

NATIONAL SOCIAL SECURITY FUND

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FOR THE YEAR ENDED

30 JUNE 2010



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CORPORATE INFORMATION

1. Principal Activity

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 to register members, receive their contributions, manage funds of the scheme, process and ultimately pay out benefits to eligible members or dependants.

2. Board of Trustees

NSSF operates under a Board of Trustees. The Board is a body with representation from Workers (through Central Organization of Trade Unions), Employers (through the Federation of Kenya Employers) and the Government of Kenya (through the Ministries of Labour and also Finance). 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. Current members are as shown below:

- a) Mr. Adan D. Mohamed,EBS - Chairman
- b) Mr. Alex Kazongo - Managing Trustee
- c) Ms. Beatrice N. Kituyi, CBS - Trustee
- d) Mr. Joseph Kinyua, CBS - Trustee
- e) Mr. Francis Atwoli, MBS - Trustee
- f) Mr. Cornelius Nyang'un - Trustee
- g) Dr. Cleopa Mailu, EBS - Trustee
- h) Mrs. Jacqueline Mugo - Trustee
- i) Mr.Arthur O. Papa - Trustee

3. Senior Management

As part of its transformation to enhance service delivery to its members, the National Social Security Fund (NSSF) appointed the following persons to the substantive positions of General Manager. They reported for duty on 1 November, 2010:

- a) Ms. Hope Mwashumbe-General Manager (Corporate Affairs/Corporation Secretary)
- b) Mr. Simon Peter Ole Nkeri-General Manager (Operations)
- c) Mr. Joseph Kimote-General Manager (Strategy, Research and Development)
- d) Mr. Joseph Tiampati-General Manager (Social Security)
- e) Mr. Tom Odongo-General Manager (Investments)



4. Registered Office

National Social Security Fund,
NSSF Building Bishops Road,
P.O. Box 30599, 00100
Nairobi
Tel: 2729911
Fax: 2727882.
Email: info@nssfkenya.co.ke

5. Main Bankers

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

6. Auditors

The Corporations Auditors in accordance with the Public Audit Act, 2003 were;-
Auditor General,
Kenya National Audit Office,
P.O. Box 30084, 00100
Nairobi
Kenya

7. Our Vision

To be a world class centre of excellence in the provision of social security.

8. Our Mission

To provide quality basic social security to members through registration, collection of contributions, prudent fund management and timely payment of benefits.



CHAIRMAN'S STATEMENT

Introduction

It gives me great pleasure to report that the Fund recorded exceptional performance during the year ended 30 June 2010. The Fund continues to grow stronger year by year, recording significant improvement in contributions and the quality and size of investments.

As at 30 June, total assets of the Fund stood at Kshs.98.3 billion. In terms of net increase, growth in scheme funds posted was Kshs.17.1 billion or 331% compared to the previous year. The Board and management are confident that the Fund is firmly on the growth path, and should be able to realize even better results in the coming years.

We believe the new Constitution will give the economy a fresh impetus to achieve greater heights in economic and social development. The Fund is therefore expected to benefit from the enhanced growth in terms of higher levels of contributions and investment income. The gazettement of 1-4 category of employers last November gave the Fund another reason to smile. At its peak, this bracket is expected to embrace 4.5 million Kenyans, mostly from the informal sector.

Operating Environment

Key sectors of the economy are showing strong signs of recovery, raising prospects that growth could surpass the four percent (4%) target that the Treasury has set for the year. Performance indicators during the year show that growth has been strong in agricultural sector leading to a renewal of demand for goods and services which translates to more employment for future Fund members.

Improved agricultural output, a rebound in global commodity prices, strong first quarter earnings in the financial services sector and the changing investor fortunes at the Nairobi Stock Exchange (NSE) all point to a possible reversal of the steep decline of the past two years. This is a pointer towards improved investments for the Fund.

The Kenyan Diaspora has also played an important role in the development of the country through remittances and promotion of Kenya's economy abroad, leading to more investor's confidence, more employment hence more members to the Fund.

Kenya seeks to position itself as the information and communications technology hub of East Africa. Once this is achieved, there will be a reduction in costs, increased penetration of internet connections, improved investment opportunities, more regional trade leading to new employment opportunities. This will further translate to additional future Fund members.

Conclusion

With the new constitution in place, the prevailing conducive environment and the fast growing economy, the Board of Trustees is on top gear with various structural changes aimed at transforming the Funds service delivery and further enhances its member base to cover a larger Kenyan population.

Signed
ADAN D. MOHAMED
CHAIRMAN
BOARD OF TRUSTEES

**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 (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, 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 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 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 controls.

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.

