

NATIONAL SOCIAL SECURITY FUND

"We Secure Your Future"

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**ANNUAL REPORT AND ACCOUNTS
2003-2004**

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BOARD OF TRUSTEES



MR. EDGAR I. MANASSEH
Chairman



MR. NAFTALI O. MOGERE
Managing Trustee



Ms. JANE S. MWANGI
Trustee



Mr. TOM OWUOR
Trustee



Mr. FRANCIS ATWOLI
Trustee



Mr. CORNELIUS O. NYANG'UN
Trustee



Mr. JOSEPH KINYUA
Trustee



Mr. WALTER MUKURIA
Trustee



Ms. DEBORA ONGEWE
Trustee

CHAIRMAN'S REPORT



MR. EDGAR I. MANASSEH
Chairman

I am delighted to present to you our Annual Report and Accounts for the year ended 30th June, 2004. However, before looking at the Fund's performance, a brief look at the economic scenario during the year is appropriate.

REVIEW OF THE KENYA ECONOMY

The new government came into being with effect from January, 2003 and consequently its impact started to be felt in 2003/2004 fiscal year.

Economy grew by 4.3% in the year 2003/2004 up from 2.8% in 2002/2003. The growth was as a result of improved performance by agricultural sector, manufacturing sector, tourism sector and construction sector as well as appropriate Government fiscal

operations in the money market.

Agricultural sector grew by 2.4% as compared to 0.1% of 2002/2003.

Manufacturing sector grew by 4.9% - hampered by high cost of production, poor infrastructure and lengthy clearance procedures at the port of Mombasa.

Tourism sector grew by 15% mainly due to improved marketing of the country as well as improved security surveillance.

Construction sector performed well with the consumption of cement expanding by 5.2%. The overall performance of the construction sector was a growth of 3.5% as compared to 1.7% in 2002/2003.

Government's fiscal operation during the year resulted in a budget deficit of 30.4% of GDP which called for the Government to take measures to improve on tax administration as well as seek additional external grants from development partners. Overall public debt declined to 62.9% of GDP.

Government's policy of holding inflation at 5% persisted. In consistent with this policy, growth in money supply was contained at 12.9%.

Interest rates on 91 day Treasury bills was 2.01% as compared to 1.8% in 2002/2003.

In general the economy performed well in 2003/2004 as compared to the previous year.

FUND'S RESULTS

Fund improved its performance on income realization from Kshs.1.968 billion in 2002/2003 to Kshs.2.150 billion in 2003/2004 with major improvements noted in dividend income, income from Treasury bills and rental income. On the side of the expenditure there was a significant reduction. Total expenditure declined from Kshs.2.73 billion in 2002/2003 to Kshs.2.66 billion in 2003/2004. However there were significant increase in both staff costs and administrative expenses due to improved staff emoluments and increased rent and rates on property owned by the Fund, respectively. The overall position was a deficit for the year of Kshs.511.9 million as compared to the deficit of Kshs.758.9 million of the previous year.



CHAIRMAN'S REPORT... cont

The Fund also improved on its investment portfolio from Kshs.48.49 billion in 2002/2003 to Kshs.54.53 billion in 2003/2004. The major improvement in this area was the purchase of shares in blue chip companies which increased from Kshs.11.278 billion in 2002/2003 to Kshs.16.001 billion in 2003/2004 and also purchase of the Treasury Bonds through the funds obtained mainly from Treasury bills that were maturing and from collections of members contributions.

As a result of these improvements the net assets of the Fund rose from Kshs.48.42 billion in 2002/2003 to Kshs.54.25 billion in 2003/2004, an increase of 12%. On the other hand registered members increased from 2.99 million in 2002/2003 to 3.16 million in 2003/2004 while the registered employers increased from 63 thousand in 2002/2003 to 67 thousand in 2003/2004.

OUTLOOK

In order to benefit members over a long period the Fund looks forward to converting itself from a provident fund organisation to an insurance pensions scheme and the matter is still being pursued at a higher level under the parent ministry. The purchase of additional shares in the stock market reflects the wish of the Fund to participate in the transactions of shares in the stock market with a view to locking in capital gains as well as earning dividends. Funds obtained from the sale of real property will not only be used to achieve this objective of participating in the buying and selling of shares but also assist the Fund in conforming to the requirements of the Retirement Benefits Authority. Above all other things the Fund wish to have satisfied members by introducing other benefits on top of the existing ones. One of these benefits is the funeral grant which is operational and it is going to be followed by others.

APPRECIATION

In conclusion, I take this opportunity to thank the members of the Fund and their employers for the confidence bestowed on the Board of Trustees in taking care of their funds. I also wish to express my sincere gratitude to management and staff of the Fund who have worked hard for the benefit of the members. Finally I wish to thank my colleagues in the Board of Trustees for their commitment to render the best services possible to our members. In particular I pay tribute to the late Peter Muthee who passed away during the year under consideration while still a board member and who had worked tirelessly for the Fund.

EDGAR I. MANASSEH
CHAIRMAN



REPORT OF THE TRUSTEES

The Trustees submit their report and the audited financial statements for the year ended 30th June, 2004 which show the state of affairs of the Fund.

1. PRINCIPAL ACTIVITY

National Social Security Fund is a provident fund organization established under an Act of Parliament. Its principal activity is the provision of basic social security to its members.

2. FUND RESULTS

The Fund results are set out on pages 14 and 15 of the Annual Report.

3. INTEREST TO MEMBERS

The Board of Trustees recommended to the Minister of Labour and Human Resource Development who approved the crediting of members accounts with interest at the rate of 2.5% for the year ended 30th June 2004 in accordance with the N.S.S.F. Act.

4. RESERVES

The Fund financial statements reflect a net accumulated deficit of Kshs.1,814,216,000 as at 30th June, 2004.

5. TRUSTEES

The Trustees who served during the year under consideration were:-

NAME	DESIGNATION
Edgar I. Manasseh (Replaced James Olubayi)	Chairman
Naftali O. Mogere	Managing Trustee
Debora Ongewe	Permanent Secretary, Ministry of Labour and Human Resource Development (Member)
Elijah Nduati (Alternate to Joseph Kinyua)	Deputy Secretary, Ministry of Finance (Member)
Walter Mukuria	Chairman, Federation of Kenya Employers(Member)
Tom Owuor	Executive Director, Federation of Kenya Employers, (Member)
Francis Atwoli	Secretary General, Central Organisation of Trade Union (Member)
Cornelius O. Nyang'un (Replaced Peter Muthee - Deceased)	Deputy Secretary General, Central Organization of Trade Union (Member)
Jane S. Mwangi	Advocate (Member)
Said J. Chitembwe	Corporation Secretary

6. BANKERS

Kenya Commercial Bank Ltd.
National Bank of Kenya Ltd.

7. AUDITORS

M/s KPMG were the appointed auditors in accordance with Section 39 of the Public Audit Act, 2003.

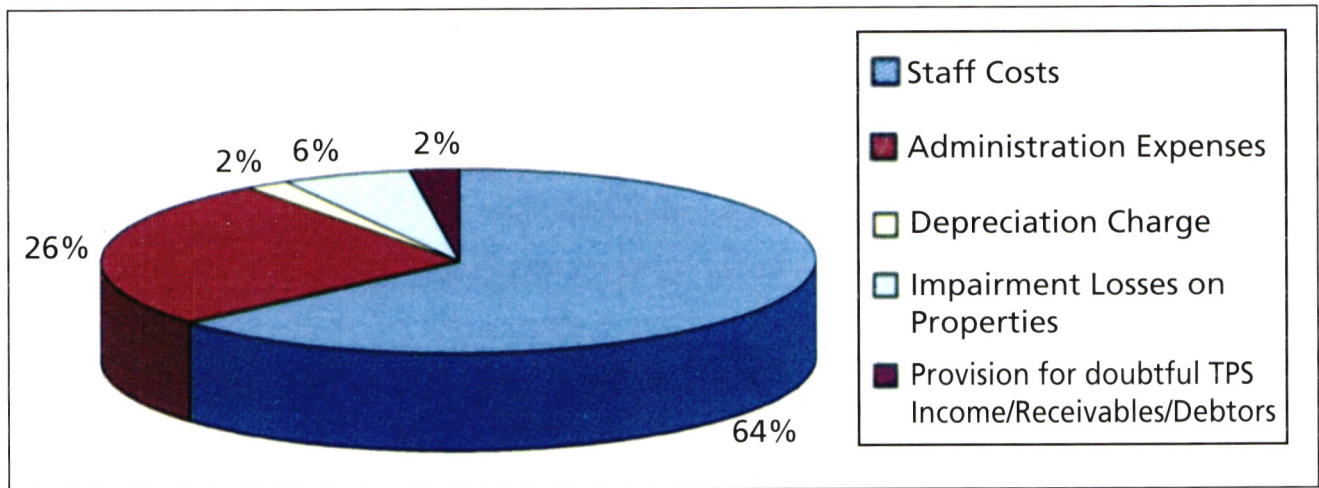
**BY THE ORDER OF BOARD
SECRETARY
21st OCTOBER, 2005**



STATISTICAL INFORMATION

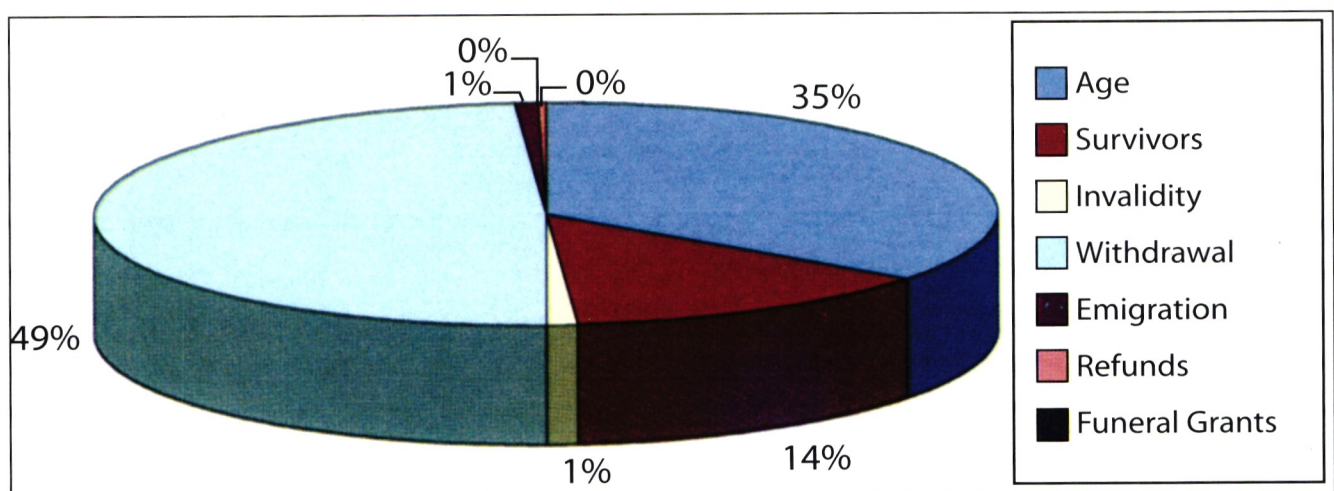
1) EXPENDITURE

DETAILS	KSHS.'000	%
Staff Costs	1,692,956	64
Administration Expenses	704,899	26
Depreciation Charge	46,544	2
Impairment Losses on Properties	155,686	6
Provision for doubtful TPS Income/Receivables/Debtors	61,458	2
TOTAL	2,661,543	100



