b>34a. Analysis of Sundry Creditors and Accruals</b> |                    |                      |
|---|--------------------|----------------------|
| Tax Payable   | 62,452,954         | 94,022,389           |
| Plot sale deposit & Infrastructure                    | 10,341,600         | 610,934,000          |
| Rental deposits                                       | 144,894,937        | 131,690,891          |
| Provision for audit fees                              | 6,000,000          | 8,000,000            |
| Prepaid rent  | 32,924,280         | -                    |
| Accruals  | 2,520              | 773,681,000          |
|   | <b>256,616,291</b> | <b>1,618,328,280</b> |

| <b>34b. Provision for leave pay and gratuity</b> |                   |                   |
|--|-------------------|-------------------|
| Balance at beginning of year                     | 47,500,000        | 47,500,000        |
| Additional provision at end of year              | -                 | -                 |
| Leave utilized during the year                   | -                 | -                 |
|  | <b>47,500,000</b> | <b>47,500,000</b> |

| <b>35. RENT INCOME</b>  |                      |                      |
|-------------------------|----------------------|----------------------|
| SSH Nairobi Complex     | 522,648,458          | 478,031,330          |
| SSH Mombasa             | 82,607,232           | 77,404,405           |
| Bruce House             | 167,262,642          | 164,513,962          |
| Viewpark towers         | 154,715,624          | 167,967,037          |
| Hazina towers           | 72,376,459           | 100,219,285          |
| Hazina Trade Centre     | 126,960,000          | 126,960,000          |
| Hazina Shopping Complex | 12,003,320           | 9,321,232            |
| Kenyatta Avenue Plot    | 30,935,595           | 29,485,345           |
|                         | <b>1,169,509,330</b> | <b>1,153,902,597</b> |

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

|                                |                      |                      |
|--------------------------------|----------------------|----------------------|
| <b>36. INTEREST INCOME</b>     |                      |                      |
|                                | <b>9,243,599,126</b> | <b>8,507,771,651</b> |
| <b>37. DIVIDEND INCOME</b>     |                      |                      |
| Bamburi Cement                 | 682,879,680          | 739,786,320          |
| Barclays Bank                  | 160,642,197          | 165,628,362          |
| British American Tobacco Kenya | 139,142,448          | 159,357,132          |
| CFC Stanbic Holdings           | 22,063,918           | 41,750,089           |
| East African Breweries         | 186,401,130          | 310,169,050          |
| Equity Group Holdings          | 176,848,854          | 176,848,854          |
| Housing Finance Co             | 14,622,409           | 32,910,417           |
| I&M Holdings                   | 3,365,600            | 3,365,600            |
| KenGen                         | -                    | 19,494,858           |
| KenolKobil                     | 5,692,455            | 4,527,465            |
| KCB Bank Kenya Ltd             | 743,196,910          | 185,870,068          |
| Kenya Power                    | 30,849,819           | 51,415,068           |
| NIC Bank                       | 19,193,329           | 15,517,529           |
| Safaricom                      | 453,921,340          | 200,893,282          |
| Athi River Mining              | -                    | 5,767,200            |
| Carbacid Investments           | -                    | -                    |
| Co-operative Bank              | 43,695,773           | 43,446,973           |
| Britam                         | 34,872,902           | 35,301,703           |
| Diamond Trust Bank Kenya       | 13,808,005           | 11,749,708           |
| Jubilee Holdings Limited       | 501,399              | 160,058              |
| Kenya Re-insurance Corporation | 17,479,119           | 16,386,674           |
| Nairobi Securities Exchange    | 585,450              | 1,422,450            |
| Nation Media Group             | 93,471,887           | 68,823,930           |
| Centum                         | 6,291,718            | -                    |
| Scan Group Limited             | 4,339,100            | 4,839,530            |
| Stanbic Bank Uganda            | 561,743              | -                    |
| Standard Chartered Bank        | 124,414,550          | 94,862,186           |
| UAP Holdings                   | 1,806,313            | -                    |
| Stanlib Fahari I-REIT          | 17,444,500           | -                    |
| TPS Eastern Africa Limited     | 678,825              | 3,103,200            |
| Umeme Ltd                      | 11,385,732           | 18,647,809           |
|                                | <b>3,010,157,102</b> | <b>2,412,045,512</b> |

