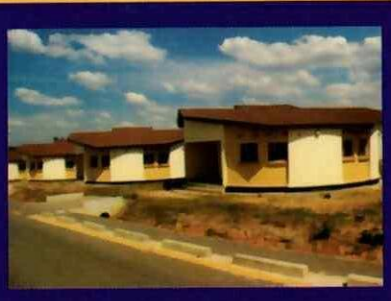
# NATIONAL PENSION SCHEME AUTHORITY

# REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012









**Guaranteed Social Protection**

National Pension Scheme Authority

# Country- wide NAPSA Offices




| AREA/STATION | CONTACT NUMBER |
|---|---|
| Lusaka | +260-1-221677 |
| Kafue | +260-1-311555 |
| Kabwe | +260-5-221379/+260-5-223129 |
| Mkushi | +260-5-362091 |
| Ndola | +260-2-610849 |
| Luanshya | +260-2-512252 |
| Kitwe | +260-2- 224009/+260-2-223361 |
| Mufulira | +260-2-411078/+260-2-411654 |
| Chingola | +260-2-311823/+260-2-312839 |
| Solwezi | +260-8-821576/+260-8-821342 |
| Zambezi | +260-8-371105 |
| Mansa | +260-2-821236 |
| Kawambwa | +260-2-960053 |
| Kasama | +260-4-221324 |
| Mbala | +260-4-450457 |
| Mpika | +260-4-370370 |
| Chipata | +260-6- 223427 |
| Petauke | +260-6-371123 |
| Mongu | +260-7 -221128/+260-7 -221415 |
| Mazabuka | +260-3- 230212/+260-3- 230345 |
| Monze | + 260- 3- 250533/+ 260- 3- 250222 |
| Choma | +260-3-220786 |
| Livingstone | +260-3-322145/+260-3-321074 |

**NATIONAL PENSION SCHEME AUTHORITY**

**REPORT AND FINANCIAL STATEMENTS**
for the year ended 31 December 2012

**CONTENTS** **PAGES**


| | |
|---|---|
| Mission statement | 1 |
| Report of trustees | 2 – 11 |
| Statement of responsibilities | 12 |
| Independent auditor's report | 13 – 14 |
| Statement of changes in net assets available for benefits | 15 – 16 |
| Statement of net assets available for benefits | 17 |
| Statement of cash flows | 18 – 19 |
| Significant accounting policies | 20 – 31 |
| Notes to the financial statements | 32 – 57 |
| **(Not forming part of the financial statements)** | |
| Statement of comprehensive income | Appendix I |
| Statement of financial position | Appendix II |
| Statement of movements in accumulated funds | Appendix III |

# NATIONAL PENSION SCHEME AUTHORITY

## REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2012

### 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.

### Vision statement

To be a pension scheme that adds value to members' funds and the economy

### Value statement

We are committed to be responsible custodians of the funds entrusted with us;

We shall be guided by the highest professional standards in the conduct of our business;

We are committed to the provision of quality service based on integrity and courtesy;

We are committed to fostering a good working environment in which all employees can develop their fullest potential.

## NATIONAL PENSION SCHEME AUTHORITY

## REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2012

### Board of Trustees



Mr. Joseph Mwansa Chikolwa
Chairperson
Appointed 26 December 2012



Mr. Guy Phiri
(Employer's representative)
Vice-Chairman
Appointed 26 December 2012



Mr. Andrew Chisala
(Employer's representative)
Member
Appointed 26 December 2012



Mr. Trevor Kaunda
(Ministry of Labour and Social Security)
(Government representative)
Member
Appointed 26 December 2012



Mr. Peter Bwalya Chupa
(Worker's representative )
Member
Appointed 26 December 2012



Mrs. Lusa A. Pellama Mulanda
(Workers' representative)
Member
Appointed 26 December 2012



Ms. Monde F. Sitwala
(Ministry of Finance)
(Government representative)
Member
Appointed 26 December 2012



Mrs. Michelo Silungwe
(Zambia Association of Pension Funds representative )
Member
Appointed 26 December 2012



Mr. Chishimba Brian Yumbe
(Bank of Zambia representative)
Member
Appointed 26 December 2012



Mr. David Chewe
(Bankers Association of Zambia representative )
Member
Appointed 26 December 2012

## Senior Management



Mr. Charles Mpundu
Director General
Appointed 23 April 2012



Mr. Yollard Kachinda
Director Contributions and Benefits



Mr. Joseph Ngosa
Director Investments



Mrs. Mutinta Mulonda
Authority Secretary



Mrs. Chishala Tembo
Director Projects



Dr. Ceylon Mudenda
Director Northern Region



Mr. Lloyd Chembo
Director Southern Region



Mrs. Betty Meleki
Director Human Resource &
Administration
Appointed 10 December 2012



Mrs. Kapambwe Doreen Chiwele
Director Finance

## REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2012

### Advisors

| | |
|---|---|
| **Legal Advisors:** | Legal Counsel<br>National Pension Scheme Authority<br>Levy Business Park<br>P.O Box 51275<br>**LUSAKA** |
| **Auditors:** | Ernst & Young<br>Trinity Office Park, Stand 16806, Unit 9, 10<br>Alick Nkhata Road<br>P.O Box 35483<br>**LUSAKA** |
| **Actuaries:** | Government Actuary's Department<br>Finlaison House<br>15 – 17 Furnival Street<br>London EC4A 1AB<br>**UNITED KINGDOM** |
| **Bankers:** | Zambia National Commercial Bank Plc<br>Private Bag E119<br>**LUSAKA** |
| | Citibank Zambia Limited<br>P.O Box 30037<br>**LUSAKA** |
| | Barclays Bank Zambia Plc<br>Private Bag E308<br>**LUSAKA** |
| | Stanbic Bank Zambia Plc<br>P.O Box 31955<br>**LUSAKA** |
| | Standard Chartered Bank Zambia Limited<br>P O Box 32238<br>**LUSAKA** |
| **Head Office:** | National Pension Scheme Authority<br>Levy Business Park<br>P.O Box 51275<br>**LUSAKA** |

## REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2012

The Trustees present their report for the year ended 31 December 2012.

### 1.0 Overview

#### 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 ("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 2012

#### Pension Scheme

The net assets available for benefits at 31 December 2012 increased overall by 27%, to K6.21 trillion, from K4.86 trillion in 2011. The main components impacting on performance were as follows:

*i) Contributions receivable*

The Scheme collected K1.38 trillion in contributions, an annual increase of K357 billion (35%) from the 2011 figure of K1.03 trillion. The increase is a reflection of a number of factors, such as growth in the national economy, increase in the National Average Earnings, and increase in the contribution ceiling.

*ii) Investment operations*

The Scheme recorded net investment income of K470 billion, an increase of 65% from 2011. The increase is attributable, in the main, to the increase in contributions collected. The Scheme however, recorded losses totalling K99.9 billion on revaluation of financial assets as required under International Financial Reporting standards (IFRS), compared with K79.9 billion in 2011. The loss was due to the decrease in the value of the bond book as a result of the mixed performance of interest rates, which dipped earlier in the year and later started to recover.

## 2.0 Operational performance for the year 2012 (Continued)

### *iii) Management expenses*

The Authority recorded K164 billion in management expenses, an increase of K23 billion (16%) from 2011. This was a favourable variance of 22% against the budget figure of K208 billion.

## 2.1 Restriction on Pension Scheme expenditure

The Pension Scheme has an imposed ceiling on expenditure (or cap), intended to allow the Scheme to build a reserve fund capable of maintaining the member contribution rate stable. The expenditure ceiling 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 current ceiling comprises management expenditure at 15% of contributions collected, and K30 billion for capital expenditure.

## 2.2 Provident Fund

The Provident Fund recorded an overall decrease of 42% in net assets available for benefits. The main components impacting on performance were as follows:

### *i) Investment operations*

The Fund recorded net investment income of K21.5 billion, a reduction of 22% from 2011. The Fund suffered losses totalling K18.9 billion upon revaluation of financial assets and equity, in contrast to gains of K14.6 billion in 2011.

### *ii) Contributions receivable*

There are no fresh fund inflows from member contributors, following the repeal of the Zambia National Provident Fund Act. The Fund is therefore depleting in nature.

## REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2012

### Member service operations

3.1 Pension Scheme

**Table 1: Contributions**

| | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Total number of employers | 29,143 | 27,578 | 24,079 | 22,118 |
| Cumulative number of members | 1,583,675 | 1,522,192 | 1,307,417 | 1,175,306 |
| Provisional registrations | 101,964 | 45,206 | 90,782 | 699,329 |
| Monthly average collection (Kwacha Billions) | 115.5 | 85.7 | 67.2 | 49.6 |

**Table 2: Benefits Trend**

| | | | | |
|---|---|---|---|---|
| Funeral grant (Kwacha '000) | 5,870 | 5,383 | 4,347 | 3,915 |
| Minimum pension (Kwacha '000) | 587 | 538 | 435 | 391 |
| Highest pension (Kwacha '000) | 2,534 | 2,304 | 1,877 | 1,516 |
| Average monthly pension (Kwacha '000) | 758 | 688 | 556 | 499 |
| Highest lump sum (Kwacha '000) | 155,850 | 99,109 | 94,519 | 67,020 |
| Number of pensioners | 7,932 | 5,970 | 4,279 | 2,748 |

3.2 Provident Fund

The Authority also pays benefits under the repealed Zambia National Provident Fund Act. In 2012, K63 billion was paid out in benefit claims compared to K48.9 billion in 2011, representing an increase of 29%.

**Investments**

4.1 The Investment portfolio held at the end of the year 2012 is shown in Tables 3 and 4 below.

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

| | 2012 Net Investments | 2012 % of total Portfolio | 2011 Net Investments | 2011 % of total Portfolio |
|---|---|---|---|---|
| Loans and advances | 7 | - | 9 | - |
| Fixed Interest Securities | 41 | 1 | 41 | 1 |
| Other receivables | 298 | 5 | 225 | 5 |
| Treasury bills | 321 | 5 | 291 | 6 |
| Equity | 349 | 6 | 353 | 8 |
| Housing inventory | 532 | 9 | - | - |
| Work in progress | - | - | 1,420 | 31 |
| Investment properties | 1,006 | 17 | - | - |
| Term deposits | 1,088 | 19 | 626 | 13 |
| Government bonds | 2,267 | 38 | 1,684 | 36 |
| | **5,909** | **100** | **4,649** | **100** |

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

| | 2012 Net Investments | 2012 % of total Portfolio | 2011 Net Investments | 2011 % of total Portfolio |
|---|---|---|---|---|
| Government bonds | - | - | 10 | 1 |
| Loans and advances | - | - | - | - |
| Treasury bills | - | - | 13 | 1 |
| Equity | 94 | 32 | 112 | 12 |
| Investment properties | 184 | 62 | 143 | 16 |
| Term deposits | 17 | 6 | 626 | 70 |
| | **295** | **100** | **904** | **100** |

***Full provision made for the cumulative balances in this category**

## 5.0 Scheme funding

The Authority reviews the actuarial positions of both the Pension Scheme and Provident Fund every three years. The last valuation was undertaken as at 31 December 2008. At the time of audit, processes were underway to undertake valuation as at 31 December 2011/2012.

## 5.1 Pension Scheme

The Pension Scheme is a defined benefit scheme financed on a scaled premium basis. As it is not a fully funded scheme by design, it therefore carries a deficit which is monitored at every actuarial valuation. Contribution rates may be adjusted in future in accordance with the prescribed procedure under the National Pension Scheme Act Number 40 of 1996, should it be necessary to do so in order to maintain equilibrium within the scheme and enable the Authority meet the promised benefit to members.

## 5.2 Provident Fund

The Provident Fund is a savings scheme which was financed by contributions from the members under the now repealed Zambia National Provident Fund Act. As the scheme is depleting due to the cessation of contributions, the Authority is in talks with stakeholders and the Government of the Republic of Zambia over measures to deal with the actuarial deficit.

## 6.0 Staff establishment

6.1 The approved establishment as at 31 December 2012 is shown at Table 5 below.

**Table 5 (Staff establishment)**

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Approved Staff Establishment | 399 | 393 |
| Actual Numbers | 381 | 368 |

## 7.0 Social Responsibility

The Authority is aware of, and gives consideration to, its role as a corporate citizen. The Authority therefore regularly supports several community programmes through active participation and financial assistance. Cash funding or direct assistance is provided to select projects. The Authority also provides sponsorship to major sporting events and major cultural and traditional ceremonies.

## 8.0 Statement on Corporate Governance

8.1 NAPSA subscribes to the tenets of good corporate governance. The Authority has in place structures, policies and procedures to ensure that the decision making process, governance and administration of the institution are all in accord with good corporate governance practices.

8.2 During the period under review, the affairs of the Authority were overseen by the Ministry of Labour and Social Security, following the dissolution of the previous Board of Trustees in October 2011. All the proceedings of the meetings were duly recorded. The current Board of Trustees was subsequently appointed on 26 December 2012.

8.3 Pursuant to paragraph 7 of the First Schedule of the Act which allows the Authority to establish and delegate some of its functions to committees, and in keeping with corporate governance best practice, the Authority has subsequently established the Committees as seen under paragraph 8. Further and in order to benefit from persons with relevant skills and experience, some non - Authority Members have been co-opted into the Committees, as recommended under good corporate governance practice.

## 9.0 Committees

### 9.1 Audit, Risk and Compliance Committee

9.1.1 The Audit Committee is composed of the following Members:

- Mr. Chishimba Brian Yumbe (Chairperson)
- Ms. Monde F. Sitwala
- Ms. Susan Wambulawae*
- Mr. Ronald Chibesakunda*

### 9.2 Finance & Investments Committee

9.2.1 The Finance & Investments Committee is composed of the following Members:

- Mr. Guy Phiri (Chairperson)
- Mr. David Chewe
- Mr. Trevor Kaunda
- Mr. Katema Mutale*
- Ms. Kutemba Konga*

***denotes independent Committee Members who are not members of the Authority**

**9.0 Committees (Continued)**

**9.3 Technical Committee**

9.3.1 The Technical Committee is composed of the following Members:

Mrs. Michello Silungwe (Chairperson)
Mr. Trevor Kaunda
Dr. Velepi Mtonga*

**9.4 Staff Affairs Committee**

9.4.1 The Staff Affairs Committee is composed of the following members:

Mr. Andrew Chisala (Chairperson)
Mr. Peter Bwalya Chupa
Mrs. Lusa A Pellama Mulanda
Ms. Penelope Mapoma*

**10.0 Senior Management**

10.1 Senior Management comprises the Director General, appointed by the Minister of Labour & Social Security, who is the Chief Executive Officer of the Authority. The Director General is subject to the control of the Board of Trustees and is responsible for the day to day administration of the Authority. The Director General is supported by seven (07) Directors who each head a Directorate, and the Authority Secretary. There is open communication between the Board of Trustees and the Senior Management. The Board and its Committees are supplied with full information to enable them discharge their responsibilities.

10.2 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 recognizes that it is accountable to the members for the performance of the pension scheme.

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***Trustee*** ***Trustee***

## NATIONAL PENSION SCHEME AUTHORITY

## TRUSTEES STATEMENT OF RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012

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 13 and 14.

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 present fairly the surplus of income over expenditure of the Authority for the financial year ended 31 December 2012;

the statement of net assets available for benefits is drawn up so as to present fairly the state of affairs of the Authority as at 31 December 2012;

At the date of this statement there were reasonable grounds to believe that the Authority would 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 Act No. 40 of 1996 and applicable International Financial Reporting Standards.

**Approval of the financial statements**

The financial statements of the Authority as indicated above, were approved by the Trustees on ..... **30 th May, 2013** ..... and were signed on its behalf by:

*Trustee*

*Trustee*

Chartered Accountants
Trinity Office Park
Stand 16806, Unit 9, 10
P O Box 35483
Alick Nkhata Road
Lusaka, Zambia

Office: + 260 211 378300/1,3,4
Fax: + 260 211 378302

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATIONAL PENSION SCHEME AUTHORITY

## Report on the financial statements

We have audited the financial statements of National Pension Scheme Authority set out on pages 15 to 57, which comprise the statement of net assets available for benefits as at 31 December 2012 and the statement of changes in net assets available for benefits and the statement of cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

*Trustees' responsibility for the financial statements*

The Authority's 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 Act No. 40 of 1996 and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*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 about whether the financial statements are free from material misstatement.

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

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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.



A member firm of Ernst & Young Global Limited

*Opinion*
In our opinion, the financial statements present fairly, in all material respects, the financial position of National Pension Scheme Authority as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the National Pension Scheme Act No. 40 of 1996.

*Other reports required by the National Pension Scheme Act No. 40 of 1996*
As part of our audit of the financial statements for the year ended 31 December 2012, we have read the trustees' report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements.