Chairman:

Signed
Adan D. Mohamed

Managing Trustee:

Signed
Alex Kazongo

Date:

13th April 2011



STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2010

<u>DESCRIPTION</u>	<u>Note</u>	JUNE 2010 <u>KSHS.'000</u>	JUNE 2009 <u>KSHS.'000</u>
DEALINGS WITH MEMBERS			
Contributions Receivable	2	6,789,513	6,317,984
Benefits Payable	3	<u>2,206,305</u>	<u>2,552,455</u>
Net additions from dealings with members		<u>4,583,208</u>	<u>3,765,529</u>
RETURN ON INVESTMENTS			
Investments Income	4	6,663,768	4,566,502
Change in Market Value of Investments	5	<u>9,541,447</u>	<u>(10,846,853)</u>
Total Return on Investments		<u>16,205,215</u>	<u>(6,280,352)</u>
TOTAL REVENUE		20,788,423	(2,514,822)
Administration Expenses	6	3,428,305	4,897,950
NET INCREASE/(DECREASE) IN SCHEME FUNDS DURING THE PERIOD		<u>17,360,118</u>	<u>(7,412,772)</u>

**STATEMENT OF NET ASSETS AS AT 30 JUNE 2010**

	Note	JUNE 2010	JUNE 2009
<u>Non-current Assets</u>		<u>KSHS. '000</u>	<u>KSHS. '000</u>
Property, Plant and Equipment	7	133,453	157,300
<u>Investments</u>			
Undeveloped Land/Plots	8	7,180,892	5,927,053
Land and Buildings	9	20,722,427	21,538,772
Tenant Purchase Schemes	10	5,428,066	4,178,101
Quoted Equities	11	36,221,872	30,487,608
Government Stocks	12	408,800	408,800
Unquoted Stocks and Equity	13	1,380,500	1,380,500
Treasury Bonds	14	23,596,448	15,665,700
Corporate Bond	15	1,043,300	126,200
Deposits with Financial Institutions	16	432,309	461,776
Net Investments		96,414,613	80,174,509
<u>Current Assets</u>			
Debtors and Prepayments	17	1,232,914	1,453,558
Taxation	18	911,279	911,279
Accrued Income	19	777,616	738,705
Cash & Bank Balances	20	1,358,315	458,305
Total Current Assets		4,280,124	3,561,848
<u>Current Liabilities</u>			
Creditors and Accruals	21	2,221,540	1,745,772
Total Current Liabilities		2,221,540	1,745,772
Net Current Assets		2,058,584	1,816,076
NET ASSETS		98,606,651	82,147,886
TOTAL FUNDS EMPLOYED	22	98,606,651	82,147,886

Signed on behalf of the Board of Trustees - National Social Security Fund

Chairman:

Signed
Adan D. Mohamed

Managing Trustee:

Signed
Alex Kazongo

Date:

13th April 2011
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STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2010

	JUNE 2010 <u>KSHS.'000</u>	JUNE 2009 <u>KSHS.'000</u>
Reconciliation of Net Increase in Assets to Cash Flows from Operating Activities		
Net Increase in Assets	17,360,118	(7,412,772)
Adjustments for:		
Depreciation	75,128	147,735
Reversal of Accrued Contributions	(977,095)	(817,168)
Reversal of Provision for Hospital Road Plots	-	5,474
Accrued Rent Expenses	118,511	102,067
Increase/(Decrease) in Provisions	-	(1,201,143)
Provision for Mugoya Construction Ltd	-	(324,356)
Profit on Sale of Property and equipment	2,612	(21)
Market Loss/(Gain) of Properties and Securities	(9,541,447)	10,846,853
Operating Surplus /(Deficit) before working capital changes	<u>7,037,827</u>	<u>1,346,670</u>
Changes in Working Capital		
Decrease/(Increase) in Debtors & Prepayments	220,644	92,493
Decrease/(Increase) in Accrued Income	(38,911)	18,329
Increase/(Decrease) in Creditors & Accruals	475,768	253,673
	<u>657,501</u>	<u>364,495</u>
Cash flows from operating activities	<u>7,695,327</u>	<u>1,711,164</u>
Investing activities		
(Acquisition) /Redemption of Stocks	(1,312,930)	443,444
(Acquisition) /Redemption of Treasury Bonds	(5,857,196)	(3,351,642)
(Acquisition) /Redemption of Treasury Bills	-	-
(Acquisition) /Redemption of Corporate Bond	(917,100)	(76,200)
Placement of Deposits with Financial Institutions	29,467	526,985
Development of Land & Buildings	(1,064,895)	(892,065)
Proceeds from Sale of Land/Plots	400,000	429,473
Receipts from Tenant Purchase Scheme	1,875,734	739,800
Purchase of Property, Plant and Equipment	54,213	49,446
Proceeds from Sale of Property, Plant and Equipment	(2,612)	21
Cash flow from Investing Activities	<u>(6,795,318)</u>	<u>(2,130,741)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents in the Year	900,010	(419,576)
Opening Cash and Cash Equivalents	458,305	877,882
Cash and Cash Equivalents as at 30 June	<u>1,358,315</u>	<u>458,305</u>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. SIGNIFICANT ACCOUNTING POLICIES

The principle 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.

a) Basis of Preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) 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 have been included 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.

b) Accounting for contributions

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 (2009 – 5.0% and 2010 - 5.0%).

