# NATIONAL PENSION SCHEME AUTHORITY

# REPORT AND FINANCIAL STATEMENTS

# FOR THE YEAR ENDED

# 31 DECEMBER 2008

**NATIONAL PENSION SCHEME AUTHORITY**

**REPORT AND FINANCIAL STATEMENTS**
for the year ended 31 December 2008

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**NATIONAL PENSION SCHEME AUTHORITY**

**REPORT AND FINANCIAL STATEMENTS**
for the year ended 31 December 2008

## MISSION STATEMENT

To prudently administer and be custodian of a viable social security scheme that guarantees social protection to our members and realises the highest aspirations of our social partners through a motivated work force.

## NATIONAL PENSION SCHEME AUTHORITY

## BOARD OF TRUSTEES, SENIOR MANAGEMENT AND ADVISORS

### Board of Trustees

| | | |
|---|---|---|
| Professor John Lungu<br>(Copperbelt University) | - | Chairperson<br>Appointed 22 May 2008<br>Retired 28 April 2009 |
| Mrs Sherry Thole<br>(Bankers Association of Zambia) | - | Chairperson<br>Retired 21 May 2008 |
| Mr Chris Kampamba<br>(Alexander Forbes Limited) | - | Vice-Chairperson<br>Re-appointed 22 May 2008 |
| Dr Winnie Sithole Mwenda<br>(Permanent Secretary – Ministry of Labour & Social Security) | - | Member<br>Appointed 20 March 2009 |
| Mr Ngosa Chisupa<br>(Permanent Secretary – Ministry of Labour & Social Security) | - | Member<br>Retired 20 March 2009 |
| Mr Leonard Hikaumba<br>(Zambia Congress of Trade Unions) | - | Member<br>Re-appointed 22 May 2008 |
| Ms Irene Muyenga<br>(Zambia State Insurance Corporation) | - | Member<br>Appointed 22 May 2008 |
| Mr Justin Mubanga<br>(Ministry of Finance & National Planning) | - | Member<br>Appointed 22 May 2008 |
| Mr Rayford Mbulu<br>(Mine Workers Union of Zambia) | - | Member<br>Appointed 22 May 2008 |
| Mr Alfred Masupha<br>(Zambia Federation of Employers) | - | Member<br>Appointed 22 May 2008 |
| Mr Anthony Dumingu<br>(Ministry of Labour & Social Security) | - | Alternate Member<br>Retired 21 May 2008 |
| Mr Ronald M. Simwinga<br>(Ministry of Finance & National Planning) | - | Alternate Member<br>Retired 21 May 2008 |
| Mr Peter Mutenda<br>(Zambia Federation of Employers) | - | Member<br>Retired 21 May 2008 |
| Dr. Aubrey M. Chibumba (ex-officio) | - | Director General<br>Separated 14 March 2009 |

## BOARD OF TRUSTEES, SENIOR MANAGEMENT AND ADVISORS (CONTINUED)

### Investments Committee

| | |
|---|---|
| Mr Chris C. Kampamba<br>(Alexander Forbes Limited) | - Chairperson<br>Re-appointed 22 May 2008 |
| Dr Winnie Sithole Mwenda<br>(Permanent Secretary – Ministry of Labour & Social Security) | - Member<br>Appointed 20 March 2009 |
| Mr Ngosa Chisupa<br>(Permanent Secretary – Ministry of Labour & Social Security) | - Member<br>Retired 20 March 2009 |
| Mr Justin Mubanga<br>(Ministry of Finance & National Planning) | - Member<br>Appointed 22 May 2008 |
| Mr Leonard Hikaumba<br>(Zambia Congress of Trade Unions) | - Member<br>Re-appointed 22 May 2008 |
| Mr Ronald I. Kasongo<br>(Former Chief Executive Officer – Mukuba Pension Scheme) | - Member<br>Appointed 17 July 2008 |
| Mrs Sherry Thole<br>(Bankers Association of Zambia) | - Chairperson<br>Retired 21 May 2008 |
| Mr Ronald M. Simwinga<br>(Ministry of Finance & National Planning) | - Alternate Member<br>Retired 21 May 2008 |

### Staff Committee

| | |
|---|---|
| Mr Alfred Masupha<br>(Zambia Federation of Employers) | - Chairperson<br>Appointed 22 May 2008 |
| Mr Peter Mutenda<br>(Zambia Federation of Employers) | - Chairperson<br>Retired 21 May 2008 |
| Ms. Irene Muyenga<br>(Zambia State Insurance Corporation) | - Member<br>Appointed 22 May 2008 |
| Mr Rayford Mbulu<br>(Mine Workers Union of Zambia) | - Member<br>Appointed 22 May 2008 |
| Mrs Beatrice Mwila<br>(Former ZFE Chief Executive - External) | - Member<br>Appointed 22 May 2008 |

## BOARD OF TRUSTEES, SENIOR MANAGEMENT AND ADVISORS (CONTINUED)

| | |
|---|---|
| Mrs Sherry Thole<br>(Bankers Association of Zambia) | - Chairperson<br>Retired 21 May 2008 |
| Mr Ronald M. Simwinga<br>(Ministry of Finance & National Planning) | - Alternate Member<br>Retired 21 May 2008 |
| Mr Ngosa Chisupa<br>(Permanent Secretary – Ministry of Labour & Social Security) | - Member<br>Retired 20 March 2009 |
| Mr Leonard Hikaumba<br>(Zambia Congress of Trade Unions) | - Member<br>Retired 21 May 2008 |

**Audit Committee**

| | |
|---|---|
| Mr Rayford Mbulu<br>(Mine Workers Union of Zambia) | - Chairperson<br>Appointed 22 May 2008 |
| Mr Peter Mutenda<br>(Zambia Federation of Employers) | - Chairperson<br>Retired 21 May 2008 |
| Dr Winnie Sithole Mwenda<br>(Permanent Secretary – Ministry of Labour & Social Security) | - Member<br>Appointed 20 March 2009 |
| Mr Ngosa Chisupa<br>(Permanent Secretary – Ministry of Labour & Social Security) | - Member<br>Re-appointed 22 May 2008<br>Retired 20 March 2009 |
| Mr Justin Mubanga<br>(Ministry of Finance & National Planning) | - Member<br>Appointed 22 May 2008 |
| Mr Syrus Evans Banda<br>(Member of ZICA Technical Committee - External) | - Member<br>Appointed 17 July 2008 |
| Mr Ronald M. Simwinga<br>(Ministry of Finance & National Planning) | - Alternate Member<br>Retired 21 May 2008 |
| Mr Chris C. Kampamba<br>(Alexander Forbes Limited) | - Member<br>Retired 21 May 2008 |

## BOARD OF TRUSTEES, SENIOR MANAGEMENT AND ADVISORS (CONTINUED)

**Senior Management**

| | |
|---|---|
| Dr. Aubrey M. Chibumba | - Director General<br>Separated 14 March 2009 |
| Mr Stanley Z Phiri | - Acting Director General<br>Appointed 18 December 2008 |
| Mr Jordan B. Theu | - Authority Secretary<br>Separated 30 June 2008 |
| Mrs. Mutinta Mulonda | - Acting Authority Secretary |
| Mr Joseph Ngosa | - Director Investments |
| Mr Yollard Kachinda | - Director Contributions and Benefits |
| Mr Astley Mbangweta | - Director Human Resources |
| Mrs. Kapambwe D. C. Chiwele | - Director Finance |

**Legal Advisors:**

Legal Counsel
National Pension Scheme Authority
Provident House
P.O. Box 33790
**LUSAKA**

**Auditors:**

Ernst & Young
Development House Building
P O Box 32385
**LUSAKA**

**Bankers:**

Zambia National Commercial Bank Plc
Private Bag E119
**LUSAKA**

Citibank Zambia Limited
PO Box 30037
**LUSAKA**

Barclays Bank Zambia Plc
Private Bag E308
**LUSAKA**

Stanbic Bank Zambia Limited
P O Box 31955
**LUSAKA**

**Head Office:**

Lusaka House
Plot No. 8360
P O Box 51275
**LUSAKA**

## NATIONAL PENSION SCHEME AUTHORITY

## REPORT OF THE BOARD OF TRUSTEES

The Trustees present their report for the year ended 31 December 2008.

### 1.0 Overview

### 1.1 Principal activities

The National Pension Scheme Authority ("NAPSA") administers a defined benefit scheme under the provisions of the National Pension Scheme Act number 40 of 1996. NAPSA implements policies relating to the National Pension Scheme as well as controls and administers the operations of the Scheme.

NAPSA also controls and manages the assets and liabilities of members who contributed to a defined contribution plan previously established under the now repealed Zambia National Provident Fund Act. NAPSA was established to replace the Zambia National Provident Fund ("ZNPF"), and became operational in February 2000.

### 1.2 Role in the national economy

The Authority continued to be a major player in the financial and capital markets, as in prior years. The Authority invested all its funds with locally based institutions.

### 2.0 Operational performance for the year 2008

### 2.1 General financial performance

**Pension Scheme**

The net assets available for benefits at 31 December 2008 increased by 35% to K2.3 trillion, from K1.7 trillion in 2007. This was mainly attributable to an increase of 30% in contributions collected, from K431 billion in 2007 to K562 billion in 2008, and a slight decrease of 3% in management expenses. Returns on investments remained constant at K177.8 billion, with downward movements in stock prices on the Lusaka Stock Exchange counteracting the positive performance on financial instruments. The impact of the global economic crisis in 2008 was however largely not felt within the year.

**Provident Fund**

The provident fund recorded an overall decrease of 20% in net assets available for benefits. The fund is depleting in nature since there are no fresh fund inflows from member contributors.

## 2.2 Restriction on expenditure

The pension scheme has a restriction on expenditure (or cap), intended to allow the Scheme to build a reserve fund capable of maintaining the member contribution rate stable. The measure is thus intended to ensure that a higher percentage of contributions received are channelled to investment activities and enhance benefits for the members, with a lesser percentage going to management expenses.