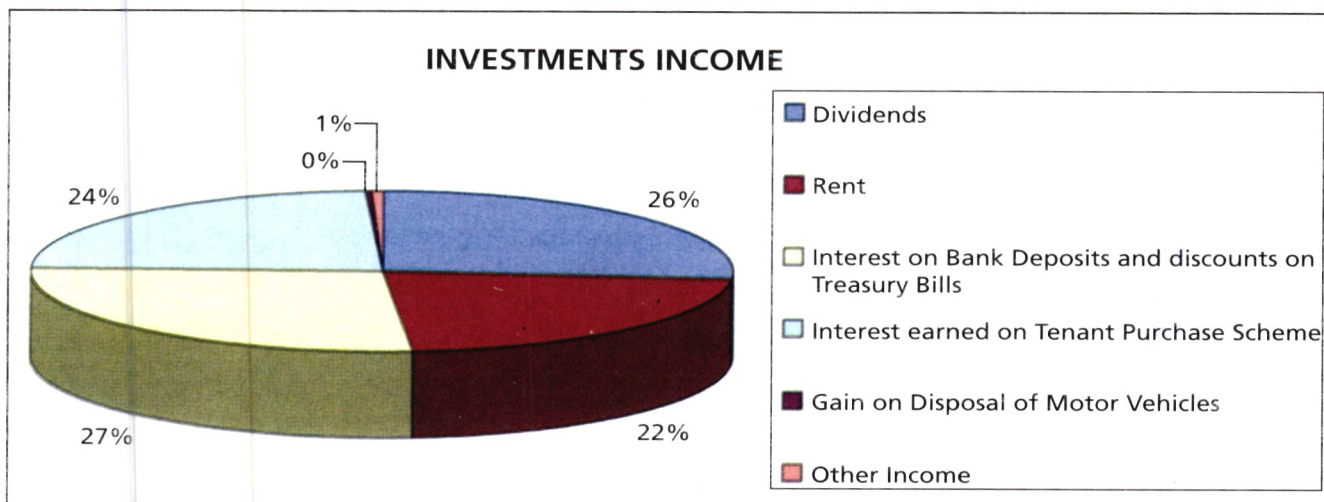
2) BENEFITS PAYMENTS

TYPE	KSHS.'000	%
Age	786,807	35
Survivors	306,239	14
Invalidity	25,652	1
Withdrawal	1,088,902	49
Emigration	18,850	1
Refunds	5,229	0
Funeral Grants	1,303	0
TOTAL	2,232,982	100



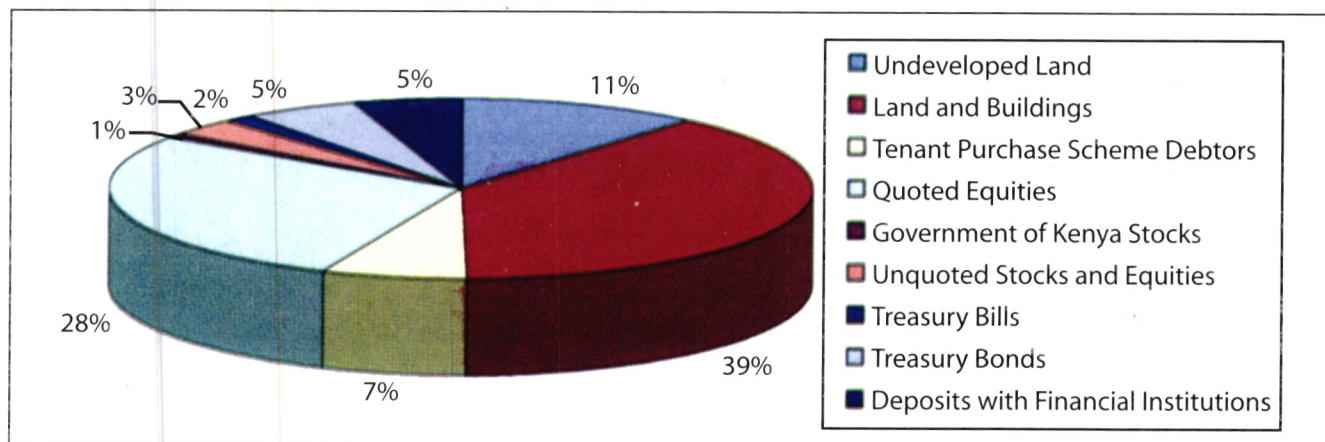
3) INVESTMENT INCOME

DETAILS	KSHS.'000	%
Dividends	569,461	26
Rent	476,956	22
Interest on Bank Deposits and discounts on Treasury Bills	578,365	27
Interest earned on Tenant Purchase Scheme	509,866	24
Gain on Disposal of Motor Vehicles	1,776	0
Other Income	13,175	1
TOTAL	2,149,599,	100



4) INVESTMENTS

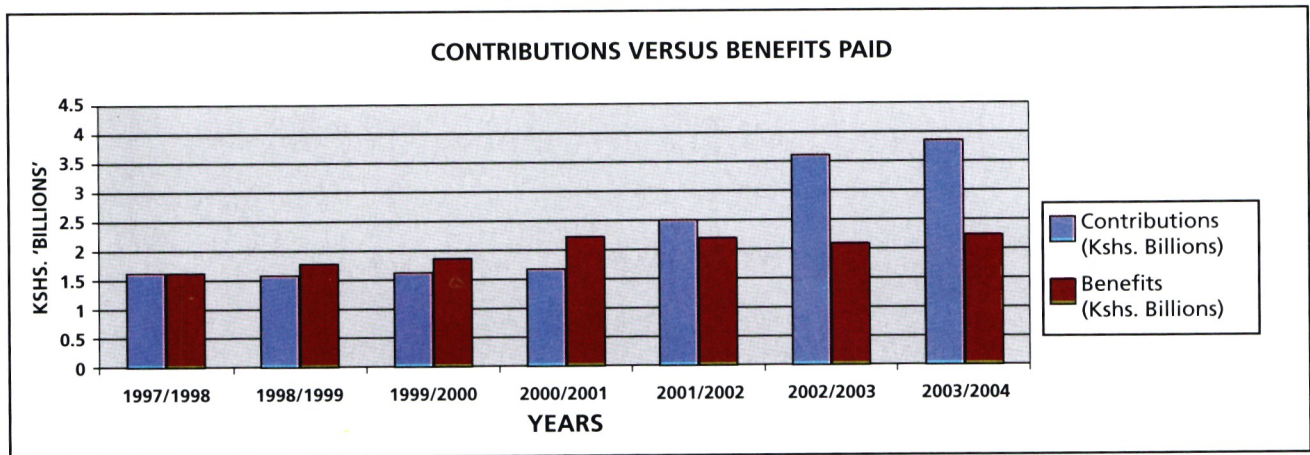
DETAILS	KSHS.'000	%
Undeveloped Land	6,355,351	11
Land and Buildings	22,092,669	39
Tenant Purchase Scheme Debtors	3,783,674	7
Quoted Equities	16,001,315	28
Government of Kenya Stocks	408,800	1
Unquoted Stocks and Equities	1,762,271	3
Treasury Bills	863,657	2
Treasury Bonds	2,925,172	5
Deposits with Financial Institutions	2,865,234	5
TOTAL	57,058,143	100.0





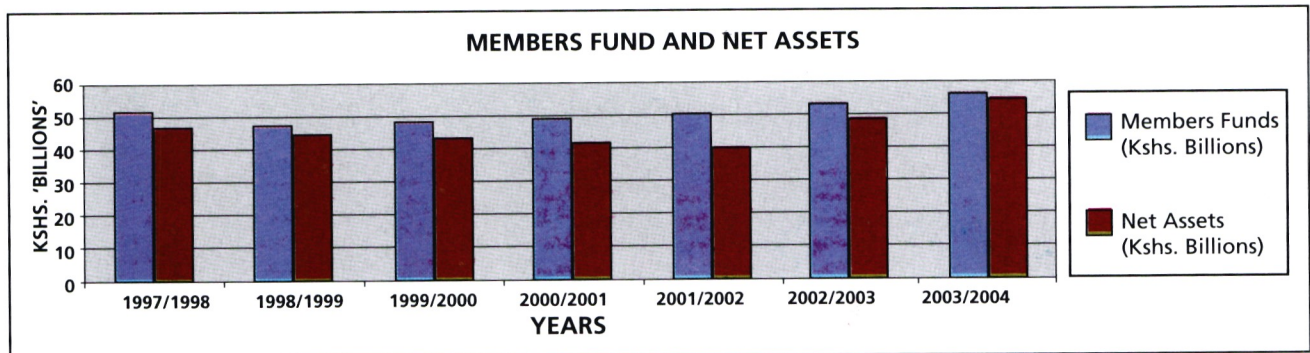
5) CONTRIBUTIONS VERSUS BENEFITS PAID

Financial Year Ended 30th June							
YEARS	1997/1998	1998/1999	1999/2000	2000 /2001	2001/2002	2002/2003	2003/2004
Contributions (Kshs. Billions)	1.63	1.59	1.63	1.68	2.50	3.60	3.85
Benefits (Kshs. Billions)	1.62	1.79	1.87	2.22	2.20	2.09	2.23



