

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

FINANCIAL STATEMENTS

30 JUNE 2018

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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KENYATTA NATIONAL HOSPITAL
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TRUSTEES, PROFESSIONAL ADVISERS AND OTHER INFORMATION

THE BOARD OF TRUSTEES	Dr. Simon Monda Mr Calvin Nyachoti Mr Wycliffe Litsalisa Mr Jared Owiny Mr Kipkemoi Arap Bor Mrs. Lily Koros Tare Mr. Michael Kihuga Mr Wilson Owour Eliphaz Choge	Chairman Retired on 30/04/2018 Retired on 22/06/2017 Retired on 28/06/2018 Appointed on 06/06/2017
TRUST SECRETARY	Mr Calvin Nyachoti	
FUND ADMINISTRATOR	Zamara Actuaries, Administrators & Consultants Limited Benefit Administration Services 10 th Floor, Landmark Plaza, Argwings Kodhek Road P.O. Box 52439 – 00200 Nairobi	
FUND ACTUARY	Zamara Actuaries, Administrators & Consultants Limited Consultants and Actuaries 10 th Floor, Landmark Plaza, Argwings Kodhek Road, P.O. Box 52439 – 00200 Nairobi	
FUND MANAGERS	STANLIB Kenya Limited CFC House Mamlaka Road/,Nyerere road P. O. Box 30550-00100 Nairobi. British- American Insurance Company (Kenya) Limited Britam Centre, 8 th Floor P.O Box 30375 – 00100 Nairobi	

KENYATTA NATIONAL HOSPITAL
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TRUSTEES, PROFESSIONAL ADVISERS AND OTHER INFORMATION (continued)

CUSTODIAN	NIC Bank Kenya Limited NIC House Masaba Road Branch P.O. Box 44599-00100 Nairobi.
	Equity Bank Limited Equity Center, Upper Hill - Hospital Road P.O Box 75104-00200 Nairobi
PROPERTY MANAGER	Ebony Estates Limited Hughes Building, 2 nd Floor , Kenyatta Avenue P.O Box 19815 – 00100 Nairobi
AUDITOR	King'ang'i Kamau & Company Certified Public Accountants (Kenya) Electricity House, Harambee Avenue P. O. Box 5698 – 00200 Nairobi.
REGISTERED OFFICE	Kenyatta National Hospital P.O Box 20723 – 00202 KNH Hospital Hill Road Nairobi.

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

REPORT OF THE TRUSTEES (continued)

The Trustees have pleasure in submitting their report and the financial statements for the year ended 30 June 2018.

ESTABLISHMENT, NATURE AND STATUS OF THE SCHEME

The Scheme was established, and is governed; by a Trust Deed dated 17 July 1991 as amended on 19 October 2016. It is a defined benefit scheme and provides, under the rules of the Scheme, pension benefits for the staff of Kenyatta National Hospital. It is an exempt approved scheme under the Income Tax Act and is registered with the Retirement Benefits Authority.

The scheme was closed to new members and the accrual of future benefits on 30 June 2011 when the sponsor discontinued payment of contribution and the entry for new members to the scheme in compliance to the notice of discontinuance and adoption of the amended scheme. The current rates of contribution are 5% for the Employee and 10% for the Employer. The accrued benefits for existing members were closed and locked in as at 30 June 2011, the benefits thereon will remain frozen in the scheme until their retirement age. Members who were over 45 years at the time of closure of the DB scheme and who had been contributing to the DC scheme were given the option to transfer their benefits to the DB scheme and continue contributing in this scheme. The deferred pensions in respect of members and beneficiaries will be revalued inline with the actuarial assumption of a salary escalation of 5% per annum between date of closure 30.06.2011 to retirement date.