**c) Income Recognition****i) Dividends**

Dividend income from investments is recognized when the Fund's rights to receive payment as a shareholder have been established.

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

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.

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 for property, plant and equipment over their expected useful lives as follows:



PARTICULARS	%
Freehold and Long Term 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

(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 with, in the revenue statement.

(ii) Unquoted Equities

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

(iii) Treasury Bills and Bonds and Government Bearer Bonds

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

g) Investments in Land and Buildings and Plots

Land and buildings and undeveloped land/plots are stated at valuation/fair value. Investment properties under construction are measured at cost.

**h) Cash and Cash Equivalents**

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

i) Impairment

The carrying amounts 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 recognized whenever the carrying amount of an asset exceeds its recoverable amount.

j) 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 2010.

k) Employee Benefits

The majority for the Fund's 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.

l) Actuarial Valuation

An actuarial valuation was carried out by Professional Actuaries and a report issued on 30 June 2008. The valuation was done on an attained Age method. The actuarial report indicates that the value of liabilities of the scheme was Kshs.67,525 million compared to the value of assets amounting to Kshs.64,270 million giving rise to a shortfall of Kshs.3,255 million. This compared to Kshs.3,959 million shortfall in January 2004 is an improvement of Kshs. 704 million. On accounting basis, the assets are over accrued liabilities by Kshs.23.014 billion and a funding ratio of 134%.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

2. CONTRIBUTIONS RECEIVABLE

	JUNE 2010	JUNE 2009
<u>Particulars</u>	<u>KSHS. '000</u>	<u>KSHS. '000</u>
Contributions Receivable -Employer	3,742,335	3,482,431
Contributions Receivable -Employee	<u>3,047,178</u>	<u>2,835,553</u>
Total Contributions Receivable	<u>6,789,513</u>	<u>6,317,984</u>

3. BENEFITS PAYABLE

	JUNE 2010	JUNE 2009
<u>Particulars</u>	<u>KSHS. '000</u>	<u>KSHS. '000</u>
Age Benefit Payments	724,443	1,060,390
Survivors Benefit	297,217	303,432
Invalidity Benefit	30,001	31,024
Withdrawal Benefit	1,137,429	1,137,604
Emigration Grant	10,896	12,818
Refunds	2,800	3,893
Funeral Grant	<u>3,519</u>	<u>3,295</u>
Total Benefit Payable	<u>2,206,305</u>	<u>2,552,455</u>

**4 INVESTMENTS INCOME**

	JUNE 2010	JUNE 2009
<u>PARTICULARS</u>	<u>KSHS. '000</u>	<u>KSHS. '000</u>
Dividends	1,512,812	1,030,069
Gains on Stock Sales	1,571,477	501,811
Rental Income	809,293	897,851
Interest on Term Deposits and Treasury Bills/Bonds	2,117,657	1,559,188
Interest on Tenant Purchase Scheme	620,666	539,176
Gain on Sale of Assets	(2,612)	21
Reversal of Provision for Hospital Road Plot	-	5,474
Other Income	34,475	32,913
Total Investment Income	<u>6,663,768</u>	<u>4,566,502</u>

5 CHANGE IN MARKET VALUE OF INVESTMENTS**a) Quoted Equities****Revaluation Surplus Analysis**

	JUNE 2010	JUNE 2009
	<u>KSHS. '000</u>	<u>KSHS. '000</u>
Quoted Equities at Market Value	36,221,872	30,487,608
Quoted Equities at Cost	<u>(10,520,337)</u>	<u>(9,272,063)</u>
Revaluation Surplus at 30th June	25,701,535	21,215,545
Less: Surplus Brought Forward	<u>(21,215,545)</u>	<u>(34,193,214)</u>
Net Market Gain/(Loss) in Equities 30th June	4,485,990	(12,977,669)
Add: Revaluation Surplus-Plots, Land & Buildings	2,498,298	2,130,816
: Revaluation of Treasury Bonds	2,557,158	-
Surplus Transferred to Statement of Changes in Net Assets	<u>9,541,447</u>	<u>(10,846,853)</u>



	JUNE 2010 KSHS.'000	JUNE 2009 KSHS.'000
6 ADMINISTRATION COSTS		
Staff Expenses	2,499,942	2,479,920
Administrative Expenses	830,513	733,375
Depreciation Charge	75,128	147,735
Board Expenses	22,722	11,420
Provision for Mugoya Construction Ltd	-	324,356
Provision for Doubtful Investments	-	1,201,143
TOTAL ADMINISTRATION COSTS	<u>3,428,305</u>	<u>4,897,950</u>