The Authority has continued to focus on possible ways of reviewing the cost structure to ensure cost effectiveness and that it operates within the cap. Enormous progress has been made to this end in relation to the years before the transformation in 2000, when over 100 % of income was consumed for administrative purposes. Recurrent expenditure for the pension scheme has shown an overall decrease in proportion to contributions received over the years as shown in Table 1 below:

**Table 1 (in Kwacha millions)**

| Year | Contributions | Recurrent expenditure (excludes depreciation) | % of actual recurrent expenditure to contributions | Approved Budget expenditure |
|---|---|---|---|---|
| | K' millions | K' millions | % | % |
| 2000 | 50.05 | *25.72 | 50 | * |
| 2001 | 77.84 | 23.97 | 31 | 33 |
| 2002 | 99.18 | 32.36 | 33 | 34 |
| 2003 | 148.47 | 37.77 | 25 | 26 |
| 2004 | 184.19 | 38.91 | 21 | 27 |
| 2005 | 241.39 | 44.41 | 19 | 19 |
| 2006 | 292.25 | 46.36 | 15 | 15 |
| 2007 | 421.00 | ** 60.40 | 14 | 15 |
| | | *** 80.50 | 19 | 21 |

* *Accounting records were combined for both NAPSA and ZNPF in year of conversion (2000)*

** *Recurrent expenditure for 2007, exclusive of restructuring related costs*

*** *Recurrent expenditure for 2007, inclusive of restructuring costs*

*Expenditure above excludes capital acquisitions (K3.7 billion), and member claims and refunds (K27.6 billion)*

In the year 2008, the structure of the expenditure ceiling was changed from 10% of contributions collected in the year to 9% of contributions collected and 1% of funds held under investment. The pension scheme recorded K77.8 billion in management expenses (exclusive of depreciation).

## 2.3 Pension Scheme

**Table 2**

| **Contributions** | **2008** | **2007** | **% Increase** |
|---|---|---|---|
| Total number of employers | 20,287 | 18,563 | 9 |
| Cumulative number of members | 1,065,401 | 985,747 | 8 |
| Provisional registrations | 418,460 | 402,236 | 4 |
| Monthly average collection (Kwacha Billions) | K46.8 | K35.1 | 33 |
| **Benefits** | | | |
| Lump sum benefits (Kwacha Billions) | 27.2 | 24.8 | 9 |
| Pensions paid (Kwacha Billions) | 8.6 | 3.7 | 132 |
| Number of Pensioners | 1,641 | 826 | 99 |

## 2.4 Provident Fund

The Authority also pays benefits under the repealed Zambia National Provident Fund Act. In 2008, K40 billion was paid out to beneficiaries compared to K20.1 billion in 2007, an increase of 99%.

## 2.5 Investments

The Authority's Investment Guidelines were revised in 2007 to allow for more flexibility, in response to the opportunities in the economy, and a gazette notice to that effect was issued.

The investment portfolio held at the end of the year 2008 is shown in Tables 3 and 4 below:

**Table 3 (Pension Scheme - in Kwacha Billions)**

| **Asset Class** | **2008 Net Investments Total** | **2008 % of total portfolio** | **2007 Net Investments Total** | **2007 % of total portfolio** |
|---|---|---|---|---|
| Treasury bills | 597.1 | 28 | 510.4 | 32 |
| Government bonds | 958.9 | 45 | 884.9 | 55 |
| Term deposits | 384.3 | 18 | 102.0 | 6 |
| Equities | 161.6 | 7 | 77.9 | 5 |
| Fixed Interest Securities | 33.1 | 2 | 32.0 | 2 |
| **Total** | **2,135.0** | **100** | **1,607.2** | **100** |

**Table 4 (Provident Fund - in Kwacha Billions)**

| Asset Class | 2008 Net Investments Total | 2008 % of total portfolio | 2007 Net Investments Total | 2007 % of total portfolio |
|---|---|---|---|---|
| Treasury bills | 26.4 | 9 | 35.3 | 11 |
| Government bonds | 36.0 | 12 | 37.9 | 12 |
| Term deposits | 31.6 | 11 | 7.7 | 3 |
| Property investments | 108.9 | 38 | 118.3 | 39 |
| Equities | 85.4 | 30 | 108.3 | 35 |
| **Total** | **288.3** | **100** | **307.5** | **100** |
| | | | | |

## 3.0 Staff establishment

3.1 Following the restructuring exercise the Authority undertook with effect from 31 December 2007, the approved establishment as at 31 December 2008 changed as shown at Table 5 below.

**Table 5 (Staff establishment)**

| Station | 2008 | 2007 |
|---|---|---|
| Approved Staff Establishment | 332 | 490 |
| Actual Numbers | 320 | 423 |

3.2 Various training interventions were implemented in 2008 in accordance with the identified training needs and plan for the year. This included both short and long term studies for staff required to upgrade their skills level, in line with the restructuring exercise undertaken at the end of 2007.

## REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

### 4.0 STATEMENT ON CORPORATE GOVERNANCE

The Authority has continued to commit itself to the achievement of high standards of corporate governance. This is the system by which corporate entities are directed and controlled from within. To this end the board of Trustees approved the Corporate Governance Guidelines in January 2006.

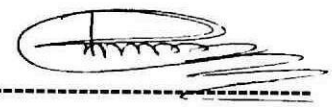
On 22 May 2008, the Board of Trustees was reconstituted comprising eight non executive members drawn from the institutions specified under the National Pension Scheme Act. The Trustees replaced the seven members constituted in an interim capacity for the period covering 26 July 2006 to 21 May 2008.

The Board meets at least four times a year and concerns itself with key matters. Responsibility for implementing the Authority's mandate under the National Pension Scheme Act has been delegated to Management.

In the year 2008, the Audit committee met three times with Management and the internal auditors to review the effectiveness of internal controls as well as other matters raised in regular reports to the committee.

Senior Management comprises the Director General who is an ex-officio member of the Board, and five Trustees all with clearly defined roles. There is open communication between the Board of Trustees and the Senior Management. The Board and its committees are supplied with full information prior to each meeting to enable them discharge their responsibilities.

The Board understands the relationship between itself and the members of NAPSA. It acknowledges that its role is to promote the interest of the members and recognises that it is accountable to the members for the performance of the pension scheme.



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***Trustee***



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***Trustee***

## NATIONAL PENSION SCHEME AUTHORITY

### Statement of responsibility for annual financial statements

Part II of the First Schedule of the National Pension Scheme Act, No. 40 of 1996 requires the Trustees to keep proper books of accounts and other records relating to its accounts and to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority and the results for the period.

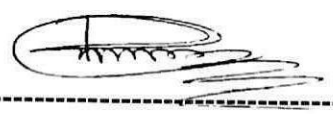
The Trustees are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The independent external auditors, Ernst & Young, have audited the annual financial statements and their report appears on pages 12 and 13.

The Trustees are also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect material misstatements. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Trustees to indicate that any material breakdown in the functioning of those controls, procedures and systems has occurred during the period under review.

In the opinion of the Trustees:

- the statement of changes in net assets is drawn up so as to give a true and fair view of the surplus of income over expenditure of the Authority for the financial year ended 31 December 2008;
- the statement of net assets available for benefits is drawn up so as to give a true and fair view of the state of affairs of the Authority as at 31 December 2008;
- At the date of this statement there are reasonable grounds to believe that the Authority will be able to pay its debts as and when they fall due; and
- The financial statements are drawn up in accordance with the National Pension Scheme Authority Act No. 40 of 1996 and applicable International Financial Reporting Standards.

Signed on behalf of the Board of Trustees by:



*Trustee*



*Trustee*

## NATIONAL PENSION SCHEME AUTHORITY
## INDEPENDENT AUDITOR'S REPORT

### Report on the financial statements

We have audited the financial statements of National Pension Scheme Authority which comprise the balance sheet at 31 December 2008 and the income statement, the statement of changes in shareholders' equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 14 to 56.

### Trustees' responsibility for the financial statements

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the National Pension Scheme Authority Act No. 40 of 1996. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Pension Scheme Authority at 31 December 2008 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the National Pension Act, No. 40 of 1996.

## Report on other legal and regulatory requirements

In accordance with the National Pension Act, No. 40 of 1996, we report that, in our opinion, the required accounting records, other records and registers have been properly kept in accordance with the Act.

Ernst & Young

***Ernst & Young***
***Chartered Accountants***

HC Nondo

***Henry C Nondo***
***Partner***

***10 July 2009***
***Lusaka***

## NATIONAL PENSION SCHEME AUTHORITY

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended 31 December 2008

**All figures are stated in Kwacha'000**

| | Pension Scheme | | Provident Fund | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| **Net assets available at beginning of year** | **1,720,312,406** | 1,247,273,413 | **288,286,415** | 216,787,896 |
| Member service operations: | | | | |
| Contributions receivable from members | **562,036,306** | 430,954,370 | **-** | 24,016 |
| Statutory contributions received | **-** | - | **213** | - |
| Pension claims and withdrawals | **(24,446,334)** | (21,128,294) | **(40,081,359)** | (20,181,850) |
| Normal retirement pensions | **(8,624,673)** | (3,786,756) | **-** | - |
| Funeral and maternity grants | **(2,780,051)** | (2,754,285) | **(1,461)** | (5,208) |
| | **526,185,248** | 403,285,035 | **(40,082,607)** | (20,163,042) |
| **Investment operations:** | | | | |
| **Investment revenue** | | | | |
| - Interest on Government bonds | **134,692,449** | 94,026;634 | **5,907,062** | 3,469,129 |
| - Interest on treasury bills | **64,528,218** | 60,727,191 | **2,808,542** | 5,055,827 |
| - Interest on term deposits | **33,051,567** | 11,313,351 | **2,159,866** | 735,192 |
| - Other investments | **4,033,406** | 2,953,212 | **-** | - |
| - Rental income | **-** | - | **9,051,608** | 8,796,260 |
| - Dividend income | **1,571,684** | 667,779 | **3,390,595** | 1,850,607 |
| Interest on loans and advances | **888,384** | 1,625,371 | **23,755** | 23,690 |
| Rental Income NAPSA | | | **1,248,000** | 1,248,000 |
| Management fees ZNPF | **2,991,196** | 2,603,204 | **-** | - |
| Handling fees | **(3,386,592)** | (4,985,224) | **(31,118)** | - |
| Medical Levy | **(2,387,555)** | (1,660,775) | **(99,351)** | (78,318) |
| Net exchange gains/(losses) | **1,661,660** | (745,289) | **(5,290,553)** | 2,491,366 |
| Sundry income | **2,071,457** | 73,602 | **-** | 8,900 |
| Write back of provision on diminution | **-** | - | **881,696** | |
| Write back of bad debt provision | **-** | - | **-** | 595,983 |
| (Loss)/gain on disposal of investment properties | **-** | - | **(241,825)** | 4,000,000 |
| Gain/(loss) on revaluation of financial assets | **31,167,999** | (8,699,131) | **609,856** | (790,313) |
| Surplus on revaluation of Investment properties | **-** | - | **-** | 57,642,796 |
| Surplus on revaluation of Properties | **-** | - | **-** | 13,581,000 |
| (Loss)/surplus on revaluation of equity | **(93,030,767)** | 19,891,346 | **(22,809,478)** | 59,211,630 |
| | **177,853,106** | 177,791,271 | **(2,391,345)** | 157,841,749 |