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

| <b>38. CORPORATE BONDS</b>                      | <b>2017</b>          | <b>2016</b>          |
|---|----------------------|----------------------|
|   | <b>Kes</b>           | <b>Kes</b>           |
| ABC Bank -Fixed medium term note                | 100,000,000          | 100,000,000          |
| Centum- Floating Note                           | 74,962,500           | 74,965,425           |
| Centum- Fixed Note                              | 229,010,175          | 225,248,175          |
| EABL-FXD01/2015/3 T1                            | 1,230,949,698        | 698,095,490          |
| EABL-FXD 02/2017/005                            | 305,062,355          | -                    |
| Kengen-Infrastructure bond                      | 285,999,355          | 407,391,755          |
| Housing Finance-FXD 2010/7yr bond               | 1,015,000,000        | 1,014,859,930        |
| Housing Finance-FXD 2012/7yr bond 2nd Tranche   | 257,288,546          | 235,640,691          |
| Consolidated bank- FXD(SN)/2012/7Yr             | 384,871,025          | 381,795,645          |
| Consolidated bank- FXD(SBN)/2012/7Yr            | 30,000,000           | 40,000,000           |
| Shelter Afrique-FXD 1/13/05Yr                   | 163,173,000          | 283,399,955          |
| I&M-01/13/5.25                                  | 385,000,000          | 392,933,310          |
| Britam-1/2014/5 (TRANCH 1)                      | 308,782,790          | 257,737,805          |
| UAP-1/2014/5YR                                  | 80,873,825           | 75,021,445           |
| NIC bank-Medium term note                       | 1,010,067,506        | 978,582,413          |
| CIC Insurance Group Ltd-Medium term note        | 838,993,841          | 848,479,232          |
| CBA Bank- Fixed Medium term note                | 1,172,415,592        | 1,172,331,144        |
| FXDCHASE2015                                    | 534,700,000          | 496,278,062          |
| CNTB.BD.08.06.20/13                             | 105,147,165          | 40,236,919           |
| Centum-Equity linked bond                       | 156,419,200          | 156,894,402          |
| CFC Stanbic-Multicurrency medium term note      | 616,033,799          | 650,670,804          |
| RealPeople-5YR fixed bullet note                | 183,693,405          | 174,740,003          |
| FM -FXD 5.5YR BOND                              | 288,378,515          | 290,570,499          |
| Imperial Bank- 5.25YR FXD BOND                  | 132,200,000          | 132,200,000          |
|   | <b>9,889,022,293</b> | <b>9,128,073,101</b> |
| <b>Less: Provision for Doubtful Investments</b> | - 666,900,000        | - 132,200,000        |
| <b>Net Corporate bonds</b>                      | <b>9,222,122,293</b> | <b>8,995,873,101</b> |

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**39. QUOTED STOCKS MOVEMENT DURING THE YEAR**

| Number of shares at 30.06.2016 | Additions   | Disposals  | Number of Shares 30.6.2017 | Price  | Description                        | Market value at 30.06.2016 Kes | Additions (Purchases/Bonus) Kes | Disposal Proceeds Kes | Market gain/(loss) Kes | Market value at 30.06.2017 Kes |
|--------------------------------|-------------|------------|----------------------------|--------|------------------------------------|--------------------------------|---------------------------------|-----------------------|------------------------|--------------------------------|
|                                |             |            |                            |        | Kenya Power                        |                                |                                 |                       |                        |                                |
| 102,826,246                    | -           | -          | 102,826,246                | 7.95   | Ordinary Shares                    | 1,012,838,523                  | -                               | -                     | (195,369,867)          | 817,468,656                    |
| 3,550                          | -           | -          | 3,550                      | 5.50   | Cum Preference Shares              | 18,550                         | -                               | -                     | 975                    | 19,525                         |
| 750                            | -           | -          | 750                        | 6.00   | Cum Preference Shares              | 4,125                          | -                               | -                     | 375                    | 4,500                          |
| 24,813,524                     | 40,000      | -          | 24,853,524                 | 259.00 | East African Breweries Ltd         | 6,898,159,672                  | 10,480,178                      | -                     | (471,577,134)          | 6,437,062,716                  |
| 3,219,336                      | 58,000      | -          | 3,277,336                  | 847.00 | British American Tobacco (K) Ltd   | 2,688,145,560                  | 48,527,450                      | -                     | 39,230,582             | 2,775,903,592                  |
| 53,177,661                     | 221,989,996 | 13,723,000 | 261,444,657                | 7.95   | Kengen Company Ltd                 | 348,313,680                    | 1,454,034,474                   | 94,576,564            | 370,713,433            | 2,078,485,023                  |
| 56,906,640                     | -           | -          | 56,906,640                 | 186.00 | Bamburi Cement Co. Ltd             | 9,674,128,800                  | -                               | -                     | 910,506,240            | 10,584,635,040                 |
| 24,300,000                     | -           | -          | 24,300,000                 | 30.75  | E.A. Portland Cement Ltd           | 868,725,000                    | -                               | -                     | (121,500,000)          | 747,225,000                    |
| 185,870,067                    | -           | 8,630,000  | 177,240,067                | 37.75  | KCB Bank Kenya Ltd                 | 6,273,114,761                  | -                               | 319,000,235           | 736,698,003            | 6,690,812,529                  |
| 29,244,817                     | -           | -          | 29,244,817                 | 10.45  | Housing Finance Group              | 592,207,544                    | -                               | -                     | 286,599,207            | 305,608,338                    |
| 4,731,292                      | -           | -          | 4,731,292                  | 2.50   | Sameer Africa Ltd                  | 13,011,053                     | -                               | -                     | ( 1,182,823)           | 11,828,230                     |
| 148,002,497                    | 14,800,250  | -          | 162,802,747                | 8.90   | National Bank of Kenya Ltd         | 1,420,823,971                  | -                               | -                     | 28,120,477             | 1,448,944,448                  |
| 165,628,349                    | -           | 5,000,000  | 160,628,349                | 9.95   | Barclays Bank of Kenya Ltd         | 1,590,032,305                  | -                               | 48,925,800            | 57,145,568             | 1,598,252,073                  |
| 6,220,729                      | -           | -          | 6,220,729                  | 208.00 | Standard Chartered Bank Kenya Ltd  | 1,213,042,550                  | -                               | -                     | 80,869,082             | 1,293,911,632                  |
| 9,176,524                      | -           | -          | 9,176,524                  | 108.00 | Nation Media Group Ltd             | 1,376,478,600                  | -                               | -                     | (385,414,008)          | 991,064,592                    |
| 9,612,000                      | -           | -          | 9,612,000                  | 20.50  | Athi River Mining Ltd              | 307,584,000                    | -                               | -                     | (110,538,000)          | 197,046,000                    |
| 21,848,899                     | -           | -          | 21,848,899                 | 20.75  | Kenya Re Insurance Corporation Ltd | 426,053,531                    | -                               | -                     | 27,311,124             | 453,364,654                    |
| 116,243,005                    | -           | -          | 116,243,005                | 12.65  | Britam (K) Ltd                     | 1,650,650,671                  | -                               | -                     | (180,176,658)          | 1,470,474,013                  |
| 320,223,153                    | 35,701,000  | 6,000,000  | 349,924,153                | 22.75  | Safaricom Limited                  | 5,683,960,966                  | 734,608,370                     | 115,696,380           | 1,657,901,525          | 7,960,774,481                  |
| 41,341                         | 15,100      | -          | 56,441                     | 440.00 | Jubilee Holdings                   | 18,810,155                     | 6,934,923                       | -                     | (911,038)              | 24,834,040                     |
| 4,202,651                      | -           | -          | 4,202,651                  | 71.00  | CFC Stanbic of Kenya Holdings Ltd  | 336,212,080                    | -                               | -                     | (37,823,859)           | 298,388,221                    |
| 6,426,118                      | -           | 134,418    | 6,291,700                  | 41.50  | Certum Investment Co. Ltd          | 282,749,192                    | -                               | 5,779,114             | (15,864,528)           | 261,105,550                    |