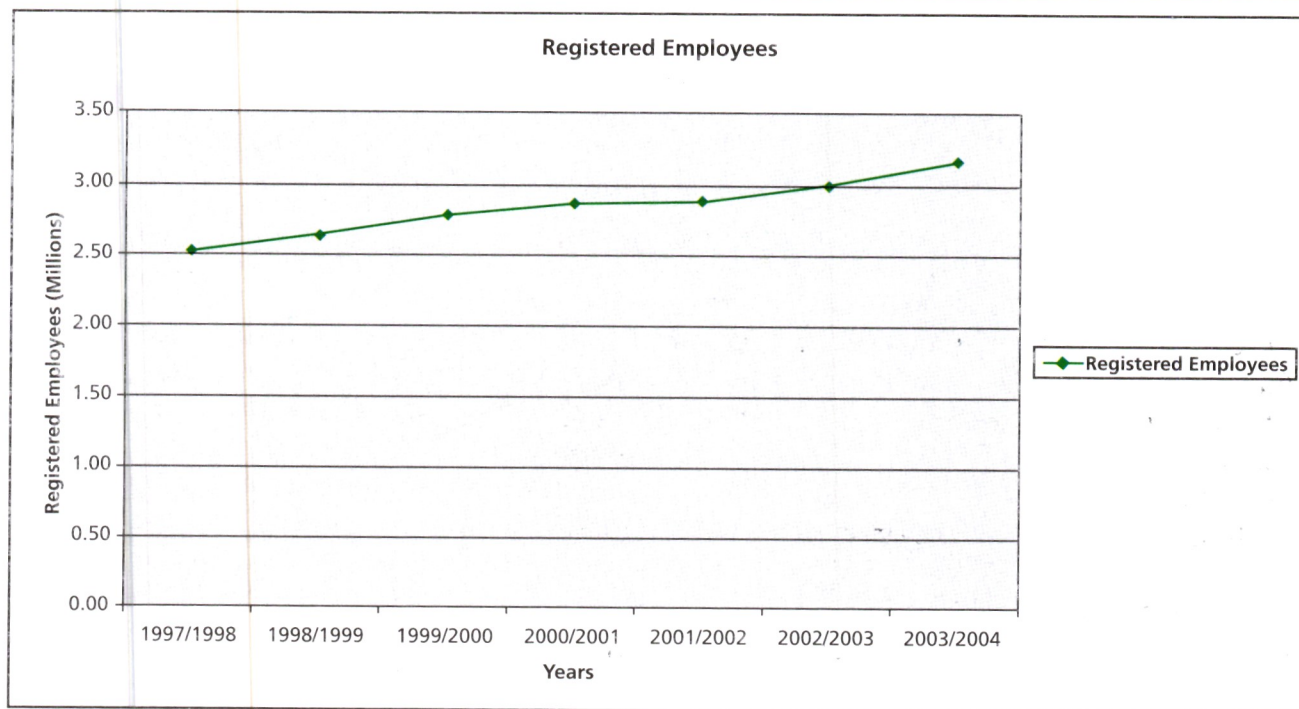
6) MEMBERS FUND AND NET ASSETS

Financial Year Ended 30th June							
YEARS	1997/1998	1998/1999	1999/2000	2000 /2001	2001/2002	2002/2003	2003/2004
Members Funds (Kshs.Billions)	51.9	47.2	48.2	48.84	50.35	53.12	56.06
Net Assets (kshs.billions)	46.8	44.4	43	41.4	39.71	48.42	54.25



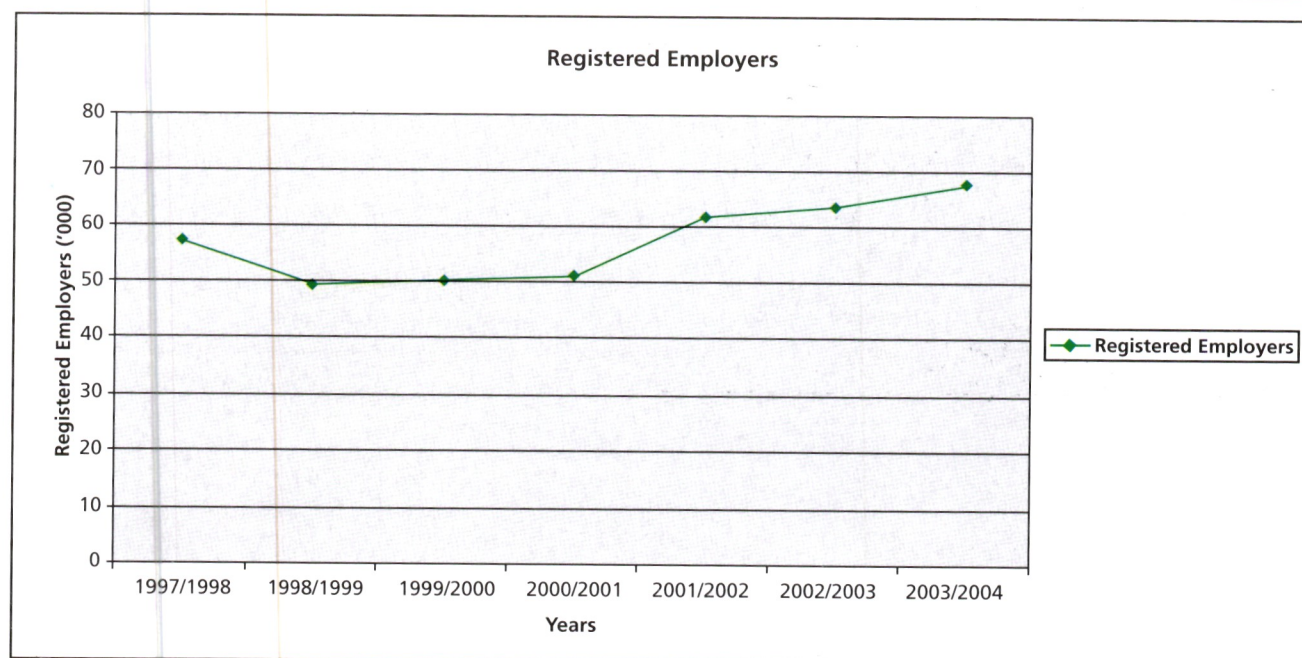
7) REGISTERED EMPLOYEES (MILLIONS)

YEAR	1997/1998	1998/1999	1999/2000	2000 /2001	2001/2002	2002/2003	2003/2004
Registered Employees	2.521	2.641	2.781	2.861	2.881	2.991	3.16



8) REGISTERED EMPLOYERS (THOUSANDS)

YEAR	1997/1998	1998/1999	1999/2000	2000 /2001	2001/2002	2002/2003	2003/2004
Registered Employers	57	49	50	51	62	63	67





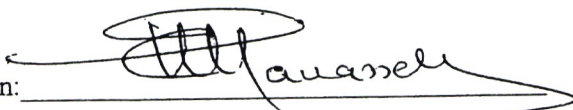
STATEMENT OF TRUSTEES' RESPONSIBILITIES

The National Social Security Fund Act requires the Trustees to prepare financial statements for each financial year which include a balance sheet showing in detail the assets and liabilities of the Fund, a statement of income and expenditure and such other statements that the Trustees may deem necessary. It also requires the Trustees to ensure the Fund keeps proper books of account and other books and records in relation to the Fund and to all the undertakings, funds, investments, activities and property of the Fund. They are also responsible for safeguarding the assets of the Fund.

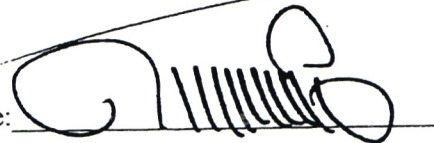
The Trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with generally accepted accounting practice and in the manner required by the National Social Security Fund 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 the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

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.

Chairman:



Managing Trustee:



Date:

21/10/05



REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF NATIONAL SOCIAL SECURITY FUND FOR THE YEAR ENDED 30th JUNE 2004

Introduction

The financial statements set out on pages 14 to 43 for the year ended 30 June 2004 have been audited on my behalf by the auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of the audit, were obtained. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Trustees and the Controller and Auditor General

As set out in the statement of trustees responsibilities, the trustees are responsible for the preparation of financial statements which give a true and fair view of the Fund's state of affairs and of its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the trustees, as well as an evaluation of the overall presentation of the financial statements.

1. Financial Performance

As pointed out in the previous year's report the Fund has not been able to generate adequate funds to cater for its direct operating costs. During the year under review, the Fund incurred a deficit of KShs.511,944,000 (2003 -KShs.758,871,000) bringing its accumulated deficit to KShs.15,834,138,000. The poor performance, was as in previous year, caused

by low return on investments and high operating costs due to imprudent management investments decisions. The poor performance raises doubts as to the ability of the Fund to finance its operations.

Investment in land and buildings - Impairment of investment in land and buildings

2. Undeveloped land

As noted in my audit report of the financial year ended 30 June 2003 and in accordance with the Fund's accounting policy, land and buildings are carried in the financial statements at cost. Offers received in the year on some of the properties, for example Likoni Road properties were significantly below the carrying values. This situation is indicative of significant impairment on some of the properties. However, a current valuation has not yet been carried out on undeveloped land and it has not therefore been possible to quantify the overall impairment that should be incorporated in the financial statements.

3. Tassia Estate

Tassia estate which is carried in the books at a cost of Kshs. 1.4 billion has reportedly been encroached upon by squatters. Some of these squatters have gone to court challenging the Fund's ownership of the property. Although the Fund's Management is confident that the Fund has proper title to the property, I am unable to confirm the extent of impairment of the value of the property if any, due to encroachment by squatters.

4. Gazetted Land

Land Parcels New Muthaiga LR No.209/12274, 18.41 ha (located within Sigiria Block which is part of the Karura Forest Reserve) and Ngong Road property LR No. 20840 and LR No. 20841, next to Lenana High School (part of Ngong forest) are both in Gazetted forest areas and thus cannot be owned, possessed, utilized or accessed and any development on such land would be illegal. The carrying values of these properties as at the balance sheet date is stated in the balance sheet at KShs 296.6 million and Kshs.40.6 million respectively. No provision for impairment



loss has been made in the financial statements. I am unable to confirm whether the Fund will be able to recover the cost of acquiring the properties in Gazetted areas.

In light of the above, and in the absence of independent valuations I am not able to confirm whether the carrying values as stated in the financial statements reflect the fair values of the Fund's investment in land and buildings as at the balance sheet date.

5. Nyayo Estate - Embakasi

As noted in my audit report of the financial year ended 30 June 2003, the Fund entered into a fixed sum contract for the construction of the Nyayo Estate - Embakasi in 1995, at a cost of Kshs.14 billion. The project was supposed to be completed by 1997. However, as at 30 June 2004, only 1,156 out of the projected 4,774 units had been handed over to the Fund while the total cost incurred up to that date was Ksh.14.6 billion of which Kshs.12.36 billion had been paid to the contractor. The balance of the units are at various stages of completion. The project is currently seven years behind schedule and according to the architect's letter dated 23 September 2003, no units have been completed since June 2001. A provision of Kshs.2.9 billion has been made in the financial statements for the potential losses that the Fund would incur assuming all the units were completed at no additional costs to the Fund and that they were all sold at the current prices. I am, however, unable to confirm whether this project will be completed in the foreseeable future. I am also unable to determine the additional costs to the Fund, if any that would be necessary to complete the project or the losses that the Fund would suffer in the event that the project is not completed.

6. Advances to Mugoya Construction and Engineering Limited

As at 30 June 2004 the Fund had advanced a total of Kshs.324,353,699 to Mugoya Construction and Engineering Limited, the Nyayo Estate - Embakasi project contractor, to enable completion of Phase 2 sub-sectors 2.1, 2.2, 2.3, and 2.5 of the project. The Fund has not yet obtained any collateral from the contractor as security for the advances given.

I am, unable to confirm whether or if so, when the Fund will be able to recover the amounts advanced to the contractor. Any provision that would have been necessary in relation to this uncertainty has not been incorporated in these financial statements.

7. Contractual Claims from Contractors

As discussed in Note 30 of the financial statements, the Board of Trustees have approved payments of KShs 417 million and another Kshs.223 million relating to claims for suspension of works for Moktar Daddah Street and Kitisuru development projects respectively.

Amounts paid as at 30 June 2004 with respect to the claims have however been capitalized to the cost of the projects whereas they do not constitute expenditure incurred on either materials or labour costs and cannot be considered as directly attributable to the acquisition of the asset or bringing the asset to its working condition. Consequently, the carrying value of Moktar Daddah street and Kitisuru development projects as at the balance sheet date are overstated by Kshs 417 million and KShs 223 million respectively.