Ernst & Young

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

H/C Nondo

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

**30 th May, 2013**

***2013***
***Lusaka***

## NATIONAL PENSION SCHEME AUTHORITY

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended 31 December 2012

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

| | 2012 | 2011 | 2012 | 2011 |
|---|---|---|---|---|
| | Pension Scheme | | Provident Fund | |
| **Net assets available at beginning of year** | **4,863,872,350** | **3,953,737,933** | **190,637,086** | 216,594,694 |
| **Member service operations:** | | | | |
| Contributions receivable from members | **1,385,905,733** | 1,029,077,278 | - | - |
| Pension claims and withdrawals | **(104,927,461)** | 80,934,999 | **(63,025,898)** | (48,935,922) |
| Normal retirement pensions | **(79,153,514)** | (56,262,958) | - | - |
| Maternity and funeral grants | **(6,380,902)** | (5,189,474) | **(108,475)** | (6,261) |
| | 1,195,443,855 | 886,689,847 | **(63,134,373)** | (48,942,183) |
| **Investment operations:** | | | | |
| Investment revenue | | | | |
| Interest Income | **441,515,535** | 282,738,402 | **4,337,273** | 6,995,176 |
| Rental income | **23,843,432** | 2,958,625 | **14,131,463** | 15,882,573 |
| Dividend income | **17,625,969** | 7,152,171 | **3,128,920** | 4,824,091 |
| Sundry income | **199,165** | (255,591) | **9,556** | |
| Management fees ZNPF | **2,468,913** | 1,957,025 | - | - |
| Handling fees | **(8,852,842)** | (7,310,083) | - | (20,935) |
| Medical Levy | **(5,766,671)** | (2,721,896) | **(51,543)** | (102,853) |
| | **470,433,502** | 284,518,654 | **21,555,670** | 27,578,052 |
| Net exchange (losses)/ gains | **(322,299)** | (1,469,299) | **(356,517)** | (1,476,530) |
| Provision for doubtful debts | - | (429,316) | **(5,852,079)** | (1,348,399) |
| Loss on disposal of investment properties | - | - | - | (2,312,983) |
| Gain/(Loss) on revaluation of financial assets | **(99,951,453)** | (79,914,186) | **(18,988,339)** | 14,639,079 |
| | **370,159,750** | 202,705,852 | **(3,641,266)** | 37,079,279 |

The notes on pages 20 to 57 form part of these financial statements

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS (CONTINUED)

for the year ended 31 December 2012

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

| | 2012 | 2011 | 2012 | 2011 |
|---|---|---|---|---|
| | **Pension Scheme** | | **Provident Fund** | |
| Management expenses: | | | | |
| - Employee benefit expenses | **(107,982,072)** | (92,314,277) | - | - |
| - Administration expenses | **(42,805,723)** | (36,925,729) | **(11,197,734)** | (10,644,899) |
| - Depreciation | **(6,012,902)** | (5,333,664) | - | (476) |
| - Pension costs | **(6,590,427)** | (5,100,988) | - | - |
| - Interest expense | - | - | **(568,066)** | (533,887) |
| Management fees ZNPF | - | - | **(2,468,913)** | (1,963,524) |
| Rental Charges ZNPF | **(1,435,000)** | (1,435,000) | - | - |
| Profit/(loss) on disposal of Property, Plant and Equipment | **671,203** | (87,714) | **240,685** | (95,744) |
| | **(164,154,923)** | (141,197,372) | **(13,994,030)** | (13,238,530) |
| Income tax expense | **(52,144,031)** | (38,063,912) | **(201,335)** | (856,175) |
| Increase in net assets | **1,349,304,652** | 910,134,416 | **(80,971,002)** | (25,957,609) |
| Net assets available at end of year | **6,213,177,002** | 4,863,872,350 | **109,666,084** | 190,637,086 |

The notes on pages 20 to 57 form part of these financial statements

NATIONAL PENSION SCHEME AUTHORITY

## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
As at 31 December 2012

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

| | | Pension Scheme | | Provident Fund | |
|---|---|---|---|---|---|
| | Note | 2012 | 2011 | 2012 | 2011 |
| **Net assets** | | 6,213,177,002 | 4,863,872,350 | 109,666,084 | 190,637,086 |
| **Represented by:** | | | | | |
| **Assets** | | | | | |
| Bank and cash balances | | 217,693,045 | 106,094,439 | 5,555,667 | 17,320,624 |
| Financial assets | 9 | 4,065,492,191 | 2,994,823,085 | 110,703,294 | 172,209,750 |
| Loans and advances | 15 | 7,002,740 | 9,401,644 | - | - |
| Employee receivables | 16 | 3,777,214 | 4,998,944 | - | - |
| Members' contributions receivables | 26 | 67,566,058 | 59,465,262 | - | - |
| Other receivables | 17 | 317,787,887 | 232,233,411 | 2,515,367 | 11,396,698 |
| Current account with ZNPF | | 102,934,550 | 112,109,522 | - | - |
| Inventory | 18 | 239,077 | 134,404 | - | - |
| Housing inventory | 18 | 532,134,524 | - | - | - |
| Investment properties | 19 | 1,006,088,073 | - | 183,510,676 | 142,548,152 |
| Property, plant and equipment | 20 | 16,734,700 | 1,436,487,830 | - | 47,116,700 |
| | | 6,337,450,059 | 4,955,748,540 | 302,285,004 | 390,591,924 |
| **Liabilities** | | | | | |
| Current account with NAPSA | | - | - | (102,934,550) | (112,109,522) |
| Other payables and accruals | 22 | (86,110,839) | (57,065,868) | (14,889,912) | (17,976,527) |
| Provisions for claims payable | 25 | (10,583,747) | (13,873,103) | (47,730,688) | (44,654,424) |
| Deferred liabilities | 23 | (2,353,806) | (2,101,486) | - | - |
| Income tax liabilities | 3 | (25,224,665) | (18,835,733) | (4,401,270) | (2,858,114) |
| Long term loan | 24 | - | - | (22,662,500) | (22,356,250) |
| | | (124,273,057) | (91,876,190) | (192,618,921) | (199,954,837) |
| **Net assets** | | 6,213,177,002 | 4,863,872,350 | 109,666,084 | 190,637,086 |

The financial statements on pages 20 to 57 were approved by the Board of Trustees on ..... 30 th May, 2013 ..... and were signed on its behalf by:

---------- ----------

***Trustee*** ***Trustee***

The notes on pages 20 to 57 form part of these financial statements

## NATIONAL PENSION SCHEME AUTHORITY

## STATEMENT OF CASH FLOWS
for the year ended 31 December 2012

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

| | | Pension Scheme | | Provident Fund | |
|---|---|---|---|---|---|
| | Note | **2012** | 2011 | **2012** | 2011 |
| **Cash flows from operating activities** | | | | | |
| **Increase in net assets** | | **1,349,304,652** | 910,134,416 | **(80,971,002)** | (25,957,609) |
| Adjusted for non cash items: | | | | | |
| Depreciation | 20 | **6,012,902** | 5,333,664 | - | 476 |
| Income tax expense | | **52,144,031** | 38,063,912 | **201,335** | 856,175 |
| Dividend income | | **(17,025,969)** | (7,152,171) | **(3,128,920)** | (4,824,091) |
| Interest income | | **(440,564,494)** | (281,640,172) | **(4,313,518)** | (6,971,484) |
| Gain (loss) on disposal of investment property | | - | - | - | 2,312,983 |
| Surplus on revaluation of investments | | **100,273,752** | 79,914,186 | - | - |
| Loss/ (gain) on disposal of financial assets | | - | - | **19,344,856** | 14,639,079 |
| Gain/(loss) on disposal of property, plant and equipment | | **671,203** | (87,714) | **240,685** | 96,406 |
| Surplus on revaluation of Properties | | - | - | - | (5,515,303) |
| Operating cash inflows before movements in operating funds | | **1,050,816,077** | 744,566,121 | **(68,626,564)** | (25,363,369) |
| **Movement in operating assets and liabilities:** | | | | | |
| Dividends received | | **17,025,969** | 7,152,171 | **3,128,920** | 4,824,091 |
| Interest received | | **440,564,494** | 281,640,172 | **4,313,518** | 6,971,484 |
| Purchase of financial assets | | **(1,170,942,960)** | (255,426,405) | **42,185,355** | 42,288,615 |
| Increase/(decrease) in deferred liabilities | | **252,319** | (31,204) | - | - |
| Decrease in loans and advances | | **2,398,904** | 300,000 | - | (1,019,586) |
| Decrease in employee receivables | | **1,221,730** | 827,597 | - | - |
| Increase in member's contribution receivables | | **(8,100,796)** | (16,479,494) | - | - |
| (Increase)/decrease in other receivables | | **(85,554,476)** | (189,877,578) | **8,881,332** | 5,117,932 |
| Decrease in current accounts | | **9,174,971** | - | - | - |

