

REPUBLIC OF KENYA

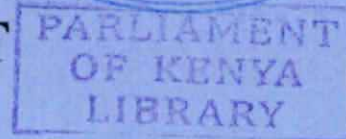


*Paper laid
By the Hon. Aden
Dwale - Leader of
Majority on Tue
20/9/16*

OFFICE OF THE AUDITOR-GENERAL



REPORT



OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR
ENDED 30 JUNE 2015**



NATIONAL SOCIAL SECURITY FUND

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
- 6 MAY 2016
RECEIVED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

*National Social Security Fund
NSSF Building
Off Bishop Road
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KEY CORPORATE INFORMATION

1. Background Information

NSSF was incorporated under the NSSF Act, Chapter 258 Laws of Kenya that was repealed after the NSSF Act no 45 of 2013 was enacted, which came into effect on 10th January 2014.

Principal Activity

NSSF's mandate is to register members, receive their contributions, prudent investment of the funds, process and ultimately pay out benefits to eligible members or dependants.

Major sources of revenue

NSSF is a national mandatory pension/provident fund whose main sources of revenue include member contributions and investment income. Investment income is made up of dividend income, rental income, interest income (from financial institutions and Tenant purchase products income).

2. Board of Trustees

NSSF operates under a Board of Trustees which is constituted as per the NSSF Act No. 45 of 2013 (section 6). The Board is a body with representation from the most representative workers' organization, most representative employers' organization and the Government of Kenya (through the Ministries of Labour and 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. The Trustees who served in the Board during the year were as follows:-

- a) Mr. Adan D. Mohamed, EBS -Chairman (left on 2 February 2015)
- b) Eng. Erastus Mwongera CBS, EBS, OGW - Trustee
- c) Mr. Cornelius Nyang'un - Trustee (left on 2 February 2015)
- d) Mr. Ali Ismail Noor - Trustee
- e) Mr. Mutua Kilaka – Trustee
- f) Mr. Andrew Muigai - Trustee
- g) Mrs. Veska Kangogo - Trustee
- h) Damaris Wanjiru Muhika - Trustee (appointed on 2 February 2015)
- i) Mrs. Jacqueline Mugo MBS, OGW - Trustee
- j) Mr. Francis Atwoli EBS, MBS - Trustee
- k) Mr. Richard K. Langat CEO, Secretary to the Board

On 16 September 2015, the Cabinet Secretary for Labour, Social Security and Services reconstituted the Board of Trustees by appointing the following Trustees before the Annual Report and Financial Statements were authorised by the Board of Trustees:

- | | | |
|------|--------------------------------|------------|
| i) | Mr. Kariithi Murimi | - Chairman |
| ii) | Mr. Francis Atwoli, EBS, MBS | - Trustee |
| iii) | Mrs. Jacqueline Mugo, MBS, OGW | - Trustee |
| v) | Mr. Patrick Onyango Ogola | - Trustee |
| vi) | Ms. Susan Mochache | - Trustee |
| vi) | Ms. Lyn Mengich | - Trustee |

Senior Management

The following are members of the Senior Management:-

- Mr. Richard K. Langat -CEO/Managing Trustee
- Mr. Joseph Kimote -General Manager (Research & Strategy)
- Mr. Austin Ouko -Ag. General Manager (Corporate Affairs/
Corporation Secretary)
- Mr. Gideon Kyengo -Ag. General Manager (Finance & Investment)
- Mr. Pius Metto -Ag. General Manager (Social Security)
- Dr. Anthony Omerikwa -Ag. General Manager (Operations)

4. Main Lawyers

Wetangula, Adan, Makokha & Co Advocates,

12th Floor Bruce House,
P. O. Box 10741-00100,
Nairobi
Tel: +254-20-316455/220498

Ngatia & Associates Advocates,

Bishops Gardens Towers, 2nd Floor, 1st Ngong Ave,
P.O. Box: 56688-00200,
Nairobi
Tel: +254-202733652

Cootow & Associates Advocates,

NSSF House, 11th Floor, Pent House, Nkrumah Road,
P. O. Box 16858 – 80100,
Mombasa
Tel: 041-2221243, 2220442

3. Main Bankers

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

National Bank of Kenya,
Hill Branch, NHIF Building,

P. O. Box 45151 – 00100,
Nairobi

Registered Office

6. National Social Security Fund,
NSSF Building, Bishops Road,
P. O. Box 30599, 00100
Nairobi
Tel: 254-20-2729911
Tel: 254-20-2727882.
Fax: 254-20-2727882.
Email: info@nssfkenya.co.ke
Website: www.nssf.or.ke

7. **Auditors**
Comptroller and Auditor General,
Office of the Auditor General,
Kenya National Audit Office,
Anniversary Towers, University way
P.O. Box 30084-00100
Nairobi
Tell: 254-20-342330/2227383
Email: Oag@Oagkenya.go.ke
Fax +254-20-311482

8. **Fund Managers**
ICEA LION Asset Management Ltd.,
ICEA LION Centre,
Riverside Park, Chiromo Road, Westlands,
P.O. Box 46143-00100,
Nairobi

Genesis Kenya Investment Management Ltd.,
14 Riverside Business Park, 1st 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

9. Custodians

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

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

10. Actuary

Alexander Forbes Financial Services,
P.O. Box 52439-00200,
Nairobi.

11. Our Vision

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

12. Our Mission

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








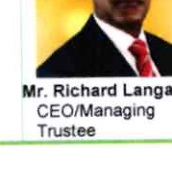
13. Our Core Values

- Integrity
- Innovation
- Customer Focus
- Teamwork
- Accountability

Corporate Behaviour

The vision of NSSF which is anchored on excellence in performance has influenced corporate behaviour by setting a high performance culture among the Board Members, Management and Staff, through monitoring of performance against targets, measuring and rewarding high performance. In an effort to maintain the strategic direction of the Fund. The corporate behaviour is enhanced by adherence to the core values. NSSF has attained ISO 9001:2015 Certification in order to enhance service delivery to our esteemed customers. Various strategies have been implemented in line with the Strategic Plan 2014-2019 geared to inculcating high performance behaviour at all level.

BOARD OF TRUSTEES

S/N	Name	Status	Date Appointed	Year of Birth	Key Profession / Academic Qualification	Experience
1	 Mr. Adan D. Mohamed,	Chairman	20 Feb 2012	1963	<ul style="list-style-type: none"> Advocate of the High Court of Kenya Master of Arts 	<ul style="list-style-type: none"> Has practiced law in USA Certified Ant Money laundering specialist. Litigation lawyer in both commercial and criminal matters.
2	 Eng. Erastus Mwangera	Trustee	12Jan 2014	1949	<ul style="list-style-type: none"> BSC. (Civil Eng.) Registered Engineer Fellow of the institute of Engineers Chief of the Order of the Burning Spear 	<ul style="list-style-type: none"> Over forty years as a professional practitioner. Served as a permanent Secretary in various ministries Kenya.
3	 Mr. Cornelius Nyang'un	Trustee	April 2012	1954	<ul style="list-style-type: none"> Trade Unionist Diploma in Labour Economy Treasurer General 	<ul style="list-style-type: none"> Over 15 years
4	 Mr. Ali Ismail Noor	Trustee, Representative of Ministry of Labour, Social Security and Services	26 June 2013	1959	<ul style="list-style-type: none"> B.A Sociology & Government. M.Sc HRD LLB 	<ul style="list-style-type: none"> Worked with Ministry of Health KP&TC National Bank of Kenya Principal secretary
5	 Dr. Kamau Thugge	Trustee, Representative of Treasury	26 June 2013	1959	<ul style="list-style-type: none"> PhD-Economic Master in Economics BA Economics 	<ul style="list-style-type: none"> Currently Principal Secretary –National Treasury. Worked as head of fiscal & Monetary Affairs Department. Worked with IMF as Economist.
6	 Eng. Andrew Muigai	Trustee	12Jan 2014	1964	<ul style="list-style-type: none"> BSC. (Civil Eng.) Post graduate dip. procurement management Post graduate certificate, Project planning, Appraisal & Financing. 	<ul style="list-style-type: none"> Over 20 years' experience as a Civil Engineer. Director in several companies.
7	 Mrs. Veska Kangogo	Trustee	13Jan 2014	1976	<ul style="list-style-type: none"> MBA BED (Arts) CPS (k) HND, HRM 	<ul style="list-style-type: none"> Corporate Affairs & Marketing Manager (LAPFUND) HRM LAPFUND HRO KBC
8	 Mr. Richard Langat CEO/Managing Trustee	CEO/Managing Trustee	3 April 2014	1966	<ul style="list-style-type: none"> MBA B Com CPA (K) Member ICPAK 	<ul style="list-style-type: none"> Worked with AFC Accountant and later Finance Manager at NSSF for over 20 years