**National Social Security Fund**  
**Reports and Financial Statements for the**  
**Year ended 30 June 2017**



|            |           |   |                      |            |                                   |                       |                      |                    |                      |                       |
|------------|-----------|---|----------------------|------------|-----------------------------------|-----------------------|----------------------|--------------------|----------------------|-----------------------|
| 1,939,500  | -         | - | 1,939,500            | 22.25      | TPS Eastern Africa Ltd            | 40,729,500            | -                    | -                  | 2,424,375            | 43,153,875            |
| 5,767,600  | -         | - | 5,767,600            | 20.25      | Seangroup Ltd                     | 115,352,000           | -                    | -                  | 1,441,900            | 116,793,900           |
| 54,308,716 | 8,111,000 | - | 62,419,716           | 16.95      | The Cooperative Bank of Kenya Ltd | 877,085,763           | 138,705,513          | -                  | 42,222,910           | 1,058,014,186         |
| 14,096,423 | 1,572,800 | - | 15,669,223           | 33.50      | NIC Bank Ltd                      | 514,519,440           | 50,913,436           | -                  | (40,513,905)         | 524,918,971           |
| 88,424,427 | 2,137,200 | - | 90,561,627           | 37.75      | Equity Bank Ltd                   | 3,404,340,440         | 71,657,016           | -                  | (57,296,036)         | 3,418,701,419         |
| 5,310,770  | -         | - | 5,310,770            | 160.00     | Diamond Trust Bank Kenya Ltd      | 876,277,050           | -                    | -                  | (26,553,850)         | 849,723,200           |
| 9,840,200  | -         | - | 9,840,200            | UGX 425.00 | Ememe Ltd-Uganda                  | 146,088,501           | -                    | -                  | (25,103,952)         | 120,984,549           |
| 11,051,261 | 6,889,320 | - | 17,940,581           | 12.55      | Ememe Ltd-Kenya                   | 187,871,437           | 99,660,593           | -                  | (62,377,739)         | 225,154,292           |
| 34,889,000 | -         | - | 34,889,000           | 12.55      | Stanlib I-REIT                    | 758,835,750           | -                    | -                  | (320,978,800)        | 437,856,950           |
| 12,649,900 | -         | - | 12,649,900           | 14.00      | KenolKobil Ltd                    | 131,558,960           | -                    | -                  | 45,539,640           | 177,098,600           |
| 961,600    | -         | - | 961,600              | 103.00     | I&M Holdings Ltd                  | 105,776,000           | -                    | -                  | (6,731,200)          | 99,044,800            |
| 2,180,000  | -         | - | 2,180,000            | 16.70      | Nairobi Securities Exchange       | 43,491,000            | -                    | -                  | (7,085,000)          | 36,406,000            |
| 1,140,000  | -         | - | 1,140,000            | TZS 175.00 | CRDB Bank PLC                     | 16,314,810            | -                    | -                  | (7,065,639)          | 9,249,171             |
| 10,000,000 | -         | - | 10,000,000           | UGX 27.00  | Stanlib Uganda                    | 7,719,967             | -                    | -                  | 90,928               | 7,810,895             |
|            |           |   | <b>1,803,105,794</b> |            |                                   | <b>49,901,025,906</b> | <b>2,615,521,952</b> | <b>583,978,092</b> | <b>1,639,553,895</b> | <b>53,572,123,661</b> |