The notes on pages 20 to 57 form part of these financial statements

## NATIONAL PENSION SCHEME AUTHORITY

## STATEMENT OF CASH FLOWS (Continued)
for the year ended 31 December 2012

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

| | | Pension Scheme | | Provident Fund | |
|---|---|---|---|---|---|
| | Note | **2012** | 2011 | **2012** | 2011 |
| (Increase)/decrease in inventories | | **(104,673)** | 175,484 | - | - |
| Transfer of housing | 18 | **(532,134,524)** | - | **(40,962,524)** | - |
| Transfer of inventory | 18 | **(1,006,088,073)** | - | - | 5,150,537 |
| Proceeds on disposal of Property, plant & equipment | | **1,584,591,907** | 1,101,485,610 | **46,876,013** | - |
| Increase in other payables and accruals | | **25,755,616** | 18,405,004 | **(8,879,071)** | (20,012,200) |
| **Net movement in operating assets and liabilities** | | **(721,939,491)** | 948,171,358 | **55,519,786** | 43,320,871 |
| Income tax paid | 3 | **(45,755,098)** | (39,828,631) | **1,341,821** | (677,931) |
| **Net cash utilised in operations** | | **283,121,487** | 1,652,908,848 | **(11,764,957)** | 17,279,572 |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | 20 | **(171,522,881)** | (1,762,113,336) | - | - |
| **Net cash outflows in investing activities** | | **(171,522,881)** | (1,762,113,336) | - | - |
| **Net cash (outflows) inflows** | | 111,598,606 | (109,204,488) | **(11,764,957)** | 17,279,572 |
| **Cash and cash equivalents at beginning of the year** | | **106,094,439** | 215,298,926 | **17,320,624** | 41,053 |
| **Cash and cash equivalents at end of the year** | | 217,693,045 | 106,094,439 | **5,555,667** | 17,320,624 |

The notes on pages 20 to 57 form part of these financial statements

NATIONAL PENSION SCHEME AUTHORITY

SIGNIFICANT ACCOUNTING POLICIES
for the year ended 31 December 2012

## 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 statutory mandate for the management, control and administration 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. New standards and interpretations

**New standards and interpretations effective in 2012**
A number of new standards, amendments to standards and interpretations are mandatory for the year ended 31 December 2012, and have been adopted by the Authority where relevant to the Authority's operations.

**IFRS 1 Severe hyperinflation and removal of fixed dates for first-time adopters – amendment to IFRS 1**
This IFRS amendment provides guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. This amendment is effective for annual periods beginning on or after 1 July 2011

*There is no impact on the 2012 financial statements*

**IFRS 7 Transfers of financial assets – amendment to IFRS 7**
Before the Standard was revised entities had the option to capitalize or expense borrowing costs relating to qualifying assets. This option is no longer available.

The amendment to IFRS 7 requires additional quantitative and qualitative disclosures relating to transfers of financial assets under certain scenarios. This amendment is effective for annual periods beginning on or after 1 July 2011

*There is no impact on the 2012 financial statements*

**IAS 12 Deferred taxes: Recovery of underlying assets – amendment to IAS 12.**
The amendment introduces a rebuttable presumption that deferred tax on investment properties measured at fair value be recognised on a sale basis.

The presumption can be rebutted if the entity applies a business model that would indicate that substantially all of the investment property will be consumed in the business, in which case an own-use basis must be adopted. This amendment is effective for annual periods beginning on or after 1 January 2012

*There is no impact on the 2012 financial statements*

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
for the year ended 31 December 2012

**2. New standards and interpretations (Continued)**

**a) New relevant standards issued not yet effective**
The following Standards have been issued or revised and will become effective for December 2013 yearend annual financial year.

**IFRS 10 Consolidated financial statements**
IFRS 10 creates a new, broader definition of control than under current IAS 27 and has resulted in SIC 12 being withdrawn.

IFRS 10 does not change the consolidation process; rather it changes whether an entity is consolidated by revising the definition of control.

The revised definition of control will require consideration of aspects such as de-facto control, substantive vs. protective rights, agency relationships, silo accounting and structured entities when evaluating whether or not an entity is controlled by the investor. This standard is effective for periods beginning on or after1 January 2013.

*There is no expected impact on the Authority's financial statements once adopted.*

**IFRS 11 Joint arrangements**

IFRS 11 replaces IAS 31 and SIC 13 and refers to IFRS 10's revised definition of 'control' when referring to 'joint control'.

Under IFRS 11 a joint arrangement (previously a 'joint venture' under IAS 31) is accounted for as either a:

- joint operation – by showing the investor's interest/ relative interest in the assets, liabilities, revenues and expenses of the joint arrangement; or
- joint venture – by applying the equity accounting method. Proportionate consolidation is no longer permitted.

Under IFRS 11 the structure of the joint arrangement is not the only factor considered. This standard is effective for periods beginning on or after 1 January 2013.

*There is no expected impact on the Authority's financial statements once adopted.*

**IFRS 12 Disclosure of interests in other entities**
The new standard applies to entities that have an interest in subsidiaries, joint arrangements, associates and/ or structured entities. This standard is effective for periods beginning on or after 1 January 2013.

*There is no expected impact on the Authority's financial statements once adopted.*

## 2. New standards and interpretations (Continued)

### IFRS 13 Fair value measurement

IFRS 13 describes how to measure fair value where fair value is required or permitted to be used as a measurement basis under IFRS (with certain standards being excluded from the scope of IFRS 13.

Under IFRS 13 fair value is presumed to be an 'exit price'. New disclosures related to fair value measurements are also introduced. This standard is effective for periods beginning on or after 1 January 2013.

*There is no expected impact on the Authority's financial statements once adopted .*

### IAS 1 Presentation of items of other Comprehensive income (amendment to IAS 1)

The amendment to IAS 1 requires that items presented within OCI be grouped separately into those items that will be recycled into profit or loss at a future point in time, and those items that will never be recycled. This standard is effective for periods beginning on or after 1 July 2012.

*There is no expected impact on the Authority's financial statements once adopted.*

### IAS 19 Employee benefits (revised)

The 'corridor approach' currently allowed as an alternative basis in IAS 19 for the recognition of actuarial gains and losses on defined benefit plans has been removed. Actuarial gains and losses in respect of defined benefit plans are now recognised in OCI when they occur.

For defined benefit plans, the amounts recorded in profit or loss are limited to current and past service costs, gains and losses on settlements and interest income/ expense. The distinction between short-term and other long term benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits. In many instances this is expected to have a significant impact on the manner in which leave pay and similar liabilities are currently classified. This standard is effective for periods beginning on or after 1 January 2013.

*There is no expected material impact on the Authority's financial statements once adopted.*

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
for the year ended 31 December 2012

**2. New standards and interpretations (Continued)**

**IAS 27 Separate financial statements (consequential revision due to the issue of IFRS 10)**

IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures and associates in the separate financial statements of the investor. This standard is effective for periods beginning on or after 1 January 2013.

*There is no expected impact on the Authority's financial statements once adopted.*

**IAS 28 Investments in associates and joint ventures (consequential revision due to the issue of IFRS 10 and 11).**

The revised standard caters for joint ventures (now accounted for by applying the equity accounting method) in addition to prescribing the accounting for Investments in associates. This standard is effective for periods beginning on or after 1 January 2013.

*There is no expected impact on the Authority's financial statements once adopted .*

**IFRS 7 Financial Instruments - disclosures**

The amendments to this standard provide additional disclosures that are similar to current United States GAAP requirements. This standard is effective for periods beginning on or after 1 January 2013.

*There is no expected impact on the Authority's financial statements once adopted.*

**b) New and amended pronouncements that will become effective subsequent to the December 2013 year-end**

**IFRS 9 Financial instruments – Classification and measurement**

This, the first phase of the IASB's project to replace IAS 39 in its entirety, addresses the classification and measurement of financial instruments.

Amendments published in October 2010 incorporate the existing derecognition principles of IAS 39 directly into IFRS 9.

*Financial assets*

All financial assets are initially measured at fair value.

Subsequent measurement of debt instruments is only at amortised cost if the instrument meets the requirements of the 'business model test' and the 'characteristics of financial asset test'.

**2. New standards and interpretations (Continued)**

All other debt instruments are subsequently measured at fair value.

All equity investments are subsequently measured at fair value either through other comprehensive income (OCI) or profit and loss.

Embedded derivatives contained in non-derivative host contracts are not separately recognised. Unless the hybrid contract qualifies for amortised cost accounting, the entire instrument is subsequently recognised at fair value through profit and loss.

*Financial liabilities*

For liabilities measured at fair value through profit and loss, the change in the fair value of the liability attributable to changes in credit risk is presented in OCI. The remainder of the change in fair value is presented in profit and loss.

All other classification and measurement requirements in IAS 39 have been carried forward into IFRS 9.

This standard is effective for periods beginning on or after1 January 2013.

*There is no expected impact on the Authority's financial statements once adopted.*

**IAS 32 Offsetting financial assets and financial liabilities (amendments to IAS 32)**

The amendment clarifies the meaning of the entity currently having a legally enforceable right to offset financial assets and financial liabilities as well as the application of IAS 32 offsetting criteria to settlement systems (such as clearing houses). This standard is effective for periods beginning on or after 1 January 2014.