MEMBERSHIP

a) Summary of joiners and leavers	2018	2017
Total members at start of the year	5,055	5,272
Adjustment	-	(13)
Retired with pensions	(113)	(106)
Death in service	(18)	(5)
Other secessionists	(13)	(24)
Deferred members	9	22
Pensioners	260	(91)
	-----	-----
Total members at end of the year	5,180	5,055
b) Total members	-----	-----
Existing members	3,772	3,907
Deferred members	468	468
Pensioners	940	680
	-----	-----
	5,180	5,055
	-----	-----

ACTUARIAL VALUATION STATEMENT

The scheme trust deed, rules and regulations require the scheme to undertake an actuarial valuation every three years. The latest valuation in record was at 30 June 2014 with a benefits liability of Sh.8.6 billion against the schemes assets of Sh.5.8 billion equivalent to 67% with an underfunding there on of 33% equivalent to Sh.2.8 billion.

The trustees are in the process of negotiating with the sponsor on the remedial action to cover the underfunding.

KENYATTA NATIONAL HOSPITAL
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REPORT OF THE TRUSTEES

RESULTS FOR THE YEAR

The statement of changes in net assets available for benefits on page 10 shows an increase in the net assets of the Scheme for the year of Sh. 380,511,783 (2017: Sh. 275,598,214) and the statement of net assets available for benefits for the year on page 11 shows the Scheme's net assets of Sh. 7,346,292,203 (2017:Sh. 6,965,780,420).

INVESTMENT OF FUNDS

Under the terms of their appointment, STANLIB Kenya Limited and British- American Insurance Company (Kenya) Limited are responsible for the investment of available funds.

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

As at 30 June, the investments' portfolio was as follows:

	2018 Shs	2018 %	2017 Shs	2017 %	RBA limits %
Kenya government securities	2,533,086,644	35	2,353,263,205	34	90
Quoted equity investments	1,984,055,467	27	1,529,482,828	22	70
Fixed and call deposits	202,975,186	3	350,809,479	5	30
Corporate bonds	230,563,774	3	408,286,018	6	20
Investment property	2,351,644,006	32	2,294,942,749	33	30
	<u>7,302,325,077</u>	<u>100</u>	<u>6,936,784,279</u>	<u>100</u>	

All the investments are within the statutory limits set by Retirement Benefits Authority except for investment property.

TRUSTEES

The Trustees are appointed in accordance with the Retirement Benefits Act. The names of the Trustees are shown on page 3.

AUDITORS

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

Signed on behalf of the Trustees


Trust Secretary

24 SEPTEMBER 2018

KENYATTA NATIONAL HOSPITAL
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STATEMENT OF TRUSTEES' RESPONSIBILITIES

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

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

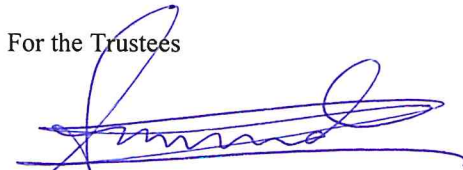
- i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii) Selecting and applying appropriate accounting policies; and
- iii) Making accounting estimates and judgments that are reasonable in the circumstances.

The Trustees are of the opinion that the financial statements give a true and fair view of the net assets available for benefits and changes in net assets available for benefits and the cash flows in accordance with International Financial Reporting Standards and the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000.

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

The financial statements were approved by the Board of Trustees on 24/09/18 2018 and signed on its behalf by:

For the Trustees



Trustee

24 SEP.....2018
Date



Trustee

24 SEP.....2018
Date



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
KENYATTA NATIONAL HOSPITAL STAFF SUPERANNUATION SCHEME

Report on the financial statements

Opinion

We have audited the accompanying financial statements of Kenyatta National Hospital Staff Superannuation Scheme, set out on pages 10 to 26, which comprise the statement of net assets available for benefits as at 30 June 2018, the statement of changes in net assets available for benefits and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial transactions of the scheme during the year ended 30 June 2018 and of the disposition at that date of its assets and liabilities, other than liabilities to pay retirement and other benefits falling due after the end of the year in accordance with International Financial Reporting Standards and the requirements of the Retirement Benefits Act.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 5 of the financial statements; the schemes' funding level based on actuarial valuation of 30 June 2014 was at 67% equivalent to Sh.5.8 billion. The deficit there on of 33% (Sh.2.8 billion) is expected to be transferred into the scheme by the Kenyatta National Hospital in respect of the accrued (past service) liability. These financial statements have not taken into account the amount receivable from Kenyatta National Hospital.