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

| <b>40. UNDEVELOPED INVESTMENT PROPERTY</b> | <b>Fair value<br/>30.06.2017 Kes'000</b> | <b>Additions<br/>Kes'000</b> | <b>Disposal<br/>Proceeds<br/>Kes'000</b> | <b>Gain / (loss)<br/>on disposal<br/>Kes'000</b> | <b>Fair value<br/>adjustments</b> | <b>Balance 30.06.2016<br/>Kes'000</b> |
|--|--|------------------------------|--|--|-----------------------------------|---------------------------------------|
| L.R. 209/12287-Kenyatta Avenue-Nairobi     | 2,300,000,000                            | -                            | -  | -  | 100,000,000                       | 2,200,000,000                         |
| L.R. 209/12220-Kenyatta Avenue-Nairobi     | 220,000,000                              | -                            | -  | -  | 15,000,000                        | 205,000,000                           |
| L.R. 209/12219-Kenyatta Avenue-Nairobi     | 200,000,000                              | -                            | -  | -  | 15,000,000                        | 185,000,000                           |
| L.R. 209/11331-Kenyatta Avenue-Nairobi     | 290,000,000                              | -                            | -  | -  | 20,000,000                        | 270,000,000                           |
| L.R. 209/11412-Kenyatta Avenue-Nairobi     | 855,000,000                              | -                            | -  | -  | 15,000,000                        | 840,000,000                           |
| L.R. 20694-Mavoko-Sabaki                   | 59,300,000                               | -                            | -  | -  | 3,700,000                         | 55,600,000                            |
| L.R. 24575-Mavoko Municipality             | 117,400,000                              | -                            | -  | -  | 6,200,000                         | 111,200,000                           |
| L.R. 26472-Mavoko Municipality             | 197,700,000                              | -                            | -  | -  | 9,900,000                         | 187,800,000                           |
| L.R. 24574-Mavoko Municipality             | 188,200,000                              | -                            | -  | -  | 9,900,000                         | 178,300,000                           |
| L.R. 24577-Mavoko Municipality             | 150,000,000                              | -                            | -  | -  | 8,000,000                         | 142,000,000                           |
| L.R. 24578-Mavoko Municipality             | 1,818,200,000                            | -                            | -  | -  | 86,200,000                        | 1,732,000,000                         |
| L.R. 24579-Mavoko Municipality             | 509,100,000                              | -                            | -  | -  | 29,900,000                        | 479,200,000                           |
| L.R. 20355-Mavoko Municipality             | 493,400,000                              | -                            | -  | -  | 29,000,000                        | 464,400,000                           |
| L.R. 20305-Mavoko Municipality             | 530,000,000                              | -                            | -  | -  | 27,000,000                        | 503,000,000                           |
| L.R. 20589-Makutano Junction               | 394,000,000                              | -                            | -  | -  | 24,000,000                        | 370,000,000                           |
| Forest Edge                                | 160,000,000                              | -                            | -  | -  | -                                 | 160,000,000                           |
| L.R.209/11642-Upperhill-Nairobi            | 115,000,000                              | -                            | -  | -  | -                                 | 115,000,000                           |
| L.R. MSA/MN/2535-Bamburi-Mombasa           | 730,000,000                              | -                            | -  | -  | -                                 | 730,000,000                           |
| L.R. MSA/MN/2537-Bamburi-Mombasa           | 85,000,000                               | -                            | -  | -  | -                                 | 85,000,000                            |
| L.R. MSA/MN/2538-Bamburi-Mombasa           | 85,000,000                               | -                            | -  | -  | -                                 | 85,000,000                            |
| L.R. MSA/MN/2539-Bamburi-Mombasa           | 85,000,000                               | -                            | -  | -  | -                                 | 85,000,000                            |
| L.R. MSA/MN/2540-Bamburi-Mombasa           | 85,000,000                               | -                            | -  | -  | -                                 | 85,000,000                            |
| L.R. MSA/MN/982-Mombasa                    | 620,000,000                              | -                            | -  | -  | -                                 | 620,000,000                           |
| Tassia Estate                              | 20,264,784                               | -                            | -  | -  | -                                 | 20,264,784                            |
| Tassia Infrastructure                      | 67,863,267                               | -                            | -  | -  | -                                 | 67,863,267                            |
| -  | <b>10,375,428,051</b>                    | -                            | -  | -  | <b>398,800,000</b>                | <b>9,976,628,051</b>                  |
| <b>Less: Provision for Impairment</b>      |  |                              |  |  |                                   |                                       |
| Forest Edge                                | 160,000,000                              | -                            | -  | -  | -                                 | 160,000,000                           |
| <b>Total provision for impairment</b>      | <b>160,000,000</b>                       | -                            | -  | -  | -                                 | <b>160,000,000</b>                    |
|  | <b>10,215,428,051</b>                    | -                            | -  | -  | <b>398,800,000</b>                | <b>9,816,628,051</b>                  |

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

| <b>41. DEVELOPED INVESTMENT PROPERTY</b>                      | <b>Fair value<br/>30.06.2017<br/>Kes'000</b> | <b>Additions<br/>Kes '000</b> | <b>Disposal<br/>Proceeds<br/>Kes '000</b> | <b>Gain / (loss)<br/>on disposal<br/>Kes'000</b> | <b>Fair value<br/>adjustments</b> | <b>Balance<br/>30.06.2016<br/>Kes'000</b> |
|---|--|-------------------------------|---|--|-----------------------------------|---|
| L.R. 209/13920 -NSSF Complex-Nairobi                          | 8,300,000,000                                | -                             | -   | -  | 200,000,000                       | 8,100,000,000                             |
| L.R. MSA/Block XXV/123 -SSH Mombasa                           | 1,470,000,000                                | -                             | -   | -  | 70,000,000                        | 1,400,000,000                             |
| L.R. 209/6776 -Bruce House- Nairobi                           | 2,800,000,000                                | -                             | -   | -  | 125,000,000                       | 2,675,000,000                             |
| L.R. 209/6708 -Hazina Trade Centre-Nairobi                    | 3,100,000,000                                | -                             | -   | -  | 100,000,000                       | 3,000,000,000                             |
| L.R. 209/8595 -ViewPark Towers-Nairobi                        | 2,450,000,000                                | -                             | -   | -  | 150,000,000                       | 2,300,000,000                             |
| L.R. 209/1567 -Hazina Towers-Nairobi                          | 1,500,000,000                                | -                             | -   | -  | 200,000,000                       | 1,300,000,000                             |
| L.R. Nairobi/block 93/1598 -Hazina Shopping Complex South B   | 200,000,000                                  | -                             | -   | -  | 20,000,000                        | 180,000,000                               |
| L.R. Nairobi/Block 93/1599 -Hazina school South B             | 100,000,000                                  | -                             | -   | -  | 10,000,000                        | 90,000,000                                |
| L.R. Nairobi/Block 96/1667 -Hazina Multi-Purpose Hall South B | 40,000,000                                   | -                             | -   | -  | 3,000,000                         | 37,000,000                                |
| L.R. MSA/Block XX/328&329-Hazina Plaza- Mombasa               | 500,000,000                                  | -                             | -   | -  | 50,000,000                        | 450,000,000                               |
| L.R. Kisumu/Mun/Block 8/258-Kisumu Estate-Kisumu              | 190,000,000                                  | -                             | -   | -  | 12,000,000                        | 178,000,000                               |
| Nyayo Estate Embakasi   | 127,695,787                                  | -                             | 71,060,000                                | -  | -                                 | 198,755,787                               |
|   | <b>20,777,695,787</b>                        | <b>-</b>                      | <b>71,060,000</b>                         | <b>-</b>   | <b>940,000,000</b>                | <b>19,908,755,787</b>                     |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 42. TAXATION