SENIOR MANAGEMENT TEAM

S/N	Name	Year of Birth	Key Professional/ Academic Qualification	Key Responsibilities
1	 Mr. Richard Langat CEO/Managing Trustee	1966	<ul style="list-style-type: none"> MBA B com CPA (k) Member ICPAK 	<ul style="list-style-type: none"> Provide strategic leadership Implement Board decisions Accounting officer of the Fund Facilitate preparation of corporate policies. In charge of all staff in the Fund Advise the Board from time to time. Ensure contributions and benefits are paid in time.
2	 Mr. Joseph Kimote General Manager (S,R&D)	1971	<ul style="list-style-type: none"> BA (Economics) MBA Strategic Management, Project Management 	<ul style="list-style-type: none"> Strategy formulation and implementation, research, monitoring and evaluation, Performance contracting, business process improvement, organizational development, quality management system and business continuity development
3	 Dr. Anthony Omerikwa Ag. General Manager (O)	1977	<ul style="list-style-type: none"> PhD Ed.S MSc HRD BA Econ. Dip MIS 	<ul style="list-style-type: none"> Identification & implementation of the Fund's operations Oversee functions of ICT, HR, Administration and Procurement.
4	 Mr. Gideon Kyengo Ag. General Manager (F&I)	1964	<ul style="list-style-type: none"> CPA(K) BSC (Business Administration) MBA (Finance & Strategy) 	<ul style="list-style-type: none"> Leadership of Finance & Investment Division. Identification & implementation of the Fund's finance & investment strategic objectives. Managing the finance and investment portfolio and formulating strategies to maximize return on members' funds. Develop, implement and continuously review the organization's financial and investment strategies, policies, and safeguard assets of the Fund.
5	 Mr. Plus Metto Ag. General Manager(SS)	1968	<ul style="list-style-type: none"> MBA Bed 	<ul style="list-style-type: none"> Formulate policies and strategies to increase member coverage. Develop strategies for market penetration. Ensure completeness of revenue from both mandatory and voluntary.
6	 Mr Austin Ouko Ag. General Manager (CA/C S)	1981	<ul style="list-style-type: none"> Master of Laws (LLM) Bachelor of Laws (LL.B) degrees Postgraduate Dip.(KSL) Adv. Dip. (Bus. Admin). Dip. MIS 	<ul style="list-style-type: none"> Carry out the Trustees' instructions; help ensure that the company obeys the law and its own constitutional rules Prepare and maintain the associated Funds documents. Formulation of the Fund's Corporate strategy and operating plans

CHAIRMAN'S STATEMENT

Introduction

I take great pleasure to present to you the Annual Report and Financial Statements for the year ended 30 June 2015.

Operating Environment

Kenya maintained a stable economic environment and fiscal discipline despite the heightened security concerns due to acts of terrorism levels which continue to put a dent on the country's investment environment.

In 2014/2015, the Kenyan economy grew by 4.7% from 4.6% in 2013/2014. The marginal growth was attributed to reduced growth in the Agricultural sector. We expect 2015 Gross Domestic Product (GDP) growth to stand at 4.8% mainly supported by increased government spending and resource absorption capacity in the counties but impeded by insecurity and unfavourable weather conditions.

The Nairobi Securities Exchange (NSE) and Nairobi All Share Index (NASI) gained 4.5% in June 2015, giving a respectable return of 10.0% for the first six months of 2014. This performance was much higher than the major global equity markets return of 4.8% over the same period as measured by the Morgan Stanley Capital International (MSCI) World Index. Market turnover at the NSE was up by 44% to Ksh.54 billion (approximately US\$620 million) when compared to a similar period in 2014.

Financial Performance

I am therefore delighted to note that in line with our tagline "Growing you for Good" we recorded a surplus of **Kes.13.20 billion** as compared to **Kes.17.56 Billion** in 2013/2014. Our Net asset base grew from **Kes.152.4 billion (restated)** in 2013/2014 to **Kes.165.6 billion** in 2014/2015, an **8 %** increase. The growth in the surplus is as result of increased collection of member contributions, prudent investment, operational efficiency and consistent improvements in information technology.

Outlook

The economy is expected to grow at between 5.8-6.5% in 2016, even after the temporary shock terrorist attacks in parts of Coast and North Eastern, according to projections by the World Bank and the International Monetary Fund (IMF). NSSF 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

Finally, I wish to express my sincere appreciation for the teams that have enabled us 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 Labour, Social Security Services, 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.



Eng. Erastus Mwangera CBS, EBS, OGW
CHAIRMAN OF THE FINANCE, INVESTMENT
AND SOCIAL SECURITY COMMITTEE OF THE BOARD

STATEMENT OF THE CHIEF EXECUTIVE

Performance

I am pleased to present to you the Fund's performance for the year ended 30 June, 2015. This gives me and my staff great joy and confidence that our understanding and implementation of the strategic path set by the Board of Trustees is yielding the intended result. Member contributions, return on investment and benefits paid to members all showed a commendable growth in the year 2015 as compared to last year.

This impressive growth is a reflection of deliberate effort by the Board of Trustees and Management of NSSF in meeting contributions expectation. The Fund has a huge responsibility to contribute to the achievement of the Vision 2030 set by the Government through provision of sustainable social security as per Section 43 of the Constitution and comfortable retirement benefits to all Kenyan workers and voluntary members.

Financial Results

During the year, member contributions grew by **40%** from **Kes.8.41 billion** in 2014 to **Kes.11.75 billion** in 2015. Benefits paid to members grew by **37%** from **Kes.2.27 billion** paid in 2014 to **Kes.3.10 billion** paid in 2015. The net return on investment declined from **Kes.15.91 billion** in 2014 to **Kes.10.71 billion** in the year 2015 due to a sustained decline in activity at the Nairobi Securities Exchange (NSE) which controls a sizeable share of our investments portfolio.

Total operating expenses increased by **37%** to **Kes.6.17 billion** in 2015 from **Kes.4.49 billion** in 2014. This increase is attributed to provisions for doubtful assets provided for in the Financial Statements amounting to **Kes.1.11 billion**.

Overall Performance

A net increase in Scheme Funds of **Kes.13.20 billion** was achieved in 2015 compared to **Kes.17.56 billion** achieved in 2014. The Fund's net assets, therefore, increased by **8%** from **Kes.152.4 billion (restated)** in 2014 to **Kes.165.6 billion** in 2015.

Investments

We continue to participate at the Nairobi Securities Exchange through our Fund Managers. As a result, we have been able to achieve a well-diversified and balanced portfolio that will maximise the return on investment for our members.

Technology

The focus in 2015 was to maximise the use of the integrated IT platforms implemented in 2014. We look forward to be a fully automated pension organisation offering efficient delivery of service to the customer. The key milestones achieved in 2015 include full operationalization of the back office financial system SAP and the front office core business system, Social Security and Pension Administration System (SSPAS).

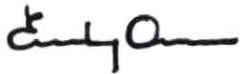
Customer Focus

The Fund has implemented best management practice in achieving set objectives and is determined to achieving high standards in delivery of customer service by embracing the balanced score card in performance management. The Fund has further enhanced its customer focus by seeking and obtaining ISO 9001:2008 certification. Currently, the Fund is in the process of achieving certification for ISO 9001:2015 standard.

Conclusion

The performance of the Fund during the year has been due to the support we continue to receive from all our esteemed contributors and business partners. We thank them for this support and look forward to working closely with them in future.

I would also like to express my gratitude to the Board of Trustees, Senior Management Team, Staff and other business partners for their hard work, dedication and commitment to the Fund during the year. This commitment has gone a long way in ensuring that the Fund continues to prosper for the benefit of all our stakeholders.



Dr. Anthony Omerikwa
AG. CEO/MANAGING TRUSTEE

CORPORATE GOVERNANCE STATEMENT

At the National Social Security Fund, we are 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 Trustees 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 Strategic Corporate 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 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 Trustee comprises nine Trustees' and the CEO/Managing Trustee each of whom brings a wide range of skills and experience, independent judgement and a considerable knowledge to the board's discussions. The members of the Board of Trustee are drawn from:-

- a) Principal Secretary in the Ministry for the time being responsible for matters relating to Labour and Social Security;
- b) Principal Secretary responsible for matters relating to Finance;
- 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

The Board of Trustees hold meetings on regular basis while special meetings are called when deemed necessary. During the year the Board held 4 (four) full board meetings. The attendance of the board meetings by the board members is as shown below:

Committees of the Board

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

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

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.

During the year the Board held 4 (four) Full Board meetings and 9 Committee meetings. The attendance of the Committee meetings by the board members is as shown below;

Trustee	No. of Sittings	Board Allowance *(Kes)	Other Payment (Kes)	Total (Kes)
Mr. Adan O. Mohamed	43	2,150,000.00	2,660,000.00	4,810,000.00
Eng. Erastus Mwangera	31	1,550,000.00	1,020,000.00	2,570,000.00
Mr. Cornelius Nyangún	28	1,400,000.00	420,000.00	1,820,000.00
Mr. Ali Noor Ismail	23	1,150,000.00	0	1,150,000.00
Mr. Mutua Kilaka	35	1,750,000.00	0	1,750,000.00
Mr. Andrew Muigai	52	2,600,000.00	420,000.00	3,020,000.00
Mrs. Veska Kangogo	41	2,050,000.00	420,000.00	2,470,000.00
Mrs. Jacqueline Mugo	5	250,000.00	122,500.00	372,500.00
Mr. Francis Atwoli	0	0	0	0
Ms. Damaris Muhika	0	0	0	0
Total Remuneration		12,900,000.00	5,062,500.00	17,962,500.00

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

Risk Management Policy

The Board of Trustees and Management is cognisant to the fact that all risks cannot be eliminated completely. However, the Fund will endeavour 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; and
- On major projects undertaken.
- On major transactions entered into with third parties

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.

Board Evaluation Results

Due to a lack of quorum and a court injunction against board meetings, the operations of the board were not fully implemented. As a result there was no board evaluation carried out during the year.

Annual General Meeting

The Fund held its second Annual General Meeting (AGM) on 26th September, 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).

Key Stakeholders

The key stakeholders are members of the fund. The members contribute monthly prescribed amount to the Provident Fund and the Pension Scheme in accordance with the NSSF Act. The members expect various benefits from the Fund depending on the amount contributed and paid in compliance with predetermined terms. All members have the same influence on the sustainability of the Fund.