8. Levy due to the Retirement Benefits Authority (RBA)

In 2002, the RBA gave notice to the Fund that the Retirement Benefits levy payable to the Authority, which fell due on 31 October 2001 had remained unpaid and continued to attract interest at 5% per month. In a letter dated 18 November 2002, the RBA indicated that the outstanding levy for the years 2000, 2001 and 2002 was estimated at KShs 24,731,968 per year.

Currently, negotiations between the Fund and RBA are ongoing to resolve the issue and hence no provision has been made in the books for the levy demanded estimated at KShs 74,195,904 for the years 2000, 2001 and 2002. Effective 29 December 2004, the Minister for Finance granted the Fund an extension of time until 30 June 2006 to comply with various requirements of the Retirement Benefits Act, among them being the payment of the RBA levy. I am however unable to confirm if the amounts demanded by the Authority prior to the extension are payable or not, in the absence of a legal interpretation.

9. Tax Receivable

The financial statements reflect tax recoverable from the Kenya Revenue Authority (KRA) of KShs 298 million relating mainly to tax overpaid prior to 1st January 1997 before the Fund was exempted from taxation and withholding tax. Although negotiations between the Fund and KRA have been going on to secure the refund of the above amounts, KRA has written to the Fund claiming that any overpayment by the Fund had been utilized

against unpaid penalties and interest and hence no amounts are refundable. I am therefore unable to confirm whether the Fund will be able to recover the tax receivable, and the timescale thereof.

10. Contingent liability in respect of suspended and restructured projects

As discussed in Note 30 of the financial statements, the Fund has received claims amounting to KShs 8.7 billion in respect of projects that had previously been restructured or suspended, out of which KShs 550 million has been paid as at 30 June 2004. The outstanding liabilities have not been recognized in the financial statements, as they have not been agreed upon.

In addition, NSSF has suspended a number of other projects, as indicated in Note 10 to the financial statements, where construction work had already commenced. No provision has been made in these financial statements for possible liabilities that may arise as a result of breach of contract with the respective contractors. I am therefore unable to ascertain the extent of the liability that may arise as a result of the suspension of these projects.

11. Land rent

The Fund has not been making regular payments with regard to land rate payable on all its leasehold properties. However, the Fund records show that a total of KShs 118 million has been paid to date while the estimated liabilities with regard to land rent may be KShs 259 million. The provision of KShs.116 million carried in the financial statements in respect of land rent not paid may therefore not be adequate.

Emphasis of matter

Without further qualifying my opinion, I draw attention to the issues raised in the paragraphs below:

12. Accounting for investment in National Bank of Kenya Limited

The Fund's long term loan to National Bank of Kenya Limited together with accrued interest thereon amounting to KShs.1.175 billion were applied towards the purchase of 235 million non-cumulative preference shares at a par value of KShs.5 each, representing 23% of the preference shares issued by National Bank of Kenya Limited. Although the Trustees are of the opinion that the preference shares are fairly valued, it is not possible to reliably verify this since the preference shares are not quoted in the stock exchange.

13. Compliance with the Trustees Act

As mentioned in note 32, the Fund converted a long term loan that the Fund had advanced to National Bank of Kenya Limited to preferential shares contrary to the Trustees Act. The Trustees Act Section 4(d) prohibits investment in unquoted company which had not paid dividend on its ordinary shares which ranked for dividend on each of the five years immediately preceding the year in which the investment is made. The National Bank of Kenya falls into this category

14. Compliance with the Retirement Benefits Act

As detailed in Note 31 to the financial statements the Fund has not complied with various aspects of the Retirement benefits Act.

15. Income Tax (National Social Security Fund) (Exemption) Rules

As also mentioned under note 33, the Fund has not complied with requirements of Income Tax (National Social Security) (Exemption) Rules, 2002 as regards valuation of the Fund's assets.

16. Suspense Account

As at 30 June 2004, the Fund had Kshs.8.6 billion contributions received from members being held in suspense as they have not been allocated to the respective members.

Opinion

In my opinion, except for the effect on the financial statements of the matters referred in paragraphs 1 to 11 above, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Fund as of 30 June 2004 and its operating results and cash flows for the year then ended and comply with International Financial Reporting Standards and the National Social Security Fund Act.



E. N. MWAI
CONTROLLER AND AUDITOR GENERAL

NAIROBI
16 August, 2005



**NATIONAL SOCIAL SECURITY FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 30TH JUNE, 2004**

	Note	2004 KShs'000	2003 K.Shs'000
INCOME			
Dividend income		569,461	482,651
Rental income	2	476,956	427,509
Interest on bank deposits and discount on Treasury Bills		578,365	498,993
Interest earned on Tenant Purchase Scheme		509,866	523,279
Gain on disposal of motor vehicles		1,776	6,325
Other income		13,175	29,024
		2,149,599	1,967,781
EXPENDITURE			
Staff costs	3	1,692,956	1,476,530
Administrative expenses	4	704,899	524,388
Depreciation charge		46,544	32,415
Net loss on disposal of land	5(a)	371	142,688
Impairment loss on property put up for sale	5(b)	14,415	-
Recoveries on bad debts		-	(539)
Reversal of provision for doubtful rental income		(6,637)	(12,186)
Provision for other doubtful debtors	6	-	256,511
Impairment losses on housing projects	10(c)	140,900	215,465
Impairment losses on suspended projects		-	5,759
Provision for doubtful TPS income		10,596	27,824
Provision for doubtful accrued rental income		20,050	17,614
Recovery of investment previously provided for	19(b)	(206,000)	(185,106)
Provision for doubtful accrued interest receivable	21(c)	244,552	260,789
Reversal of provision for doubtful interest receivable	21(c)	(1,103)	(35,500)
		2,661,543	2,726,652
Deficit for the year	26	(511,944)	(758,871)

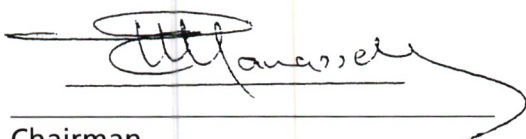
The notes set out on pages 17 to 43 form an integral part of these financial statements.



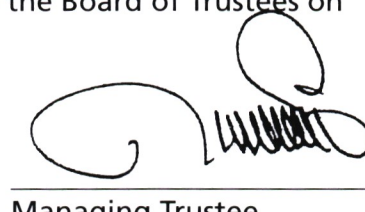
BALANCE SHEET AS AT 30TH JUNE, 2004

	Note	2004 KShs'000	2003 KShs'000
PROPERTY AND EQUIPMENT	8	232,330	207,943
INVESTMENTS			
Undeveloped land	9	6,355,351	6,400,016
Land and buildings	10	22,092,669	22,548,056
Long term loan	11	-	1,100,000
Tenant Purchase Scheme debtors	12	3,783,674	3,556,897
Quoted Equities	13	16,001,315	11,278,458
Government of Kenya Stocks	14	408,800	408,800
Unquoted Stocks and Equities	15	1,762,271	587,271
Treasury Bills	16	863,657	1,515,684
Treasury Bonds	17	2,925,172	812,010
Deposits with financial institutions	18	2,865,234	3,011,005
		57,058,143	51,218,197
Less: Provision for doubtful investments	19(a)	(2,525,953)	(2,731,953)
Net Investments		54,532,190	48,486,244
Current Assets			
Debtors and prepayments	20	574,901	507,835
Taxation	7	298,408	297,976
Income receivable	21	254,700	242,583
Cash and bank balances		53,882	311,175
		1,181,891	1,359,569
Current Liabilities			
Bank overdraft		222,645	286,693
Creditors and accruals	22	1,476,602	1,344,949
		1,699,247	1,631,642
Net current liabilities		(517,356)	(272,073)
NET ASSETS		54,247,164	48,422,114
FINANCED BY:			
Accumulated Members' Funds	23	56,061,380	53,119,261
Revaluation reserve	24	14,019,922	9,297,065
Accumulated deficit	26	(15,834,138)	(13,994,212)
FUNDS EMPLOYED		54,247,164	48,422,114

The financial statements on pages 14 to 16 were approved by the Board of Trustees on 21st October, 2005 and were signed on its behalf by:



 Chairman



 Managing Trustee

The notes set out on pages 17 to 43 form an integral part of these financial statements.



CASH FLOW STATEMENT FOR THE YEAR ENDED 30th JUNE 2004

	Note	2004 KShs'000	2003 KShs'000
Cash outflow from operating activities	27(a)	(544,329)	(226,089)
INVESTING ACTIVITIES			
Redemption of Government Stock		-	350,000
(Purchase)/redemption of treasury bonds		(2,113,162)	(812,010)
Redemption of deposits with financial institutions		145,771	93,905
Development of land and buildings		(387,448)	(740,973)
Proceeds from sale of undeveloped land		22,395	-
Proceeds from sale of developed land and buildings		-	128,157
Receipts from Tenant Purchase Scheme debtors		486,519	453,732
Purchase of property and equipment		(74,463)	(63,982)
Proceeds on disposal of motor vehicles		5,308	6,325
Cash flows from investing activities		(1,915,080)	(584,847)
FINANCING ACTIVITIES			
Members' contributions		3,847,119	3,602,256
Benefit payments		(2,232,982)	(2,094,761)
Cash inflow from financing activities		1,614,137	1,507,495
Net increase in cash and cash equivalents	27(b)	(845,272)	696,560

The notes set out on pages 17 to 43 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE, 2004

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS).

The financial statements are prepared under the historical cost convention, modified by revaluation of certain assets. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events, actual results may ultimately differ from those estimates.

(b) Accounting for contributions

Contributions from employers/employees are accounted for on a receipt basis.

Benefits to members are accounted for on a payment basis. Benefit payment cheques which become stale before they are presented to the bank are written back in the cash book and a liability recognized thereof in the financial statements.

Interest payable on members accumulated contributions (standard contribution plus interest) is accrued annually at the approved rate in accordance with Section 19(2) and (3) of the National Social Security Fund Act (2003, 2002, 2001 and 2000 — 2½%).

(c) Income recognition

(i) Dividends

Dividends are accounted for on a receipt basis.

(ii) Interest on deposits with financial institutions

Interest on deposits with financial institutions is accounted for on accrual basis.

(iii) Interest/discounts on Treasury Bills and Treasury Bonds

Interests on Treasury bills and bonds are 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.

(d) Tenant purchase scheme

Interest income on Tenant Purchase Scheme loans is calculated on the balance outstanding at the end of each month at the rate prevailing. The rate, currently at 15%, is variable at the discretion of NSSF's Board of Trustees.



(e) Depreciation

Depreciation is calculated on a straight-line basis, at annual rates estimated to write off the carrying values of property and equipment over their expected useful lives as follows:

PARTICULARS	
Leasehold land	Nil
Motor Vehicles	20%
Computer and Microfilming Equipment	33.33%
Office Furniture	10%
Office Equipment	12.5%
Fittings and Furnishings	20%

(f) Investments

Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. Financial instruments held by the Fund include term deposits, treasury bills and bonds, investment in quoted and unquoted investments and cash and bank balances.