According to Section 45 of the First schedule of Income Tax Act Cap 470 effective 18 June 1996, the Fund is exempted from taxation. According to Income Tax (National Social Security Fund (Exemption) Rules 2002, effective 1 July 2002 the Fund should comply with certain regulations for it to remain exempted.

In 2013/2014 financial year (and prior years), an amount of Kes.904, 903,717 had been recognised as a debt. The amount relates to taxes overpaid in years prior to the exemption together with any withholding tax on interest and dividends erroneously paid to KRA. NSSF demanded a refund which was disputed by KRA. The provision of Kes. 904,903,717 Million in 2014/2015 financial year will be recognised as income in the year it will be received from Kenya Revenue Authority.

The composition of KES 904,903,717 is as follows:

| Year | Amount      | Comment   |
|------|-------------|---|
| 1996 | 493,257,328 | Overpayment based on draft accounts   |
| 1997 | 411,646,389 | Overpaid based on the Finance Bill 1996 which was different from Finance Act 1996. KRA is yet to refund in compliance to Section 90 (1) |

### 43. COMPLIANCE WITH RETIREMENT BENEFITS ACT

In compliance with Retirement Benefits Act, NSSF maintains employer contribution clearing accounts where total contributions are posted from employers to the credit of member accounts for benefits payment upon qualification as per the Act. During the year the contributions in transit balance changed marginally from **Kes.764 Million** as at 30 June 2016 to **Kes.762 Million** as at 30 June 2017

### 44. BASIS OF NON-CONSOLIDATION OF INTEREST IN ASSOCIATE

The Financial Statements of NSSF are prepared in accordance with Section 5 of the NSSF Act No 45 of 2013. The Section requires NSSF statement of net assets (balance sheet) to show in details the assets and liabilities of the Fund. Although NSSF owns 48.05% of ordinary shares and 235 million non-cumulative preference shares in National Bank of Kenya Limited (NBK), the operations of the bank have not been consolidated in the Fund's Financial Statements as required by the International

Financial Reporting Standards. The Fund does not have significant control over the operations.

Had consolidated Financial Statements been prepared based on the latest audited Financial Statements of NBK as at 30 June 2016, NSSF's share in the operations of NBK would have been as follows:

|  |                   |                      |
|--|-------------------|----------------------|
| Profit after taxation(48.05%*97,190,000)             | 46,699,795        | 943,994,000          |
| Accumulated Surplus/(Deficit) (48.05%*3,145,589,000) | -                 | 735,415,000          |
|  | <b>46,699,795</b> | <b>1,679,409,000</b> |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 45. RELATED PARTY DISCLOSURES

| a. Income Earned From Related Parties                      | 2017           | 2016           |
|--|----------------|----------------|
|  | Kes '000       | Kes '000       |
| National Bank of Kenya Limited (NBK)                       | 1,524          | 49,081         |
| Kenya Commercial Bank – Dividend income                    | 566,260        | 185,570        |
| East African Portland Cement Company                       | -              | 18225          |
| NASSEFU Savings and Credit Society Limited – Rental income | 6,593          | 5,606          |
|  | <b>574,377</b> | <b>116,481</b> |

The related party income includes rent and dividend income earned during the year.

| b. Board of Trustees Remuneration and Expenses |               |               |
|--|---------------|---------------|
| Expenses – Board                               | 48,982        | 22,525        |
| Board Chairman Honoraria                       | -             | 158           |
| Sitting allowance - Board Committees           | -             | -             |
| Air tickets - Board                            | -             | -             |
| Local traveling and accommodation - Board      | -             | -             |
| Training - Board                               | -             | -             |
| Seminars - Board                               | -             | -             |
| Trustees insurance                             | -             | -             |
|  | <b>48,982</b> | <b>22,683</b> |

Note that out of the board expenses amount of Kes. 48.9 Million, Kes. 16.3 Million relates to board remuneration and other allowances ( page 42 and 43)

| Employees                      |           |           |
|--------------------------------|-----------|-----------|
| c. Tenant Purchase Staff Loans | 1,298,562 | 1,397,315 |

The Fund provides qualifying employees with car and housing loans on terms more favourable than the market rate. The benefits obtained by staff are subjected to income tax as required under the Kenya Income Tax Act.

### 46. CONTINGENT ASSETS AND LIABILITIES

#### a) Contingent Assets

In the financial year 2012/2013, The Board of Trustees approved exclusion of impaired assets from the Financial Statements. The cases to recover the assets are being pursued in courts of law and the current status of the cases is as follows:

#### i. Properties in Gazetted Areas

The Fund acquired investment properties in gazetted areas in New Muthaiga L.R. No.209/12274 measuring 18.41 hectares (located within Sigiria Block which is part of the Karura Forest Reserve), Ngong Road L.R.Nos.20840 and 20841 lying next to Lenana School (part of Ngong Forest).