Basis for Opinion

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

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

Responsibilities of Trustees for the Financial Statements

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

In preparing the financial statements, the trustees are responsible for assessing the Scheme's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Scheme's financial reporting process.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

KENYATTA NATIONAL HOSPITAL STAFF SUPERANNUATION SCHEME (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Scheme to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Scheme's audit. We remain responsible for our audit opinion.

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

King'ang'i Kamau

Certified Public Accountants (Kenya)



KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED 30 JUNE 2018

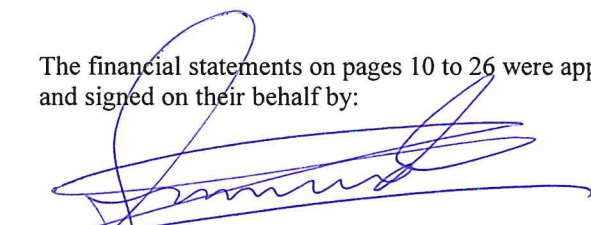
	Note	2018 Sh	2017 Sh
CONTRIBUTIONS AND BENEFITS			
Contributions	4	155,916,155	163,447,367
Transfers in	5	150,000,000	16,565,887
Payments to leavers	6	(564,495,103)	(313,501,145)
		<hr/>	<hr/>
Net deficit from dealings with members		(258,578,948)	(133,487,891)
		<hr/>	<hr/>
RETURNS ON INVESTMENTS			
Investment income	7	457,670,333	471,183,412
Gain on disposal of treasury bonds investments	13	1,984,200	6,456,834
Gain/(loss) on disposal of quoted equity investments	14	1,431,223	(56,045,277)
Fair value loss on investment property	10	(64,608,278)	(152,663,056)
Fair value gain on treasury bonds	13	47,751,791	96,626,545
Fair value gain on equity investments	14	228,307,721	122,229,613
Impairment loss on imperial bank deposits	11	-	(54,156,421)
Impairment loss on chase Bank corporate bond	12	(4,000,000)	-
Investment management expenses	8	(22,214,660)	(15,452,154)
		<hr/>	<hr/>
NET RETURNS ON INVESTMENTS		646,322,330	418,179,496
Administrative expenses	9	(7,231,599)	(9,093,391)
		<hr/>	<hr/>
Net return for the year		639,090,731	409,086,105
		<hr/>	<hr/>
Increase in net assets		<u>380,511,783</u>	<u>275,598,214</u>

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
30 JUNE 2018

	Note	2018 Sh	2017 Sh
ASSETS			
Investment property	10	2,351,644,006	2,294,942,749
Fixed and call deposits	11	202,975,186	350,809,479
Corporate bonds	12	230,563,774	408,286,018
Government securities	13	2,533,086,644	2,353,263,205
Quoted equity investments	14	1,984,055,467	1,529,482,828
Bank balance	15	11,106,125	1,364,482
Contribution receivable	16	26,361,876	27,020,148
Other receivables	17	42,539,529	41,961,336
		<hr/>	<hr/>
		7,382,332,607	7,007,130,245
		<hr/>	<hr/>
LIABILITIES			
Unpaid benefits	18	8,642,870	15,461,820
Accrued expenses	19	27,397,534	25,888,005
		<hr/>	<hr/>
		36,040,404	41,349,825
		<hr/>	<hr/>
NET ASSETS		<u>7,346,292,203</u>	<u>6,965,780,420</u>

The financial statements on pages 10 to 26 were approved and authorised for issue by the trustees on 24/09/2018 and signed on their behalf by:


Trustee

24 SEP 2018
Date


Trustee
24 SEP 2018
Date

KENYATTA NATIONAL HOSPITAL
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 Sh	2017 Sh
CASH FLOWS FROM OPERATING ACTIVITIES			
Contributions received		156,574,427	151,748,449
Special Contribution Actuarial deficit top up		150,000,000	-
Transfers from DC		-	16,565,887
Benefits paid		(569,917,527)	(329,986,926)
Administrative expenses paid		(2,532,601)	(13,441,152)
Rent deposits		4,699,000	987,800
		<hr/>	<hr/>
Net cash used from operating activities		(261,176,701)	(174,125,942)
		<hr/>	<hr/>
CASH FLOW FROM INVESTING ACTIVITIES			
Investment income received		450,042,905	440,862,245
Proceeds on disposal of equity investments		45,927,622	275,500,722
Proceeds on disposal of treasury bonds		404,174,561	440,251,939
Proceeds on maturity of treasury bills		151,268,111	737,500,000
Proceeds on disposal of corporate bonds		171,077,900	42,014,100
Purchase of treasury bonds		(466,074,350)	(820,224,435)
Purchase of treasury bills		(215,678,800)	(135,566,120)
Purchase of equity investments		(270,761,317)	(52,638,389)
Purchase of corporate bonds		-	(28,300,000)
Additional costs on investment property		(121,347,975)	(783,605,804)
Investment management expenses paid		(25,544,606)	(10,213,537)
		<hr/>	<hr/>
Net cash used in investing activities		123,084,051	105,580,721
		<hr/>	<hr/>
Decrease in cash and cash equivalents		(138,092,650)	(68,545,221)
At start of the year		352,173,961	420,719,182
		<hr/>	<hr/>
At the end of the year	15	<u>214,081,311</u>	<u>352,173,961</u>

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The principal accounting policies adopted remain unchanged from the previous year and are set out below;

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) New standards and amendments to published standards effective for the year ended 30 June 2018

At the date of authorization of these financial statements, various revised standards and interpretations were issued and effective. These standards and interpretations did not result in the change in the scheme's accounting policies or result in any material impact on the financial statements of the entity.

(ii) New and amended interpretations in issue but not yet effective in the year 30 June 2018

At the date of authorization of these financial statements, various revised standards and interpretations were in issue but not yet effective. The adoption of these standards and interpretations when effective will not result in the change in the scheme's accounting policies or result in any material impact on the financial statements of the scheme.

(iii) Early adoption of standards

The scheme did not early adopt any new or amended standards in 2018.

Basis of preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial instruments. The principal accounting policies adopted remain unchanged from the previous year and are set out below;

Contributions and benefits

Contributions receivable and benefits payable are recognized in the year in which they fall due.

Investment income

Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable

Dividend income is recognized when the scheme's right to receive payment is established.

Financial Instruments

I Recognition

Financial assets and liabilities are initially recognized at cost using settlement date accounting, when the scheme has become a party to the contractual provisions of the instrument.

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Financial instruments

II Classification

The Scheme classifies its financial assets into the following categories;

i) Receivables

Receivables are financial assets with fixed or determinable payments and are not quoted in an active market. After initial measurement at cost, receivables are subsequently remeasured to amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

ii) Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments classified as fair value through profit or loss are initially recognised at cost and subsequently re-measured to fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realised and unrealised gains and losses are included in the statement of changes in net assets available for benefits. Interest earned whilst holding held for trading investments is reported as interest income.

iii) Held to maturity investments

Held to maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Fund has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowances for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation and losses arising from impairment of such investments are recognised in the statement of changes in net assets available for benefits.

iv) Available for sale financial assets

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices are classified as available for sale and are initially recognised at cost. Available for sale investments are subsequently re-measured to fair value, based on quoted bid prices or amount derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using effective interest method, and foreign exchange gains and loss on monetary assets which are recognized in profit or loss. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

II **Classification (Continued)**

Short term deposits

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

Government securities

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

Corporate bonds

Corporate bonds are classified at amortised cost through profit and loss and are stated at amortised cost.

Equity shares

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

Financial liabilities

Financial liabilities are recognised initially at cost, and subsequently measured at amortised cost.

Investment property

Investments properties are initially measured at cost and subsequently at fair value as determined by a registered valuer and are held for rental income generation.

Impairment of assets

The carrying amounts of the Scheme's assets are reviewed annually at the end of each reporting period to determine if there is any indication of impairment. If such a condition is identified, the asset's net recoverable amount is estimated. Where the asset's carrying amount exceeds its net recoverable amount, it's written down immediately to the recoverable amount and the resulting impairment loss is treated as an expense in the statement of changes in net assets available for benefits.