*There is no expected impact on the Authority's financial statements once adopted.*

**IFRS 7, IFRS 9 Mandatory effective date and transition disclosures (amendments to IFRS 9 and IFRS 7)**

Mandatory effective date for IFRS 9 is 1 January 2015. Amendments to IFRS 7 depend on when IFRS 9 is adopted and affect the extent of comparative information required to be disclosed. This standard is effective for periods beginning on or after 1 January 2015.

## SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 December 2012

### 3. Significant accounting polices

*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 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 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.

*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 recognised on a straight-line basis over the term of the relevant lease.

*Inventory*
Inventories mainly comprise stationery and are valued at the lower of cost and net realisable value.

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.

*Housing inventory*
Housing inventory comprises the stock of housing units under construction. In determining the cost, the average cost method per unit type is used and includes all costs incurred in bringing the stock to its current condition.

## SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 December 2012

### 3. Significant accounting polices (Continued)

*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.

*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.

## SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 December 2012

### 3. Significant accounting polices (Continued)

*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.

*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.

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
for the year ended 31 December 2012

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

*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.

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.

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**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
for the year ended 31 December 2012

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

*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.

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.

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
for the year ended 31 December 2012

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

*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 the Authority 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 in the income statement, 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 before a decrease can be identified with an individual loan in that portfolio.

## SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 December 2012

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

*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 its 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 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 Trustees' 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 2008. In accordance with IAS 26 paragraph 28 b, the Authority has opted to disclose the deficit rather than record it on the statement of net assets available for benefits.

## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

**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 statutory mandate for the management, control and administration 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.

**NOTES TO THE FINANCIAL STATEMENTS**
for the year ended 31 December 2012

**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 every three years by independent actuaries. The Authority engaged an Actuary to evaluate the Pension scheme as at 31 December 2008. 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)** | ***Long records** | ****Short records** |
|---|---|---|
| Value of benefits accrued | 10.28 | 6.74 |
| Assets | 2.31 | 2.31 |
| Deficit | (7.97) | (4.43) |

| **Provident Fund (Kwacha Trillions)** | |
|---|---|
| Total liability | 8.80 |
| Assets | 0.20 |
| Deficit | (8.60) |

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 method used to calculate the present value of promised retirement benefits was based 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.

*Long records
Where members have contributed for 180 months or more and qualify for a pension.

**Short records
Where members have contributed for less than 180 months and qualify for a pension under the sliding scale.

## 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 and as amended effective 1 April 2007,the tax which is wit

In the course of the year the Authority paid K52.1 billion in Witholding Tax on Investment income under the Pension Scheme and K 0.2 billion under the Provident Fund.

### a) Total tax paid

| **Pension Scheme** | **2012** | **2011** |
|---|---|---|
| Income tax @ 15% on interest on treasury Bills or Government bonds | **52,144,031** | 38,063,912 |
| Tax for the year | | |
| Payable in respect of previous year | **18,835,733** | 20,600,452 |
| Payable in respect of the current year | **52,144,031** | 38,063,912 |
| | **70,979,764** | 58,664,364 |
| Total taxes paid for the year | **(45,755,098)** | (39,828,631) |
| Current tax liabilities | **25,224,665** | 18,835,733 |
| **Provident Fund** | | |
| Income tax @ 15% on interest on treasury Bills or Government bonds | **201,335** | 856,175 |
| Tax for the year | | |
| Payable in respect of previous year | **2,858,114** | 2,679,870 |
| Payable in respect of the current year | **201,335** | 856,175 |
| | **3,059,449** | 3,536,045 |
| Total taxes due/( paid) for the year | **1,341,821** | (677,931) |
| Current tax liabilities | **4,401,270** | 2,858,114 |

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

## 3. Taxation (Continued)

### b) Withholding tax expense

| **Pension Scheme** | **2012** | 2011 |
|---|---|---|
| Income tax @ 15% on interest on treasury Bills or Government bonds | **52,144,031** | 38,063,912 |
| Included under current liabilities (assets) | | |
| Payable in respect of previous year | **17,407,448** | 18,492,137 |
| Payable in respect of the current year | **52,144,031** | 38,063,912 |
| | **69,551,479** | 56,556,049 |
| WHT suffered | **(49,333,760)** | (39,148,601) |
| Current tax liabilities | **20,217,719** | 17,407,448 |
| **Provident Fund** | | |
| Income tax @ 15% on interest on treasury Bills or Government bonds | **201,335** | 856,175 |
| Included under current liabilities | | |
| Payable in respect of previous year | **362,601** | 881,678 |
| Payable in respect of the current year | **201,335** | 856,175 |
| | **563,936** | 1,737,853 |
| WHT (suffered) | **(563,936)** | (1,375,252) |
| Current tax liabilities | **-** | 362,601 |

**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 identifies and evaluates the financial risks.

### Market risk

a) 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:

One Barclays Bank Zambia Plc bond (15 years) which is at 91 days treasury bill rate + 1.25%

Two Investrust bonds (6 years) which are at 182 days Treasury bill rates + 3.25% and 4% respectively.

b) 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 2012, if the market prices had strengthened/weakened by 10% with all other variables held constant, the increase in net assets for the year would have been K34,853,928 higher/lower (2011 : K35,337,917 ).

**Provident fund**
At 31 December 2012, if the market prices had strengthened/weakened by 10% with all other variables held constant, increase in net assets for the year would have been K9,384,106 higher/lower (2011: K11,207,124).

## 4. Financial risk management (Continued)

c) Foreign exchange risk

**Pension scheme**
The Authority is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the Dollar bank account

At 31 December 2012, if the Kwacha had strengthened/weakened by 5% against the US dollar with all other variables held constant, increase in net assets for the year would have been K67,511,523 lower/higher (2011 : K25,358).

**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 2012, if the Kwacha had strengthened/weakened by 5% against the US dollar with all other variables held constant, increase in net assets for the year would have been K 3,715,545 lower/higher (2011 : K1,117,813) .

d) 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 due to diversification of placements. The Board of Trustees 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 2012 is as follows:

| | **2012** | 2011 |
|---|---|---|
| **Pension scheme** | | |
| Cash and cash equivalents | **217,693,045** | 106,094,439 |
| Equity investments | **348,539,276** | 353,379,171 |
| Government securities | **2,587,829,293** | 1,974,795,017 |
| Fixed term deposits | **1,088,047,380** | 625,619,482 |
| Other bonds | **41,076,242** | 41,029,415 |
| Other receivables | **321,565,101** | 220,044,609 |
| | **4,604,750,336** | 3,320,962,133 |

Collateral is held on certain Fixed Term Deposits.

## 4. Financial risk management (Continued)

| | 2012 | 2011 |
|---|---|---|
| **Provident fund** | | |
| Equity investments | **93,841,062** | 112,071,243 |
| Government securities | - | 23,383,159 |
| Fixed term deposits & other bonds | **41,076,243** | 41,029,415 |
| Other receivables | **2,515,367** | 11,396,698 |
| | **137,432,672** | 187,880,515 |

Collateral is held on certain Fixed Term Deposits.

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):

| | 2012 | 2011 |
|---|---|---|
| Past due but not impaired: | | |
| above 60 days | **15,790,050** | 15,252,293 |
| Total past due but not impaired | **15,790,050** | 15,252,293 |
| Provision for bad debts | **(12,064,259)** | (5,253,111) |
| | **3,725,790** | 9,999,181 |

(e) 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.

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.

Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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

## 4. Financial risk management (Continued)

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|
| **Pension Scheme** | | | |
| **At 31 December 2012** | | | |
| Payables | **88,464,643** | **10,583,747** | - |
| At 31 December 2011 | | | |
| Payables | 59,167,353 | 13,873,103 | - |
| **Provident Fund** | | | |
| **At 31 December 2012** | | | |
| Long term loan | - | - | **22,662,500** |
| Payables | **62,620,601** | - | - |
| **At 31 December 2011** | | | |
| Long term loan | - | - | 22,356,250 |
| Payables | 62,630,951 | - | - |

Investment revenue comprises interest from Government Bonds, treasury bills, bank deposits and rental income.

## 5. Investment revenue

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

| | 2012 | 2011 |
|---|---|---|
| Pension Scheme | | |
| Financial assets | **483,535,143** | 285,697,028 |
| Employee loans and advances | **549,945** | 698,230 |
| | **484,085,088** | 286,395,258 |
| Provident Fund | | |
| Financial assets | **7,442,438** | 11,795,575 |
| Rental income | **14,131,463** | 15,882,573 |
| Loans and advances | **23,755** | 23,690 |
| | **21,597,657** | 27,701,838 |

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

| 6. **Net exchange losses** | **2012** | 2011 |
|---|---|---|
| The net exchange gains/(losses) in the income statement comprise the following: | | |
| **Pension Scheme** | | |
| Net exchange losses | **(322,299)** | (1,469,299) |
| **Provident Fund** | | |
| Net exchange losses | **(356,517)** | (1,476,530) |

The Zambian Kwacha fluctuated against the US Dollar and other major convertible foreign currencies in the year. It generally appreciated in the earlier part of the year and depreciated during the later part of the year.