## NATIONAL PENSION SCHEME AUTHORITY

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended 31 December 2008

| **All figures are stated in Kwacha'000** | **Pension Scheme** | | **Provident Fund** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| **Management expenses:** | | | | |
| - Employee benefit expenses | **(43,416,666)** | (56,417,366) | **-** | (10,591,129) |
| - Administration expenses | **(31,191,128)** | (19,217,035) | **(4,927,408)** | (10,376,753) |
| - Depreciation | **(3,349,994)** | (3,778,066) | **-** | (23,035) |
| - Pension costs | **(2,677,724)** | (1,779,134) | **-** | - |
| - Interest expense | **-** | - | **(467,441)** | (421,094) |
| Management fees ZNPF | **-** | - | **(2,991,196)** | (2,603,204) |
| Rental Charges ZNPF | **(1,248,000)** | (1,248,000) | **-** | - |
| - Gain on disposal of property, plant and equipment | **176,189** | - | **-** | - |
| - Bad debts expense and doubtful debts | **217,136** | (1,844,775) | **(5,745,949)** | (40,831,964) |
| | **(81,490,187)** | (84,284,376) | **(14,131,994)** | (64,847,179) |
| **Income tax expense** | **(30,089,677)** | (23,752,937) | **(1,166,283)** | (1,333,009) |
| **Increase in net assets** | **592,458,490** | 473,038,993 | **(57,772,228)** | 71,498,519 |
| **Net assets available at end of year** | **2,312,770,896** | 1,720,312,406 | **230,514,187** | 288,286,415 |

The notes on pages 19 to 55 form part of these financial statements

## NATIONAL PENSION SCHEME AUTHORITY

## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
at 31 December 2008

| All figures are stated in Kwacha'000 | Note | Pension Scheme 2008 | Pension Scheme 2007 | Provident Fund 2008 | Provident Fund 2007 |
|---|---|---|---|---|---|
| **NET ASSETS** | | **2,312,770,896** | 1,720,312,406 | **230,514,187** | 288,286,415 |
| **Represented by:** | | | | | |
| **ASSETS** | | | | | |
| Bank and cash balances | | **58,277,119** | 91,424,139 | **-** | - |
| Financial assets | 9 | **2,135,076,101** | 1,607,132,306 | **179,579,908** | 189,324,851 |
| Loans and advances | 15 | **-** | - | **-** | 136,163 |
| Employee receivables | 16 | **7,826,753** | 14,788,475 | **-** | - |
| Members' contributions receivables | 27 | **33,145,914** | 20,649,204 | **-** | - |
| Other receivables | 17 | **16,541,674** | 9,416,250 | **3,217,902** | 3,832,148 |
| Current account with NAPSA | | **-** | - | **(22,784,158)** | 7,347,015 |
| Long term receivables | 18 | **-** | - | **-** | 3,038,064 |
| Inventory | 19 | **497,127** | 487,457 | **-** | - |
| Investment properties | 20 | **-** | - | **108,978,411** | 118,312,431 |
| Property, plant and equipment | 21 | **64,303,764** | 6,369,835 | **35,848,344** | 35,849,583 |
| | | **2,315,668,452** | 1,750,267,666 | **304,840,407** | 357,840,255 |
| **LIABILITIES** | | | | | |
| Current account with ZNPF | | **22,784,158** | (7,347,015) | **-** | - |
| Other payables and accruals | 23 | **(6,319,782)** | (10,320,702) | **(9,127,699)** | (9,467,880) |
| Provisions for legal claims | 26 | **(5,250,360)** | (970,360) | **(42,914,965)** | (42,690,000) |
| Deferred liabilities | 24 | **(1,215,693)** | (827,864) | **-** | - |
| Income Tax liabilities | | **(12,895,879)** | (10,489,319) | **(561,681)** | (552,210) |
| Long term loan | 25 | **-** | - | **(21,721,875)** | (16,843,750) |
| | | **(2,897,556)** | (29,955,260) | **(74,326,220)** | (69,553,840) |
| **NET ASSETS** | | **2,312,770,896** | 1,720,312,406 | **230,514,187** | 288,286,415 |

The financial statements on pages 14 to 55 were approved by the Board of Trustees on 10 July 2009 and were signed on its behalf by:

*Trustee*

*Trustee*

The notes on pages 19 to 55 form part of these financial statements

## NATIONAL PENSION SCHEME AUTHORITY

## CASH FLOW STATEMENT
for the year ended 31 December 2008

### All figures are stated in Kwacha'000

| | Pension Scheme | | Provident Fund | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| **Cash flows from operating activities** | | | | |
| **Increase/(decrease) in net assets** | **592,458,490** | 473,038,993 | **(57,772,228)** | 71,498,519 |
| Adjusted for non cash items: | | | | |
| Depreciation | **3,349,994** | 3,778,066 | **-** | 23,035 |
| Income tax expense | **30,089,677** | 23,752,937 | **1,166,283** | 1,333,009 |
| Dividend income | **(1,571,684)** | (667,779) | **(3,390,595)** | (1,850,607) |
| Interest income | **(236,305,640)** | (166,067,176) | **(10,875,471)** | (9,260,148) |
| Interest expense | **-** | - | **-** | 421,095 |
| Surplus on revaluation of investments | **93,030,767** | (19,891,346) | **22,809,478** | (59,211,630) |
| Loss/ (gain) on amortisation of financial assets | **(31,167,999)** | 8,699,131 | **(609,856)** | 790,312 |
| Surplus on revaluation of investments properties | **-** | - | **-** | (71,223,796) |
| Gain (loss) on disposal of property, plant and equipment | **(176,189)** | 58,583 | **241,825** | |
| Net unrealised exchange losses (gains) on long term loan | **-** | - | **-** | (2,491,366) |
| Operating cash inflows before movements in operating funds | **449,707,416** | 322,701,409 | **(48,430,564)** | (69,971,577) |
| **Movement in operating assets and liabilities:** | | | | |
| Dividends received | **1,571,684** | 667,779 | **3,390,595** | 1,850,607 |
| Interest received | **236,305,640** | 166,067,176 | **10,875,471** | 9,260,148 |
| Purchase of financial assets | **(589,806,563)** | (389,987,325) | **(12,454,679)** | 3,837,892 |
| Increase/(decrease) in deferred liabilities | **387,829** | (1,651,729) | | |
| (Decrease)/increase in loans and advances | | - | **136,163** | (89,478) |
| Increase in employee receivables | **6,961,722** | 9,445,983 | **-** | - |
| Increase in member's contribution receivables | **(12,496,710)** | (511,796) | **-** | - |
| (Increase)/decrease in other receivables | **(37,256,597)** | (6,164,246) | **30,745,420** | 11,988,178 |
| Decrease in long term receivables | | | **3,038,064** | 535,645 |
| (Increase)/decrease in inventories | **(9,670)** | (266,247) | **-** | - |
| Gain (loss) on disposal of investments properties | **-** | - | **-** | (4,000,000) |
| Purchase of investment properties | **-** | - | **-** | (890,000) |
| Proceeds on disposal of investment properties | **-** | - | **9,093,435** | - |
| Proceeds on disposal of Property, plant & equipment | **999,675** | 497,481 | **-** | 8,000,000 |
| Increase in other payables and accruals | **279,081** | (6,367,368) | **4,762,908** | 40,691,429 |
| **Net movement in operating assets and liabilities** | **(393,063,909)** | (228,270,292) | **49,587,377** | 71,184,421 |

## NATIONAL PENSION SCHEME AUTHORITY

## CASH FLOW STATEMENT (CONTINUED)
for the year ended 31 December 2008

**All figures are stated in Kwacha'000**

| | Pension Scheme | | Provident Fund | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Income tax paid | **(27,683,117)** | (19,032,510) | **(1,156,813)** | (1,212,844) |
| **Net cash utilised in operations** | **28,960,390** | 75,398,607 | - | - |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment | **(62,107,410)** | (3,755,749) | - | - |
| Net cash (outflows) inflows | **(33,147,020)** | 71,642,858 | - | - |
| Cash and cash equivalents at beginning of the year | **91,424,139** | 19,781,281 | - | - |
| **Cash and cash equivalents at end of the year** | **58,277,119** | 91,424,139 | | |

The notes on pages 19 to 55 form part of these financial statements

## NATIONAL PENSION SCHEME AUTHORITY

## ACCOUNTING POLICIES
for the year ended 31 December 2008

### 1. General Information

The National Pension Scheme Authority was established by the National Pension Scheme Act No. 40 of 1996 (the "Act"). The Authority has the sole management rights and control of the National Pension Scheme. The Authority manages the National Pension Scheme and pays pension benefits to members. The Authority became operational on 1 February 2000.

### 2. Adoption of new and revised Standards

The Authority has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006.

In 2008, the following new interpretations became effective for the first time but have not had any impact on the Authority's financial statements.

- IFRIC 12: Service Concession Arrangements;
- IFRIC 14, IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction.

- IAS 39 and IFRS 7: Reclassification of financial assets

New Standards and various amendments to existing standards and new interpretations have been published and will be effective for the Authority's accounting periods beginning on 1 January 2009, but the Authority has not early adopted them.

The Authority has assessed the relevance of the new Standards, Interpretations, and Amendments to existing Standards with respect to its operations and anticipates that the adoption of those interpretations will have no material impact on the financial statements in the period of initial application.

## ACCOUNTING POLICIES
for the year ended 31 December 2008

### 3. Significant accounting polices (Continued)

*Statement of compliance*
The financial statements have been prepared in accordance with International Financial Reporting Standards.

*Basis of preparation*
The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Zambian Kwacha (K), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Authority's accounting policies. The areas involving higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements are disclosed in the accounting policies 4.

The principal accounting policies are set out below.

*Contributions receivable*
The National Pension Scheme Act No. 40 of 1996 requires eligible employers to remit contributions for each month by the 10th of the following month. Accordingly, contributions receivable are recognised as revenue by the Authority based on cash received from the 11 January during the year to the 10th of January following the end of the financial year.

The contribution rate is set at 10% of the employee's gross wages up to a ceiling. The rate is shared equally at 5% between the employer and the employee.

## 3. Significant accounting polices (Continued)

*Dividend and interest revenue*
Dividend revenue from investments is recognised when the Authority's right to receive payment has been established.

Investment income comprises interest from Government bonds, treasury bills, fixed term deposit and bank interest earned. Interest revenue is accrued on a straight line basis.

*Rental income*
Rental income from investment properties is accrued on a straight-line basis over the term of the relevant lease.