Fair value

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

Foreign currencies

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

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

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

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

Impairment losses on financial assets

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

3 FINANCIAL RISK MANAGEMENT

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

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

Market risk

(i) Foreign exchange risk

The Scheme had no investments in offshore markets at 30 June 2018 and was therefore not exposed to foreign exchange rates fluctuations. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

(ii) Cash flow and fair value interest rate risk

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

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (Continued)

(iii) Price risk

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

At 30 June 2018, if the prices of all equity investments had increased/decreased by 5% with all other variables held constant, the increase or decrease in net assets would amount to Sh. 99,202,773 (2017:Sh. 76,474,141). Holding all other factors constant, an impact of a 5% increase or decrease in prices of Government securities would have increased or decreased net assets by Sh. 126,654,332 (2017:Sh. 117,663,160).

Credit risk

Credit risk arises from cash and cash equivalents, fixed deposits, interest bearing instruments and other receivables. The credit risk on liquid funds and bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The investment manager assesses the credit quality of each investment, taking into account its credit rating. Individual risk limits are set based on internal or external ratings in accordance with limits set by the trustees. The trustees have approved the investments of a larger portion of the portfolio of investment in Government of Kenya debt securities which have a low credit risk and no default record.

The amount that best represents the Scheme's maximum exposure to credit risk at 30 June is made up as follows:

	2018 Sh	2017 Sh
Government securities	2,533,086,644	2,353,263,205
Corporate bonds	230,563,774	408,286,018
Fixed and time deposits	202,975,186	350,809,479
Bank balances	11,106,125	1,364,482
Other receivables	42,539,529	41,961,336
	<hr/>	<hr/>
	3,020,271,258	3,155,684,520
	<hr/> <hr/>	<hr/> <hr/>

There are no collateral held against these asset. There are no concentration risks as the investments are diversified. None of the above financial assets are past due or impaired except for investment in Imperial Bank Limited deposits amounting to Shs. 54,156,421 and whose recovery is doubtful after the bank was placed under receivership in 2016 and investment in Chase Bank Limited Corporate Bond Shs. 4,000,000 which is under receivership. Imperial bank deposits and Chase bank corporate bond are fully impaired.

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

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

The table below represents the Scheme's undiscounted financial assets and liabilities per their maturity dates.

	1-3 Months Sh	3-12 Months Sh	Over 1 year Sh	Total Sh
30 JUNE 2018				
Government securities	44,635,265	1,101,980,327	1,386,471,052	2,533,086,644
Corporate bonds	230,563,774	-	-	230,563,774
Short term deposits	202,975,186	-	-	202,975,186
Cash at bank	11,106,125	-	-	11,106,125
Other receivables	42,539,529	-	-	42,539,529
Payables & accruals	(36,040,404)	-	-	(36,040,404)
	<hr/>	<hr/>	<hr/>	<hr/>
Net liquidity gap	495,779,475	1,101,980,327	1,386,471,052	2,984,230,854
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	1-3 Months Sh	3-12 Months Sh	Over 1 year Sh	Total Sh
30 JUNE 2017				
Government securities	103,998,634	9,258,076	2,240,006,495	2,353,263,205
Corporate bonds	50,776,640	150,348,719	207,160,659	408,286,018
Short term deposits	270,126,224	80,683,255	-	350,809,479
Cash at bank	1,364,482	-	-	1,364,482
Other receivables	41,961,336	-	-	41,961,336
Payables & accruals	(41,349,825)	-	-	(41,349,825)
	<hr/>	<hr/>	<hr/>	<hr/>
Net liquidity gap	426,877,491	240,290,050	2,447,167,154	3,114,334,695
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value of financial assets and liabilities (Continued)