The Trustees determine the appropriate classification of the Fund's financial instruments at the time of purchase and re-evaluate the portfolio every balance sheet date to ensure that all financial instruments are appropriately classified.

Financial instruments are measured initially at cost, including transaction costs.

Held to maturity financial instruments which include term deposits, treasury bills and bonds and government stock, are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method.

Available for sale financial instruments, which include quoted and unquoted equities are stated at fair value. Changes in fair value are debited/(credited) to an unrealised revaluation reserve. Upon the sale of the investment the surplus/(deficit) relating to the transaction will be transferred to the Income and Expenditure account. Where fair values are not readily available, then the instruments are stated at cost.

A financial asset is derecognised when the Fund loses control over the contractual rights that comprise that asset. This situation occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Investments in associates

Investments in associates are classified as available for sale financial instruments and are carried in the books at fair value. Changes in fair values are debited/(credited) to an unrealised revaluation reserve.

(g) Investments in land and buildings

Undeveloped land and partly developed land and buildings are stated at cost.

Cost is defined as:-

Undeveloped land - Cost of the land plus incidental expenses.

Partly developed land held for long-term investments - Cost of land as defined above plus construction work certified and paid.

Undeveloped land and partly developed land which a decision to sell has been made -Cost as defined above, less any foreseen losses on immediate sale.

(h) Cash and cash equivalents

For the purposes of presentation in the cash flow statement, the cash and cash equivalents comprise bank balances and treasury bills maturing within 3 months from the date of acquisition.

(i) Impairment

The carrying amount of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such asset exists the asset's recoverable amount is estimated and an impairment loss recognised whenever the carrying amount of an asset exceeds its recoverable amount.

j) Employee benefits

The majority of the Fund's employees are eligible for retirement benefits under a defined contribution plan.

Contributions to the defined contribution plan are charged to the income statement as they are incurred. Any difference between the charge to the income statement and the annual contributions paid is recorded in the balance sheet under other liabilities/ assets.

k) Provisions

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

l) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.



2. RENTAL INCOME

	2004 KShs'000	2003 KShs '000
Social Security House - Nairobi	280,736	255,401
Social Security House - Mombasa	36,036	37,721
Bruce House - Nairobi	56,518	52,647
Hazina Towers - Nairobi	31,424	17,769
View Park Towers - Nairobi	36,922	38,367
Hazina Plaza - Mombasa	1,520	915
Hazina Estate - Nairobi	1,892	1,393
Other properties	31,908	23,296
	476,956	427,509

3. STAFF COSTS

Salaries and wages	826,457	762,976
House allowance	423,345	300,721
Acting allowance	4,427	492
Entertainment allowance	6,350	4,885
Leave allowance	49,510	51,056
Hardship allowance	624	452
Staff pension and gratuity	144,745	137,426
Staff welfare	31,651	48,853
Medical expenses	62,612	54,721
Special accommodation allowance	1,324	308
NSSF contributions for staff	5,763	4,287
Transfer allowance	12,065	7,372
Transport allowance	117,853	97,203
Utility allowance	6,230	5,778
	1,692,956	1,476,530

The average number of employees engaged during the year were:

	2004	2003
Management	563	550
Unionisable	1,227	1,230

Also included in staff costs are contributions to the defined contribution plan for employees. During the year, the Fund expensed KShs 143,270,000 in contributions payable (2003 - KShs 131,813,000).



	2004 KShs'000	2003 KShs'000
4. ADMINISTRATIVE EXPENSES		
Rent and rates	269,824	216,273
Legal fees	37,559	20,647
Repairs and maintenance	23,106	16,043
Consultancy fees	25,347	8,076
Insurance	98,156	78,496
Telephone and postage	37,140	36,197
Transport expenses	24,928	23,745
Electricity, water and conservancy	25,839	23,100
Printing and stationery	22,706	14,516
Advertising	13,865	8,055
Travelling and subsistence allowance	30,179	21,266
Bank interest and charges	11,593	10,596
Audit fees	7,422	7,496
Exhibition expenses	7,219	4,324
Board, committees and conferences	25,187	17,552
Renovations	324	469
Books and publications	887	1,859
Subscriptions and donations	2,107	1,442
Training and seminars	12,857	6,930
Uniforms	427	13
Other expenses	3,485	2,285
Property management fees	24,742	5,008
	704,899	524,388

Included in rent and rates is KShs 84 million (2003 - KShs 80 million) being rent expense on space occupied by NSSF in Social Security House-Nairobi and Social Security House Mombasa.

5. DISPOSAL OF LAND

(a) Net loss on disposal of land		
Loss on disposal of Lenana Road property	-	145,526
Gain on disposal of Kajiado property	-	(385)
Gain on disposal of Likoni Road property	-	(2,453)
Loss on sale of Eldoret land LR No. 10/167	371	-
	371	142,688
(b) Impairment loss on land put up for sale		
Kileleshwa	7,596	-
Kajiado North LR No. 14908/3006	2,546	-
Kajiado North LR No. 14907	1,154	-
Eldoret land LR No. 10/176 and 179	913	-
Nyali LR No.4981/1 MN (Note 9)	2,206	-
	14,415	.



6. PROVISION FOR OTHER DEBTORS

Included in provisions for other debtors is KShs 251,508,582 made in the previous year, being a provision for amounts receivable on a fixed deposit placed with Euro Bank Limited (in liquidation) as the amounts are deemed not recoverable. Refer to Note 20 for further details.

7. TAXATION

The amounts reflected on the balance sheet relate to taxes overpaid in years prior to the exemption together with any withholding tax in interest and dividends deducted at source as at 30 June 2004.

In addition the Fund lodged a further claim of KShs 411 million for tax paid for the period from July to December 1996 when the Fund was exempt from taxation according to Section 45 of the First Schedule of Income Tax Act. This amount has however not been accounted for in the books of the Fund.

Negotiations between the Fund and Kenya Revenue Authority (KRA) are ongoing, however as at 30 June 2004, KRA's position was that any amounts overpaid in the years 1992 to 1997 were utilized against penalties and interest that were outstanding which were in excess of amounts overpaid by the Fund, and as such there are no amounts that are refundable to NSSF.

8. PROPERTY AND EQUIPMENT

	Land	Computers & microfilming equipment	Motor vehicles	Office equipment	Office furniture	Fittings & furnishing	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost or valuation							
At 1 July 2003	124,540*	159,740	241,077	139,366	76,227	20,902	761,852
Additions	-	34,649	22,150	13,409	4,136	119	74,463
Disposals	-	-	(8,896)	-	-	-	(8,896)
At 30 June 2004	124,540	194,389	254,331	152,775	80,363	21,021	827,419
Depreciation							
At 1 July 2003	-	151,657	186,382	130,468	64,575	20,827	553,909
Charge for the year	-	16,091	18,434	4,371	7,599	49	46,544
Disposals	-	-	(5,364)	-	-	-	(5,364)
At 30 June 2004	-	167,748	199,452	134,839	72,174	20,876	595,089
Net Book Value:							
At 30 June 2004	124,540	26,641	54,879	17,936	8,188	145	232,330
At 30 June 2003	124,540	8,083	54,695	8,898	11,652	75	207,943

* Represents cost of undeveloped plots of land in Mavoko and Ngong Road, earmarked for own use development

9. UNDEVELOPED LAND

(a) Cost/valuation

Nairobi

	2004 KShs'000	2003 KShs'000
Tassia Estate	1,382,325	1,397,405
Embakasi	753,731	753,731
Langata	383,778	383,778
Muthaiga	296,550	296,550
Bishops Road	228,411	228,411
Likoni Road	204,659	204,659
Ngong Road	157,227	157,227
Belle Vue	152,522	152,522
Outering Road	129,050	129,050
Loita Street	70,095	70,095
Elgon Road	50,743	50,743
Upper Hill	42,385	42,385
Forest Edge Langata	40,566	40,566
Nairobi South B	32,814	32,814
Hospital Hill	31,222	31,222
	3,956,078	3,971,158

Coast

Mtwapa Project	551,957	551,957
Bamburi Project	188,373	188,373
Mombasa Town Project	127,322	127,322
	867,652	867,652

Other areas

Mavoko Projects	898,250	898,250
Athi River Project	594,946	594,946
Kajiado Project	81,402	81,402
Eldoret Project	51,025	51,025
Syokimau	-	22,766
	1,625,623	1,648,389

Provision for losses on suspended projects	(94,002)	(87,183)
	6,355,351	6,400,016

(b) Significant developments in the year

(i) Mavoko Projects

An offer from a customer to purchase 100 acres out of the total 1035 acres of Mavoko Projects for KShs 82,000,000 was received and accepted by the Fund and the customer paid 10% of the agreed sale price. The estimated cost of the 100 acres is KShs 86,820,935 resulting to an impairment KShs 4,820,935 which has not been recognized in the accounts.



(b) UNDEVELOPED LAND PUT UP FOR SALE (Continued)

(ii) Mombasa Town Project

During the year 45 acres out of a total of 49 acres of Mombasa Town Project were put up for sale and an offer of KShs 113,706,900 received. The estimated cost of the 49 acres is KShs 115,912,641 resulting to an impairment loss of KShs 2,205,741 which has been recognized in the financial statements. As at 30 June 2004 the customer had paid KShs 11,370,699, being 10% of the sale value.

(iii) Kajiado Project

The entire 138 acres (56ha) of the Kajiado Project was put up for sale and an offer of KShs 77,702,000 was received resulting to an impairment loss of KShs 3,700,242, which has been recognized in the financial statements. Total proceeds received as at 30 June 2004 is KShs 25,278,300 being 33% of the sale value.

(iv) Eldoret Project

During the year, the entire acreage of Eldoret Project was put up for sale and an offer of KShs 50,112,880 received resulting to an impairment loss of KShs 913,120, which has been recognized in the financial statements. Total proceeds received as at 30 June 2004 was KShs 29,495,336 being 59% of the sale value.