7 PROPERTY, PLANT AND EQUIPMENT

	LAND KSHS.'000	COMPUTER / MICROFILM KSHS.'000	MOTOR VEHICLES KSHS.'000	OFFICE EQUIPMENT KSHS.'000	OFFICE FURNITURE KSHS.'000	FITTINGS & FURNISHINGS KSHS.'000	TOTAL KSHS.'000
Cost/Valuation							
At 30/6/2009	-	710,479	329,417	217,520	117,587	26,079	1,401,082
Disposal	-	-	(77,236)	-	-	-	(77,236)
Additions	-	(5)	47,839	1,949	4,322	109	54,213
At 30/6/2010	-	710,474	300,020	219,469	121,909	26,188	1,378,059
Depreciation							
At 01/07/2009	-	685,219	269,873	176,676	87,653	24,360	1,243,782
Disposal	-	-	(74,303)	-	-	-	(74,303)
Charge for the Year	-	21,673	37,084	10,384	5,203	783	75,128
At 30/06/2010	-	706,892	232,654	187,060	92,856	25,144	1,244,607
<u>Net Book Value</u>							
At 30/6/2010	-	3,581	67,365	32,409	29,053	1,044	133,453
At 30/6/2009	-	25,259	59,544	40,844	29,934	1,718	157,300

**8 UNDEVELOPED LAND/PLOTS****Analysis of Undeveloped Land**

	JUNE 2010 <u>KSHS.'000</u>	JUNE 2009 <u>KSHS.'000</u>
Ngong Road Plot	220,000	200,000
Tassia Estate	20,448	17,114
Nyali Plot	9,832	98,322
Mtwapa Plot	400,000	320,000
Athi River Plot	595,446	595,446
Outering Road Plot	122,350	122,350
Mavoko Plots	2,984,845	1,777,000
Upper Hill Plot	77,000	70,000
Langata Plot	-	400,000
Bamburi Plot	228,800	208,000
Bishops Road Plot	302,500	275,000
Muthaiga Plot	495,000	450,000
Forest Edge Langata	110,000	100,000
Hospital Road Plot	-	-
Machakos Plot	82,500	75,000
Kileleshwa Plot	45,473	42,346
Karen Plot	307,971	307,971
Kenyatta Avenue Plot	<u>1,861,332</u>	<u>1,551,110</u>
	7,863,497	6,609,658
Less: Provision for Losses on Suspended Projects	<u>(682,605)</u>	<u>(682,605)</u>
	<u>7,180,892</u>	<u>5,927,053</u>

*The overall increase in value of un-developed land/plots was as a result of revaluation done in June 2010.



9 LAND AND BUILDINGS

Analysis of Land and Buildings

	JUNE 2010	JUNE 2009
	<u>KSHS.'000</u>	<u>KSHS.'000</u>
Social Security House - Nairobi	5,390,000	4,900,000
Social Security House -Mombasa	550,000	500,000
Bruce House - Nairobi	1,485,000	1,350,000
Hazina Trade Centre -Nairobi	2,365,000	2,150,000
Hazina Estate	1,091,173	1,091,173
Social Security House Annex - Nairobi	960,789	602,748
Hazina Towers	858,000	780,000
View park Towers	1,320,000	1,200,000
Hazina Plaza Mombasa	440,000	400,000
Nyayo Estate Embakasi	8,882,582	11,301,428
Ojijo Road - Nairobi	385,000	350,000
Mountain View Development	488,447	488,444
Kitisuru Development	690,590	689,132
State House Road	605,000	550,000
Milimani Flats	275,000	250,000
Kapsoya Estate	<u>6,185</u>	<u>6,185</u>
	25,792,766	26,609,111
Less:		
Provision for Foreseeable Losses	<u>(5,070,339)</u>	<u>(5,070,339)</u>
	<u>20,722,427</u>	<u>21,538,772</u>

*The overall increase in value of land and building was as a result of revaluation done in June 2010

**10. Tenant Purchase Scheme**

	JUNE 2010 <u>KSHS.'000</u>	JUNE 2009 <u>KSHS.'000</u>
Embakasi Estate I	528,055	744,943
Mountain View Estate	237,807	295,639
Hazina Estate	264,667	332,709
Kitisuru Estate	244,623	425,124
Kibera H/Rise Estate	145,483	166,747
Prudential Estate	748	946
Tassia Estate	271,773	452,893
Kapsoya Estate	23,995	36,497
Embakasi Estate II	<u>3,549,930</u>	<u>1,643,822</u>
	5,267,081	4,099,320
Accrued TPS Income	<u>242,051</u>	<u>159,845</u>
	5,509,130	4,259,165
Less:		
Provision for Doubtful Income	<u>81,064</u>	<u>81,064</u>
	5,428,066	4,178,101