Factors which affected the Financial Performance

The court cases against the implementation of certain key clauses in the NSSF Act No.45 and the effect of terrorism especially in the coastal region where most hotels closed business were operating below capacity. This affected negatively the amount of contributions received. Further changes in the Nairobi Securities Exchange and overall investment environment affected the investment return.

Management Acting Appointments

Among the Management Team there are a total of 4 staff who are on acting appointment for various senior managerial positions. The vacancies have not been substantively filled due to a petition filed at the Employment and Labour Relations Court against National Social Security Fund by Central Organization of Trade Unions (COTU) against implementation of a new organisation structure.

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 engage with the communities within which we operate. The five key focus areas within the CSR Policy are Education, Public Health, Sports, Environmental Conservation, and Entrepreneurship among the youth and supporting senior citizens.

NSSF's 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.

CSR Activities undertaken in the Year 2014/2015

As a caring corporate, NSSF supported various CSR activities during the year, among them:

- (i) **Gakondo Girls Secondary School, Meru:** The Fund donated **Kes.500,000.00** towards construction of the school's dining hall.
- (ii) **Nairobi Hospital Children's' Heart Fund:** NSSF donated **Kes.100,000.00** to the Nairobi Hospital Charity Golf tournament which was held at Karen Country Club on August 8, 2014. Funds raised during this tournament went towards surgery and treatment for needy children with heart ailments.
- (iii) **Beyond Zero Campaign:** NSSF participated in the First Lady's Half Marathon Trust at Karura Forest and contributed **Kes.7,500,000.00**.
- (iv) **Breast Cancer Screening Exercise:** The Fund supported this exercise by contributing **Kes.500,000.00** to the worthy cause which was held in Meru on 25th October, 2014. It aimed to assist early detection, management and treatment of cancer to the community around.
- (v) **Bondo Community Trust:** The Fund donated **Kes.1,000,000.00** to this Trust towards three medical camps in Bondo, Siaya and Ugunja.
- (vi) **Disability International Day.** 3rd December, 2014 was the International Day of people living with physical disability. The Fund contributed sponsorship of **Kes.500,000.00**.
- (vii) **Kitui Rugby 7s:** The Fund sponsored the tournament which brought together players and spectators from around the country.
- (viii) **Maasai Mara Marathon:** The Fund sponsored the marathon to the tune of **Kes.3 million**. The funds raised during the event will be used in education, conservation and health around the Maasai Mara region.

- (ix) **Purity Elderly Care Foundation:** The Fund donated **Kes.250,000.00** to the foundation towards the marking of the UN Day for Older Persons in October, 2014.
- (x) **Jua Kali Devolution Conference.** The Fund received a request through the Council of Governors and sponsored the above event to the tune of **Kes.1 million**. The event brought together all the Governors and National Government Leadership together.
- (xi) **Matatu Expo and Congress.** The Fund donated **Kes.350,000.00** towards the above Expo and Congress held on 5th and 6th November, 2014.

The Fund will continue to engage in community initiatives that bring long lasting benefits to the society, as it is within the society that we get our customers, our employers and our employees.

REPORT OF THE TRUSTEES

The Trustees hereby submit their report together with the unaudited Financial Statements for the year ended 30 June, 2015 which shows the state of the Fund's affairs.

Principal Activities

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

Results

The results of the Fund for the year ended 30 June, 2015 are set out on pages **22 - 53**.

Membership

The schemes active membership was as follows:

	No. of active members
Members as at 30 June 2014	1,719,521
Paid during the year	(32,951)
Non-contributing members	(60)
Deferred members	61
New entrants during the year	386,993
Members as at 30 June 2015	2,073,564

Interest to Members

Section 2 of the NSSF Act 2013, Laws of Kenya 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 2015, the Board of Trustees approved interest of 3.0 % after actuarial valuation of the Fund by Alexander Forbes Financial Services.

The interest will be applied to the balance in the member accounts as at the close of business on 30 June 2015.

Trustees

The members of the Board of Trustees who served and changes during the year are shown on page 7.

NSSF Act 2013 Section 6 stipulates that membership of the board shall comprise of nine members. Section 11(1) of the NSSF Act 2013 states that the board shall hold not less than 4 (four) meetings in every financial year for the conduct of its business and not more than four months shall elapse between the date of 1 (one) meeting and the date of the next.

During the year under review, there were a total of 4 (four) full board meetings and 8 (eight) committee meetings of the board. No meetings were held between the period 1 February 2015 to 30 June 2015. The composition of the board and meetings thereon were hampered by two court injunctions filed on the 25 February 2015 and 10 March

2015. As a result, between the period 25 February 2015 to 16 September 2015 there were only four members of the board.

The Board of Trustee is committed to implement fully the provisions of the Mwongozo Code of Conduct for State Corporations which was issued in January 2015.

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Section 84 of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



Dr. Anthony Omerikwa
AG. CEO/MANAGING TRUSTEE

5th May, 2016

Date



Eng. Erastus Mwongera CBS, EBS, OGW
CHAIRMAN, FINANCE, INVESTMENT AND
SOCIAL SECURITY COMMITTEE OF THE
BOARD

5th May 2016

Date

STATEMENT OF TRUSTEES' RESPONSIBILITIES

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 accept responsibility for the annual Financial Statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the National Social Security Fund Act as well as the Retirement Benefits Act. 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 accept responsibility for keeping proper books of accounts. The Trustees further 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 financial control.

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

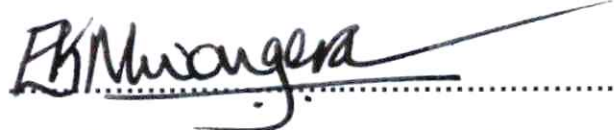
The Funds Financial Statements were approved by the Board of Trustee's on 23 September 2015 and signed on its behalf by:



Dr. Anthony Omerikwa
AG.CEO/MANAGING TRUSTEE

5th May, 2016

Date



Eng. Erastus Mwongera CBS, EBS, OGW
CHAIRMAN, FINANCE, INVESTMENT AND
SOCIAL SECURITY COMMITTEE OF THE
BOARD

5th May, 2016

Date



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL SOCIAL SECURITY FUND FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of National Social Security Fund set out on pages 22 to 53, which comprise the statement of net assets available for benefits as at 30 June 2015, and the statement of changes in accumulated members funds, statement of cash flows 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 14 of the Public Audit Act, 2003. 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1.0 Members' Contribution Held in a Suspense Account

Note 34 to the financial statements as at 30 June 2015 reflects a suspense account balance of Kshs.748,000,000.00 (2014: Kshs.2,400,000,000). However, as previously stated, the suspense account balance relates to contributions received without proper details of the members being provided by their employers. The management should liaise with the respective employers to eliminate and prevent further accumulation of the suspense balance.

2.0 Illegal Transfer of National Social Security Land in Upper Hill Nairobi - LR No. 209/11642

The statement of net assets available for benefits reflects undeveloped land balance of Kshs.9,432,128,000 as at 30 June 2015. Included in this balance is Kshs.115,000,000 in respect of undeveloped parcel of land LR. 209/11642 measuring (approximately) 0.2100 hectares located at Upper Hill, Nairobi – next to Milimani Law Courts. The parcel of land was purchased by the Fund on 20 April 1996 from M/s Le-Kuna Company Limited at a cost of Kshs.20,000,000. However, information available indicate that the title to this land was on 1 April 2010 revoked vide Gazette Notice number 3460 and allegedly on 12 March 2010 allocated to the Permanent Secretary Treasury to hold as trustee for the Judiciary for use as Courts and offices. However, scrutiny of transactions revealed that the alleged revocation was done on 1 April 2010 whereas the said allocation to the Judiciary was made on 12 March 2010 indicating that the land was allocated earlier than the revocation.

In the same year (2010), independent searches were conducted by the NSSF on 6 and 22 September 2010 and the Registrar of Lands confirmed that the Board of Trustees of NSSF were the registered owners as at the last date of last entry of 20 April 1995. Consequently, the NSSF CEO/Managing Trustee on 21 August 2014 wrote to the Chairman, National Land Commission (NLC) demanding reinstatement of their title but the NLC on 18 April 2016 notified the Fund that reinstatement was not possible since the land had already been allocated. The legality of the transfer could not be confirmed.

The Fund risks losing workers' pension funds invested in the property worth Kshs.115,000,000.00 through fraudulent activities if the land is not reinstated to NSSF.

In view of the foregoing, the accuracy and completeness of the undeveloped land balance of Kshs.9,432,128,000 could not be ascertained.

3.0 Stalled Projects

3.1 Completion of Hazina Trade Centre

The statement of net assets available for benefits as at 30 June 2015 reflects a balance of Kshs 4,473,072,000 under the Non- Current Assets, representing assets under construction Included in this figure is Kshs 1,678,194,000 00 in respect to completion of the Hazina Trade centre, Nairobi paid during the year 2014/2015

Completion of the building was approved by the Board on 31 August 2010 to include an additional 36 floors and the contract was competitively awarded on 26 February 2013 to M/s China Jiangxi International Kenya Ltd at a contract sum of Kshs.6,715,218,188 00 Further, Construction commenced on 17 June 2013 and was to be undertaken in 155 weeks with an expected completion date of July 2016

However, an audit inspection carried out on 14 January 2016 revealed that the builders work had stalled after reaching 15th floor or at 38 % The reasons given for the stalling of the project was that some columns inside Nakumatt Lifestyle Supermarket needed to be reinforced and strengthened for other floors to be added but Nakumatt holdings limited, the tenants, had denied the contractor access to the basement floors contrary to the provisions in the lease agreement signed in 2003 At the time of stoppage of builders works, a total of Kshs 1,912,043,004 00 had been paid to the contractor Further, the continued stalemate may lead to escalation of costs due to legal suits filed by Nakumatt Holdings Limited and possible claims for compensation by the contractor

In view of the foregoing, NSSF should take legal action against the tenant to secure completion of the building and members' contributions.