The net impact of the fluctuation of the Kwacha during the year is that the Authority recorded net exchange losses on its bank balances.

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

| **Currency** | **Mid – market exchange rate as at 1 January 2012** | **Mid – market exchange rate as at 31 December 2012** | Mid – market exchange rate as at 31 December 2011 |
|---|---|---|---|
| US Dollar (1 US$ = ) | **ZK5,110** | **ZK5,180** | ZK5,110 |

The table below illustrates the movements in the US Dollar exchange rates during 2011:

| **Currency** | exchange rate as at 1 January 2011 | Mid – market exchange rate as at 31 December 2011 | Mid – market exchange rate as at 31-Dec-10 |
|---|---|---|---|
| US Dollar (1 US$ = ) | ZK4,820 | ZK5,110 | ZK4,820 |

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

## 7. Benefit claims and refunds

| | 2012 | 2011 |
|---|---|---|
| **Pension Scheme** | | |
| Retirement refund | **26,707,124** | 18,071,831 |
| Survivors refund | **13,469,636** | 12,823,272 |
| Invalidity refund | **49,401** | 73,808 |
| Refund of contributions | **537,846** | 468,273 |
| | **40,764,008** | 31,437,184 |
| Indexed payments | **60,466,292** | 44,950,272 |
| Interest on refund | **3,697,161** | 4,547,543 |
| | **64,163,453** | 49,497,815 |
| | **104,927,461** | 80,934,999 |

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 pays pensions to 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** | 2012 | 2011 |
|---|---|---|
| Interest on benefits | | |
| Retirement | **59,723,275** | 46,121,065 |
| Survivors | **2,395,312** | 2,221,734 |
| Age | **486,311** | 305,689 |
| Disability | **209,931** | 209,120 |
| Home ownership | **38,632** | 7,842 |
| Savings | **172,325** | 68,438 |
| | **113** | 2,033 |
| | **63,025,898** | 48,935,922 |

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

| **Pension Scheme** | **2012** | 2011 |
|---|---|---|
| Treasury bills (note 10) | **320,817,171** | 291,057,358 |
| Government bonds (note 11) | **2,267,012,122** | 1,683,737,659 |
| Fixed term deposits (note 12) | **1,088,047,380** | 625,619,482 |
| Other stocks and bonds (note 13) | **41,076,242** | 41,029,415 |
| Equity (note 14) | **348,539,276** | 353,379,171 |
| | **4,065,492,191** | 2,994,823,085 |
| **Provident Fund** | | |
| Treasury bills (note 10) | - | 13,196,127 |
| Government bonds (note 11) | - | 10,187,031 |
| Fixed term deposits (note 12) | **16,862,231** | 36,755,348 |
| Other Stocks and Bonds (note 13) | - | - |
| Equity (note 14) | **93,841,063** | 112,071,243 |
| | **110,703,294** | 172,209,750 |

## 10. Treasury bills

| **Pension Scheme** | **2012** | 2011 |
|---|---|---|
| 91 days | | |
| 182 days | **15,020,630** | - |
| 273 days | **20,023,731** | 9,916,696 |
| 365 days | **285,772,810** | 281,140,662 |
| | **320,817,171** | 291,057,358 |
| **Provident Fund** | | |
| 91 days | - | - |
| 182 days | - | - |
| 273 days | - | - |
| 365 days | - | 13,196,127 |
| | - | 13,196,127 |

Interest on treasury bills is receivable on maturity at varying rates between 6% and 11%. The bills mature on diverse dates between January 2013 and December 2013.

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

## 11. Government bonds

| **Pension Scheme** | **2012** | **2011** |
|---|---|---|
| 2 to 5 years Government bonds | **1,851,725,096** | 1,467,201,277 |
| 7 to 15 years Government bonds | **415,287,026** | 216,536,382 |
| | **2,267,012,122** | 1,683,737,659 |

Interest on the Government bonds is receivable semi annually at varying rates between 8% and 15%. The bonds mature on diverse dates between January 2013 and December 2026.

| | **2012** | 2011 |
|---|---|---|
| **Provident Fund** | | |
| 2 to 5 years Government bonds | - | 10,187,031 |

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

**12. Fixed term deposits**

| | 2012 | 2011 |
|---|---|---|
| **Pension Scheme** | | |
| Citibank Zambia Limited | **30,312,082** | 30,708,047 |
| Zambia National Commercial Bank Plc | **73,629,001** | - |
| Indo-Zambia Bank Limited | **57,595,981** | 24,467,152 |
| Investrust Bank Limited | **33,903,827** | 10,885,205 |
| First National Bank | **116,759,651** | 63,889,333 |
| Cavmont Capital Bank | **31,123,629** | 28,253,602 |
| United Bank of Africa | **65,909,198** | 23,262,343 |
| Union Bank Limited (In Liquidation) | **235,096** | 235,096 |
| United Bank of Zambia Limited (In Liquidation) | **80,517** | 80,517 |
| Finance Building Society | - | 1,109,100 |
| Stanbic Bank Zambia Limited | **168,655,855** | 78,373,428 |
| Barclays Bank Zambia Limited | **163,311,174** | 162,498,968 |
| Standard Chartered Bank | **71,331,344** | - |
| Finance Bank | **96,620,354** | 81,605,164 |
| Access Bank Zambia Limited | **36,625,453** | 67,584,658 |
| Ecobank | **69,330,822** | 27,120,317 |
| BancABC | **52,483,285** | 10,643,562 |
| International Commercial Bank | **20,455,726** | 15,218,603 |
| | **1,088,362,993** | 625,935,095 |
| Less impairment provision | **(315,613)** | (315,613) |
| | **1,088,047,380** | 625,619,482 |

Interest on fixed term deposits is receivable on maturity at varying rates between 6% and 13%. The maturity period ranges between 30 to 365 days and deposits mature on diverse dates between January 2013 and December 2013.

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

| 12. Fixed term deposits (continued) | 2012 | 2011 |
|---|---|---|
| **Provident Fund** | | |
| International Commercial Bank | **5,182,192** | 10,869,073 |
| Zambia National Commercial Bank Plc | **-** | 15,232,851 |
| BancABC | **11,680,041** | 10,653,425 |
| Cavmont Capital Bank Limited Plc | **430** | 430 |
| Commerce Bank Limited (In Liquidation) | **1,365,977** | 1,365,977 |
| First Merchant Bank Limited (In Liquidation) | **847,187** | 847,187 |
| Credit Africa Bank Limited (In Liquidation) | **793,790** | 793,790 |
| Union Bank Limited (In Liquidation) | **299,850** | 299,850 |
| Union Leasing Zambia Limited (In Liquidation) | **202,835** | 202,835 |
| Pan African Building Society | **128,358** | 128,358 |
| UniFinance Zambia Limited (In Liquidation) | **119,836** | 119,837 |
| | **20,620,497** | 40,513,613 |
| Less: Impairment provision | **(3,758,265)** | (3,758,265) |
| | **16,862,231** | 36,755,348 |

## 13. Other stocks and bonds

| | | |
|---|---|---|
| **Pension Scheme** | | |
| Barclays Bank Zambia Plc ("BBZ") 12 year bond | **15,292,251** | 15,336,594 |
| Investrust Bank | **25,783,991** | 25,692,821 |
| | **41,076,242** | 41,029,415 |
| **Provident Fund** | | |
| Meridien BIAO Bank Limited (In liquidation) | **11,252** | 11,252 |
| Less: Impairment provision | **(11,252)** | (11,252) |
| | **-** | - |

**Barclays Bank Zambia Plc ("BBZ") - 12 year bond**
This is a 15 year BBZ corporate bond denominated in Kwacha, due to mature in 2018. The bond bears interest at 91 days Treasury Bills rate + 1.25% margin per annum.