*Inventories*
In determining the cost, the first-in, first-out method is used and includes all costs incurred in bringing the inventory to its present location and condition.

In determining the cost, the first-in, first-out method is used and includes all costs incurred in bringing the inventory to its present location and condition.

*Investment properties*
Investment properties which are properties held to earn rentals and/or capital appreciation, are measured initially at cost, including transaction cost. Subsequent to initial recognition, investment properties are measured at fair value. Investment properties are individually valued by professional valuers on the basis of open market value as and when the value is deemed to have significantly changed. In other years the properties are stated at the Trustees' valuation having prudent regard to the likely realisable value.

*Fair value*
Fair value is the amount at which a financial instrument can be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, where one exists. The estimated fair values of financial instruments have been determined by the Authority using available market information and appropriate valuation methodologies. However judgment is necessarily required to interpret market data to estimate fair values. Accordingly, the estimates are not necessarily indicative of the amounts the Authority could realise in a current market exchange. The carrying amounts of the financial assets and liabilities approximate their fair values.

## 3. Significant accounting polices (Continued)

*Provisions*
Provisions are recognised when the Authority has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

*Impairment*
At each balance sheet date, the Authority reviews the carrying amounts of its long term and other assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of changes in net assets.

*Translation of foreign currencies*
Transactions denominated in foreign currencies are translated into Zambian Kwacha at the rates of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Kwacha at the rates of exchange ruling at the balance sheet date. Gains and losses arising on translation are included in the statement of changes in net assets in the year in which they arise.

**3. Significant accounting polices (Continued)**

*Employee retirement benefits*
The Authority operates a pension scheme for its employees, comprising both defined benefit and defined contribution schemes. The Authority's defined benefit scheme is actuarially valued at intervals of not more than three years. Funding shortfalls arising in the defined benefit scheme are met through lump sum payments into the Scheme or increased future contributions. Severance liabilities in respect of collective agreements with unionised employees are assessed annually.

The Authority provides for retirement benefits for all pensionable employees as provided for in line with the Authority's conditions of service.

For contract employees, gratuity is payable at the end of the contract period. Contract periods range from one to three years.

*Property, plant and equipment*
Buildings held for administrative purposes, are stated in the financial statements at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values.

Fixtures and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of changes in net assets.

**Financial instruments**

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

*Financial assets*
Listed shares and listed redeemable notes held by the Authority that are traded in an active market are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the statement of changes in net assets. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised is included in the statement of changes in net assets for the period.

Dividends on equity instruments are recognised in the statement of changes in net assets when the Authority's right to receive payments is established.

*Loans and receivables*
Loans and receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are fair valued using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Cash and cash equivalents*
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

*Impairment of financial assets*
Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables where the carrying amount is reduced through the use of an allowance account. When a receivable is uncollected it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in statement of changes in net assets.

## 3. Significant accounting polices (Continued)

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of changes in net assets.

*Financial liabilities*
Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

## 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Authority's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

*Critical judgments in applying accounting policies*
The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

*a) Impairment losses on loans and advances*
The Authority reviews its employee loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded, the Authority makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio. If such evidence is identified an impairment loss is recognised.

**4. Critical accounting judgments and key sources of estimation uncertainty Continued**

*b) Fair value*

The fair value of assets is determined by using market rates and in some cases where there is no active market by using valuation techniques. The Authority uses its judgment and makes assumptions that are mainly based on market conditions existing at the balance sheet date.

*Key sources of estimation uncertainty*

*a) Recoverability of rental debtors*

During the year, management reconsidered the recoverability of rental debtors arising from investments properties which is included in the Statement of Net Assets. At each annual reporting period the Authority makes an estimate of the recoverability of the rental debtors and an allowance for doubtful debts.

*b) Useful lives of property, plant and equipment*

The Authority reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

Depreciation is calculated on the straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

- Furniture 8 years
- Computer equipment 3 years
- Motor vehicles 4 to 5 years.

Management has estimated the current useful lives to still be appropriate and continues to apply the same useful lives.

*c) Provision for legal claims*

The Authority is involved in various ongoing litigation cases whose ultimate resolution may result in loss to the Authority. The Authority reviews the estimated losses each year and provisions are made at the Trustee's best estimate of the likely outcome of those cases.

*d) Actuarial valuation*

The Authority reviews the actuarial positions of both the Pension Scheme and Provident Fund every three years. The last valuation was performed as at 31 December 2004 and the subsequent valuation as at 31 December 2007 is underway.

## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

**All figures are stated in Kwacha'000**

### 1. Principal activity

The National Pension Scheme Authority was established by the National Pension Scheme Act No. 40 of 1996 (the "Act"). The Authority has the sole management rights and control of the National Pension Scheme. The Authority manages the National Pension Scheme and pays pension benefits to members. The Authority became operational on 1 February 2000.

The main objective of the Authority is to implement the policy relating to the National Pension Scheme as stipulated in the Act. The Authority is mandated to manage the Scheme so as to ensure that at all times it is in a state of actuarial correctness, financially sustainable, fair in its benefit distribution and is affordable.

Under the Act and its regulations, the Authority also controls and manages the assets and liabilities of members who contributed to a defined contribution plan established under the repealed Zambia National Provident Fund Act (the "ZNPF" Act). Members of the former fund may, at their election, and on the conditions subsisting under the Act and its regulations, convert their assets to the National Pension Scheme to improve their benefits payable under the Scheme. Members who exercise this option shall receive a month's credit for every three months of contributions under the Zambia National Provident Fund.

Notwithstanding the repeal of the ZNPF Act, the Authority, as custodian, continues to pay benefits to members qualifying under the rules in the repealed ZNPF Act.

**All figures are stated in Kwacha'000**

## 2. Actuarial deficit

In accordance with Section 44 (2) of the Act, the Scheme's actuarial obligation is assessed on tri-annual basis by independent actuaries. Accordingly the Authority engaged an Actuary to evaluate the Pension scheme as at 31 December 2007. As the valuation is still in progress, the last available report is as at 31 December 2004. As at that date the actuarial valuation revealed that the present value of the Authority's obligation exceeded the fair value of the assets as follows:

| **Pension Scheme (Kwacha Trillions)** | **Short records** |
|---|---|
| Value of benefits accrued | 1.24 |
| Assets | 0.64 |
| Deficit | (0.60) |
| | |
| **Provident Fund (Kwacha Trillions)** | |
| Total liability | 4.011 |
| Assets | 0.198 |
| Deficit | (3.813) |
| | |
| The key assumptions used were: | % |
| Valuation interest rate | 13 |
| Long term inflation rate | 10 |
| Expected rate of return on scheme assets | 12.2 |
| Future salary increases | 10 |
| Future pension increases | 10 |

The Actuary based the present value of promised retirement benefits on a discount factor of 0.9441 and indexation of 10% a year.

In accordance with IAS 26 paragraph 28 b, the Authority has elected to disclose the deficit and not record it as a liability on the statement of Net Assets available for benefits. The statement of net assets available for benefits therefore does not reflect the Actuarial present value of the promised retirement benefits.

## 3. Taxation

The Authority is exempt from income tax under the terms of the Second Schedule to the Income Tax Act, 1966 as amended, except as follows: Under the terms of the Income Tax Amendments Act 3 of 2003, interest arising from treasury bills ("TBs") and Government bonds is subject to income tax of 15% and with effect from 1st April 2003 and as amended effective 1st April 2007, the tax which is withheld at source is also the final tax.

**All figures are stated in Kwacha'000**

## 3. Taxation (Continued)

In the course of the year the Authority paid K27,700,000 in Withholding Tax on Investment income under the Pension Scheme and K1,200,000 under the Provident Fund.

| **Pension Scheme** | **2008** | 2007 |
|---|---|---|
| Income tax expense | | |
| Income tax @ 15% on interest on TBs or Government bonds | **30,089,677** | 23,752,937 |
| Included under current liabilities (assets) | | |
| Payable in respect of previous year | **10,489,319** | 6,199,657 |
| Payable in respect of the current year | **30,089,677** | 23,752,937 |
| | **40,578,996** | 29,952,594 |
| WHT suffered | **(27,683,117)** | (19,463,275) |
| Current tax liabilities | **12,895,879** | 10,489,319 |

| **Provident Fund** | **2008** | 2007 |
|---|---|---|
| **Income tax expense** | | |
| Income tax @ 15% on interest on TBs or Government bonds | **1,166,283** | 1,333,009 |
| Included under current liabilities (assets) | | |
| Payable in respect of previous year | **552,210** | 432,045 |
| Payable in respect of the current year | **1,166,283** | 1,333,009 |
| | **1,718,493** | 1,765,054 |
| WHT suffered | **(1,156,812)** | (1,212,844) |
| Current tax liabilities | **561,681** | 552,210 |

**All figures are stated in Kwacha'000**

## 4. Financial risk management

The Authority's activities expose it to a variety of financial risks, including credit risk and the effects of changes in equity market prices, foreign currency exchange rates and interest rates. The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by management under policies approved by the Board of Trustees. Management identify and evaluate the financial risks.

### Market risk

(i) Fair value Interest rate risk
The Authority's interest bearing assets are at fixed rate (fixed term deposits, treasury bills and Government Bonds) except for the following:

Investrust bonds ( 3 years and 6 years) which are at 182 days Treasury bill rates + 2.5% and 3.25% respectively and Lunsemfwa Hydro Power bond at LIBOR + 3%.

(ii) Equity market prices
The Authority is exposed to equity market price risk arising from changes in market prices of shares and investment securities. Equity market price risk arises from recognised equity investments and investment securities.

### Pension scheme

At 31 December 2008, if the market prices for equity investments had strengthened/weakened by 10% with all other variables held constant, the increase/decrease in net assets for the year would have been K16,166,072 (2007: K7,794,459 ).

**All figures are stated in Kwacha'000**

## 4. Financial risk management (Continued)

### Provident fund

At 31 December 2008, if the market prices for equity investments had strengthened/weakened by 10% with all other variables held constant, constant, the increase/decrease in net assets for the year would have been K8,549,990 (2007: K 10,831,004 ).

(iii) Foreign exchange risk

### Pension scheme

The Authority is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the Dollar bonds (Lunsemfwa Hydro Power Bond and Pyramid Plaza Bond) and the Dollar bank account.

At 31 December 2008, if the Kwacha had strengthened/weakened by 5% against the US dollar with all other variables held constant, the increase/decrease in net assets for the year would have been K393,969 (2007:K323,632) mainly as a result of US dollar receivables and bank balances.

### Provident fund

The Fund is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the World Bank loan.