3.2 Nyayo Estate Embakasi Phase Six Contract No. 18/2012 – 2013

The Fund entered into a contract agreement with M/s China Jiangxi International Kenya Limited on 21 February 2013 for construction of 324 units at Nyayo Embakasi at a total cost of Kshs 2,155,407,742 The construction works were to take seventy eight (78) weeks from 2 June 2013 to 30 November 2014

However, audit inspection carried out on 14 January 2016 revealed that the construction work had stalled and the contractor was not on site while only fifty two (52) units had been constructed The main reason for the stoppage of the works was due to failure by the Nairobi City County to grant relevant approvals to enable construction of the remaining two hundred and seventy two (272) units

By the time of stoppage, the contractor had been paid an advance fee of Kshs.215,540,744 22 against a bank guarantee from the Standard Chartered Bank which expired on 30 September 2015 The contract period had also expired on 30 November 2014

In the circumstances, the fund stands a risk of losing the Kshs 215,540,744 22 already paid and additional losses on delayed completion of the project

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of National Social Security Fund as at 30 June, 2015, 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, No.45 of 2013.

Other Matter

1.0 Regulatory Role of NSSF Board of Trustees Hampered by Absence of Full Board

1.1 Composition of the Board

Section 6 of the NSSF Act, No. 45 of 2013 stipulates that membership to the board shall comprise of nine members. However, between the period 25 February 2015 to 16 September 2015 approximately six and half (6 ½) months) there were only four members of the board, thus raising legal questions on the validity and legality of managerial investments decisions.

1.2 Failure to Hold Meetings

Section 11(1) requires the Board to hold not less than four (4) meetings in every financial year for the conduct of its business and not more than four months shall elapse between the date one (1) meeting and the date of the next. However, no meetings were held by the Board between the period 01 February 2015 to 16 September 2015 contrary to Section 11(1) of the Act. The failure to have meetings was attributed to lack of two thirds (2/3) quorum as a result of court injunctions filed on the 25 February 2015 and 10 March 2015 which affected full composition of the board.

2.0 Unsatisfactory Budget Control and Performance

2.1 Income

The National Social Security Fund (NSSF) reflected approved budgeted income of Kshs.35,925,581,000.00. However, the actual income collected was Kshs.19,318,641,000.00 resulting in an under collection of Kshs.16,606,940,000.00 or 46%. The failure to realise the targeted income has been attributed largely to failure to implement the NSSF Act, 2013 due to a court injunction challenging implementation of the new contribution rates in a case jointly filed by the Central Organization of Trade Unions (COTU) and the Federation of Kenya Employers (FKE) and others. The management further attributes poor performance at the Nairobi Stock Exchange (NSE) for the overall deficit of Kshs.16,606,940,000.00.

2.2 Expenditure

The Fund's expenditure was budgeted for at Kshs.5,502,485,000.00 but actual expenditure was Kshs.6,169,284,000.00 resulting in an excess expenditure of

Kshs.666,799,000.00 or 12% The excess expenditure was mainly attributed to a provision made in the financial statement in respect of a disputed corporation tax refund claimed from Kenya Revenue Authority (KRA) for assessment period between 1996 and 1997 totalling Kshs 904,904,000.00

In the circumstances, the Fund has not fully operated within its approved budget estimates

My Opinion is not qualified in respect of these matters



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

Nairobi

03 August 2016

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
 FOR THE YEAR ENDED 30 JUNE 2015**

	Note	2015 Kes.'000	2014 Kes. '000
DEALINGS WITH MEMBERS			
Contributions Receivable	2	11,748,588	8,405,813
Benefits Payable	3	(3,091,470)	(2,265,857)
Net Dealings with Members		<u>8,657,118</u>	<u>6,139,956</u>
RETURN ON INVESTMENTS			
Investment Income	4	10,953,271	9,278,936
Realised Gain on Sale of Investments	8	475,907	248,807
Unrealised Gain on Investments	7	(449,340)	6,737,271
Investment Management Expenses	5	(412,553)	(396,527)
Other Income	6	146,811	42,100
Total Return on Investments		<u>10,714,096</u>	<u>15,910,587</u>
TOTAL REVENUE		<u>19,371,214</u>	<u>22,050,543</u>
EXPENSES			
Staff Costs	9	3,326,362	3,166,642
General Administration Costs	10	1,325,394	1,203,298
Depreciation	11	218,088	97,951
Amortization of Intangible Assets	12	189,497	15,791
Provisions	10	1,109,943	6,185
Total Expenses		<u>6,169,284</u>	<u>4,489,867</u>
INCREASE/(DECREASE) IN SCHEME FUNDS DURING THE PERIOD		<u>13,201,930</u>	<u>17,560,676</u>
Fund Balance			
Net Assets at 1 July			
As previously reported		153,028,834	134,932,876
Prior year adjustment(Note 16)		(650,000)	535,282
-As restated		152,378,834	135,468,158
Increase in net assets for the year		13,201,930	17,560,676
Net Assets at 30 June		<u>165,580,764</u>	<u>153,028,834</u>

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

	Note	2015 Kes.'000	2014 Kes.'000
Non-Current Assets:			
Property Plant & Equipment	11	519,655	622,204
Intangible Assets	12	363,202	552,699
Assets under Construction	13	4,473,072	963,002
		5,355,928	2,137,905
Investments:			
Undeveloped Land	15	9,432,128	8,938,128
Land and Buildings	16	19,394,856	20,613,582
Tenant Purchase Scheme	14	8,375,899	9,853,841
Quoted Stocks	17	57,037,979	56,376,282
Unquoted Stocks	18	1,672,681	1,422,694
Treasury and Infrastructure Bonds	19	38,368,527	36,668,646
Commercial Papers	20	10,000	450,406
Corporate Bonds	21	8,525,382	3,330,027
Long Term Deposits	22	430,232	329,178
Total investments		143,247,684	137,982,784
Total Non-Current Assets		148,603,611	140,120,689
Current Assets:			
Inventory	23	31,691	17,108
Receivables and Prepayments	24	2,386,449	2,487,638
Taxation	25		904,904
Accrued Income	26	2,382,682	1,767,439
Short Term Deposits	27	13,640,550	7,669,042
Cash and Bank	28	177,979	1,289,353
Total Current assets		18,619,351	14,135,484
Current Liabilities			
Payables	29	1,642,198	1,227,339
Total Current Liabilities		1,642,198	1,227,339
Net Current Assets		16,977,152	12,908,145
Net Assets		165,580,764	153,028,834
Fund Balance		165,580,764	153,028,834



Dr. Anthony Omerikwa
 AG.CEO/MANAGING TRUSTEE



Eng. Erastus Mwongera CBS, EBS, OGW
 CHAIRMAN, FINANCE, INVESTMENT AND SOCIAL
 SECURITY COMMITTEE OF THE BOARD

STATEMENT OF CHANGES IN ACCUMULATED MEMBERS' FUNDS AS AT 30 JUNE 2015

Particulars	Member's Funds Kes.'000	Accumulated Reserves Kes.'000	Reserve Fund Kes.'000	Total Kes.'000
Balance at 30 June, 2013	84,511,593	41,124,218	9,297,064	134,932,876
At 1st July, 2013				
Prior Year Adjustments		545,487		545,487
Adjustment (CCN Stocks accrued interest & Land Rates)		(10,205)		(10,205)
Interest on Members' Accounts	8,468,113	(8,468,113)		0
Net Increase/(Decrease) in Assets in the period		17,560,676		17,560,676
Balance at 30 June, 2014	92,979,706	50,752,063	9,297,064	153,028,834
At 1st July, 2014				
Prior Year Adjustments		(650,000.00)		(650,000.00)
Adjustment (CCN Stocks accrued interest & Land Rates)			-	-
Interest on Members' Accounts	-			-
Net Increase/(Decrease) in Assets in the period		13,201,930		13,201,930
Adjustment to member funds as per actuarial valuation	58,038,894	(48,741,829)	(9,297,064)	-
Balance at 30 June, 2015	151,018,600	14,562,164	0	165,580,764