**Investrust Bank**
This is a combination of two bonds denominated with tenures of 6 years each, due to mature in 2013 and 2016 respectively. The interest rates are at 182 days Treasury Bills rate +3.25% margin and 182 days Treasury bills rate + 4% margin respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2012

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

## 14. Equity

| | No. of shares | Share price | Market Value 2012 | Market Value 2011 |
|---|---|---|---|---|
| **Pension Scheme** | | | | |
| Zambia Sugar Plc | 362,520,236 | 254.00 | **92,080,140** | 112,018,753 |
| ZANACO Plc | 772,024,891 | 181.00 | **139,736,505** | 138,964,480 |
| Zambeef Plc | 8,282,171 | 3,000.00 | **24,846,513** | 24,026,578 |
| Puma Energy Zambia Plc | 47,494,251 | 1,205.00 | **57,230,572** | 35,955,921 |
| Standard Chartered Bank Plc | 10,012,627 | 797.00 | **7,980,064** | 13,296,814 |
| Metal Fabricators of Zambia Plc | 10,890,519 | 400.00 | **4,356,208** | 7,078,837 |
| Farmers House Plc | 2,097,576 | 3,343.00 | **7,012,197** | 6,502,486 |
| Prima Re-Insurance | 570,919 | 8,000.00 | **4,567,352** | 4,567,351 |
| Lafarge Plc | 521,123 | 8,004.00 | **4,171,068** | 3,960,535 |
| Cavmont Capital Holdings Plc | 546,916 | 4,500.00 | **2,461,122** | 2,734,579 |
| Pamodzi Hotel Plc | 4,056,473 | 595.00 | **2,413,601** | 2,669,159 |
| National Breweries Plc | 150,000 | 8,000.00 | **1,200,000** | 1,080,000 |
| British American Tobacco Zambia Plc | 155,048 | 1,600.00 | **248,077** | 246,526 |
| African Explosives Plc | 69,288 | 3,404.00 | **235,856** | 277,152 |
| | | | **348,539,276** | 353,379,171 |
| **Provident Fund** | | | | |
| Zambia Sugar Plc | 130,470,417 | 254 | 33,139,486 | 40,315,359 |
| Standard Chartered Bank Zambia Plc | 25,578,328 | 797 | 20,385,927 | 33,968,136 |
| Chilanga Cement Plc | 3,781,934 | 8,004 | 30,270,600 | 28,742,698 |
| National Breweries Plc | 1,250,000 | 8,000 | 10,000,000 | 9,000,000 |
| 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 |
| | | | 96,001,993 | 114,232,173 |
| Less: Impairment provision | | | (2,160,930) | (2,160,930) |
| | | | 93,841,063 | 112,071,243 |

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

## 15. Loans and advances

| | 2012 | 2011 |
|---|---|---|
| **Pension Scheme** | | |
| Zambian Lotto | **7,002,740** | 9,401,644 |
| **Provident Fund** | | |
| Government loans | **947,399** | 923,643 |
| Parastatal and private sector | **88,227** | 88,227 |
| Local authority loans | **7,715** | 7,715 |
| | **1,043,341** | 1,019,586 |
| Less: Impairment provision | **(1,043,341)** | (1,019,586) |
| | **-** | - |

## 16. Employee receivables

| | | |
|---|---|---|
| **Pension Scheme** | | |
| Staff loans | **4,031,465** | 5,253,195 |
| Bad debts provision | **(254,251)** | (254,251) |
| | **3,777,214** | 4,998,944 |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2012

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

### 17. Other receivables

| | 2012 | 2011 |
|---|---|---|
| **Pension Scheme** | | |
| Other receivables | **36,462,870** | 23,459,360 |
| Dividend receivables | **11,273** | 36,790 |
| Prepayments | **1,221,868** | 1,111,513 |
| Society House Development Company Limited | **280,091,876** | 207,625,747 |
| | **317,787,887** | 232,233,411 |
| Bad debts provision | **-** | - |
| | **317,787,887** | 215,045,665 |
| **Provident Fund** | | |
| Rental debtors | **15,790,050** | 12,169,907 |
| Dividends | **-** | 699,862 |
| Others receivables | **(1,210,424)** | 143,512 |
| | **14,579,626** | 13,013,281 |
| Bad debts provision | **(12,064,259)** | (1,616,582) |
| | **2,515,367** | 11,396,698 |

### 18. Inventory

**Pension Scheme**

### 18.1 General inventory

Inventory mainly comprises stationery which at 31 December 2012 stood at K239,077 (2011 : K134,404).

### 18.2 Housing inventory

| | 2012 | 2011 |
|---|---|---|
| Nyumba Yanga Housing Project | **172,721,183** | - |
| Northgate Gardens Project | **106,461,145** | - |
| Kalulushi Housing Project | **252,952,196** | - |
| | **532,134,524** | - |

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

| 19. Investment properties | 2012 | 2011 |
|---|---|---|
| **Pension Scheme** | | |
| Investment properties | 1,006,088,073 | - |
| **Provident Fund** | | |
| At beginning of year | 142,548,150 | 144,496,368 |
| Disposals | (6,008,640) | (7,343,520) |
| Additions | 46,971,165 | - |
| Revaluation surplus | - | 5,395,302 |
| **At end of year** | 183,510,676 | 142,548,150 |

Investments properties were professionally revalued on the basis of open market value for existing use by independent valuation surveyors as at 31 December 2010.

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

## 20. Property, plant and equipment

**Pension Scheme**

| Cost | Capital Work in Progress | Motor vehicles | Office furniture, equipment and fittings | Total |
|---|---|---|---|---|
| At 1 January 2011 | 767,160,198 | 19,784,130 | 19,155,551 | 806,099,880 |
| Additions | 1,753,679,588 | 6,904,409 | 1,529,339 | 1,762,113,336 |
| Disposals | (1,100,808,168) | (879,094) | (10,018,011) | (1,111,705,272) |
| **At 31 December 2011** | 1,420,031,618 | **25,809,446** | **10,666,879** | **1,456,507,944** |
| At 1 January 2012 | 1,420,031,618 | **25,809,446** | **10,666,879** | **1,456,507,944** |
| Additions | 164,497,828 | **3,916,148** | 3,108,905 | 171,522,881 |
| Disposals | - | (5,787,820) | (394,045) | (6,181,865) |
| Transfer to housing inventory | (532,134,524) | - | - | (532,134,524) |
| Transfer to investment property | (1,006,088,073) | - | - | (1,006,088,073) |
| Transfer to VAT account | (46,306,849) | - | - | (46,306,849) |
| **At 31 December 2012** | - | **23,937,774** | **13,381,740** | **37,319,514** |
| **Depreciation** | | | | |
| At 1 January 2011 | - | **10,273,744** | **14,720,084** | **24,993,828** |
| Charge for year | - | 4,125,190 | 1,218,979 | 5,344,170 |
| Eliminated on disposal | - | (512,348) | (9,805,535) | (10,317,883) |
| **At 31 December 2011** | - | **13,886,586** | **6,133,528** | **20,020,114** |
| At 1 January 2012 | - | 13,886,586 | 6,128,892 | 20,015,478 |
| Charge for year | - | 4,647,898 | 1,543,171 | 6,191,068 |
| Eliminated on disposal | - | (4,792,267) | (834,151) | (5,626,418) |
| **At 31 December 2012** | - | **13,742,216** | **6,837,912** | **20,580,128** |
| **Carrying amount** | | | | |
| **At 31 December 2012** | - | **10,195,558** | **6,543,828** | **16,734,700** |
| At 31 December 2011 | 1,420,031,618 | 11,922,860 | 4,533,351 | 1,436,487,830 |

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

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

**Provident Fund**

| | Leasehold land and buildings | Motor vehicles | Office furniture, equipment and fittings | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2011 | 47,091,164 | 58,595 | 569,671 | 47,719,431 |
| Disposals | - | (58,595) | (449,752) | (508,347) |
| **At 31 December 2011** | **47,091,164** | **-** | **119,919** | **47,211,083** |
| At 1 January 2012 | 47,091,164 | 13,585 | 106,334 | 47,211,083 |
| Transfer to investment property | (47,091,164) | - | - | (47,091,164) |
| Disposals | - | (13,585) | (106,333) | (119,918) |
| **At 31 December 2012** | **-** | **-** | **1** | **1** |
| **Depreciation** | | | | |
| At 1 January 2011 | - | 58,595 | 447,256 | 505,851 |
| Charge for year | - | - | 476 | 476 |
| Eliminated on disposal | - | (58,595) | (354,008) | (412,604) |
| **At 31 December 2011** | **-** | **-** | **93,723** | **93,723** |
| **Depreciation** | | | | |
| At 1 January 2011 | - | - | 93,723 | 93,723 |
| Charge for year | - | - | - | - |
| Eliminated on disposal | - | - | (93,722) | (93,722) |
| **At 31 December 2011** | **-** | **-** | **1** | **1** |
| **Carrying amount** | | | | |
| **At 31 December 2012** | **-** | **-** | **-** | **-** |
| At 31 December 2011 | 47,091,164 | - | 26,196 | 47,116,700 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2012

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

## 21. Capital commitments

| | 2012 | 2011 |
|---|---|---|
| Pension Scheme | **10,500,000** | 2,500,000 |
| Provident Fund | - | - |

## 22. Other payables and accruals

| | 2012 | 2011 |
|---|---|---|
| **Pension Scheme** | | |
| Sundry payables | **80,732,329** | 53,880,836 |
| Accrued expenses | **5,378,510** | 3,185,031 |
| | **86,110,839** | 57,065,868 |
| **Provident Fund** | | |
| Sundry payables | **36,851** | 36,851 |
| Accrued expenses | **14,853,061** | 17,939,676 |
| | **14,889,912** | 17,976,527 |

## 23. 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:

| | 2012 | 2011 |
|---|---|---|
| At beginning of year | **2,101,486** | 2,132,689 |
| Charge for the year | **3,610,297** | 2,002,714 |
| Paid during the year | **(3,357,977)** | (2,033,917) |
| **At end of year** | **2,353,806** | 2,101,486 |

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

## 24. Long term loan

| Provident Fund | 2012 | 2011 |
|---|---|---|
| At beginning of year | **22,356,250** | 21,087,500 |
| Net exchange (gain)/loss | **306,250** | 1,268,750 |
| **At end of year** | **22,662,500** | 22,356,250 |

The loan, of US$5 million, was obtained in 2000 from the World Bank through the Ministry of Finance. The loan bears interest at 2.5% per annum and is payable in 24 instalments over a period of 12 years. The loan is denominated in US$ and is unsecured.