**11 QUOTED SECURITIES**

	JUNE 2010 <u>KSHS.'000</u>	JUNE 2009 <u>KSHS.'000</u>
Kenya Power Lighting Co. Ltd.		
6,413,801 Kshs. 20 Ordinary Shares, 3,550 cum. Preference Shares, 750 Cum Preference Shares	1,282,793	936,447
East African Breweries Limited		
41,518,458 Kshs.10 Ordinary Shares	7,514,841	6,452,769
B.A.T (K) Limited		
5,700,136 Kshs.10 Ordinary Shares	1,225,529	2,184,423
Access Kenya Ltd		
2,400,000 Kshs. 1 Ordinary Shares	48,600	-
KenGen Company Ltd.		
26,332,722 ordinary Shares	453,638	252,315
Bamburi Portland Cement Co. Ltd		
53,382,743 Kshs 5 Ordinary Shares	10,676,549	7,885,498
E.A. Portland Cement Co. Ltd.		
24,300,000 Kshs.5 Ordinary Shares	2,794,500	1,701,000
Kenya Commercial Bank Limited		
161,047,389 Kshs. 10 Ordinary Shares	2,995,481	3,259,066

**QUOTED SECURITIES (CONTINUED)**

	JUNE 2010 <u>KSHS.'000</u>	JUNE 2009 <u>KSHS.'000</u>
Housing Finance Co. of Kenya Ltd. 15,716,448 Kshs. 5 Ordinary Shares	330,045	265,608
Sameer Africa Ltd. 5,677,550 Kshs. 5 Ordinary Shares	50,246	29,523
National Bank of Kenya Ltd. 96,105, 519 Kshs.5 Ordinary Shares	3,796,168	3,820,194
Barclays Bank of Kenya Ltd. 45,027,667 Ordinary Shares	2,207,733	1,867,125
Standard Bank of Kenya Ltd. 5,785,952 Ordinary Shares	852,556	553,009
Nation Media Group Kenya Ltd. 7,667,712 Ordinary Shares	870,553	895,426
Athi River Mining Company Ltd. 870,000 Ordinary Shares @ Kshs.5	121,800	83,520
Kenya Re 20,089,638 Ordinary Shares @ Kshs.5	243,085	261,165
Safaricom Limited 130,647,400 Ordinary Shares @ Kshs.0.05	<u>757,755</u> 36,221,872	<u>40,519</u> 30,487,608
Add: Shares IN DSL (Cost)	1,201,143	1,201,143
	37,423,015	31,688,751
Less: Provision for Doubtful Investments DSL shares	(1,201,143)	(1,201,143)
	<u>36,221,872</u>	<u>30,487,608</u>

12 GOVERNMENT STOCKS

	JUNE 2010 <u>KSHS.'000</u>	JUNE 2009 <u>KSHS.'000</u>
10% Kenya Stock 2010	<u>408,800</u> 408,800	<u>408,800</u> 408,800

**13. UNQUOTED STOCKS AND EQUITY**

	JUNE 2010	JUNE 2009
	<u>KSHS. '000</u>	<u>KSHS. '000</u>
Consolidated Bank Limited Shares		
8,050,000 4% Kshs.20 Cumulative Preference Shares	161,000	161,000
2,225,000 Kshs.20 Ordinary 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	253,435	253,435
NBK Shares 235 million N/cum pref. shares	<u>1,175,000</u>	<u>1,175,000</u>
	1,677,097	1,677,097
Less: Provisions for Doubtful Investments*	<u>-296,597</u>	<u>-296,597</u>
	<u>1,380,500</u>	<u>1,380,500</u>

*** Analysis of Provisions for Doubtful Investments**

	JUNE 2010	JUNE 2009
	<u>KSHS. '000</u>	<u>KSHS. '000</u>
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	<u>253,435</u>	<u>253,435</u>
	<u>296,597</u>	<u>296,597</u>

14. TREASURY BONDS

	JUNE 2010	JUNE 2009
	<u>KSHS. '000</u>	<u>KSHS. '000</u>
Due within 1 year	639,840	1,266,000
Due between 1 and 5 years	8,101,572	5,624,700
Due after 5 years	<u>14,855,036</u>	<u>8,775,000</u>
	<u>23,596,448</u>	<u>15,665,700</u>

15. CORPORATE AND INFRASTRUCTURE BONDS

	JUNE 2010	JUNE 2009
	<u>KSHS. '000</u>	<u>KSHS. '000</u>
KenGen Infrastructure Bond	917,100	-
Barclays Bank Corporate Bond	<u>126,200</u>	<u>126,200</u>
	<u>1,043,300</u>	<u>126,200</u>