At 31 December 2008, if the Kwacha had strengthened/weakened by 5% against the US dollar with all other variables held constant, the increase/decrease in net assets for the year would have been K1,086,094 (2007:K3,242,241) mainly as a result of the World Bank loan.

**All figures are stated in Kwacha'000**

## 4. Financial risk management (Continued)

(iv) Credit risk

Credit risk arises from cash and cash equivalents, corporate bonds and deposits with banks, as well as other receivables. The Authority does not have significant concentrations of credit risk. The Board assesses the credit quality of each investment, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by the Board of Trustees.

The Authority's maximum exposure to credit risk at 31 December 2008 is as follows:

| | **2008** | 2007 |
|---|---|---|
| **Pension scheme** | | |
| Cash and cash equivalents | **58,277,119** | 91,424,139 |
| Equity investments | **161,660,718** | 77,944,577 |
| Government securities | **1,555,988,298** | 1,395,197,935 |
| Fixed term deposits | **384,345,638** | 101,976,226 |
| Other bonds | **33,081,447** | 32,013,567 |
| Other receivables | **24,368,427** | 24,204,725 |
| | **2,217,721,647** | 1,722,761,169 |

Collateral is held at K5,000,000 on other bonds.

None of the above assets are impaired except for K1,835,258 for Pyramid Plaza included in other bonds.

| | **2008** | 2007 |
|---|---|---|
| **Provident fund** | | |
| Equity investments | **85,499,905** | 108,309,382 |
| Government securities | **62,488,793** | 73,233,392 |
| Fixed term deposits & other bonds | **33,081,446** | 32,013,567 |
| Other receivables | **3,217,902** | 3,832,149 |
| | **184,288,045** | 217,388,490 |

**All figures are stated in Kwacha'000**

**4. Financial risk management (Continued)**

No collateral is held for any of the above assets.

None of the above assets are past due or impaired except for the following amounts in rental debtors (which are due within 30 days of the end of the month in which they are invoiced):

| | **2008** | 2007 |
|---|---|---|
| Past due but not impaired: | | |
| above 60 days | **8,317,553** | 7,931,593 |
| Total past due but not impaired | **8,317,553** | 7,931,593 |
| Provision for bad debts | **(4,385,490)** | (3,134,220) |
| | **3,932,063** | 4,797,373 |

(v) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from member contributions and returns from investments.

Management monitors rolling forecasts of the Authority's liquidity reserve on the basis of expected cash flow.

**All figures are stated in Kwacha'000**

## 4. Financial risk management (Continued)

The table below analyses the Authority's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual undiscounted cash flows. Payables due within 24 months equal their carrying balances, as the impact of discounting is not significant.

| Pension Scheme | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|
| **At 31 December 2008** | | | |
| Payables | **7,535,475** | **5,250,360** | - |
| At 31 December 2007 | | | |
| Payables | 10,320,702 | 970,360 | - |
| **Provident Fund** | | | |
| **At 31 December 2008** | | | |
| Long term loan | - | - | **21,721,875** |
| Payables | **52,042,663** | - | - |
| At 31 December 2007 | | | |
| Long term loan | - | - | 16,843,750 |
| Payables | 52,157,880 | - | - |

**All figures are stated in Kwacha'000**

## 5. Investment revenue

Investment revenue comprises interest from Government bonds, treasury bills, bank deposits, dividends, rental income from investment properties and loans and advances.

Investment revenue earned can be analysed by category of asset as follows:

| **Pension Scheme** | **2008** | 2007 |
|---|---|---|
| Financial assets | **237,877,324** | 169,688,167 |
| Employee loans and advances | **888,384** | 1,625,371 |
| | **238,765,708** | 171,313,538 |
| **Provident Fund** | | |
| Financial assets | **14,266,065** | 11,110,755 |
| Rental income | **10,299,608** | 10,044,256 |
| Loans and advances | **23,756** | 23,690 |
| | **24,589,429** | 21,178,701 |

## 6. Net exchange gains/(losses)

The net exchange gains/ (losses) in the income statement comprise the following:

| **Pension Scheme** | | |
|---|---|---|
| Exchange gains | **1,661,660** | - |
| Exchange losses | **-** | (745,289) |
| Net exchange gains/(losses) | **1,661,660** | (745,289) |
| **Provident Fund** | | |
| Exchange gains | **-** | 2,491,366 |
| Exchange losses | **(5,290,553)** | - |
| Net exchange (losses)/gains | **(5,290,553)** | 2,491,366 |

## 6. Net exchange gains/(losses) (Continued)

The Zambian Kwacha depreciated against the US Dollar and other major convertible foreign currencies during the latter part of the period.

The impact of the depreciation of the Kwacha during the period is that the Authority recorded exchange gains on its foreign currency denominated investments and bank balances, and net exchange losses on the foreign currency denominated loan.

The table below illustrates the movements in the US Dollar exchange rates during the period:

| **Currency** | **Mid – market exchange rate as at 1 January 2008** | **Mid – market exchange rate as at 31 December 2008** | Average Depreciation During the year |
|---|---|---|---|
| US Dollar (1 US$ = ) | **ZK3,850** | **ZK4,965** | 29% |

The table below illustrates the movements in the US Dollar exchange rates during 2007:

| **Currency** | **Mid – market exchange rate as at 1 January 2007** | **Mid – market exchange rate as at 31 December 2007** | Average Appreciation During the year |
|---|---|---|---|
| US Dollar (1 US$ = ) | **ZK4,380** | **ZK3,850** | 14% |

## 7. Benefit claims and refunds

| **Pension Scheme** | **2008** | 2007 |
|---|---|---|
| Retirement refund | **5,614,131** | 5,005,826 |
| Survivors refund | **5,475,362** | 5,116,212 |
| Invalidity refund | **150,704** | 236,461 |
| Refund of contributions | **25,015** | - |
| | **11,265,212** | 10,358,499 |
| Indexed payments | **12,196,385** | 10,300,124 |
| Interest on refund | **984,737** | 469,671 |
| | **13,181,122** | 10,769,795 |
| | **24,446,334** | 21,128,294 |

**All figures are stated in Kwacha'000**

## 7. Benefit claims and refunds (Continued)

In accordance with the Act, Members qualify for payment of pension following attainment of pensionable age of 55 years and have made not less than 180 monthly contributions.

The indexed payment is meant to compensate the Member for the loss of value due to the devaluation of the Kwacha. Interest is paid on the Members' contributions using the rate as determined by the Authority.

The Authority has not made any pension payment since inception as none of it's members currently qualify to receive the pension, except for those members that have qualified under the reduced criteria for those aged between the ages of 39 and 48 years at inception (on 1 February 2000). Since the Authority was only established in 2000, no Members have made 180 monthly contributions to date. However, Members who reach the retirement age but have not made 180 contributions are given a refund plus interest on the contributions made to the Authority up to the time of retirement.

| **Provident Fund** | **2008** | 2007 |
|---|---|---|
| Interest on benefits | **36,384,133** | 17,214,296 |
| Retirement | **3,076,066** | 1,500,322 |
| Survivors | **87,896** | 695,935 |
| Age | **152,616** | 448,224 |
| Disability | **376,011** | 183,413 |
| Home ownership | **4,504** | 132,488 |
| Savings | **516** | 4,022 |
| Emigration | **355** | 2,426 |
| Contribution refunds | **(738)** | - |
| Supplementary savings | **-** | 724 |
| | **40,081,359** | 20,181,850 |

Various lump sum payments are made to Members who contributed to the Zambia National Provident Fund.

**All figures are stated in Kwacha'000**

## 8. Normal retirement pensions

The normal retirement pension relates to the pension paid to Members who have qualified for a pension under the reduced criteria for those aged between 39 and 48 year at inception of the Authority on 1 February 2000.

The year ended 2006 was the first year in which members qualified to be paid a retirement pension under the sliding scale.

The table below also referred to as the "sliding scale" specifies the number of months of pensionable employment required at each age by the appointed date under this rule for a member to qualify for a pension. This is necessary because there are some members who on 1 February 2000, would not be able to qualify for a pension since they were required to make the minimum 180 monthly contributions.

| Age at (1 February 2000) appointment date | Number of months of pensionable employment required |
|---|---|
| 39 | 168 |
| 40 | 156 |
| 41 | 144 |
| 42 | 132 |
| 43 | 120 |
| 44 | 108 |
| 45 | 96 |
| 46 | 84 |
| 47 | 72 |
| 48 | 60 |

The intention of this provision is to enable older workers, who could not reasonably be expected to garner 180 months of pensionable employment by retirement age, to earn the right to a pension benefit.

**All figures are stated in Kwacha'000**

## 9. Financial assets

| | 2008 | 2007 |
|---|---|---|
| **Pension Scheme** | | |
| Treasury bills (note 10) | **597,042,141** | 510,447,397 |
| Government bonds (note 11) | **958,946,158** | 884,750,538 |
| Fixed term deposits (note 12) | **384,345,638** | 101,976,226 |
| Other stocks and bonds (note 13) | **33,081,446** | 32,013,568 |
| Equity (note 14) | **161,660,718** | 77,944,577 |
| | **2,135,076,101** | 1,607,132,306 |
| **Provident Fund** | | |
| Treasury bills (note 10) | **26,493,730** | 35,305,037 |
| Government bonds (note 11) | **35,995,063** | 37,928,355 |
| Fixed term deposits (note 12) | **31,591,210** | 7,782,077 |
| Equity (note 14) | **85,499,905** | 108,309,382 |
| | **179,579,908** | 189,324,851 |

The following financial assets exceeded 5% of Net Assets available for benefits:

| | Pension Scheme | Provident Fund |
|---|---|---|
| | % | % |
| Treasury bills | **26** | **11** |
| Government bonds | **41** | **16** |
| Fixed Term Deposits | **17** | **14** |
| Equity | **7** | **37** |

**All figures are stated in Kwacha'000**

## 10. Treasury bills - maturity analysis

### Pension Scheme

| | **2008** | 2007 |
|---|---|---|
| 91 days | **-** | 81,297,433 |
| 182 days | **40,472,533** | 155,469,992 |
| 273 days | **116,497,862** | 158,839,639 |
| 365 days | **440,071,746** | 114,840,333 |
| | **597,042,141** | 510,447,397 |

### Provident Fund

| | | |
|---|---|---|
| 91 days | **26,430,814** | 10,314,787 |
| 182 days | **-** | 9,816,154 |
| 273 days | **62,916** | 13,950,573 |
| 365 days | **-** | 1,223,523 |
| | **26,493,730** | 35,305,037 |

Interest on treasury bills is receivable on maturity at varying rates between 9% and 13%. The bills mature on diverse dates between January 2009 and December 2009.