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 Kes.'000	2014 Kes.'000
Cash flows from operating activities			
Net Increase in Assets		13,201,930	17,560,676
Adjustments for:			
Depreciation on Property, Plant and Equipment	11	218,088	97,951
Amortization of Intangible Assets	12	189,497	15,791
Increase/(Decrease) in Provision	10	1,109,943	71,440
Gain on Sale of Property, Plant and Equipment		-	41,950
Reversal of Accrued Contributions		-209,041	(439,276)
Market Loss/Gain on Investments	6	<u>449,340</u>	<u>(6,737,271)</u>
Operating Surplus/(Deficit) before Working Capital Changes		<u>14,959,757</u>	<u>10,611,262</u>
Changes in Working Capital:			
Decrease/(Increase) in Stores Debtors & Prepayments	23	(14,582)	(10,896)
Decrease/(Increase) in Debtors & Prepayments	24	101,189	(176,104)
Decrease/(Increase) in Accrued Income	26	(615,243)	(743,448)
Increase/(Decrease) in Creditors & Accruals	29	<u>414,859</u>	<u>(2,965,703)</u>
		<u>(113,777)</u>	<u>(3,896,152)</u>
Net cash generated from operating activities		<u>14,845,980</u>	<u>6,715,110</u>
Cash flows from investing activities			
(Acquisition)/Redemption of Stocks	17/18	(2,319,786)	(661,810)
(Acquisition)/Redemption of Treasury Bonds	19	(1,699,880)	(5,708,412)
(Acquisition)/Redemption of Treasury Bills	27	598,682	(1,318,908)
(Acquisition)/Redemption of Corporate Bonds	21	(5,195,356)	(480,363)
Placement of Deposits with Financial Institutions	27	(6,230,838)	(329,178)
Development of Land & Buildings	16	(2,287,022)	(843,329)
Proceeds from Sale of Land/Plots/Houses		-	996,733
Receipts from Tenant Purchase Scheme	14	1,364,125	2,487,278
(Acquisition)/Sale of Property, Plant and Equipment	11	<u>(187,269)</u>	<u>(452,527)</u>
Net Cash flow from Investing Activities		<u>(15,957,354)</u>	<u>(6,310,516)</u>
Net increase in Cash & Cash Equivalents in the Year		<u>(1,111,373)</u>	<u>404,594</u>
Cash and Cash Equivalents as at 30 June 2014	28	<u>1,289,353</u>	<u>884,758</u>
Cash and Cash Equivalents as at 30 June 2015	28	<u>177,979</u>	<u>1,289,353</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS). 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).

- (i) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2014.

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.

- (ii) Early adoption of standards

The Scheme did not early-adopt new or amended standards in 2015. The following amendment to an existing standard and issue of a new standard will become mandatory for the company's accounting periods beginning 1st January 2007, but which the company has not early-adopted:

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.

b) Basis of Preparation

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRSs) under the historical cost convention as modified by the revaluation of certain assets. The provisions of IFRS' International Accounting Standard (IAS) No. 26 – Accounting & Reporting by Retirement Benefit Plans used in the preparation of the Financial Statements. Further, the Financial Statements comply with the Retirement Benefits Authority Act 1997 and the Retirement Benefits Authority Regulations 2000, both as amended and Income Tax (NSSF Exemption) Rules 2002. The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's Accounting Policies.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Financial Statements have been prepared and presented in Kenya Shillings which is the functional and reporting currency. All values are rounded to the nearest thousand (Kes. '000)

The Financial Statements have been prepared in accordance with the Public Finance Management Act, the State Corporations Act, and International Financial Reporting Standards (IFRS) and in compliance with Mwongozo 2015 code of governance for state corporations (issued January 2015). The accounting policies adopted have been consistently applied to all the years presented.

c) Accounting for Contributions and Benefits

Contributions from employers/employees and benefit payments to members are accounted for on accrual basis in the year due.

Benefit payment cheques going stale before they are presented to the bank are written back in the cash book and a liability thereof recognized in the Financial Statements.

Interest payable on members accumulated contributions (standard contributions plus interest) is accrued annually at the agreed rate in accordance with section 19(2) and (3) of the National Social Security Fund Act (2014 – 12.5 % and 2015 – 3.0%).

d) Revenue Recognition

i) 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.

ii) Interest 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.

iii) 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 investments.

iv) Coupon Interest on Government Securities

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

v) Rental Income

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

v) Other Income (Miscellaneous Income)

This is recognised as it accrues.

vi) 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.

e) Property, Plant and Equipment

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.

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:

Particulars	%
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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

A full depreciation charge is recognised both in the year of asset purchase and in the year of disposal.

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 are expensed as incurred.

f) **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.

g) **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

h)

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.

i) **Investments**

i) **Quoted Equities**

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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.

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

j) 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 independent external values. Changes in fair values are included in profit or loss in the income statement.

k) 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.

l) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

m) Taxation

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 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.

n) 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.

o) 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 issue cost 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.

p) Critical Accounting Estimates and Judgements in Applying the Scheme's Accounting Policies

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:

q) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

r) 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.

s) 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 as at 30 June 2015. The professional valuers were Ms Crystal Valuers and Tysons Ltd. The valuations were carried out on 15 July 2015.

t) Retirement Benefits Obligations

Full time Fund employees are eligible for retirement benefits under a defined contribution plan. Contributions to the defined contributions plan are charged to the statement of changes in net assets as they are incurred. Any difference between the charge 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 by Eagle Africa. The rates of contributions are 8% staff and 16 % Employer.

The Fund staff also contribute to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act 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.

u) Foreign Currencies

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.

v) Actuarial Valuation 2014

An actuarial valuation was carried out by Alexander Forbes Limited in December 2015 and a report issued as at 30 June 2015. 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 2015 was **Kes. 151.09 billion** compared to the value of assets amounting to **Kes. 147.82 billion** giving rise to a deficit of **Kes.3.01 billion** resulting to a **Funding level of 97.9%**. On accounting basis, the assets are over accrued liabilities by **Kes.15.16 billion** and a funding ratio of **110.0%**.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- w) Provision for Staff Leave Pay**
 Employees' entitlements to annual leave are recognised as they accrue to the employees. A provision is made for the estimated liability for annual leave at the reporting date.
- x) Comparative Figures**
 Comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.
- y) 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 2015.

	2015 Kes.'000	2014 Kes.'000
2. Contributions Receivable		
(a) Contributions Receivable - Employer	6,461,723	4,623,197
Contributions Receivable - Employee	5,286,865	3,782,616
Total Contributions Receivable	11,748,588	8,405,813
(b) Received during the year	11,539,547	8,399,615
Add: Accruals at end of the year	654,515	445,474
Less: Accruals at start of the year	(445,474)	439,276
	11,748,588	8,405,813
Less: Impairment of contributions	-	-
Net Contributions	11,748,588	8,405,813
3. Benefits Payable		
Age Benefit	1,441,496	912,112
Survivors Benefit	374,194	312,542
Invalidity Benefit	29,610	18,564
Withdrawal Benefit	1,226,619	1,009,867
Emigration Benefit	15,565	8,810
Refunds	-	693
Funeral Grant	3,985	3,269
Total Benefit Payable	3,091,470	2,265,857
4. Investment Income		
Dividend	2,218,754	1,976,544
Rent	1,033,679	938,323
Interest	6,605,204	4,994,921
Interest Tenant Purchase Schemes	1,080,102	1,286,962
Other investment Income	15,531	82,186
Total Investment Income	10,953,271	9,278,936

	2015 Kes.'000	2014 Kes.'000
5. Investment Management Expenses		
Fund Managers Fees	168,551	91,238
Fees paid to Custodians	68,276	40,172
Others	175,726	264,867
	412,553	396,277
6. Other Incomes		
Profit on Sale of Non-Financial Assets	11,459	-
Sale of TPS and Tender Application Forms	42,372	16,713
Interest on Staff loans	12,121	13,785
Fines and Penalties	4,512	1,767
Other Miscellaneous Receipts	76,347	9,835
	146,811	42,100
7. Fair Value Gains/(Losses) on Investments		
Fair value gain/loss on government securities	(630,647)	83,994
Fair value gain/(loss) on Corporate bonds	(102,254)	(5,124)
Fair value gain/(loss) on quoted investments	(1,400,439)	4,584,603
Fair value gain/(loss) on unquoted investments	(102,254)	-
Fair value gain on investment property	1,684,200	2,073,799
	(449,340)	6,737,272
8. Gain on Realisation of Investments		
Gain on disposal of government securities	4,163	103,812
Gain on disposal of quoted investments	471,744	88,547
Gain on disposal of investment property	0	56,448
	475,907	248,807
9. Staff Costs		
Salaries and Allowances	2,826,891	2,769,860
Pension and Gratuity Expenses	162,507	40,158
Medical Expenses	220,511	187,757
Staff Welfare	31,780	37,706
Insurance	13,753	60,240
Other Staff Expenses	-	-
Leave Pay and Gratuity Provisions	70,920	70,920
	3,326,362	3,166,641

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015	2014
The average number of employees at the end of the year was:		
Permanent Employees - Management	420	406
Permanent Employees - Union	889	881
Temporary and Contract employees	2	2
	1311	1289
10. General Administration Costs		
	Kes.'000	Kes.'000
Trustees' Emoluments	34,712	29,523
Travelling & Subsistence	127,557	120,946
Transport Expenses	38,682	41,005
Rent Expenses	184,963	196,671
Printing, Stationery and Photocopying	38,080	45,889
Postage Telephone & Network Expenses	80,756	52,305
Electricity, Water, Security & Conservancy	51,431	41,714
Training Expenses	48,183	61,072
Repairs and Maintenance	87,973	20,855
Consultancy & Professional Expenses	61,355	115,938
Hospitality Materials and Services	1,691	2,941
Legal Expenses	122,385	71,928
Audit Fees	5,684	6,000
Social Security Policy Development	200,309	100,048
General Insurance	29,077	25,352
Advertising & Publicity	9,297	91,803
Donations and CSR	8,838	40,305
Finance Expense	1,922	9,747
Project Claims	44,252	-
Rationalisation Expenses	46,545	82,224
Other Administrative Expenses	101,700	47,032
	1,325,394	1,203,298
10. Provisions /Impairment loss		
	Kes.'000	Kes.'000
Investment property	160,000	6,185
Tax receivable	904,904	-
Sundry debtors	45,039	-
	1,109,943	6,185