**16. DEPOSITS WITH FINANCIAL INSTITUTIONS**

	JUNE	JUNE
	2010	2009
	<u>KSHS. '000</u>	<u>KSHS. '000</u>
Prudential Building Society (In liquidation)	989,900	989,900
Housing Finance Company of Kenya Ltd	-	-
Post Bank Credit Limited (In liquidation)	553,138	553,138
Revolving Funds (Savings and Loan Ltd.)	115,493	108,904
Continental Credit Ltd. (In liquidation)	57,188	57,188
Middle Africa Finance Company (In liquidation)	3,668	3,668
Nairobi Finance Corporation Ltd. (In liquidation)	3,368	3,368
Pioneer Building Society (In liquidation)	34,981	34,981
Rural Urban Credit Finance Ltd. (In liquidation)	131,765	131,765
Savings and Loan Ltd.	314,129	324,947
Thabiti Finance Company Ltd. (In liquidation)	166,540	166,540
Trade Bank Ltd. (In liquidation)	197,000	197,000
Trade Finance Ltd. (In liquidation)	6,600	6,600
Kenya Commercial Bank Ltd	<u>2,621</u>	<u>27,859</u>
	2,576,391	2,605,858
Less: Provision for Doubtful Investments *	<u>(2,144,082)</u>	<u>(2,144,082)</u>
	<u>432,309</u>	<u>461,776</u>

*** ANALYSIS OF PROVISION FOR DOUBTFUL INVESTMENTS**

	JUNE	JUNE
	2010	2009
	<u>KSHS. '000</u>	<u>KSHS. '000</u>
Continental Credit Ltd.	57,188	57,188
Rural Urban Credit Ltd.	131,765	131,765
Pioneer Building Society Ltd	34,915	34,915
Middle Africa Finance Ltd	3,668	3,668
Nairobi Finance Corporation Ltd.	3,368	3,368
Trade Bank Ltd.	197,000	197,000
Trade Finance Ltd.	6,600	6,600
Post Bank Credit Ltd.	553,138	553,138
Thabiti Finance Ltd.	166,540	166,540
Prudential Building Society Ltd	<u>989,900</u>	<u>989,900</u>
	<u>2,144,082</u>	<u>2,144,082</u>

**17. DEBTORS AND PREPAYMENTS**

	JUNE 2010 <u>KSHS. '000</u>	JUNE 2009 <u>KSHS. '000</u>
Sundry Debtors*	670,209	757,041
Deposits	12,286	12,286
Prepayments	1,538	2,142
Staff Debtors**	308,391	375,870
Legal Debtors (Mutula Kilonzo)	298,451	298,451
Contributions Arrears***	911,365	977,095
Other Debtors	<u>2,374</u>	<u>2,374</u>
	2,204,615	2,425,259
Less:		
Provision for doubtful Debtors ****	<u>(971,701)</u>	<u>(971,701)</u>
	<u>1,232,914</u>	<u>1,453,558</u>
<u>Analysis of Sundry Debtors*</u>		
Shah Munge Associates	251,516	251,516
Bounced Cheques	53,038	146,029
ECASSA Debtors	5,870	2,744
Milligan & Co. Ltd	25,744	25,744
Regent Management Ltd	150	150
Lloyd Masika Ltd	4,787	4,787
Staff Pension Debtor	4,748	1,714
Mugoya Construction Ltd (In receivership)	<u>324,356</u>	<u>324,356</u>
	<u>670,209</u>	<u>757,041</u>

**DEBTORS AND PREPAYMENTS (CONTINUED)****Analysis of Staff Debtors****

	JUNE 2010 <u>KSHS.'000</u>	JUNE 2009 <u>KSHS.'000</u>
Commutated Pension	37,787	54,190
Staff House Loans	12,537	77,319
Advances and Imprest	5,016	4,526
Staff Car Loans	<u>253,051</u>	<u>239,835</u>
	<u>308,391</u>	<u>375,870</u>

Analysis of Contributions Arrears***

	JUNE 2010 <u>KSHS.'000</u>	JUNE 2009 <u>KSHS.'000</u>
Outstanding for less than 30 days	435,846	383,798
Outstanding for more than 30 days	<u>475,519</u>	<u>593,297</u>
	<u>911,365</u>	<u>977,095</u>

Analysis of Provision for doubtful Debtors ****

	JUNE 2010 <u>KSHS.'000</u>	JUNE 2009 <u>KSHS.'000</u>
Shah Munge & Partners	251,516	251,516
Legal Debtors (Mutula Kilonzo)	298,451	298,451
Bounced Cheques (Contributions)	71,634	71,634
Milligan & Company Ltd	25,744	25,744
Mugoya Construction Ltd (In receivership)	<u>324,356</u>	<u>324,356</u>
	<u>971,701</u>	<u>971,701</u>

Shah Munge & Partners' debt relates to amounts receivable on an illegal fixed deposit placed by the company on NSSF's behalf with Euro Bank Ltd (in liquidation). The amount is deemed not recoverable.