	2004 KShs'000	2003 KShs'000
10. LAND AND BUILDINGS		
(a) Analysis of balances at 30 June		
Commercial properties		
Social Security House - Nairobi	4,533,525	4,533,525
Social Security House - Mombasa	141,901	141,901
Bruce House - Nairobi	588,002	588,002
Moktar Daddah Street - Nairobi*	3,133,580	2,887,752
Social Security House Annex - Nairobi**	542,251	541,531
Hazina Towers	590,864	590,864
View Park Towers	918,620	918,620
Hazina Plaza - Mombasa	458,791	458,791
Kenyatta Avenue Development	1,020,298	1,020,298
	11,927,832	11,681,284
Residential properties		
Hospital Road Development**	132,174	132,174
Nyayo Estate - Embakasi*	11,782,424	11,761,951
Machakos Development	83,574	83,574
Ojijo Road - Nairobi	181,081	181,081
Kangemi Development*	680,384	700,218
Hazina Estate	1,105,164	1,109,664
Kileleshwa Development**	50,596	50,596
Kitisuru Development*	757,787	1,307,076
State House Road	471,901	471,901
Milimani Flats	103,562	103,562
Karen Development**	512,971	512,971
Kapsoya Estate	6,185	6,475
	15,867,803	16,421,243
	27,795,635	28,102,527
Less:		
Provision for foreseeable losses	(5,052,756)	(4,911,856)
Provision for losses on suspended projects	(650,210)	(642,615)
	22,092,669	22,548,056

* Development in progress

**Projects suspended

(b) Significant movement in the year in various projects:

Developed land and buildings - commercial:

(i) Moktar Daddah	KShs'000
At 1 July 2003	2,887,752
Additions in the year	245,828
At 30 June 2004	3,133,580



10. LAND AND BUILDINGS (Continued)

(b) Significant movement in the year in various projects (continued)

Social Security House - Nairobi

At 1 July 2003
 Additions in the year
 At 30 June 2004

KShs'000

541,531
 720
542,251

Land and buildings - residential:

	Nyayo Estate - Embakasi KShs'000	Kangemi Development KShs'000	Hazina Estate KShs'000	Kitisuru Development KShs'000	Kileleshwa Project* KShs'000	Kapsoya Estate KShs'000	Others KShs'000	Total KShs'000
Cost/valuation At 1 July 2003	11,761,951	700,218	1,109,664	1,307,076	50,596	6,475	1,485,263	16,421,243
Additions	31,223	20,166	-	89,511	-	-	-	140,900
TPS sales	(10,750)	(40,000)	(4,500)	(638,800)	-	(290)	-	(694,340)
At 30 June 2004	11,782,424	680,384	1,105,164	757,787	50,596	6,185	1,485,263	15,856,803

*During the year, 2.85 acres, being the entire acreage of Kileleshwa Project was put up for sale and an offer for KShs 43,000,000 received resulting to an impairment loss of KShs 7,595,611, which has been recognized in the financial statements. Total proceeds received as at 30 June 2004 is KShs 4,300,000 being 10% of the sale value.

(c) Provision for foreseeable losses on housing projects

	2004 KShs'000	2003 KShs'000
Mountain View Kangemi	20,167	-
Nyayo Estate Embakasi	31,222	73,846
Hazina Estate	-	30,464
Kitisuru Estate	89,511	111,155
	140,900	215,465

The above provision relates to additional costs incurred during the year on the respective housing projects.

11. LONG TERM LOAN

KShs'000

National Bank of Kenya Limited

2004	2003
	KShs'000
-	1,100,000

The long-term loan was initially granted by the Fund to the Bank in August 1999. Interest was to be chargeable on a monthly basis at two-thirds of the Bank's base lending rate while the principal was to be redeemed in equal semi annual installments.

On 22 September 2003, the Fund and National Bank of Kenya Limited mutually agreed to apply the loan for the purchase of 220 million fully paid up non-cumulative preference shares of KShs 5 each in the Bank, see note 15. In addition a further 15 million fully paid up noncumulative preference shares of KShs 5 each was allotted to compensate the Fund for the interest on the loan that had accrued from 1 January 2001 to 22 September 2003 amounting to KShs 75 million.

The preference shareholders are entitled to receive out of the profits of the company a noncumulative preferential dividend at a negotiable rate not exceeding 6% per annum whenever the dividends are declared.

12. TENANT PURCHASE SCHEME

Tenant Purchase Scheme loans

	2004	2003
	KShs'000	KShs'000
Embakasi Estate	1,548,178	1,743,416
Mountain View Estate	438,590	443,653
Haziya Estate	692,293	775,379
Kibera Highrise Estate	256,673	263,984
Prudential Estate	2,356	2,498
Tassia Estate	135,671	167,358
Kitisuru	630,164	81,873
Kapsoya Estate	57,898	60,761
	3,761,823	3,538,922
Accrued Tenant Purchase Scheme income	111,884	97,412
Less: provision on doubtful Tenant Purchase Scheme income	(90,033)	(79,437)
	3,783,674	3,556,897

Under the Tenant Purchase Scheme (TPS), the Fund's strategy is to raise funds as well as significantly reduce its investment in land and buildings by selling some of its properties to the public.

The selling price of each property is recoverable through monthly instalments over a period not exceeding 15 years (20 years for staff members). The purchasers make equal monthly instalments comprising principal and interest. The principal repayment is applied against the balance outstanding while the interest is recognised as income. Interest is charged on the balance outstanding at the beginning of the month at a rate, currently 15%, which is variable and is at the discretion of the NSSF's Board of Trustees.

Title to the property transfers upon the full payment of the purchase price.



	2004 KShs'000	2003 KShs'000
13. QUOTED EQUITIES		
Kenya Power & Lighting Company Limited		
8,553,168 KShs Ordinary 20 Shares	803,998	273,701
3,550 4% KShs 20 Preference Shares	21	21
750 7% KShs 20 Cumulative Preference Shares	6	6
	804,025	273,728
 East African Breweries Limited		
6,474,287 KShs 10 Ordinary Shares	2,881,058	1,463,189
 B.A.T (K) Limited		
20,000,000 KShs 10 Ordinary shares	4,200,000	1,960,000
 Brooke Bond (K) Limited		
1,437,500 KShs 10 Ordinary Shares	101,344	110,688
 Bamburi Portland Cement Company Limited		
57,314,178 KShs 5 Ordinary Shares	4,527,820	4,585,134
 E.A. Portland Cement Company Limited		
24,300,000 KShs 5 Ordinary Shares	1,154,250	1,117,800
 Kenya Commercial Bank Limited		
1,333,333 KShs 10 Ordinary Shares	73,333	62,667
 Housing Finance Company of Kenya Limited		
12,961,901 KShs 5 Ordinary Shares	142,581	142,581
 Firestone (EA) 1969 Limited		
8,176,800 KShs 5 Ordinary Shares	81,768	106,298
 National Bank of Kenya Limited		
96,105,519 KShs 5 Ordinary Shares	2,018,215	1,441,583
 Athi River Mining Company Limited		
870,000 KShs 5 Ordinary Shares	16,921	14,790
	16,001,315	11,278,458
 14. GOVERNMENT OF KENYA STOCKS		
10% Kenya Stock 2010	408,800	408,800

	2004 KShs'000	2003 KShs'000
15. UNQUOTED STOCKS AND EQUITIES		
Consolidated Bank of Kenya Limited:		
8,050,000 4% KShs 20 Cumulative Preference Shares	161,000	161,000
2,225,000 Ordinary KShs; 20 Shares	44,500	44,500
8.25% Nairobi City Council Stock 1990	17,497	17,497
8.5% Nairobi City Council Stock 1993	25,665	25,665
12.25% Nairobi City Council Stock 1994	338,609	338,609
235,000,000 KShs 5 Non Cumulative Preference Shares in National Bank of Kenya Limited (note 11)	1,175,000	-
	1,761,271	587,271

The Nairobi City Council defaulted on the payment of the above stock upon maturity. NSSF obtained a court judgment on 17 July 1995 for recovery of the above amount from the council. The court also directed that the amount should earn interest at the rate of 12% annually until fully recovered. The investment amounts are fully provided for per Note 19 (a).

The additional investment in National Bank of Kenya Limited represents a conversion of a long term loan and accrued interest thereon into fully paid up non-cumulative preference shares. See note 11 for more details.

16. TREASURY BILLS

Due within one year	863,657	1,515,684
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17. TREASURY BONDS

Due within 1 year	101,584	20,017
Due between 1 and 5 years	1,899,118	780,534
Due after 5 years	924,470	11,459
	2,925,172	812,010

18. DEPOSITS WITH FINANCIAL INSTITUTIONS

National Bank of Kenya Limited	-	73,000
Savings and Loan Kenya Limited*	256,554	344,252
Savings and Loan Kenya Limited - Revolving funds	114,388	94,333
Savings and Loan Kenya Limited - Short term deposit	160,110	159,738
Kenya Commercial Bank Limited	100,000	70,000
Housing Finance Company of Kenya Limited	90,000	125,000
Continental Credit Limited (in liquidation)	57,188	57,188
Middle Africa Finance Company Limited (in liquidation)	3,668	3,668
Nairobi Finance Corporation Limited (in liquidation)	3,368	3,368
Pioneer Building Society (in liquidation)	34,915	34,915
Post Bank Credit Limited (in liquidation)	553,138	553,138
Prudential Building Society (in liquidation 2005)	990,000	990,000
Rural Urban Credit Finance Limited (in liquidation)	131,765	131,765
Thabiti Finance Company Limited (in liquidation)	166,540	167,040
Trade Bank Limited (in liquidation)	197,000	197,000
Trade Finance Limited (in liquidation)	6,600	6,600
	2,865,234	3,011,005

*This deposit is held by Savings and Loan Kenya Limited under lien to secure staff mortgages.



	2004 KShs'000	2003 KShs'000
19. PROVISION FOR DOUBTFUL INVESTMENTS		
(a) Deposits with Financial Institutions:		
Prudential Building Society	990,000	990,000
Post Bank Credit Limited	553,138	553,138
Trade Bank Limited	197,000	197,000
Thabiti Finance Company Limited	166,540	167,040
Rural Urban Credit Finance Limited	131,765	131,765
Continental Credit Limited	57,188	57,188
Pioneer Building Society	34,915	34,915
Middle Africa Finance Company Limited	3,668	3,668
Nairobi Finance Corporation Limited	3,368	3,368
Trade Finance Limited	6,600	6,600
	2,144,182	2,144,682
Other Investments:		
Nairobi City Council Stocks	381,771	381,771
Consolidated Bank of Kenya Limited -unquoted securities	-	205,500
	381,771	587,271
	2,525,953	2,731,953
(b) Recovery of investments previously provided for/ reversal of provision for investments previously provided for		
Thabiti Finance Company Limited.	500	-
Consolidated Bank of Kenya Limited	205,500	165,000
Post Bank Credit Limited	-	20,106
	206,000	185,106
The full provision on unquoted equities in Consolidated Bank of Kenya Limited has been reversed.		
20. DEBTORS AND PREPAYMENTS		
Sundry debtors	782,742	712,566
Deposits and prepayments	10,181	9,808
Legal debtors	298,451	298,451
Staff debtors	116,708	120,191
Other debtors	2,374	2,374
	1,210,456	1,143,390
Less: Provision for doubtful debtors	(635,555)	(635,555)
	574,901	507,835

20. DEBTORS AND PREPAYMENTS (Continued)

(a) Included in sundry debtors is KShs 251,508,582 in relation to treasury bills discounted with the intention of investing them in a Treasury bond. The Bond did not become available and Shah Munge & Partners, the Fund's former stock broking agents, invested the funds in a fixed deposit account with Euro Bank Limited. The deposit proceeds were not refunded to the Fund upon maturity on 28 August 2003. Central Bank of Kenya has since placed Euro Bank Limited under liquidation effective 22 February 2003. A full provision has been made for this amount, as recovery is now deemed doubtful

(b) Also included in sundry debtors is KShs 324,353,699, due from Mugoya Construction Company Limited being advances made to the contractor to enable completion of Phase I and some sections of Phase II of the Nyayo Estate Embakasi. The Trustees are confident that the amounts will eventually be recovered and consequently have not made any provision in these financial statements for any of these amounts.