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	ICT HARDWARE Kes.'000	MOTOR VEHICLES Kes.'000	OFFICE EQUIPMENT Kes.'000	OFFICE FURNITURE Kes.'000	FITTINGS & FURNISHINGS Kes.'000	TOTAL Kes.'000
11 (a) Property Plant and Equipment						
Cost/Valuation						
Opening carrying value	1,180,494	363,795	278,679	228,347	42,576	2,093,691
Additions during the year	13,319	84,158	6,837	10,026	1,198	115,538
Disposals	28	-	15	11	0	54
At 30 June, 2015	1,193,785	447,953	285,501	238,362	43,774	2,209,375
Depreciation						
At 30 June, 2014	773,182	304,936	219,911	135,966	37,692	1,471,687
Disposals			-	-	0	0
Adjustments	28	-	15	11	0	54
Charge for the year	151,981	37,182	12,911	14,590	1,423	218,088
At 30 June, 2015	925,135	342,118	232,808	150,545	39,115	1,689,721
Net Book Value						
At 30 June, 2014	407,313	58,859	58,767	92,381	4,884	622,204
At 30 June, 2015	268,650	105,836	52,693	87,817	4,658	519,655

(b) Property, Plant and Equipment include the following items that are fully depreciated:

Description	Cost or valuation	Normal annual depreciation
	Kes.'000	Kes.'000
Plant and Machinery		
Motor vehicles including motor cycles	776,322	13,957
Computers and related equipment	279,133	-23,292
Office Equipment, Furniture	216,535	17,323
Furniture	101,207	12,159
Fittings	36,327	1,816
Total	1,409,525	66,509

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Kes.'000	2014 Kes.'000
12. Intangible Assets		
Cost		
At July 1	568,490	-
Additions	-	568,490
Disposals	-	-
At 30 June 2015	568,490	568,490
Amortisation		
At July 1	15,791	-
Charge for the year	189,497	15,791
Disposals	-	-
Impairment	-	-
At 30 June	205,288	15,791
Net Book Value		
At 30 June 2014	552,699	-
Total	363,202	552,699
13. Assets Under Construction	2015	2014
	Kes.'000	Kes.'000
Mavoko Project	1,806	1,806
Tassia Scheme	37,295	37,295
Parking Silo Completion Project	632,634	331,615
Hazina Trade Centre Office Tower	1,678,194	286,086
Kitisuru Roads	18,648	8,154
Milimani Executive Flats	1,685,570	296,747
SPSS Software	1,879	-
Nyayo Embakasi	215,593	-
SSH Mombasa Refurbishment	29,254	-
SSH Block C Refurbishment	69,047	-
SSPAS Reimplementation	69,851	-
SAP project costs	26,319	-
Hazina Estate South B	5,684	-
Field Offices Refurbishment	1,298	1,298
	4,473,072	963,001
14. Tenant Purchase Scheme		
TPS Loans-Employees	1,451,214	1,549,544
TPS Loans-Others	6,924,685	8,304,298
	8,375,899	9,853,842

15(a) Undeveloped Land

LR. No.	Fair Value 30.06.2014	Additions Kes.'000	Proceeds Kes.'000	Disposal Kes.'000	Fair Value Adjustments Kes.'000	Value 30.06.2015 Kes.'000
L.R. 209/12287-Kenyatta Avenue-Nairobi	2,000,000	-	-	-	100,000	2,100,000
L.R. 209/12220-Kenyatta Avenue-Nairobi	165,000	-	-	-	35,000	200,000
L.R. 209/12219-Kenyatta Avenue-Nairobi	145,000	-	-	-	35,000	180,000
L.R. 209/11331-Kenyatta Avenue-Nairobi	220,000	-	-	-	40,000	260,000
L.R. 209/11412-Kenyatta Avenue-Nairobi	745,000	-	-	-	55,000	800,000
L.R. 20694-Mavoko-Sabaki	45,000	-	-	-	5,000	50,000
L.R. 24575-Mavoko Municipality	86,000	-	-	-	14,000	100,000
L.R. 26472-Mavoko Municipality	135,000	-	-	-	15,000	150,000
L.R. 24574-Mavoko Municipality	140,000	-	-	-	15,000	155,000
L.R. 24577-Mavoko Municipality	105,000	-	-	-	10,000	115,000
L.R. 24578-Mavoko Municipality	1,400,000	-	-	-	100,000	1,500,000
L.R. 24579-Mavoko Municipality	410,000	-	-	-	30,000	440,000
L.R. 20355-Mavoko Municipality	400,000	-	-	-	20,000	420,000
L.R. 20305-Mavoko Municipality	420,000	-	-	-	30,000	450,000
L.R. 20181-Mavoko Sabaki	22,000	-	-	-	-	22,000
L.R. 20183-Mavoko Sabaki	22,000	-	-	-	-	22,000
L.R. 20184-Mavoko Sabaki	22,000	-	-	-	-	22,000
L.R. 20201-Mavoko Sabaki	22,000	-	-	-	-	22,000
L.R. 20205-Mavoko Sabaki	22,000	-	-	-	-	22,000
L.R. 20206-Mavoko Sabaki	22,000	-	-	-	-	22,000
L.R. 20207-Mavoko Sabaki	22,000	-	-	-	-	22,000
L.R. 20589-Makutano Junction	300,000	-	-	-	20,000	320,000
L.R. Kisumu/Mun/Block 8/258-Kisumu Estate-Kisumu Forest Edge	160,000	-	-	-	15,000	175,000
L.R. 209/11642-Upperhill-Nairobi	110,000	-	-	-	5,000	115,000
L.R. MSA/MN/2535-Bamburi-Mombasa	650,000	-	-	-	50,000	700,000
L.R. MSA/MN/2537-Bamburi-Mombasa	80,000	-	-	-	5,000	85,000
L.R. MSA/MN/2538-Bamburi-Mombasa	80,000	-	-	-	5,000	85,000
L.R. MSA/MN/2539-Bamburi-Mombasa	80,000	-	-	-	5,000	85,000
L.R. MSA/MN/2540-Bamburi-Mombasa	80,000	-	-	-	5,000	85,000
L.R. MSA/MN/982-Jamboree Beach Hotel, Bamburi-Mombasa	580,000	-	-	-	40,000	620,000
Tassia Estate	20,265	-	-	-	-	20,265
Tassia Infrastructure	67,863	-	-	-	-	67,863
	8,938,128	-	-	-	654,000	9,592,128
Less: Provision for Impairment(Forest edge plot)	-	-	-	-	-	(160,000)
	8,938,128	-	-	-	654,000	9,432,128

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15(b) Revocation of Title for LR No. 209/11642, Nairobi

The Fund purchased land in Upper Hill Community Area, Nairobi measuring 0.2100 Hectares from Le-Kuna Company in 1995 at a cost of Kes.20,000,000.00. The transfer was effected by the Registrar of Titles on 20 April 1995. The National Government repossessed the land and handed it over to the Ministry to enable the creation of an access road to the Milimani High Court Building in Community.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Developed Property

Developed Property:	Fair value 30.06.2014 Kes'000	Additions Kes'000	Disposal Proceeds Kes'000	Gain/(loss) on disposal Kes'000	Fair value adjustments Kes'000	Balance 30.06.2015 Kes'000
L.R. 209/13920 -NSSF Complex-Nairobi	7,500,000	-	-	-	400,000	7,900,000
L.R. MSA/Block XXV/123 -SSH Mombasa	1,200,000	-	-	-	100,000	1,300,000
L.R. 209/6776 -Bruce House- Nairobi	2,450,000	-	-	-	150,000	2,600,000
L.R. 209/6708 -Hazina Trade Centre-Nairobi	2,800,000	-	-	-	150,000	2,950,000
L.R. 209/8595 -ViewPark Towers-Nairobi	2,070,000	-	-	-	130,000	2,200,000
L.R. 209/1567 -Hazina Towers-Nairobi	1,200,000	-	-	-	90,000	1,290,000
L.R. Nairobi/block 93/1598 -Hazina Shopping Complex South B	150,000	-	-	-	5,000	155,000
L.R. Nairobi/Block 93/1599 -Hazina school South B	70,000	-	-	-	3,500	73,500
L.R. Nairobi/Block 96/1667 -Hazina Multi Purpose Hall South B	35,000	-	-	-	1,500	36,500
L.R. 209/5014 -Statehouse Road -Nairobi*	480,000	-	480,000	-	-	-
L.R. 209/1731/2 -Statehouse Road-Nairobi*	350,000	-	350,000	-	-	-
L.R. 209/1796 -Statehouse Road-Nairobi*	295,000	-	295,000	-	-	-
L.R. No. 209/11408-Statehouse Road plot *	650,000	-	650,000	-	-	-
L.R. MSA/Block XX/328&329-Polana Hotel- Mombasa	400,000	-	-	-	-	400,000
Nyayo Estate Embakasi	963,582	-	473,726	-	0	489,856
Total	20,613,582	-	2,248,726	-	1,030,000	19,394,856

*LR No.s 209/5014, 209/1731/2, 209/1796 valued at Kes. 1,125,000,000 Million were transferred to Land & Buildings for construction of Milimani flats, Nairobi. LR No. 209/11408 valued at Kes 650 Million has been impaired as per IAS 40. The land was sold to Kisima Ltd on 17 October 2007.