18. 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 1st July, 2002 the Fund should comply with certain regulations for it to remain exempt. With effect from 2006/2007 financial year the Fund has complied with most regulations for exemption.



The amounts reflected in the statement of net assets relate to taxes overpaid in years prior to the exemption together with any withholding tax on interest and dividends deducted at source as at 30 June, 2010.

Negotiations between the Fund and Kenya Revenue Authority (KRA) are ongoing on this issue.

19. ACCRUED INCOME

	JUNE 2010 <u>KSHS. '000</u>	JUNE 2009 <u>KSHS. '000</u>
Rent Social Security House Nairobi	242,199	256,956
Rent-Social Security House,Mombasa	32,111	16,420
Rent- Bruce House, Nairobi	33,748	31,437
Rent-Hazina Towers, Nairobi	19,589	19,004
Rent-Hazina Estate, Nairobi	14,538	11,472
Rent View Park Towers	15,613	16,299
Rent-Other S.S. Houses	5,941	1,527
Rent - Hazina Plaza	104	104
Interest/Div. on Term Deposits/Equities	<u>2,590,194</u>	<u>2,561,908</u>
	2,954,037	2,915,126
Less:		
Provision for doubtful accrued Income:		
Rent	(237,543)	(237,543)
Interest	<u>(1,938,878)</u>	<u>(1,938,878)</u>
	<u>777,616</u>	<u>738,705</u>

20. CASH AND CASH EQUIVALENTS

	JUNE 2010 <u>KSHS. '000</u>	JUNE 2009 <u>KSHS. '000</u>
Bank Balances	1,357,951	458,305
Cash on Hand	<u>364</u>	<u>-</u>
	<u>1,358,315</u>	<u>458,305</u>

**21. CREDITORS AND ACCRUALS**

	JUNE 2010 <u>KSHS.'000</u>	JUNE 2009 <u>KSHS.'000</u>
House Purchase Deposits	594,511	558,734
Sundry Creditors and Accruals*	1,259,939	785,187
Project Creditors	12,926	12,999
Statutory and other deductions	89,880	54,111
Unclaimed Benefits	<u>264,284</u>	<u>334,741</u>
	<u>2,221,540</u>	<u>1,745,772</u>

Analysis of Sundry Creditors and Accruals*

	JUNE 2010 <u>KSHS.'000</u>	JUNE 2009 <u>KSHS.'000</u>
Legal fees Payable		
Mutula Kilonzo	293,836	293,836
B. M. Musau	29,250	29,250
Okoth, Ndengu and Kiplagat	7,278	7,278
Others:		
Prepaid Rent	2,983	2,983
Sundry Creditors	659,808	206,928
Staff Loan Deposits	9,493	9,493
Stale Cheques	32,300	33,070
Audit fees	6,570	6,570
Rental Deposits	99,911	93,713
Accrued Rent Expenses	<u>118,511</u>	<u>102,067</u>
	<u>1,259,939</u>	<u>785,187</u>



22. TOTAL CAPITAL EMPLOYED - STATEMENT OF CHANGES IN ACCUMULATED MEMBERS' FUNDS AS AT 30 JUNE, 2010

The total assets (*Funds Employed – Kshs. 98,606,651,000*) are broken down as shown below:

Particulars	Members' Funds	Accumulated Reserves	Reserve Fund	Total
	Kshs.000	Kshs.000	Kshs.000	Kshs. '000
Restated Balance	67,525,347	13,686,070	9,297,064	90,508,481
At June, 2009				
Interest on Members' Accounts**	3,128,351	(3,128,351)		-
Audit Adjustments 2007/2008 and 2008/2009		(947,823)		(947,823)
Reversal of Accrued Contributions 2007/2008	(817,168)	817,168		-
Net Increase/(Decrease) in Assets in the period		(7,412,772)		(7,412,772)
Balance at 30 June, 2009	69,836,530	3,014,292	9,297,064	82,147,886
At June, 2010				
Interest on Members' Accounts**	3,779,583	(3,779,583)		-
Audit Adjustments 2008/2009 and 2009/2010		(901,353)		(901,353)
Reversal of Accrued Contributions 2008/2009	(593,297)	593,297		-
Net Increase/(Decrease) in Assets in the period		17,360,118		17,360,118
Balance at 30 June, 2010	73,022,817	16,286,770	9,297,064	98,606,651

** Interest on Members' Accounts

The Fund has declared interest of 5% on members accounts (2008/2009 - 5%).



23. BASIS OF NON-CONSOLIDATION OF INTEREST IN ASSOCIATE

The financial statements of NSSF are prepared in accordance with S.31 of the NSSF Act Cap 258. 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 preference shares in National Bank of Kenya Limited (NBK), the operations of the bank have not been consolidated in the Fund's financial statements as required by the International Financial Reporting Standards.