	2004 KShs'000	2003 KShs'000
21. INCOME RECEIVABLE		
(a) Rental receivable		
Rent - Social Security House, Nairobi	142,247	134,789
Rent - Social Security House, Mombasa	44,622	39,624
Rent - Bruce I-louse, Nairobi	23,879	32,317
Rent - Hazina Towers, Nairobi	23,959	23,426
Rent - View Park Towers, Nairobi	37,623	38,226
Rent - Hazina Estate, Nairobi	7,126	7,360
Rent - Hazina Plaza, Mombasa	237,647	237,892
Rent - Other houses	5,474	7,431
	522,577	521,065
Less:		
Provision for doubtful rent receivable	(336,810)	(323,397)
	185,767	197,668
(b) Interest receivable		
Interest on Government of Kenya Stocks	10,192	10,192
Interest on Treasury Bills	7,908	13,959
Interest on Treasury Bonds	39,084	3,101
Interest on term deposits	2,172,982	1,935,447
	2,230,166	1,962,699
Less:		
Provision for doubtful interest receivable	(2,161,233)	(1,917,784)
	68,933	44,915
Total income receivable	254,700	242,583



21. INCOME RECEIVABLE (Continued)

(c) Movement in provisions for doubtful interest receivable

	Balance at 1 July 2003 KShs'000	Provision during the year KShs'000	Recoveries during the year KShs'000	Balance at 30 June 2004 KShs'000
Consolidated Bank Limited	465,405	-	-	465,405
Prudential Building Society	1,090,091	195,800	-	1,285,891
Nairobi City Council	295,487	45,813	-	341,300
Housing Finance Company of Kenya Limited	6,766	1,303	-	8,069
Industrial Development Bank Limited	395	-	(395)	-
Co-operative Bank of Kenya Limited	708	-	(708)	-
National Bank of Kenya Limited - Guarantee fees	58,932	1,636	-	60,568
	1,917,784	244,552	(1,103)	2,161,233

Additional provision relates to interest income accrued during the year.

22. CREDITORS AND ACCRUALS

	2004 KShs'000	2003 KShs'000
House purchase deposits	90,337	60,197
Land purchase deposits	63,948	-
Sundry creditors and accruals	838,947	935,034
Project creditors	191,325	115,438
Statutory and other deductions	84,461	26,884
Unclaimed Benefits	207,583	206,491
Unclaimed Refunds	-	905
	1,476,601	1,344,949

23. MEMBERS' FUND ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2004

	2004		2003	
	Contributions KShs'000	Interest KShs'000	Total KShs'000	Total KShs'000
Balance brought forward at 1 July	26,976,824	26,142,437	53,119,261	50,352,942
Receipts for the year:				
Standard contributions	3,531,494	-	3,531,494	3,310,103
Special contributions	265,186	-	265,186	250,760
Penalties	50,372	-	50,372	41,260
Sale of duplicate membership cards	64	-	64	123
Other income	3	-	3	10
	3,847,119	-	3,847,119	3,602,256
Payments in the year:				
Age	287,714	499,093	786,807	648,156
Survivors	120,241	185,998	306,239	276,048
Invalidity	10,195	15,457	25,652	38,465
Withdrawal	361,980	726,922	1,088,902	1,114,823
Emigration	9,563	9,287	18,850	12,167
Refund	5,229	-	5,229	5,102
Funeral	1,303	-	1,303	-
	(796,225)	(1,436,757)	(2,232,982)	(1,363,053)
Excess of receipts over payments for the year	3,050,894	(1,436,757)	1,614,137	(2,094,761)
Provision for accrued interest on contributions	-	1,327,982	1,327,982	1,507,495
Balance carried forward at 30 June	30,027,718	26,033,662	56,061,380	53,119,261

The cumulative contributions amount of KShs 30 billion includes KShs 8.6 billion (2003 - KShs 8.7 billion) which is held in suspense account pending allocation to individual members' accounts



24. REVALUATION RESERVE

	Quoted equities KShs'000	Property KShs'000	Total KShs'000
Balance as at 1 July 2003	9,014,906	282,159	9,297,065
Surplus on revaluation of quoted equities	4,722,857	-	4,722,857
Balance as at 30 June 2004	13,737,763	282,159	14,019,922

25. REVALUATION OF QUOTED EQUITIES

Quoted Equities were revalued as follows:	KShs'000
Market value of Quoted Equities at 30 June 2004	16,001,316
Less: Cost of Quoted Equities at 30 June 2004	(2,263,552)
Surplus at 30 June 2004	13,737,764
Less: Surplus at 30 June 2003	(9,014,906)
Surplus transferred to Revaluation Reserve	4,722,858

26. ACCUMULATED DEFICIT

	2004 KShs'000	2003 KShs'000
Balance at 1 July	(13,994,212)	(12,029,930)
Deficit for the year	(511,944)	(758,871)
Revaluation surplus realised in the year	-	53,413
Interest on Members' Funds	(1,327,982)	(1,258,824)
Balance at 30 June	(15,834,138)	(13,994,212)

Interest on Members' funds has been provided at the rate of 2½%.

27. NOTES TO THE CASH FLOW STATEMENT

	2004 KShs'000	2003 KShs'000
(a) Reconciliation of deficit for the year to cash flows from operating activities		
Deficit for the year	(511,944)	(758,871)
Adjustments for:		
Depreciation	46,544	32,415
Interest on loan converted to unquoted investment	(75,000)	-
Reversal of provision for doubtful investments	(206,000)	(185,106)
Impairment loss on suspended projects	7,595	5,759
Impairment losses on housing projects	140,900	215,465
Gain on disposal of property, plant and equipment	(1,776)	(6,325)
Impairment loss on undeveloped land	6,819	-
Net loss on disposal of land	371	142,688
Operating deficit before working capital changes	(592,491)	(553,975)
(Increase)/decrease in accrued TPS income	(3,876)	4,517
(Increase)/decrease in debtors and prepayments	(67,066)	244,160
(Increase)/decrease in income receivable	(12,117)	66,752
Increase in creditors and accruals	131,653	12,636
	48,594	328,065
Withholding tax deducted at source	(432)	(179)
Cash flows from operating activities	(544,329)	(226,089)

(b) Movement in cash and cash equivalents

	2004 KShs'000	2003 KShs'000	Change in year KShs'000
Cash and bank balances	53,882	311,175	(257,293)
Treasury Bills	863,657	1,515,684	(652,027)
Bank overdraft	(222,645)	(286,693)	64,048
	694,894	1,540,166	(845,272)

28. FINANCIAL INSTRUMENTS

Interest rate risk

The table below summarizes the interest rate profile of the Fund's financial assets and liabilities using the balance sheet date and the periods in which they re-price, whichever is earlier.

	Effective interest rate	Within 1 month KShs '000	More than 1 month and less than 3 months KShs '000	More than 3 month and less than 12 months KShs'000	Due between 1 and 5 years KShs '000	Due after 5 years KShs '000	Non interest bearing KShs '000	Total KShs'000
Tenant Purchase Scheme								
debtors	15%	23,822	47,644	214,398	1,143,456	2,354,354	-	3,783,674
Quoted equities	-	-	-	-	-	-	16,001,315	16,001,315
Government of Kenya Stocks	-	-	-	-	-	408,800	-	408,800
Unquoted stocks and equity	12%	-	-	-	-	1,762,271	-	1,762,271
Treasury bills	2.51%	431,050	432,607	-	-	-	-	863,657
Treasury bonds	3.37%	-	10,066	91,518	1,899,118	924,470	-	2,925,172
Deposits with financial institutions	-	214,388	160,110	-	90,000	2,400,736	-	2,865,234
Debtors	-	-	-	-	-	-	574,901	574,901
Income receivable (net)-rent	-	-	-	-	-	-	185,763	185,763
Income receivable (net)-interest	-	-	-	-	-	-	68,934	68,934
Cash and bank balances	-	-	-	-	-	-	53,882	53,882
Bank overdraft	-	-	-	-	-	-	(222,645)	(222,645)
Creditors and accruals	-	-	-	-	-	-	(1,476,602)	(1,476,602)
		669,260	650,427	305,916	3,132,574	7,850,631	15,185,548	27,794,356

The bank overdraft reflected in the financial statements is a book overdraft.

29. BASIS OF NON CONSOLIDATION OF ASSOCIATE INTEREST

The financial statements of the NSSF are prepared in accordance with S.3 I of the NSSF Act. The section requires NSSF balance sheet to show in detail the assets and liabilities of the Fund. As a result, although NSSF owns 96,105,519 ordinary shares and 235,000,000 preference shares in National Bank of Kenya Limited (NBK), representing 4,810 shareholding of the bank, the operations of the bank have not been consolidated in the Fund's financial statements as required by the International Accounting Standards.

Had consolidated financial statements been prepared based on the latest audited financial statements of NBK as at 31 December 2004, NSSF's share in the operations of NBK would have been as follows:

	NSSF's share	
	KShs '000	KShs '000
Profit after taxation	382,611	183,653
Accumulated deficit	(4,914,761)	(2,359,085)

30. RELATED PARTY TRANSACTIONS

(a) Income earned from related parties

	2004 KShs '000	2003 KShs '000
National Bank of Kenya Limited - Interest income	75,000	1,011
National Bank of Kenya Limited - Guarantee fees	1,636	19,176
NASSEFU Savings and Credit Society Limited - Rental income	215	282
East African Portland Cement Company Limited - Dividend	42,525	-
	119,376	20,469

(b) Expenses incurred from related parties

Mwangi, Sumbeiywo and Associates - Preparation of legal opinion on Sololo Outlets case	-	2,500
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(c) Balances due from related parties

TPS Debtors	723,812	724,475
National Bank of Kenya Limited	3,253,785	1,100,000
East African Portland Cement Company Limited	1,154,250	1,117,800
Consolidated Bank Limited	670,905	670,905
	5,802,752	1,824,475

The related party transactions are at mutually agreed terms



31. CONTINGENT LIABILITIES

• *Sololo Outlets Limited Vs NSSF*

As at 30 June 2002 NSSF had a contingent liability of KShs 4.95 billion, relating to a claim made by Sololo Outlets Limited in High Court Civil Case No. 957 of 2000 for an alleged breach of contract in the development of Hazina Estate in South B. NSSF filed its defence and counter claim of KShs 3.9 billion. The case has been on going since 1993 and a final ruling is yet to be reached. In 2003, the plaintiff amended the claim down to KShs 3.81 billion, by eliminating the interest element on the amounts demanded.

Claims arising out of suspended projects

In 1998, the development of some projects was suspended contrary to contractual agreements entered into between the Fund and the respective contractors. In addition, some of the projects were scaled down from the originally agreed project design as per the contract. Subsequently some of the contractors have submitted claims to the Fund demanding compensation for breach of contract as follows:

• *Moktar Daddah development*

The project contractor, Ms Mavji Construction Limited, has submitted various claims based on losses incurred amounting to KShs 2,266,805,640 as follows:

	KShs
Loss arising from project scope reduction	554,020,747
Loss for suspension of works and delay on completion	1,121,882,843
Scaling down of finishes	91,088,115
Loss and expense claim	62,977,141
Interest on delayed payment	422,138,512
Claim for VAT penalties and interest suffered by contractor	14,698,282
	2,266,805,640

In 2002, the Fund paid an amount of KShs 80 million with respect to contractual claims submitted by the contractor and KShs 300 million in 2003.