NOTE 17(a) Quoted Equities

Number of shares at 30.06.2014	Additions	Disposals	Number of Shares 30.6.2015	Description	Market value at 30.06.2014 Kes'000	Additions (Purchases/Bonus) Kes'000	Disposal Proceeds Kes'000	Gain/(loss) on disposal Kes'000	Market gain/(loss) Kes'000	Market value at 30.06.2015 Kes'000
99,026,846	4,309,700	-	103,336,546	Kenya Power Ordinary Shares	1,317,057	60,568			518,601	1,866,226
3,550	-	-	3,550	Cum Preference Shares	28			-	9	19
750	-	-	750	Cum Preference Shares	4			-	-	4
30,720,931	500,000	6,407,407	24,813,524	East African Breweries Ltd	8,694,023	160,768	1,955,581	142,285	644,101	7,543,311
4,899,336	-	1,150,000	3,739,336	British American Tobacco (K) Ltd	3,173,179	-	937,882	191,532	535,551	2,770,848
27,992,099	2,000,000	-	29,992,099	Kengen Company Ltd	303,714	23,145			49,432	277,427
56,906,640	-	-	56,906,640	Bamburi Cement Co. Ltd	9,901,755				1,138,133	8,763,623
24,300,000	-	-	24,300,000	E.A. Portland Cement Ltd	1,858,950				461,700	1,397,250
225,896,743	2,321,100	40,747,776	187,470,057	Kenya Commercial Bank Ltd	11,520,734	130,856	2,408,461	123,245	1,057,724	10,310,854
15,716,448	13,528,399	-	29,244,817	Housing Finance Group	671,878	457,562			332,519	796,921
4,731,292	-	-	4,731,292	Sameer Africa Ltd	35,485				11,592	23,893
134,547,727	13,454,770	-	148,002,497	National Bank of Kenya Ltd	4,002,795	363,952			1,510,298	2,866,448
162,765,482	5,990,200	3,127,333	166,628,349	Barclays Bank of Kenya Ltd	2,718,184	103,447	52,572	-	545	2,575,521
4,638,488	749,770	-	5,388,258	Standard Chartered Bank Kenya Ltd	1,433,293	171,898			510	1,605,701
8,530,959	823,595	178,000	9,176,524	Nation Media Group Ltd	2,644,597	236,288	43,113	-	10,120	1,826,128
5,582,500	4,029,500	-	9,612,000	Athi River Mining Ltd	446,600	333,157			58,857	720,900
24,111,043	2,333,000	-	26,444,043	Kenya Fe Insurance Corporation Ltd	464,138	42,233			33,022	473,348
115,570,635	1,234,100	551,730	116,243,005	Britam (K) Ltd	2,299,856	33,657	16,222	5,044	65,682	2,362,982
171,459,600	136,436,153	10,000,000	296,895,753	Safaricom Limited	2,134,672	2,067,414	157,399	17,203	839,248	4,883,935
187,500	-	187,500	-	Carbacid Investments Ltd	5,203		4,232	-	971	-
2,444,242	758,409	-	3,202,651	CFC Starbic of Kenya Holdings Ltd	315,307	305,698			255,903	365,102
1,638,418	1,990,500	-	3,568,918	Centum Investment Co. Ltd	67,585	118,512			47,668	233,764
3,651,700	3,651,700	-	7,303,400	Uchumi Supermarket Ltd	45,098		38,396	-	6,702	-
1,999,500	-	-	1,999,500	TPs Eastern Africa Ltd	66,913				970	67,883
2,017,600	1,150,000	-	3,167,600	Scangroup Ltd	92,305	53,571			10,462	135,415
18,798,700	35,380,016	6,191,000	47,987,716	The Cooperative Bank of Kenya Ltd	352,815	653,346	123,322	7,657	140,894	1,043,733
4,770,954	7,398,259	-	12,169,223	NIC Bank Ltd	274,330	474,207			97,484	651,053
11,647,500	27,911,527	1,000,000	38,559,027	Equity Bank Ltd	535,785	1,394,586	49,782	1,750	49,035	1,831,554
2,746,500	2,021,283	67,900	4,699,883	Diamond Trust Bank Kenya Ltd	659,160	476,425	16,377	81	57,034	1,052,174
10,864,200	6,194,861	-	17,059,061	E m e m e Ltd	139,298	86,508			32,585	258,391
8,219,600	5,765,200	999,900	12,984,900	KenolKobil Ltd	71,922	51,276	9,955	1,275	3,511	109,722
866,800	94,800	-	961,600	I & M Holdings Ltd	119,618	13,053			20,164	112,507
-	1,635,000	-	1,635,000	Nairobi Securities Exchange	-	32,496			42	32,455
-	950,000	-	950,000	CRDB Bank PLC	-	16,713			2,265	18,979
-	10,000,000	-	10,000,000		-	11,769			1,860	9,909
			1,408,117,519		56,376,282	7,883,113	5,813,305	471,744	1,400,439	57,037,979

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Kes.'000	2014 Kes.'000
17 (b) Quoted Equities		
Opening valuation	56,376,282	51,131,015
Movement during the year		
Additions	7,883,113	291,551,782
Disposals	5,813,305	706,18546
Fair value gain/(loss)	(1,400,439)	4,584,603
Closing valuation 30 June 2015	57,037,979	56,376,282
18 (a) Unquoted Equities		
Cost		
At July 1	1,422,694	1,575,013
Additions during the year	249,987	-
Disposals		(152,323)
At 30 June 2015	1,672,681	1,422,694
Impairment		
At July 1	-	-
Disposals	-	-
Impairment loss in the year	-	-
At 30 June 2015	1,672,681	1,422,694
(b) Unquoted Equities		
Consolidated Bank Limited Shares		
8,050,000 4% Kes.20 Cumulative Preference Shares	194,057	194,057
2,225,000 Kes.20 Ordinary Shares	53,637	53,637
UAP Holdings Ltd	249,987	-
NBK Shares 235 million N/cum pref. shares	1,175,000	1,175,000
	1,672,681	1,422,694
19. Treasury and Infrastructure Bonds		
Due in 1 year	2,445,758	-
Due between 1 to 5 years	10,389,997	16,468,253
Due after 5years	25,532,772	20,200,393
	38,368,527	36,668,646
20. Commercial Paper		
KenolKobil	-	-
TPS Serena	-	-
EABL	-	-
Athi River Mining	10,000	-
	10,000	450,406

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21.		2015 (Kes 000)	2014 (Kes 000)
	Corporate Bonds		
	Housing Finance Co. of Kenya Corporate Bond	1,198,786	1,202,957
	Centum Investment Co Ltd	496,675	300,000
	Barclays Bank Corporate Bond 11.5%	75,805	126,200
	Consolidated Bank of Kenya	431,796	451,571
	Shelter Afrique	330,364	327,000
	Kaluworks Limited	-	-
	KenGen Infrastructure Bond	525,294	637,299
	I & M Bank	325,000	<u>285,000</u>
	UAP	81,284	-
	ABC Bank	100,000	-
	Britam	256,038	-
	Chase	534,658	-
	CFC	538,339	-
	EABL	698,095	-
	CIC	872,525	-
	NIC	988,727	-
	CBA	1,071,992	-
		<u>8,525,362</u>	<u>3,330,027</u>
22.	Long Term Deposits		
	Savings and Loan Ltd (Security Deposit)	56,894	59,227
	Revolving Funds (Savings and Loan Ltd.)	14,029	14,724
	Revolving Funds (HFCK)	2,764	239,484
	HFCK (Security Deposit)	307,463	15,743
	National Bank of Kenya	49,081	-
		<u>430,232</u>	<u>329,178</u>
23.	Inventory	2015 Kes.'000	2014 Kes.'000
	General Office Stationery	25,802	12,576
	Computer Accessories	3,822	2,853
	Building and Electrical Materials and Tools	571	593
	Safety Material and Clothing	76	39
	Hospitality Materials	1,420	1,047
		<u>31,691</u>	<u>17,108</u>
24.	Receivables and Prepayments		
	Rent and TPS debtors	283,783	741,341
	Sundry Debtors (note 24a)	197,127	49,103
	Deposits / Advances	963,466	1,013,037
	Prepayments	150	150
	Staff Receivables(note 24b)	274,916	230,173
	Contribution Debtor	654,515	445,474
	Tax Receivables	12,492	8,360
		<u>2,386,449</u>	<u>2,487,638</u>

	2015 (Kes 000)	2014 (Kes 000)
24 (a) Sundry Debtors(note 24 a)		
Bounced Cheques	23,551	22,877
ECASSA Debtors	9,212	9,212
Regent Management Ltd	-	150
Mutula Kilonzo	5,015	5,015
Lloyd Masika Ltd	4,787	4,787
City Council of Nairobi	2,474	2,474
Staff Pension Debtor	4,588	4,588
Service Charge debtors	192,539	-
Gross debtors	242,166	49,103
Less: Provision for bad and doubtful debts	(45,039)	-
Net debt receivables	197,127	49,103
24 (b) Staff Receivable (note 24b)		
Commuted Pension	2,645	-
Staff House Loans/Mortgage Loans	6,401	6,401
Other staff Loans	4,412	6,278
Advances and Imprest	9,571	5,566
Staff Car Loans	251,886	211,928
Gross staff receivables	274,916	230,173
Provision for impairment loss	-	-
Amount due after one year	274,916	230,173
(c) Contribution Receivables (note 24c)		
Outstanding for less than 30 days	654,515	445,474
Outstanding for more than 30 days	-	-
	654,515	445,474

25. Taxation

According to Section 45 of the First schedule of Income Tax Act 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. With effect from 2006/2007 financial year the Fund has complied with most regulations for exemption.