**All figures are stated in Kwacha'000**

| 11. Government bonds | 2008 | 2007 |
|---|---|---|
| **Pension Scheme** | | |
| 1 year Government bonds | - | 140,779,258 |
| 1.5 years Government bond | - | 79,308,760 |
| 2 to 5 years Government bonds | **916,290,836** | 644,601,984 |
| 7 to 15 years Government bonds | **42,655,322** | 20,060,536 |
| | **958,946,158** | 884,750,538 |

Interest on the Government bonds is receivable semi annually at varying rates between 11% and 18%. The bonds mature on diverse dates between January 2009 and December 2022.

| **Government bonds** | **2008** | 2007 |
|---|---|---|
| **Provident Fund** | | |
| 1.5 years Government bond | - | 4,117,747 |
| 2 to 5 years Government bonds | **35,995,063** | 33,810,608 |
| | **35,995,063** | 37,928,355 |

**All figures are stated in Kwacha'000**

## 12. Fixed term deposits

| Pension Scheme | 2008 | 2007 |
|---|---|---|
| Citibank Zambia Limited | **30,909,041** | - |
| Indo-Zambia Bank Limited | **23,137,308** | 11,714,816 |
| Investrust Bank Limited | **10,667,397** | 11,002,838 |
| Zambia National Building Society | **-** | 4,344,083 |
| Union Bank Limited (In Liquidation) | **235,096** | 235,096 |
| United Bank of Zambia Limited (In Liquidation) | **140,517** | 140,517 |
| Finance Building Society | **3,684,726** | 2,085,480 |
| Stanbic Bank Zambia Limited | **57,335,643** | 31,358,836 |
| Barclays Bank Zambia Limited | **140,772,538** | 41,470,173 |
| Standard Chartered Bank | **83,709,232** | - |
| Finance Bank | **29,021,260** | - |
| Access Bank Zambia Limited | **5,108,493** | - |
| | **384,721,251** | 102,351,839 |
| Less Impairment provision | **(375,613)** | (375,613) |
| | **384,345,638** | 101,976,226 |

Interest on fixed term deposits is receivable on maturity at varying rates between 8% and 11%. The maturity period ranges between 30 to 365 days and deposits mature on diverse dates between January 2009 and December 2009.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
for the year ended 31 December 2008

**All figures are stated in Kwacha'000**

| 12. | **Fixed term deposits (Continued)** | **2008** | 2007 |
|---|---|---|---|
| | **Provident Fund** | | |
| | Cavmont Capital Bank Limited Plc | **430** | 430 |
| | Zambia National Building Society | **593,197** | 1,493,196 |
| | Commerce Bank Limited (In Liquidation) | **1,365,977** | 1,365,977 |
| | First Merchant Bank Limited | **847,187** | 847,187 |
| | Credit Africa Bank Limited (In Liquidation) | **793,790** | 793,790 |
| | Union Bank Limited (In Liquidation) | **239,850** | 399,849 |
| | Prudence Bank Limited (In Liquidation) | **362,823** | 362,823 |
| | Union Leasing Zambia Limited | **202,835** | 202,835 |
| | Stanbic Bank Zambia Limited | **8,741,938** | 7,763,691 |
| | Manifold Investment Bank Limited (In liquidation) | **36** | 36 |
| | Pan African Building Society | **128,358** | 128,359 |
| | UniFinance Zambia Limited | **119,837** | 119,837 |
| | Barclays Bank Zambia Limited | **12,157,177** | - |
| | Standard Chartered Bank | **10,692,096** | - |
| | | **36,245,531** | 13,478,010 |
| | Less: Impairment provision | **(4,654,320)** | (5,695,933) |
| | | **31,591,211** | 7,782,077 |

**All figures are stated in Kwacha'000**

| 13. Other stocks and bonds | 2008 | 2007 |
|---|---|---|
| **Pension Scheme** | | |
| Barclays Bank Zambia Plc ("BBZ") 7 - 12 year bond | **15,073,970** | 15,138,294 |
| Lunsemfwa Hydro Power Company Limited Bonds | **4,959,292** | 4,208,612 |
| Pyramid Plaza Limited Bonds | **1,835,258** | 1,496,657 |
| Investrust Bank | **12,875,154** | 12,832,233 |
| | **34,743,674** | 33,675,796 |
| Less: Impairment provision | **(1,662,228)** | (1,662,228) |
| | **33,081,446** | 32,013,568 |
| **Provident Fund** | | |
| Meridien BIAO Bank Limited (In liquidation) | **11,252** | 11,252 |
| | **11,252** | 11,252 |
| Less: Impairment provision | **(11,252)** | (11,252) |
| | **-** | - |

**Barclays Bank Zambia Plc ("BBZ") 7 - 12 year bond**
This is a 12 year BBZ corporate bond denominated in Kwacha. The bond bears interest at 31.27% per annum.

**Lunsemfwa Hydro Power Bonds**
The Lunsemfwa Hydro Power Company Limited Bonds are six year bonds denominated in United States Dollars (0.25 floating rate bond @US$100,000 per bond) stated at market value. Interest is payable semi-annually in United Sates Dollars at six months LIBOR plus 3% per annum.

**Pyramid Plaza Bonds**
This is a combination of three corporate bonds denominated in US Dollars with tenures of 3 years, 4 years and 5 years. The bonds bear annual interest rates of 10%, 11% and 12% per annum respectively.

**Investrust Bank**
This is a combination of two bonds denominated with tenures of '3 years and '6 years. The interest rates are at 182 days Treasury Bills rate + 2.5% margin and 182 days Treasury bills rate + 3.25% margin.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2008

**All figures are stated in Kwacha'000**

### 14. Financial assets - equity

| Pension Scheme | No. of shares | Share price | 2008 Market Value | 2007 Market Value |
|---|---|---|---|---|
| British Petroleum Zambia Plc | 31,402,551 | 575.00 | **18,056,467** | 28,576,321 |
| Zambeef | 8,282,171 | 3,500.00 | **28,987,599** | 17,005,081 |
| Standard Chartered Bank | 24,596,401 | 379.00 | **9,322,036** | 10,773,224 |
| Cavmont Capital Holdings Plc | 546,915,739 | 11.50 | **6,289,531** | 7,383,362 |
| Metal Fabricators of Zambia Plc | 10,890,519 | 299.00 | **3,256,265** | 5,572,025 |
| Farmers House Plc | 2,097,576 | 1,000.00 | **2,097,576** | 3,565,879 |
| Zambia Sugar plc | 6,569,488 | 268.00 | **1,760,623** | 2,759,185 |
| National Breweries Plc | 150,000 | 6,880.00 | **1,032,000** | 1,230,000 |
| Pamodzi Hotel Plc | 4,056,473 | 500.00 | **2,028,237** | 693,657 |
| British American Tobacco Zambia Plc | 155,048 | 1,480.00 | **229,471** | 240,324 |
| African Explosives Plc | 69,288 | 1,680.00 | **116,404** | 145,519 |
| ZANACO PLC | 102,463,013 | 385.00 | **39,448,260** | - |
| Celtel Zambia | 124,800,000 | 300.00 | **37,440,000** | - |
| Prima Re-Insurance | 200,000,000 | 8.00 | **1,600,000** | - |
| Zambian Lotto | 10,000,000 | 999.63 | **9,996,250** | - |
| | | | **161,660,719** | 77,944,577 |
| **Provident Fund** | | | | |
| Zambia Sugar Plc | 111,831,786 | 268 | **29,970,919** | 46,969,350 |
| Standard Chartered Bank Zambia Plc | 62,834,139 | 379 | **23,814,139** | 27,521,353 |
| Chilanga Cement Plc | 3,781,934 | 6,100 | **23,069,797** | 23,523,629 |
| National Breweries Plc | 1,250,000 | 6,880 | **8,600,000** | 10,250,000 |
| Commerce Bank Limited (In Liquidation) | 2,157,780,000 | 1 | **2,157,780** | 2,157,780 |
| Development Bank of Zambia | 4,505 | 10,000 | **45,050** | 45,050 |
| Zambia Consumer Buying Corporation Limited (In Liquidation) | | | **2,500** | 2,500 |
| Lima Bank Limited (In Liquidation) | 500,000 | 1 | **500** | 500 |
| Kapiri Glass Products Limited (In Liquidation) | 150,000 | 1 | **150** | 150 |
| | | | **87,660,835** | 110,470,312 |
| Less: Impairment provision | | | **(2,160,930)** | (2,160,930) |
| | | | **85,499,905** | 108,309,382 |

**All figures are stated in Kwacha'000**

| 15. | **Loans and advances** | **2008** | 2,007 |
|---|---|---|---|
| | **Provident Fund** | | |
| | Government loans | **852,668** | 828,912 |
| | Parastatal and private sector | **88,227** | 88,227 |
| | Local authority loans | **7,715** | 7,717 |
| | | **948,610** | 924,856 |
| | Less: Impairment provision | **(948,610)** | (788,693) |
| | | **-** | 136,163 |

| 16. | **Employee receivables** | | |
|---|---|---|---|
| | **Pension Scheme** | | |
| | Housing loans | **180,629** | 9,734,413 |
| | Vehicle loans | **-** | 3,042,210 |
| | Personal loans | **30,571** | 877,145 |
| | Other staff loans | **7,704,483** | 1,143,388 |
| | | **7,915,683** | 14,797,156 |
| | Bad debts provision | **(88,930)** | (8,681) |
| | | **7,826,753** | 14,788,475 |

**All figures are stated in Kwacha'000**

## 17 Other receivables

| | 2008 | 2007 |
|---|---|---|
| **Pension Scheme** | | |
| Return to drawer cheques | - | 2,880,820 |
| Other receivables | **167,088** | 9,244,730 |
| Dividend receivables | **69,928** | 166,004 |
| Prepayments | **16,304,658** | 164,704 |
| | **16,541,674** | 12,456,258 |
| Bad debts provision | - | (3,040,008) |
| | **16,541,674** | 9,416,250 |
| **Provident Fund** | | |
| Rental debtors | **8,317,553** | 7,931,593 |
| Interest receivable | - | - |
| Return to drawer cheques | - | 154,583 |
| Dividends | **902,421** | 465,224 |
| Others receivables | - | 31,550 |
| | **9,219,974** | 8,582,950 |
| Bad debts provision | **(6,002,072)** | (4,750,802) |
| | **3,217,902** | 3,832,148 |

## 18. Long term receivables

| | | |
|---|---|---|
| At beginning of year | **3,038,064** | 3,573,710 |
| Rental income | **(3,038,064)** | (491,384) |
| Expenses | - | 21,702 |
| Amortisation | - | (65,965) |
| **At end of year** | - | 3,038,064 |

The Authority is entitled under a court ruling 1993/HP/4201 of 1993 to charge interest on late settlement of amounts recoverable from a certain third party. The interest charge has however been compounded which the debtor has disputed. The principal amount at the time of the ruling was K1,352 million.