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

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

	Level 1 Sh	Level 2 Sh	Level 3 Sh	Total Sh
30 JUNE 2018				
Government securities	2,533,086,644	-	-	2,533,086,644
Quoted equities	1,984,055,467	-	-	1,984,055,467
Term deposits	-	202,975,186	-	202,975,186
Corporate bonds	230,563,774	-	-	230,563,774
Investment property	-	-	2,351,644,006	2,351,644,006
	<u>4,747,705,885</u>	<u>202,975,186</u>	<u>2,351,644,006</u>	<u>7,302,325,077</u>
30 JUNE 2017				
Government securities	2,353,263,205	-	-	2,353,263,205
Quoted equities	1,529,482,828	-	-	1,529,482,828
Term deposits	-	350,809,479	-	350,809,479
Corporate bonds	408,286,018	-	-	408,286,018
Investment property	-	-	2,294,942,749	2,294,942,749
	<u>4,291,032,051</u>	<u>350,809,479</u>	<u>2,294,942,749</u>	<u>6,936,784,279</u>

4 CONTRIBUTIONS

	2018 Sh	2017 Sh
Employer	103,937,704	108,865,612
Employee	51,968,851	54,448,155
Additional voluntary contributions	9,600	133,600
	<u>155,916,155</u>	<u>163,447,367</u>

Relates to contributions for members who are over 45 years who moved from the Kenyatta National Hospital DC Scheme to this scheme

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 Sh	2017 Sh
5. TRANSFERS IN		
Special Contribution ¹	150,000,000	-
Transfer in from DC Scheme ²	-	16,565,887
	<u>150,000,000</u>	<u>16,565,887</u>

¹Relates to the lump sum remittances by the sponsor to cover the deficit of the scheme liabilities against assets as determined by an actuarial valuation at 30 June 2014 of Sh.2.8 billion.

² Relates to additional benefits transferred from the DC Scheme for members over 45 years as at the time of closure of the DB Scheme

6. PAYMENT TO LEAVERS		
Withdrawals	394,356,227	214,794,935
Pensions	170,138,876	98,706,210
	<u>564,495,103</u>	<u>313,501,145</u>

Withdrawals represent lump sum amounts paid to members leaving the Scheme and pensions relates to monthly pensions as paid to retired members and orphan pensions to beneficiaries of deceased pensioners.

	2018 Sh	2017 Sh
7. INVESTMENT INCOME		
<i>Held to maturity investments</i>		
Interest on corporate bonds	35,994,885	47,709,147
Interest on fixed deposits	8,041,743	30,443,547
Interest on treasury bills	10,508,859	47,339,920
<i>Investments at fair value through profit or loss</i>		
Interest on treasury bonds	280,724,502	230,039,973
Dividend income	80,207,232	88,892,123
Other incomes – commission rebates	34,040	791,484
Net rent income	10(d) 42,159,072	25,967,218
	<u>457,670,333</u>	<u>471,183,412</u>

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 Sh	2017 Sh
8. INVESTMENT MANAGEMENT EXPENSES		
Investment manager fees	17,203,310	10,639,601
Custodian fees	5,011,350	4,812,553
	<u>22,214,660</u>	<u>15,452,154</u>
9. ADMINISTRATIVE EXPENSES		
RBA levy	5,000,000	5,000,000
Bank charges	1,095,635	915,265
Trustee indemnity	1,065,440	1,172,754
Association of SRBS subscription fee	6,250	12,500
Other expenses for bank guarantee commission	64,274	1,992,872
	<u>7,231,599</u>	<u>9,093,391</u>
10. INVESTMENT PROPERTY		
(a) Completed ¹		
At 1 July	877,600,000	844,000,000
Revaluation surplus/(deficit)	24,400,000	33,600,000
	<u>902,000,000</u>	<u>877,600,000</u>
(b) Construction work in progress ²		
At 1 July	866,200,000	820,000,000
Additions	102,808,278	232,463,056
Revaluation deficit	(89,008,278)	(186,263,056)
	<u>880,000,000</u>	<u>866,200,000</u>
(c) Land ³		
At 1 July	551,142,749	-
Additions	18,501,257	551,142,749
	<u>569,644,006</u>	<u>551,142,749</u>
Total investment properties at 30 June	<u>2,351,644,006</u>	<u>2,294,942,749</u>

The investment properties are at fair value as per valuation of 30 June 2018 by Ebony Estates Limited.