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### **New Muthaiga**

The Fund filed a case under (formerly 147 of 2004) NSSF Board of Trustees VS- Kitisuru Limited and Geoffrey Chege Kirundi, Mike Maina Kamau, Commissioner of Lands and Attorney General. The case is ongoing and is at hearing stage. EACC is currently investigating the matter.

### **Ngong Road Plot LR. Nos.20840 &20841**

The Fund filed a case in court under Milimani HCCC NO. 162 of 2005 NSSF vs Kerios Farm Ltd. The case is ongoing .On 15 July 2014 EACC wrote to the Fund informing it that it is investigating the matter. The title to the property was revoked vide a Kenya Gazette Notice No.3640 dated 1 April 2010. As per the Gazette Notice revoking the title, the parcel of the land had been reserved for public purposes and the allocation was therefore illegal and unconstitutional. The Fund was not given a hearing or any formal notification of the revocation of title.

The Fund is engaging the Chairman, National Land Commission and the Commissioner of Lands seeking for the reinstatement of the title of L.R. No.209/11642 and no positive reply has been received to date. As at 30 June 2015, the valuation of the land stood at Kes.115 million.

### **ii. The amount of Kes.251,516,000.00 invested in Euro Bank**

An amount of Kes.251, 516,000.00 invested in Euro Bank and expected to have matured on 28 February 2002 had not been redeemed, as the Bank was placed under receivership in 2003.

The Fund initially won the case against Shah Munge & Partners and was awarded Kes.258, 133,333.00. In 2013, the Fund identified 5,250,000 NSE shares valued at 250,000,000.00 belonging to Shah Munge, but another company by the name Southern Bell Ltd went to court claiming ownership of the shares. The company lost the case blocking the Fund from selling the 5,250,000.00 shares for Euro Bank valued at Kes.250, 000,000.00 and has given a notice of intended appeal.

### **iii. Rental income**

Rental income amounting to Kes.30, 681,000 collected from tenants in Bruce House, Hazina, Viewpark Towers and Nyayo Estate by various property agents had not been remitted to the Fund as at 30 June 2016. Efforts to implement a court decree in favour of the Fund entered by consent vide HCCC No.859 of 1997 have not been successful and on 14<sup>th</sup> July 2014 the matter was picked by the EACC for investigation. The Fund lawyers are trying to trace the assets of the company.

### **iv. Discount Securities Ltd**

The amount of Kes.1, 201,143,000 in respect of shares purchased through Discount Securities Limited.

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

The matter is before the Anti-Corruption Court - Milimani - Discount Securities Case File No.141/267/2010, Court File No. ACC 15 of 2010 (Republic-vs-Francis Moturi Zuriels & Others), Fund witnesses are giving evidence. Recovery of the amount is still being pursued through the Court Case ACC 15 OF 2010 filed by EACC against the suspected culprits. The case is ongoing.

**v. Cash Losses Wetlands Branch Fraud (cash losses)**

The amount of Kes.7, 243,030 was lost through fraud at the Branch. The matter is before a court of law for determination though fully provided for in the Financial Statements for 30 June 2015. The case is ongoing.

**vi. Kenya College of Medicine**

This tenant at both Hazina and View Park Towers presented fake cash deposit slips for receipting that were subsequently discovered. The case is before a court of law and the amount of Kes.9, 327,627 in question has been provided for as contingent.

**b) Contingent Liabilities**

The major cases that may give rise to contingent liabilities during the year are as follows:

**(i) Nyayo Estate Embakasi Phase Six**

Nyayo Embakasi Residents Association (NERA) instituted legal proceedings in the High Court of Kenya at Nairobi Environment and Land Division ELC NO.1170 of 2014 seeking to stop construction of the project because of environmental concerns. This has resulted in delay in completion of the works and this has led to the expiry of the Bank guarantee and the mobilization fee of Kes.215, 540,774.00 is at risk. The value of work done is thus KES 274.7 million against the payment of KES 227.9 million. This implied that the Fund's exposure is KES 168.7 which will be claimed based on the terms of the contract.

**(ii) Nyayo Estate, Embakasi (Mugoya Construction)**

Mugoya Construction Company Limited has sued the Fund claiming Kes.7.058 billion against a counter claim by NSSF of Kes.9.873 billion. Included in project costs for Nyayo Estate, Embakasi and the counter-claim are questionable payments of Kes.324.356 million made to Mugoya Construction Company Limited without security. The Fund is of the opinion that the possibility of Mugoya Construction Company Limited succeeding is remote. These and other matters relating to dealings with Mugoya Construction Company Limited are under arbitration for determination. However, full provision of Kes. 324.36 million was made in the 2008/2009 Financial Statements. To date, the arbitration process is still ongoing.

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### iv) Construction of Hazina Trade Centre

M/s China Jiangxi International Kenya Ltd was awarded contract No.21/2012-2013 to construct Hazina Trade Centre at a cost of Kes.6, 715,218,188.00. A total of Kes.1, 912,043,004.00 has been paid to date. Nakumatt Ltd, the main Tenant in Hazina Trade Centre, has raised legal concerns and instituted a claim of Kes.1, 630,323,151.00 which has led to delay in project completion.

## 47. FINANCIAL RISK MANAGEMENT POLICIES

The Board of Trustees has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board of Trustees has established various Board committees, which are responsible for developing and monitoring the Fund's risk management policies in their specific areas.