In 2013/2014 financial year (and prior years), an amount of Kes.904, 904.00 had been recognised as a debt. The amount relate to taxes overpaid in years prior to the exemption together with any withholding tax on interest and dividends deducted at source. NSSF demanded a refund which was disputed by KRA and the matter proceeded to the Local Tribunal for arbitration. Currently it is in the High court. Negotiations between the Fund and Kenya Revenue Authority (KRA) are ongoing on this issue. A provision of the whole amount for bad and doubtful debts has been made in the current financial year. **Note 10(a).**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015	2014
26. Accrued Income	Kes.'000	Kes.'000
Dividend	473,197	466,767
Interest on Term Deposits	1,909,485	1,300,672
	2,382,682	1,767,439
27. Short Term Deposits		
Treasury Bills	1,187,170	1,785,852
Call Deposits (27 a)	4,983,550	1,892,000
Fixed Deposits (27 b)	7,469,830	3,991,190
	13,640,550	7,669,042
(a) Call Deposits		
British American	400,000	-
Commercial Bank of Kenya	472,100	-
Cooperative Bank of Kenya	328,000	19,000
Diamond Trust Bank	7,800	59,000
Equity Bank	220,000	-
Family Bank	108,700	-
Housing Finance Company	29,300	-
Kenya Commercial Bank	757,650	-
National Bank of Kenya	2,050,000	1,800,000
NIC Bank	10,000	14,000
Stanlib	600,000	-
	4,983,550	1,892,000
(b) Fixed Deposits		
Cooperative Bank of Kenya	3,871,000	432,000
Diamond Trust Bank	608,000	244,000
Kenya Commercial Bank	584,500	381,857
Post Bank	-	415,761
Housing Finance Company	370,000	304,900
Standard Chartered Bank	-	253,500
Barclays Bank of Kenya	-	8,000
Imperial	100,000	-
Family Bank	143,300	11,000
Development Bank	33,600	-
British American	-	200,000
Commercial Bank of Kenya	283,500	38,500
Stanlib	-	-
Chase Bank	265,930	83,950
National Bank of Kenya	-	1,239,722
NIC Bank	367,000	38,000
Equity Bank	843,000	340,000
	7,469,830	3,991,190

NOTES TO THE FINANCIAL STATEMENTS (Continued)

* Imperial Bank of Kenya was placed under statutory management by the Central Bank

of Kenya on 13 October 2015. At the time, National Social Security Fund through its fund managers had invested a total of Kes.391,700,000.00 broken down into Fixed Deposits and Corporate Bonds of Kes.259,500,000.00 and Kes.132,200,000.00 respectively.

	2015 Kes.'000	2014 Kes.'000
28. Cash and Bank		
Cash on Hand	4,107	3,563
Bank	173,872	1,285,790
	177,979	1,289,353
29. Creditors and Accruals		
Payables due to Vendors	250,056	88,515
House Purchase Deposits	468,957	129,469
Sundry Creditors and Accruals(Note 29a)	522,283	608,689
Statutory and other deductions	34,344	34,940
Unclaimed Benefits	295,118	294,286
Leave Pay and Gratuity Provisions(Note 29b)	71,440	71,440
	1,642,198	1,227,339
29. (a) Analysis of Sundry Creditors and Accruals		
Legal fees Payable		
Mutula Kilonzo & CO.	293,836	293,836
B. M. Musau	29,250	29,250
Okoth, Ndengu and Kiplagat	7,278	7,278
Others:		
Tax payable	18,479	21,099
Plots Deposit/Sale	10,342	154,219
Rental Deposits	108,206	96,234
Audit fees	6,000	6,000
Prepaid Rent	48,890	773
	522,280	608,689
29. (b) Leave Pay and Gratuity Provision		
Balance at beginning of the year	-	-
Additional Provision at end of year	71,440	71,440
Leave paid out or utilized during the year	-	-
	71,440	71,440

30. 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 31 December, 2014, NSSF's share in the operations of NBK would have been as follows:-

	2015 (Kes 000)	2014 (Kes 000)
Profit after taxation(48.05%*1,170,474,000)	562,413	534,702
Accumulated Surplus/(Deficit) (48.05%*2,709,414,000)	1,301,873	1,574,856
	1,864,286	2,109,558

31. Related Party Disclosures

a. Income earned from related parties

	Kes.'000	Kes.'000
National Bank of Kenya Limited (NBK)	49,081	95,175
Kenya Commercial Bank – Dividend income	-	449,793
East African Portland Cement Company	18,225	18,225
NASSEFU Savings and Credit Society Limited – Rental income	5,606	3,081
	116,481	566,294

b. Board of Trustees Remuneration and Expenses

	Kes.'000	Kes.'000
Expenses – Board	27,942	27,036
Board Chairman Honoraria	760	734
Sitting allowance - Board Committees	1,874	1,068
Air tickets - Board	3,104	0
Local traveling and accommodation - Board	21	569
Training - Board	0	65
Seminars - Board	0	5100
Trustees insurance	1,011	0
	34,712	29,523

c. Employees

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

	2015 Kes.'000	2014 Kes.'000
Tenant Purchase Debtors (staff)	202,351	77,157
	202,351	77,157

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. Capital Commitments (Major Contracts)

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

- i. Project works at Nyayo Estate Embakasi, Phase VI are ongoing at an expected cost of Kes.2.1 billion. A substantial amount is expected to be paid during 2015/2016 financial year.
- ii. Refurbishment, fire escape doors, electrical installations and consultancies of SSH Nairobi and SSH Mombasa were completed in 2013/2014 financial year.
- iii. Project works for extension of Social Security House Annex Parking Silo were expected to be done at a cost of Kes.570 million in 2013/2014 and 2014/15 financial years.
- iv. Construction of up-market apartments at the NSSF Milimani property at a cost of Kes.1,490,836,240.36 is ongoing and is due for completion in January 2017.
- v. Construction of Hazina Trade Centre at cost Kes.6,715,218,188.00 stalled at 15th floor as Nakumatt Holdings (the Tenant) denied the contractor access to some floors for strengthening of columns. However, the Fund has engaged the tenant to have the matter resolved and allow project progress.
- vi. The Fund entered into a contract with China Jiangxi International (K) Ltd at a cost of Kes 5,053,000,000.00 with a completion period of 22.4 months for the civil engineering works for Tassia plots. The project was to facilitate the regularization the development with County Government of Nairobi and transfer of titles to plot owners of Tassia II Scheme. The project is being financed by plot owners who are contributing Kes. 920,000.00 each. The project was however delayed due to issues raised by stakeholders leading to investigations by the Ethics and Anti-Corruption Commission (EACC) which has absolved the Fund from any form of irregularity in the implementation of the project.

33. 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

L.R.Nos.20840 and 20841 lying next to Lenana School (part of Ngong Forest).

a. 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.

b. 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 t is investigating the matter.

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 2015. 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 14th 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

v. **Cash Losses Westlands 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) **Sololo Outlets Limited Vs NSSF**

As at 30 June, 2003 NSSF had a contingent liability of Kes.4.95 billion relating to a claim made by Sololo Outlets Limited in High Court Civil Case No.804 of 2002 for an alleged breach of contract in the development of Hazina Estate in South B. NSSF filed its defence and counter claim of Kes.3.1 billion. An out of court settlement was reached and consent was filed in court on 20 December 2011, fully and finally settling the matter at Kes.490,850,090. The plaintiff filed a notice of motion application to vary the terms of the settlement claiming that the rate and quantum of interest payable had not been finalized. The application HCCC ELC NO.364 of 2011 was dismissed with costs in June 2014.

ii) **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.

iii) **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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Mugoya Construction Company Limited are under arbitration for determination. However, full provision of Kes.324.356 million was made in the 2008/2009 Financial Statements. To date, the arbitration process is still ongoing.

iv) **Construction of Hazina Trade Centre**

M/s China Jiangx 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.

M/s China Jiangxi have also raised a claim of Kes.2,430,302,815.00 for costs emanating from the delay as at 30 June 2016.

iv) **Legal Fees Payable**

The outstanding amounts of Kes 293,836,000.00 payable to Mutula Kilonzo and Company, Kes. 29,250, 000.00 payable to B.M. Musau and Kes. 7,278,000.00 payable to Okoth, Ndengu and Kiplagat are matters in court and therefore cannot be settled until the cases are determined. They are therefore reported as outstanding in the financial statements.

34. **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.

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 reduced drastically from **Kes.2.40 Billion** in 2013/2014 to **Kes.748.00 Million** as at 30 June 2015.

35. **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 specified 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

services offered. The Fund, through its training and management standards 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 Funds 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Ultimate responsibility for liquidity risk management rests with the Management, who have built an appropriate liquidity risk management framework. The Fund manages liquidity 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:-

As at 30 June, 2015	Less than 12 Months Kes.000	Over 12 Months Kes.000	Total Kes.000
Assets:			
Investments at quoted market values	2,445,758	112,312,904	114,758,662
Investments at estimated fair	32,502,035		32,502,035
Other assets:			0
Inventory	0	31,691	31,691
Receivables and Prepayments	2,386,449	0	2,386,449
Taxation	0	0	0
Accrued Income	2,382,682	0	2,382,682
Long Term Deposits	0	430,232	430,232
Short Term Deposits	13,640,550	0	13,640,550
	20,855,439	145,276,862	166,132,301
Liabilities:			
Accounts Payable	(1,376,998)	(295,118)	(1,672,116)
Total	19,478,441	144,981,744	164,460,185

37. Currency

The Financial Statements are presented in **Kenya Shillings (Kes.)**