¹Relates to the following apartments: LR.No 1/872 Waridi Court, LR. No 209/12490 Ngong Rd and LR No 209/118/17/2 Chemilil Rd

²Relates to capital costs incurred for the ongoing redevelopment of Westland's properties LR.209/74/8 & 9.

³Relates to capital costs incurred for the purchase of Kajiado/Kaputiei North/94869-Isinya and Kajiado/Kaputiei North/9122-Isinya.

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 Sh	2017 Sh
13. GOVERNMENT SECURITIES		
TREASURY BONDS		
At fair value through profit and loss		
At 1 July	2,249,264,571	1,766,208,697
Purchases during the year	466,074,350	820,224,434
Sales during the year	(404,174,561)	(440,251,939)
Realized gain on disposal	1,984,200	6,456,834
Fair value gain	47,751,791	96,626,545
	<hr/>	<hr/>
	2,360,900,351	2,249,264,571
	<hr/>	<hr/>
TREASURY BILLS		
At amortised cost		
At 1 July	103,998,634	647,095,419
Additions	215,678,800	135,566,120
Maturity in the year	(151,268,111)	(737,500,000)
Earned discount	-	52,227,301
Accrued discount	3,776,970	6,609,794
	<hr/>	<hr/>
At 30 June	172,186,293	103,998,634
	<hr/>	<hr/>
	2,533,086,644	2,353,263,205
	<hr/> <hr/>	<hr/> <hr/>
Maturing :-		
-Within 3 months	96,166,805	103,998,634
-After 3 months but within one year	113,525,076	91,048,208
-After one year but within two years	458,648,784	264,031,943
-After two years but within five years	422,168,352	565,328,393
-After five years	1,652,269,508	1,328,856,027
	<hr/>	<hr/>
	2,533,086,644	2,353,263,205
	<hr/> <hr/>	<hr/> <hr/>

The weighted average effective interest rate on the treasury bonds at 30 June 2018 was 12% (2017: 12.26%).

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. QUOTED EQUITY INVESTMENTS

1 July 2017	Units		30 June 2018		Market Value 1 July 2017 Sh	Additions Sh	Disposals Sh	Realised gain/(loss) Sh	Unrealised gain/(loss) Sh	Market Value 30 June 2018 Sh
	Additions	Disposals								
633,490	-	(633,490)	-		12,986,545	-	(7,096,874)	(5,889,671)	-	-
654,995	55,000	-	709,995		121,829,070	9,903,564	-	-	(4,643,529)	127,089,105
1,714,930	405,000	-	2,119,930		21,693,865	5,855,103	-	-	3,402,010	30,950,978
143,695	-	(129,400)	14,295		10,202,345	-	(12,293,000)	3,105,600	293,048	1,307,993
6,080,259	1,212,862	(820,000)	6,473,121		103,060,397	8,964,983	(11,306,297)	(276,204)	12,836,739	113,279,618
1,381,145	3,261,000	-	4,642,145		13,742,393	32,328,511	-	-	7,081,656	53,152,560
341,458	-	-	341,458		54,633,280	-	-	-	13,316,862	67,950,142
3,731,493	2,020,300	(7,200)	5,744,593		140,863,861	86,015,800	(286,847)	10,135	39,084,477	265,687,426
722,909	72,290*	-	795,199		24,217,452	-	-	-	4,012,113	28,229,565
1,047,500	-	-	1,047,500		818,191	-	-	-	55,247	873,438
315,997	-	-	315,997		65,727,376	-	-	-	(3,159,970)	62,567,406
4,292,281	1,526,100	(270,000)	5,548,381		162,033,608	67,146,349	(14,944,604)	4,481,363	37,895,905	256,612,621
628,334	-	-	628,334		162,738,506	-	-	-	(25,761,694)	136,976,812
4,140	-	-	4,140		426,420	-	-	-	49,680	476,100
263,945	-	-	263,945		10,953,718	-	-	-	(1,187,753)	9,765,965
1,564,966	2,001,800	-	3,566,766		13,236,480	17,473,117	-	-	(5,742,235)	24,967,362
2,997,000	-	-	2,997,000		41,958,000	-	-	-	12,287,700	54,245,700
1,915,344	-	-	1,915,344		15,226,985	-	-	-	(2,011,111)	13,215,874
108,402	-	-	108,402		11,707,416	-	-	-	(1,951,236)	9,756,180
22,137,475	1,375,000	-	23,512,475		503,627,556	32,497,654	-	-	157,492,803	693,618,013
434,940	-	-	434,940		8,807,535	-	-	-	(2,044,218)	6,763,317
618,400	-	-	618,400		7,760,920	-	-	-	(2,566,360)	5,194,560
1,726,500	-	-	1,726,500		21,230,909	-	-	-	(7,734,579)	13,496,330
-	492,400	-	492,400		-	10,576,236	-	-	(2,697,834)	7,878,402
					1,529,482,828	270,761,317	(45,927,622)	1,431,223	228,307,721	1,984,055,467