All Board committees report regularly to the Board of Trustees on their activities. The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Fund, through its training and management policies and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit & Risk Committee is responsible for monitoring compliance with the Fund's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Fund. The Committee is assisted in these functions by Audit & Risk department which undertake reviews of risk management controls and procedures, the results of which are reported to the Audit & Risk Committee.

The Fund's financial risk management objectives and policies are detailed below:

### a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in **note 1** to the Financial Statements.

### b) Financial Risk Factors

The Fund's overall risk management programme seeks to maximize the returns derived from the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's performance. The management of these risks is carried out by the Management and Fund Managers under investment policies approved by the Board of Trustees.

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### c) Foreign Currency Risk

The Fund does not hold any of its bank balances in foreign currency. The fluctuations in currency exchange rates therefore do not expose the Fund to foreign currency risk. IFRS 7 considers the foreign exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, Management monitors the exposure on all foreign currency denominated assets and liabilities.

### d) Liquidity Risk Management

The Fund is exposed to daily operational payments and payment to claims payable balances. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Fund sets limits on the minimum proportions of maturing funds available to meet such calls and unexpected levels of demand.

Ultimate responsibility for liquidity risk management rests with the Management of the Fund, who have built an appropriate liquidity risk management framework. The Fund manages this risk by maintaining enough funds for its operations through continuous monitoring of forecast and actual cash flows. In order to manage the Fund's overall liquidity, the Management monitors the Fund's liquidity position on a daily basis. The contractual maturities of financial liabilities are shown below:-

### Liquidity Risk

| As at 30 June, 2017                 | Less than 12 Months<br>Kes'000 | Over 12 Months<br>Kes'000 | Total<br>Kes'000   |
|-------------------------------------|--------------------------------|---------------------------|--------------------|
| <b>Assets:</b>                      |                                |                           |                    |
| Investments at quoted market values | 2,445,758                      | 112,312,904               | 114,758,662        |
| Investments at estimated fair       | 32,502,035                     |                           | 32,502,035         |
| <b>Other assets:</b>                |                                |                           | 0                  |
| Inventory                           | -                              | 31,691                    | 31,691             |
| Receivables & Prepayments           | 2,386,449                      | -                         | 2,386,449          |
| Taxation                            | -                              | -                         | -                  |
| Accrued Income                      | 2,382,682                      | -                         | 2,382,682          |
| Long Term Deposits                  | -                              | 430,232                   | 430,232            |
| Short Term Deposits                 | 13,640,550                     | -                         | 13,640,550         |
|                                     | <b>53,357,474</b>              | <b>112,774,827</b>        | <b>166,132,301</b> |
| <b>Liabilities:</b>                 |                                |                           |                    |
| Accounts Payable                    | (1,376,998)                    | (295,118)                 | (1,672,116)        |
|                                     | <b>51,980,476</b>              | <b>112,479,709</b>        | <b>164,460,185</b> |

## 48. CURRENCY

The Financial Statements are presented in **Kenya shillings (Kes)**

**APPENDIX 1**  
**XVII. PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS FROM PRIOR YEARS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

| Ref. No. on the audit Report | Issue / Observations from Auditor                                | Management comments  | Focal Point person to resolve the issue              | Status:          | Time frame                 |
|------------------------------|--|--|--|------------------|----------------------------|
| 1                            | Unremitted members contributions                                 | Regular follow up with employers to clear. Strategies have been put in place for regular follow up and where necessary court cases are being pursued in line with the Act  | Manager Registration & Collections                   | Work in progress | 30 <sup>th</sup> June 2018 |
| 2                            | Members contributions in held in suspense account                | These are funds in employer accounts yet to be transferred to member accounts. The Fund has adopted zero tolerance to suspense through the SSPAS system and hired interns to facilitate reconciliation of employer/member accounts   | Manager Registration & Collections                   | Work in progress | 30 <sup>th</sup> June 2018 |
| 3                            | Irregular disposal of undeveloped land -Mavoko                   | The contract has not been terminated since the delay in completing the conveyancing process was caused by a dispute over physical location of the plots involving the Fund and other parties who claimed to have ownership documents to the physical location. The matter is being resolved. | General Manager, Corporate Affairs/company Secretary | Not resolved     | 30 <sup>th</sup> June 2018 |
| 4                            | Hazina Plaza Mombasa Lease-LR MSA /BLK XX/328&329                | Termination of lease and eviction of the tenant in progress. The Fund is evaluating the best use case for use of property.   | General Manager Finance & Investments                | Not resolved     | 30 <sup>th</sup> June 2018 |
| 5                            | Milimani Plots-Kisumu  | The rent paid by staff is nominal as their role is caretaking pending development of the property and due to the dilapidated status of the buildings. Security services on the property have been scaled down due to reduction of the security risk that existed before.                     | Manager , Property Management                        | Not resolved     | 30 <sup>th</sup> June 2018 |
| <b>2.0</b>                   | <b>Previous matters 2014/2015</b>                                |  |  |                  |                            |
| 2.1                          | Illegal transfer of NSSF land in Upper Hill Nairobi-LR 209/11642 | The matter is being pursued between NSSF and the Chairman of the National Land Commission (NLC) to ensure the title is reinstated  | Manager , Property Management                        | Not resolved     | 30 <sup>th</sup> June 2018 |
| 2.2                          | Nyayo Estate Embakasi phase six contract no. 18/2012/2013        | NSSF has resolved to terminate the contract for the project. The project consultants have commenced the termination process including recovery of the advance payment of Kes. 215,540,744.22   | Manager , Property Development                       | Not resolved     | 30 <sup>th</sup> June 2018 |
| 2.3                          | Stalled construction of Hazina Trade Centre -Nairobi             | The State Department of Public Works have been commissioned to offer Project management Services and are awaiting renewal of approvals for completion works to commence.   | Manager , Property Development                       | Not resolved     | 30 <sup>th</sup> June 2018 |