A further KShs 24 million was approved and paid in the current year.

The electrical subcontractors, Relcon Power Systems Limited, has also submitted a claim for loss associated with suspension and extension of works amounting to KShs 45,542,879 and an additional amount of KShs 10,611,028 being interest on delayed payments. KShs 3,478,815 was paid to this subcontractor in the current year, with respect to these claims.

Aqua Plumbing Company Limited, plumbing subcontractors, have submitted claims for loss incurred as a result of suspension and extension of works amounting to KShs 52,125,821 and interest on delayed payments amounting to KShs 2,317,713. KShs 4,040,301 was paid to this subcontractor in the current year, with respect to these claims.

Another subcontractor, Halls Equatorial, has submitted a claim for loss incurred as a result of suspension of works of KShs 888,330 and interest on delayed payments amounting to KShs 597,133.

According to the quantity surveyor, a further KShs 12,219,054 is claimed by subcontractors with respect to restructuring and KShs 7,704,059 with respect to interest on delayed payment and retention.

• ***Kitisuru development***

On 2 October 2002, the project contractor, Ms Pan African Builders Limited (PABCO), submitted a revised financial claim computed up to 11 September 2002 for KShs 980,183,391 of which KShs 546,944,436 had been evaluated by the project quantity surveyors, Ms Integrated YMR Partnership. The Fund approved the payment of KShs 189,340,000 of which KShs 156,355,719 was paid in the prior year and capitalised as cost of the project. Through a court ruling made on 17 July 2003, the Fund was ordered to pay Centurion Builders, a subcontractor of PABCO, KShs 30,515,000. This amount was paid in the current year out of certified amounts due to PABCO.

On 19 June 2001 the project architects, Harbans Singh Associates, had presented a fee note of KShs 30,350,314 for supervision fees.

On 5 November 2003, the project quantity surveyors, Ms Integrated YMR Partnership, presented a fee note of KShs 32,583,492 being additional post contract quantity surveying fee arising from delays in building operations and changes in instructions. On 27 May 2004, YMR Partnership presented a demand for KShs 85,400,000 with respect to monies due to them. A court case was filed by YMR Partnership against NSSF in January 2005.

In addition, two subcontractors, Ms Allied Plumbers Limited and Ms E.A Electrical Company Limited, have submitted claims of KShs 108,357,941 and KShs 126,355,626 respectively being cost associated with restructuring of the project. The Fund has approved the payment of KShs 14 million and KShs 18 million respectively of which KShs 8,750,000 and KShs 11,250,000 respectively was paid in 2003 and KShs 5,250,000 and KShs 6,750,000 respectively in the current year. These payments have been capitalised as project costs. All certified claims from these two subcontractors are now paid.

• ***Karen development***

In April 2003, the proposed project contractor Ms Mugoya Construction Company Limited submitted a revised claim of KShs 1,015,428,307 arising from the suspension of the proposed project and accumulated interest, which is being accrued at 30% per annum.

In addition, as at 30 June 2002 there were unpaid fee notes dated 3 September 1998 and 25 October 2001 for KShs 14,811,952 and KShs 10,304,752 respectively due to the quantity surveyors, Ms Muambi & Associates.

On 29 June 1998, the architects of Karen Housing project, Hughes & Polkinghorne, raised two fee notes for architectural services of KShs 29,623,903 for stage A and B, outline proposals, and KShs 44,435,855 for stage C, scheme design. These fee notes have not been paid and are in dispute.

• ***Nyayo Estate Embakasi***

On 6 March 2001, NSSF received a fee note for structural design consultancy work with respect to Embakasi Estate, Phase I, from Otieno Odongo & Partners, consulting engineers, amounting to KShs 27,657,463. This amount has not been settled to date as the Fund Management contends that the work was not commissioned to the engineers.



• *Africa Planning and Design Consultants (APDC) Vs NSSF*

Sololo Outlets Limited engaged APDC as the architects for South B (Hazina) Estate project. On termination of the contract between NSSF and Sololo Outlets Limited in 1993, architects fees amounting to KShs 64.9 million had not been paid. APDC enjoined NSSF in the suit claiming that the Fund was the principal to Sololo Outlets Limited, the project developers.

APDC has also sued NSSF for KShs 42.6 million for professional fees in respect of Quantity Surveyors services rendered to the Fund. On 25 August 2004, APDC submitted a revised demand note claiming fees with respect to feasibility studies and design work as follows:

	KShs
Architectural fees	70,653,265
Feasibility studies	20,000,000
Preparation of unpriced bill of quantities	24,000,000
Breach of contract	22,930,784
	137,584,049
VAT at 16%	22,345,906
Interest from 30 June 1992	1,248,570,494
	1,408,500,449

The court hearing of the case is yet to commence.

• *James Nderitu Gachagua Vs NSSF*

On 26 January 2000, the Plaintiff sued the Fund for KShs 50.8 million, being Quantity Surveyors fees in respect of the proposed Kitengela Housing Scheme. The plaintiff claims that he was commissioned by NSSF to carry out quantity survey work on the proposed project before it was later suspended by the Fund. NSSF has disputed the claim. However, the matter is in court and final ruling is yet to be reached. In addition, on 15 April 1999, Ms Wambugu Mathews Associates demanded KShs 54.9 million for architectural services rendered in respect of the same project. The Fund has yet to respond to their demand.

Levy due to the Retirement Benefits Authority

In 2002, the RBA gave notice to the Fund that the Retirement Benefits levy payable to the Authority, which fell due on 31 October 2001 had remained unpaid and so continued to attract interest at 5% per month. In a letter dated 18 November 2002, the RBA indicated that the outstanding levy for the years 2000, 2001 and 2002 was estimated at KShs 24,731,968 per year, a total of KShs 74,195,904. Effective 29 December 2004, the Fund obtained an extension of time of compliance with respect to the provisions of Section 16 and 34(4) of the RBA Act and regulations 8(2)(h), 8(2)(k) and 15(1) and 39(1) of the Retirement Benefits (Occupational Retirement Benefits Scheme) Regulations 2000. The time of compliance is extended to 30 June 2006. The exemption is granted via a legal notice gazetted on 14 January 2005.

Bishops Road Plot

There is a claim against the Fund filed in 2002 by AJ Limited & Ronald Shompa, to cancel transfer of the Bishops Road Plot to NSSF. The cost in the Fund's books is KShs 228.4 million.

Azari Insurance Brokers

There is a claim against the Fund of KShs 8 million from Azari Insurance Brokers for cancellation of an insurance contract thereby resulting to a breach of contract.

Tassia Estate

Rachel Njoki Wainaina has filed a representative suit against the Fund on her behalf and on behalf of all members of Embakasi Fedha Self Help Group — Civil case No.529 of 2003, claiming that the Tassia land had been allocated to them. However on 26 October 2004, the case was dismissed with costs and NSSF granted an eviction order.

Marketing Support Services

There is a claim against the Fund of KShs 15 million from Marketing Support Services who are suing the Fund for breach of contract in respect of educational radio programs, developed for the Fund which the Fund did not accept.

Barclays Bank of Kenya Limited Trustees of the Rattansi Educational Trust

There is a claim against the Fund by Rattansi Educational Trust of KShs 12 million for damages suffered to walls and floor slabs of Rattansi property from excavation works during the construction of the Monrovia Road project.



32. COMPLIANCE WITH RETIREMENT BENEFITS ACT

The NSSF Amendment Act came into operation on 23 February 2002. Section 3 of the Act provides that NSSF shall be subject to all the provisions of the Retirement Benefits Act. The Fund has not complied with the following provisions of the Retirement Benefits Act and the rules under the Act.

- a) S 38(1) (b) provides that no scheme funds shall be invested contrary to any guidelines specified for that purpose. The retirement benefits rules provide that investment in land and buildings should not exceed 30% of the fund value. However, as at 30 June 2004, investment in land and buildings accounted for 52% of the fund value.
- b) S 38 (1) (c) provides that no scheme funds shall be invested with a bank, non-banking financial institution, insurance company, building society or other similar institution with a view to securing loans, including mortgages, at a preferential rate of interest or for any other consideration to the sponsor, trustees, members or the managers of the scheme. However as at 30 June 2004, the following instances had not been resolved:
 - The Fund's investments in deposits amounting to KShs 256 million are held under lien to secure staff mortgages with Savings and Loan Kenya Limited.
 - The Fund has outstanding car loans advanced to employees of KShs 3.6 million and is owed KShs 94 million by Savings and Loans which represents reimbursements due on amounts originally advanced to its employees as staff mortgages. Ex-staff car loans amount to KShs 1.8 million while advances and imprests amount to KShs 17 million.
- c) Rule 36 (Occupational retirement benefit schemes) requires the Fund to account for any un-remitted contributions in its financial statements. However, the Fund is currently accounting for contributions on a receipt basis.
- d) 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. However, as at 30 June 2004, NSSF has KShs 8.6 billion of contributions held in suspense.
- e) Rule 34 (1) of the occupational rules for a retirement benefit scheme provides that assets of the scheme should be carried at values not exceeding the net realizable values or the market values. Also, the value of land should not exceed the value determined by a registered valuer once every three years. However, the last valuation for investment in land and buildings was carried out in 1996. As a result, the Fund should obtain an updated valuation.

33. COMPLIANCE WITH TRUSTEES ACT

On 22 September 2003, the long term loan that the Fund had advanced to National Bank of Kenya Limited, together with interest accrued from 1 January 2001 to that date amounting to KShs 75 million, was applied towards the purchase of 235 million non-cumulative preference shares at a par value of KShs 5 each in the bank.

We note that the non-cumulative preference shares issued are not quoted on the stock exchange nor had NBK paid a dividend on its ordinary shares which ranked for dividend on each of the five years immediately preceding the year in which the investment in non-cumulative preference shares was made as required by Section 4(d) of the Trustees Act, (Cap 167).

34. COMPLIANCE WITH INCOME TAX (NATIONAL SOCIAL SECURITY FUND) (EXEMPTION) RULES, 2002

According to Section 45 of the First Schedule of Income Tax Act effective 18 June 1996, the Fund is exempted from taxation. However, Income Tax (National Social Security Fund) (Exemption) Rules, 2002 effective 1 July 2002 requires the Fund to comply with certain regulations for it to remain exempt. These regulations mainly relate to maintenance of accounts and valuation of the Fund's assets. The Fund has not complied with these regulations as the Board of Trustees has not determined the market values of all the Fund's assets, especially the land and buildings.

35. INCORPORATION

NSSF is incorporated under the NSSF Act, (Chapter 258 of the Laws of Kenya), which came into effect under Legal Notice No.28 of 1965. NSSF is a body corporate managed by a Board of Trustees appointed by the Minister responsible for Social Security.

36. CURRENCY

The financial statements are presented in Kenya shillings (KShs).