As the matter is currently before the courts of law, the likely financial effect cannot be determined with reasonable certainty.

Consequently, the matter is now being disclosed under note 30, contingent liabilities.

**All figures are stated in Kwacha'000**

## 19. Inventory

Inventories comprise mainly of stationery. An allowance has been made for defective, slow moving and obsolete inventories of **ZK128,000** (2007: ZK128,000)

## 20. Investment properties

Property investments were professionally revalued on the basis of open market value for existing use by independent valuation surveyors as at 31 December 2007.

The property rental income earned by the Authority from its investment property, all of which is leased out under operating leases, amounted to ZK11,082,420 (ZK1,248,000 from NAPSA); (2007:ZK10,044,258). Direct operating expenses arising on investment property in the year amounted to ZK2,777,000 (2007:ZK641,000)

| | **2008** | 2007 |
|---|---|---|
| **Provident Fund** | | |
| At beginning of year | **118,312,431** | 63,779,635 |
| Disposals | **(9,334,020)** | (4,000,000) |
| Additions | **-** | 890,000 |
| Revaluation surplus | **-** | 57,642,796 |
| **At end of year** | **108,978,411** | 118,312,431 |

**All figures are stated in Kwacha'000**

## 21. Property, plant and equipment

### Pension Scheme

| Cost | Capital Work in Progress | Motor vehicles | Office furniture, equipment and fittings | Total |
|---|---|---|---|---|
| At 1 January 2007 | - | 7,155,351 | 12,966,595 | 20,121,946 |
| Additions | - | 1,919,237 | 1,836,512 | 3,755,749 |
| Disposals | - | (1,130,121) | - | (1,130,121) |
| **At 31 December 2007** | **-** | **7,944,467** | **14,803,107** | **22,747,574** |
| At 1 January 2008 | - | 7,944,467 | 14,803,107 | 22,747,574 |
| Additions | 52,688,157 | 5,922,722 | 3,496,531 | 62,107,410 |
| Disposals | - | (2,092,626) | (224,975) | (2,317,601) |
| **At 31 December 2008** | **52,688,157** | **11,774,563** | **18,074,663** | **82,537,383** |
| **Depreciation** | | | | |
| At 1 January 2007 | - | 4,575,395 | 8,598,335 | 13,173,731 |
| Charge for year | - | 844,853 | 2,933,213 | 3,778,066 |
| Eliminated on disposal | - | (570,308) | (3,750) | (574,058) |
| **At 31 December 2007** | **-** | **4,849,940** | **11,527,798** | **16,377,739** |
| At 1 January 2008 | - | 4,849,940 | 11,527,798 | 16,377,739 |
| Charge for year | - | 1,614,705 | 1,735,289 | 3,349,994 |
| Eliminated on disposal | - | (1,403,685) | (90,429) | (1,494,114) |
| **At 31 December 2008** | **-** | **5,060,960** | **13,172,658** | **18,233,619** |
| **Carrying amount** | | | | |
| **At 31 December 2008** | **-** | **6,713,603** | **4,902,005** | **64,303,764** |
| At 31 December 2007 | - | 3,094,526 | 3,275,309 | 6,369,835 |

**All figures are stated in Kwacha'000**

## 21. Property, plant and equipment (continued)

**Provident Fund**

| | Buildings | Motor vehicles | Office furniture, equipment and fittings | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2007 | 22,137,473 | 1,141,522 | 4,121,153 | 27,400,148 |
| Revaluations | 13,581,001 | - | - | 13,581,001 |
| **At 31 December 2007** | **35,718,474** | **1,141,522** | **4,121,153** | **40,981,149** |
| At 1 January 2008 | 35,718,474 | 1,141,522 | 4,121,153 | 40,981,149 |
| Disposals | - | (589,966) | (3,466,191) | (4,056,157) |
| **At 31 December 2008** | **35,718,474** | **551,556** | **654,962** | **36,924,992** |
| **Depreciation** | | | | |
| At 1 January 2007 | - | 1,141,521 | 3,990,045 | 5,131,566 |
| Charge for year | - | - | - | - |
| **At 31 December 2007** | **-** | **1,141,521** | **3,990,045** | **5,131,566** |
| **Depreciation** | | | | |
| At 1 January 2008 | - | 1,141,521 | 3,990,045 | 5,131,566 |
| Charge for year | - | - | - | - |
| Eliminated on disposal | - | (589,966) | (3,464,952) | (4,054,918) |
| **At 31 December 2008** | **-** | **551,555** | **525,093** | **1,076,648** |
| **Carrying amount** | | | | |
| **At 31 December 2008** | **35,718,474** | **1** | **129,869** | **35,848,344** |
| At 31 December 2007 | 35,718,474 | - | 131,108 | 35,849,583 |

**All figures are stated in Kwacha'000**

## 22. Capital commitments

As at 31 December 2008 the Authority had capital commitments of approximately ZK2,100,000 (2007: ZK5,900,000).

## 23. Other payables and accruals

| | 2008 | 2007 |
|---|---|---|
| **Pension Scheme** | | |
| Sundry payables | **437,667** | 465,311 |
| Accrued expenses | **5,882,115** | 9,855,391 |
| | **6,319,782** | 10,320,702 |
| **Provident Fund** | | |
| Sundry payables | **9,127,699** | 5,544,242 |
| Accrued expenses | **-** | 3,923,638 |
| | **9,127,699** | 9,467,880 |

## 24. Deferred liabilities

**Pension Scheme**

Deferred liabilities comprise provisions for retirement benefits and other employee provisions estimated to become payable after more than one year. The movements on the account during the year were as follows:

| | | |
|---|---|---|
| At beginning of year | **827,864** | 2,479,593 |
| Charge for the year | **1,120,986** | 683,196 |
| Paid during the year | **(733,157)** | (2,334,925) |
| **At end of year** | **1,215,693** | 827,864 |

**All figures are stated in Kwacha'000**

| 25. Long term loan | 2008 | 2007 |
|---|---|---|
| **Provident Fund** | | |
| At beginning of year | **16,843,750** | 19,583,866 |
| Interest accrued/ reversed | - | (421,366) |
| Net exchange loss/(gain) | **4,878,125** | (2,318,750) |
| **At end of year** | **21,721,875** | 16,843,750 |

The loan, of US$5 million, was obtained from the World Bank through the Ministry of Finance and National Planning. The loan bears interest at 2.5% per annum and is payable in 24 instalments over a period of 12 years. The loan is denominated in US$ and is unsecured.

The Authority had entered into negotiations with the Ministry of Finance and National Planning for a possible debt swap of the long term loan for the debt owed by the Government. The Authority is also pursuing a write off of the full amount following the write off of Government debt by the World Bank. The Authority has however accrued interest payable on the loan as at 31 December 2008.

## 26. Provisions for legal claims

Legal claims payable relate to various ongoing litigation cases whose ultimate resolution will in the Trustee's view result in loss to the Authority. The amounts accrued for are at Trustees' best estimate of the likely outcome of those claims.

## 27. Contributions receivable from members

Contributions receivable from members represent the statutory contributions as required by the National Pension Scheme Authority Act, No. 40 of 1996 which requires the employer and employee to contribute 5% of the gross earnings into the Scheme.

The Authority's policy requires that contribution income is accounted for on the basis of receipts from 11 January of each year to 10 January of the following year. Contribution income from 1 January to 10 January 2009 amounted to K33,145,914 (2008 : K20,649,204).

**All figures are stated in Kwacha'000**

## 28. Retirement benefits

The Authority maintains a pension scheme comprising both defined benefit and defined contribution schemes, established to provide retirement benefits for employees. The Authority's contributions to the scheme for the year ended 31 December 2008 was ZK2,677,000 (2007: ZK1,779,000).

## 29. Related party transactions

In the context of the Authority, related party transactions include any transactions made by any of the following persons:

- The Government of the Republic of Zambia;
- Members of the Board of Trustees including the Director General;
- Staff Pension Scheme

The transactions to be reported are those that affect the Authority in making financial and operating decisions. Examples of such transactions include:
-Finance (loans);
-Procurement and investment contracts:
-Disposal of assets; and
-Rental income.

The Authority undertakes to disclose the nature of related party relationships, types of transactions, and the elements of the transactions necessary for the understanding of the annual financial statements.

All transactions with related parties were carried out under open market conditions as would apply to any other entity.

**All figures are stated in Kwacha'000**

## 29. Related party transactions (continued)

The net effect of related party transactions on the results for the year ended 31 December 2008 is as follows:

| **Amounts due from the Government** | **2008** | 2007 |
|---|---|---|
| Rental income | **974,855** | 1,254,072 |
| Government loans | **187,463** | 187,463 |
| Parastatal and private sector | **88,227** | 88,227 |
| Interest on Government loans | **23,755** | 23,690 |
| Local authority loans | **2,918** | 2,918 |
| | **1,277,218** | 1,556,370 |

In the current year other then the rental income on investment properties occupied by Government agencies and departments and the interest income on the loans receivable from the Government, no other related party transactions occurred between the Authority and the Government.

| **Other** | **2008** | 2007 |
|---|---|---|
| Amount due from Staff Pension Scheme | **-** | 6,367,322 |
| Fees paid to Trustees | **814,863** | 469,166 |

**Compensation of key management personnel**

The remuneration of Trustees and other members of key management during the year were as follows:

| | | |
|---|---|---|
| Short term employee benefits | **733,157** | 2,334,925 |

## 30. Contingent liabilities

As at 31st December 2008, the Authority had the following contingent liabilities:

| | | |
|---|---|---|
| **a)** | **Guarantees** | |
| **i)** | Zamsa Freight Services Limited | $1,800,000 |
| **ii)** | Coppernet Solutions | $1,500,000 |
| **iii)** | Zambian Airways | $2,000,000 |

The Zambian Airways guarantee was made good subsequent to the year end.

**b) Long term receivable**

The Authority is entitled under a court ruling 1993/HP/4201 of 1993 to charge interest on late settlement of amounts recoverable from a certain third party. The interest charged has however been compounded which the debtor has disputed. The likely financial effect of this dispute cannot yet be determined and the matter is now before the courts of law.

**c) Other**

Other than the liability to pay pensions and other benefits there were no other contingent liabilities of the Scheme as at 31 December 2008, as all other deemed likely to crystallise have been provided for.