## NSSF MOBILE APPLICATION GUIDE

Go to selfservice.nssf.or.ke

### 1. Installing the Application

- Go to the Google Play Store Application on your mobile and Search for NSSF. Tap on download then install the application on your phone
- Press Open to launch the application

### 2. Create offline credentials

- Enter a username and password of your choice to create your offline credentials and press the "Save Offline Login" button
- You will get the notification "Login Saved" on successful creation of the offline login. Click "OK" button and proceed to login
- Enter the Username and Password you had selected and click on "Login"
- On successful login, you will be presented with a menu indicating "**Members**" & "**Employers**" categories

### 3. Employer Transactions

- From the home page, select the "**Employers**" category to proceed to the employers' form

### 4. Adding Employer

- Press the button 'Add New Employer'
- Enter your *Employer Number*, *E-Services user name* and *E-Services password*
- If not registered on e-Services, click button 'Not registered? Register'.
- Ensure that your mobile data is on before proceeding.
- Press on *Verification to authenticate your details*
- Press 'Yes' to confirm the addition and you will get a confirmation notification indicating *Employer created*, press OK.
- Press on the employer name to access the functionality page as an employer

### 5. Adding Employees

- Press the button **+Add new employee**
- Enter the details on the form accurately
- Press **+Add Employee** once it is highlighted
- Once added, employees will all have a 'not verified' notation

### 6. Verifying Employees

Press the back button and then Verify Employees

### 7. SF24 Submission

- Press on the "**Employer**" to go to the employer's menu and press *SF24 submissions*.
- Press **+Create submission period**
- Press on request type and select either 'Create new SF24' or 'Get outstanding UPN'
- Select Tier either 'Tier 1', 'Tier 1 + Tier 2', or 'Old rates'
- Select Contribution Year
- Select Contribution Month
- Enter the employer *E-Services username* and *E-Services password*
- Press the button **+Submit Payroll File**
- You will receive a confirmation message that the payroll has been successfully created
- You will receive a UPN, and the total amount to be contributed, with a breakdown of employee and employer account

### 9. Member Transactions

- Select the "**Members**" category to proceed to the members' form.
- Press on **Add New Member**
- Enter your *Member Number*, *e-Services username* and *e-Services password*.
- If not registered on e-Services, click button 'Not registered? Register'.
- Ensure that your mobile data is on before proceeding.
- Press on **Add Member**
- Once your details are validated, the mobile app will prompt you to confirm the addition. Press 'Yes' to confirm and you will get a confirmation notification indicating **Member created**, press OK
- Press on the member name to access the functionality page as a member

### 10. View Statement

- Press **View Statement** to download your statement if you have been a contributing member

### 11. Pay Voluntary Contributions

- Press on **Pay Contributions** enter the amount you want to contribute and press **Contribute**
- Enter your mobile number and press **OK**

You will receive 3 messages from your transaction

1. From M-PESA indicating that a certain amount has been sent to National Social Security Fund for account 16\*\*\*\*\*
2. From *Safaricom* an online checkout containing the M-PESA receipt number
3. From NSSF indicating that the payment has been received

#### 8 Pay Contributions

- To proceed with payment via M-PESA, press on 'Pay'.
  - Enter your mobile number and press *Ok*
  - Enter your service pin or press 0 to set up a new one
  - You will be notified that the amount you want to pay for will be deducted from your MPESA account so respond with a 1 to **Accept** or 2 to **Decline**.
  - You will receive a notification indicating that the request has been successful or failed  
You will receive 3 messages from your transaction
1. From M-PESA indicating that a certain amount has been sent to National Social Security Fund to account 16\*\*\*\*\* which in this case is the UPN number of the return you had filed
  2. From *Safaricom* containing the receipt number and the UPN
  3. From NSSF indicating that the payment has been received

# NSSF MOBILE APPLICATION

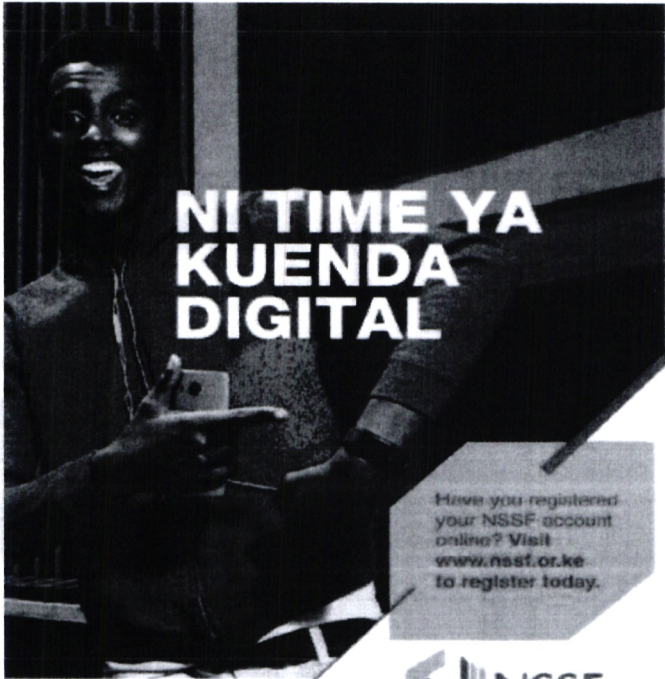
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