Had consolidated Financial Statements been prepared based on the latest audited financial statements of NBK as at 31 December, 2009, NSSF's share in the operations of NBK would have been as follows:-

	DECEMBER 2009 <i><u>KSHS.'000</u></i>	DECEMBER 2008 <i><u>KSHS.'000</u></i>
Profit after taxation	<u>702,950</u>	<u>596,113</u>
Accumulated Surplus/(Deficit)	<u>25,737</u>	<u>(660,221)</u>

24. RELATED PARTY TRANSACTIONS

	JUNE 2010 <i><u>KSHS.'000</u></i>	JUNE 2009 <i><u>KSHS.'000</u></i>
(a) Income earned from related parties		
Kenya Commercial Bank – Dividend income	160,457	153,243
East African Portland Cement Company	31,590	-
NASSEFU Savings and Credit Society Limited – Rental income	<u>215</u>	<u>215</u>
	<u>192,262</u>	<u>153,458</u>
(b) Balances due from related parties		
TPS Debtors	<u>242,051</u>	<u>161,354</u>
	<u>242,051</u>	<u>161,354</u>



25. CONTINGENT LIABILITIES AND CONTRACTS

a) CONTRACTS/COMMITMENTS

(i) Project works at Nyayo Estate Embakasi are ongoing and Kshs.4.2 billion is expected to be paid during 2010/2011 financial year.

(ii) Refurbishment, fire escape doors, generators, electrical installations and consultancies of SSH Nairobi, Bruce House, View Park, Hazina Towers and SSH Mombasa is expected to be done at a projected cost of kshs.277.5 million in 2010/2011 financial year.

(iii) Project works for Social Security House Annex Parking Silo are expected to be done at a cost of Kshs.150 million in 2010/2011 financial year.

(iv) Concept papers for project developments at Hazina Village Mavoko, Kenyatta Avenue and State-House Road houses are to be carried out at a cost of Kshs. 1.0 billion during 2010/2011 financial year.

(v) Extension of Hazina Trade Centre, Nairobi is expected to cost Kshs. 1.2 billion during 2010/2011 financial year.

b) LIABILITIES

(i) Sololo Outlets Limited Vs NSSF

As at 30 June, 2003 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.804 of 2002 for an alleged breach of contract in the development of Hazina Estate in South B. NSSF has filed its defence and counter claim of Kshs.3.1 billion. The case has been on going since 1993 and a final ruling is yet to be reached.

(ii) Africa Planning and Design Consultants (APDC) Vs NSSF

APDC was engaged by Sololo Outlets Limited 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 allegedly rendered to the Fund. The hearing of the case is yet to commence.

**(iii) James Nderitu Gachagua Vs NSSF**

On 26 January 2002, 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.

c) LAND AND BUILDINGS**(i) Nyayo Estate, Embakasi**

Mugoya Construction Company Limited has sued the Fund claiming Kshs. 7.058 billion against a counter claim by NSSF of Kshs. 9.873 billion. Included in project costs for Nyayo Estate, Embakasi and the counter-claim are questionable payments of Kshs.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 are remote. These and other matters relating to dealings with Mugoya Construction Company Limited are under arbitration for determination. However, full provision of Kshs. 324.356 million was made in the 2008/2009 financial statements.

(ii) SSH Annex Parking Silo

Though the project is ongoing, NK Brothers Ltd have sued the fund to the tune of Kshs. 6.5 Billion plus interest and costs. However, the fund has lodged a counter claim of Kshs. 747.837 Million. The case is under arbitration and chances of NK Brothers succeeding are remote.

(iii) Ojijo Road Houses, Nairobi

Though the property was degazetted, it still has value and the Fund has a legal title to it.

(iv) Forest Edge Plot, Langata

The Fund is pursuing for allocation of alternative land after it emerged that the plot is part of Ngong forest, a public trust land.



c) CASH LOSSES

(i) Westlands Branch Fraud

The amount of Kshs. 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.

(ii) 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 Kshs. 9,327,627 in question has been provided as contingent.

26. COMPLIANCE WITH RETIREMENT BENEFITS ACT

The NSSF Amendment Act came into operation on 23 February 2003. S3 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:-

V 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 2010, NSSF had Kshs 6.5 billion of contributions held in suspense account. A task force has been established to work on the reduction and elimination of the amount in suspense account.

27. COMPLIANCE WITH TRUSTEES ACT

On 22nd September 2003, the long term loan that the Fund had advanced to National Bank of Kenya Limited together with interest accrued from 1st January, 2001 to that date amounting to Ksh. 1,175 million, was applied towards the purchase of 235 million non-cumulative preference shares at par value of Kshs 5 each in the bank.

The non-cumulative preference shares issued are not quoted on the stock exchange nor had NBK paid any dividend on its ordinary shares which ranked for dividend on each of the five (5) 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).

28. CURRENCY

The Financial Statements are presented in Kenya shillings (Kshs).