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2018 Sh	2017 Sh
15 CASH AT BANK		
NIC Bank Custody Account	11,106,125	1,364,482
Fixed and call deposits	202,975,213	350,809,479
	<u>214,081,338</u>	<u>352,173,961</u>
	<u>214,081,338</u>	<u>352,173,961</u>
<p>For the purpose of the cash flow statement, cash and cash equivalents comprise bank balances and deposits held at call with banks maturing within 3 months after the scheme year end. Fixed deposit in Imperial Bank has not been included in the cash and cash equivalents after the Bank was placed under receivership in 2016</p>		
16 CONTRIBUTION RECEIVABLE		
Outstanding less than 30 days	12,648,741	13,298,213
Outstanding more than 30 days	13,713,135	13,721,935
	<u>26,361,876</u>	<u>27,020,148</u>
	<u>26,361,876</u>	<u>27,020,148</u>
17 OTHER RECEIVABLES		
Due from KNH Trust Fund - Group life claims	20,841,115	24,701,136
Dividends receivable	15,521,010	5,460,861
Other recoverables ¹	5,598,506	7,656,358
Rent receivable	578,898	4,142,981
	<u>42,539,529</u>	<u>41,961,336</u>
	<u>42,539,529</u>	<u>41,961,336</u>
<p>¹Relates to expenses paid by the scheme and which are recoverable from the trustee account</p>		
18 UNPAID BENEFITS		
Benefits payable	8,642,870	15,461,820
	<u>8,642,870</u>	<u>15,461,820</u>
<p>Relates to unpaid benefits and pensions at end of year.</p>		
19 OTHER PAYABLES AND ACCRUED EXPENSES		
Fund management fees payable	6,775,313	9,390,317
Custodial fees payable	1,465,251	2,180,193
RBA Levy payable	5,000,000	5,000,000
Rent deposit	12,288,062	7,589,061
Other payables ¹	1,728,434	1,728,434
Pensioner payable	140,474	-
	<u>27,397,534</u>	<u>25,888,005</u>
	<u>27,397,534</u>	<u>25,888,005</u>

¹Relates to unallocated receipts to scheme account

KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2018 Sh	2017 Sh
20 NET ASSETS AT THE YEAR END		
At 1 July	6,965,780,420	6,690,182,206
Transfer from statement of changes in net assets	380,511,783	275,598,214
	<hr/>	<hr/>
At 30 June	<u>7,346,292,203</u>	<u>6,965,780,420</u>

21 TAX STATUS OF THE SCHEME

Kenyatta National Hospital Staff Superannuation Scheme has been approved by the Kenya Revenue Authority and is exempt from income tax on its investment income.

22 RELATED TRANSACTIONS

Related parties comprise the trustees, the founder, and companies which are related to the parties through common shareholdings or common directorships. Balances received and due from the sponsor (Kenyatta National Hospital), in respect of contributions and other receivable are disclosed in Notes 4, 16 and 17.

23 CONTINGENT LIABILITIES

Other than the liability to pay future pensions and other benefits, there were no contingent liabilities of the scheme at 30 June 2018.

24 CURRENCY

These financial statements are presented in Kenya shillings (Sh).