## NATIONAL PENSION SCHEME AUTHORITY

**APPENDIX I**

## INCOME STATEMENT
for the year ended 31 December 2008

**All figures are stated in Kwacha'000**

| | Pension Scheme | | Provident Fund | |
|---|---|---|---|---|
| Member service operations: | **2008** | 2007 | **2008** | 2007 |
| Contributions receivable from Members | **562,036,306** | 430,954,370 | **213** | 24,016 |
| Benefit claims and refunds | **(27,226,385)** | (23,882,579) | **(40,082,820)** | (20,187,058) |
| Normal retirement pensions | **(8,624,673)** | (3,786,756) | **-** | - |
| | **526,185,248** | 403,285,035 | **(40,082,607)** | (20,163,042) |
| Investment operations: | | | | |
| Investment revenue | | | | |
| - Interest on Government bonds | **134,692,449** | 94,026,634 | **5,907,062** | 3,469,129 |
| - Interest on treasury bills | **64,528,218** | 60,727,191 | **2,808,542** | 5,055,827 |
| - Interest on term deposits | **33,051,567** | 11,313,351 | **2,159,866** | 735,192 |
| - Other investments | **4,033,406** | 2,953,212 | **-** | - |
| - Rental income | **-** | - | **10,299,608** | 10,044,260 |
| - Dividend income | **1,571,684** | 667,779 | **3,390,595** | 1,850,607 |
| Management fees | **2,991,196** | 2,603,204 | **-** | - |
| Handling fees | **(3,386,592)** | (4,985,224) | **(31,118)** | - |
| Medical Levy | **(2,387,555)** | (1,660,775) | **(99,351)** | (78,318) |
| Surplus on revaluation of investments | **(93,030,767)** | 19,891,346 | **(22,809,478)** | 13,581,000 |
| Surplus on revaluation of Investment properties | **-** | - | **-** | 57,642,796 |
| Surplus on revaluation of financial assets | **31,167,999** | - | **609,856** | 59,211,630 |
| Write back of provision on diminution | **-** | - | **881,696** | - |
| Interest on loans and advances | **888,384** | 1,625,371 | **23,755** | 23,690 |
| Loss on amortisation of financial assets | **-** | (8,699,131) | **-** | (790,313) |
| | **174,119,989** | 178,462,958 | **3,141,033** | 150,745,500 |
| Other operating income: | | | | |
| - Exchange gains (losses) | **1,661,660** | (745,289) | **(5,290,553)** | 2,491,366 |
| Gain/(loss) on disposal of investment property | **176,189** | - | **(241,825)** | 4,000,000 |
| - Write back of bad debt provision | **-** | - | **-** | 595,983 |
| - Sundry income | **2,071,457** | 73,602 | **-** | 8,900 |
| | **3,909,306** | (671,687) | **(5,532,378)** | 7,096,249 |

## NATIONAL PENSION SCHEME AUTHORITY

**APPENDIX I**

## INCOME STATEMENT (CONTINUED)
for the year ended 31 December 2008

**All figures are stated in Kwacha'000**

| | Pension Scheme | | Provident Fund | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| **Management and administration expenses** | | | | |
| - Employee benefit expenses | **(43,416,666)** | (56,417,366) | **-** | (10,591,129) |
| - Administration expenses | **(32,439,128)** | (20,465,035) | **(7,918,604)** | (12,981,958) |
| - Pension cost | **(2,677,724)** | (1,779,134) | **-** | - |
| - Bad and doubtful debts provision | **217,136** | (1,844,775) | **(5,745,948)** | (40,831,964) |
| - Depreciation | **(3,349,994)** | (3,778,066) | **-** | (23,035) |
| | **(81,666,376)** | (84,284,376) | **(13,664,552)** | (64,428,086) |
| **Surplus/(deficit) of income over expenditure before finance costs and taxation** | **622,548,167** | 496,791,930 | **(56,138,503)** | 73,250,621 |
| **Interest expense** | **-** | - | **(467,441)** | (421,094) |
| | **622,548,167** | 496,791,930 | **(56,605,944)** | 72,829,527 |
| **Surplus/(deficit) of income over expenditure for year before taxation** | **622,548,167** | 496,791,930 | **(56,605,944)** | 72,829,527 |

## NATIONAL PENSION SCHEME AUTHORITY

**BALANCE SHEET**
as at 31 December 2008

**All figures are stated in Kwacha'000**

| | | Pension Scheme | | Provident Fund | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| **ASSETS** | | | | | |
| Bank and cash balances | | **58,277,119** | 91,424,139 | - | - |
| Financial assets | 9 | **2,135,076,101** | 1,607,132,306 | **179,579,908** | 189,324,851 |
| Loans and advances | 16 | **-** | - | **-** | 136,163 |
| Employee receivables | 17 | **7,826,753** | 14,788,475 | - | - |
| Members' contributions receivables | | **33,145,914** | 20,649,204 | - | - |
| Other receivables | 18 | **16,541,674** | 9,416,250 | **3,217,902** | 3,832,148 |
| Current account with NAPSA | | **-** | - | **(22,784,158)** | 7,347,015 |
| Long term receivables | 19 | **-** | - | **-** | 3,038,064 |
| Inventory | 20 | **497,127** | 487,457 | **-** | - |
| Investment properties | 21 | **-** | - | **108,978,411** | 118,312,431 |
| Property, plant and equipment | 22 | **64,303,764** | 6,369,835 | **35,848,345** | 35,849,583 |
| **TOTAL ASSETS** | | **2,315,668,452** | 1,750,267,666 | **304,840,408** | 357,840,255 |
| **LIABILITIES** | | | | | |
| Current account with ZNPF | | **(22,784,158)** | 7,347,015 | **-** | - |
| Other payables and accruals | 24 | **6,319,782** | 10,320,702 | **9,127,699** | 9,467,880 |
| Claims payable | 27 | **5,250,360** | 970,360 | **-** | - |
| Deferred liabilities | 25 | **1,215,693** | 827,864 | **42,914,965** | 42,690,000 |
| Current tax liabilities | | **12,895,879** | 10,489,319 | **561,681** | 552,210 |
| Long term loan | 26 | **-** | - | **21,721,875** | 16,843,750 |
| | | **2,897,556** | 29,955,260 | **74,326,220** | 69,553,840 |
| **ACCUMULATED FUNDS** | | | | | |
| Accumulated funds | | **2,363,672,960** | 1,676,593,196 | **-** | - |
| Members' funds | | **-** | - | **(13,169,179)** | 26,913,428 |
| Investment revaluation reserve | | **(50,902,065)** | 43,719,210 | **80,278,526** | 102,478,148 |
| Property revaluation reserve | | **-** | - | **71,223,796** | 71,223,796 |
| Other reserves | | **-** | - | **92,154,443** | 87,644,441 |
| Annuity account | | **-** | - | **26,601** | 26,601 |
| | | **2,312,770,895** | 1,720,312,406 | **230,514,187** | 288,286,414 |
| **Total liabilities and accumulated funds** | | **2,315,668,451** | 1,750,267,666 | **304,840,407** | 357,840,254 |

**NATIONAL PENSION SCHEME AUTHORITY** **APPENDIX III**

**STATEMENT OF MOVEMENTS IN ACCUMULATED FUNDS**
for the year ended 31 December 2008

**All figures are stated in Kwacha'000**

| **Pension Scheme** | **Investment revaluation reserves** | **Accumulated Funds** | **Total** |
|---|---|---|---|
| Balance at 1 January 2007 | 23,827,864 | 1,223,445,549 | 1,247,273,413 |
| Surplus of income over expenditure for year | - | 453,147,647 | 453,147,647 |
| Surplus on revaluation of equity | 19,891,346 | - | 19,891,346 |
| **Balance at 31 December 2007** | **43,719,210** | **1,676,593,196** | **1,720,312,406** |

| **Pension Scheme** | **Investment Revaluation Reserves** | **Accumulated Funds** | **Total** |
|---|---|---|---|
| Balance at 1 January 2008 | 43,719,210 | 1,676,593,196 | 1,720,312,406 |
| Surplus of income over expenditure for year | - | 687,079,764 | 687,079,764 |
| Loss on revaluation of equity | (94,621,275) | - | (94,621,275) |
| **Balance at 31 December 2008** | **(50,902,065)** | **2,363,672,960** | **2,312,770,895** |

## NATIONAL PENSION SCHEME AUTHORITY

## STATEMENT OF MOVEMENTS IN ACCUMULATED FUNDS
for the year ended 31 December 2008

**All figures are stated in Kwacha'000**

### Provident Fund

| | Annuity account | Members' funds | Property Revaluation Reserve | Investment Revaluation Reserve | Other reserves | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2007** | 26,601 | 47,067,571 | - | 43,266,518 | 126,427,206 | 216,787,896 |
| Statutory contributions received | - | 24,016 | - | - | - | - |
| Interest on contribution income | | 8,900 | - | - | - | 24,016 |
| Benefit claims and refunds (note 7) | - | (20,181,850) | - | - | - | 8,900 |
| Maternity and funeral grants | - | (5,208) | - | - | | (20,181,850) |
| Write back on bad debt reserve | | | | | 595,983 | (5,208) |
| Investment property | - | - | 71,223,796 | - | - | 595,983 |
| Surplus on revaluation of investments | - | - | | 59,211,630 | - | 71,223,796 |
| Surplus of income over expenditure for year | - | - | - | - | (39,378,748) | 59,211,630 |
| **Balance at 31 December 2007** | **26,601** | **26,913,429** | **71,223,796** | **102,478,148** | **87,644,441** | (39,378,748) |
| | | | | | | **288,286,415** |

**NATIONAL PENSION SCHEME AUTHORITY** **APPENDIX III**

## STATEMENT OF MOVEMENTS IN ACCUMULATED FUNDS
for the year ended 31 December 2008

**All figures are stated in Kwacha'000**

| | Annuity account | Members' funds | Property Revaluation Reserve | Investment Revaluation Reserve | Other reserves | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2008** | 26,601 | 26,913,429 | 71,223,796 | 102,478,148 | 87,644,441 | 288,286,415 |
| Statutory contributions received | - | 213 | - | - | - | 213 |
| Benefit claims and refunds (note 7) | - | (40,081,359) | - | - | - | (40,081,359) |
| Maternity and funeral grants | - | (1,461) | - | - | - | (1,461) |
| Loss on revaluation of equity | - | - | | (22,809,478) | - | (22,809,478) |
| Surplus of income over expenditure for year | - | - | - | - | 4,510,002 | 4,510,002 |
| Amortisation of revaluation surplus | - | - | - | 609,856 | - | 609,856 |
| **Balance at 31 December 2008** | **26,601** | **(13,169,178)** | **71,223,796** | **80,278,526** | **92,154,443** | **230,514,188** |