The Authority had entered into negotiations with the Ministry of Finance for a possible debt swap of the long term loan for the debt owed by the Government to NAPSA in outstanding contributions. The matter was concluded in 2012 with the signing of the agreement between the two parties. The Authority has accrued interest payable on the loan as at 31 December 2012 pending payment by ZNPF to NAPSA to liquidate the debt.

## 25. Provisions for claims payable

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.

## 26. Contributions receivable from members

Contributions receivable from members represents 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 contributions receivable are accounted for on the basis of receipts from 11 January of each year to 10 January of the following year. Contributions receivable from 1 January to 10 January 2013 amounted to K67,566,058 (2011 : K59,465,262).

## 27. 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 2012 was K6,590,427 (2011: K5,100,988).

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

## 28. 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;
- NAPSA Staff Pension

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.

The outstanding balances at the balance sheet date are shown below.

| a) **Amounts due from the Government** | **2012** | 2011 |
|---|---|---|
| Rental income | **1,395,079** | 959,899 |
| Interest on Government loans | **662,599** | 638,844 |
| Government loans | **187,463** | 187,463 |
| Parastatal and private sector | **88,227** | 88,227 |
| Local authority loans | **2,918** | 2,918 |
| | **2,336,286** | 1,877,351 |

In the current year other than 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.

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

## 28. Related party transactions (Continued)

### b) Compensation of Trustees

The remuneration of members of the Board during the year was as follows:

| | 2012 | 2011 |
|---|---|---|
| Trustees allowances | 302,343 | 2,816,190 |

## 29. Contingent liabilities

As at 31st December 2012, the Authority had the following contingent liabilities:

### Pension Scheme

*Guarantees*

Zamsa Freight Services Limited US$1,800,000

During the year the government issued SI 33 and 78 which requires utilisation of the Kwacha with respect to local transactions.

### Provident Fund

*Long Term Receivable*

The Authority is involved in a matter in which it seeks to enforce payment of compound interest on an outstanding debt. As the matter is currently before the courts of law, the likely financial effect cannot be determined with reasonable certainty.

Other than the liability to pay pensions and other benefits there were no other contingent liabilities as at 31 December 2012, as all other contingent liabilities deemed likely to crystallise for both the Pension Scheme and the Provident Fund have been provided for.

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

## 30. Subsequent events

During the year 2012, the Government of the Republic of Zambia made a policy decision to rebase the Kwacha by dropping off three zeros from the old currency in order to simplify financial transactions. The effective date was 1 January 2013.

Following this change, NAPSA has converted its accounting database from 1 January 2013 to the new rebased currency in order to comply with the new requirements.

Other than the above, the Trustees are not aware of any other matter or circumstance since the financial year end and the date of this report, not otherwise dealt with in the financial statements, which significantly affects the financial position of the company and the results of its operation.

APPENDIX I

## NATIONAL PENSION SCHEME AUTHORITY

## STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

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

| | Pension Scheme | | Provident Fund | |
|---|---|---|---|---|
| **Member service operations:** | **2012** | 2011 | **2012** | 2011 |
| Contributions receivable from Members | **1,385,905,733** | 1,029,077,278 | - | - |
| Benefit claims and refunds | **(111,308,363)** | (86,124,472) | **(63,134,373)** | (48,942,183) |
| Normal retirement pensions | **(79,153,514)** | (56,262,958) | - | - |
| | **1,195,443,855** | **886,689,848** | **(63,134,373)** | **(48,942,183)** |
| **Investment operations:** | | | | |
| **Investment revenue** | | | | |
| - Interest on Government bonds | **320,359,702** | 192,896,550 | **599,836** | 970,999 |
| - Interest on treasury bills | **33,581,147** | 31,671,278 | **119,010** | 2,197,359 |
| - Interest on term deposits | **81,530,467** | 52,528,349 | **3,594,672** | 3,803,126 |
| - Other investments | **5,093,178** | 4,543,995 | | |
| - Rental income | - | 2,958,625 | **14,131,463** | 15,882,573 |
| - Dividend income | **17,025,969** | 7,152,171 | **3,128,920** | 4,824,091 |
| Management fees | **2,468,913** | 1,957,025 | - | - |
| Rental Income Levy Park | **32,490,617** | - | - | - |
| Levy park Expenses | **(8,647,185)** | - | - | - |
| Handling fees | **(8,852,842)** | (7,310,083) | - | (20,935) |
| Medical Levy | **(5,766,671)** | (2,721,896) | **(51,543)** | (102,853) |
| Surplus on revaluation of investments | - | - | - | (2,312,983) |
| Surplus on revaluation of financial assets | **(99,951,453)** | (79,914,186) | **(18,988,339)** | 14,639,079 |
| Interest on loans and advances | **951,041** | 1,098,230 | **23,755** | 23,690 |
| | **370,282,884** | **204,860,059** | **2,557,774** | **39,904,146** |

NATIONAL PENSION SCHEME AUTHORITY

APPENDIX I

## STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

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

| | Pension Scheme | | Provident Fund | |
|---|---|---|---|---|
| **Member service operations:** | **2012** | 2011 | **2012** | 2011 |
| Other operating income: | | | | |
| - Exchange gains (losses) | **(322,299)** | (1,469,299) | **(356,517)** | (1,476,530) |
| - Gain (loss) on disposal of plant and equipment | **671,203** | (87,714) | **240,685** | (95,744) |
| - Write back of bad debt provision | **-** | (429,316) | **-** | - |
| - Sundry income | **199,165** | (255,591) | **9,556** | - |
| | **548,069** | (2,241,921) | **(106,276)** | (1,572,274) |
| **Management and administration expenses:** | | | | |
| - Employee benefit expenses | **(164,826,125)** | (92,314,277) | **-** | - |
| - Administration expenses | **(44,240,724)** | (38,360,729) | **(13,666,647)** | (12,608,422) |
| - Pension cost | **(6,590,427)** | (5,100,988) | | |
| - Bad and doubtful debts provision | **-** | - | **(5,852,078)** | (1,348,338) |
| - Depreciation | **(6,012,902)** | (5,333,664) | **-** | (476) |
| | **(172,071,333)** | (141,109,657) | **(19,518,726)** | (13,957,236) |
| Surplus of income over expenditure before finance costs and taxation | **1,401,448,683** | 948,198,329 | **(80,201,601)** | (24,567,547) |
| **Interest expense** | **-** | - | **(568,066)** | (533,887) |
| | **1,401,448,683** | 948,198,329 | **(80,769,667)** | (25,101,433) |
| Surplus of income over expenditure for year before taxation | **1,401,448,683** | 948,198,329 | **(80,769,667)** | (25,101,433) |
| **Tax expense** | **(52,144,031)** | (38,063,912) | **(201,335)** | (856,175) |
| **Surplus after tax** | **1,349,304,652** | 910,134,416 | **(80,971,002)** | (25,957,608) |

NATIONAL PENSION SCHEME AUTHORITY

STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

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

| | Note | Pension Scheme | | Provident Fund | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| **Assets** | | | | | |
| Bank and cash balances | | 217,693,045 | 106,094,439 | 5,555,667 | 17,320,624 |
| Financial assets | 9 | 4,065,492,191 | 2,994,823,085 | 110,703,294 | 172,209,750 |
| Loans and advances | 15 | 7,002,740 | 9,401,644 | - | - |
| Employee receivables | 16 | 3,777,214 | 4,998,944 | - | - |
| Member contributions receivable | 26 | 67,566,058 | 59,465,262 | - | - |
| Other receivables | 17 | 317,787,887 | 232,233,411 | 2,515,367 | 11,396,698 |
| Current account with ZNPF | | 102,934,550 | 112,109,522 | - | - |
| Inventory | 18 | 239,077 | 134,404 | - | - |
| Housing inventory | 18 | 532,134,524 | - | - | - |
| Investment properties | 19 | 1,006,088,073 | - | 183,510,676 | 142,548,152 |
| Property, plant and equipment | 20 | 16,734,700 | 1,436,487,830 | - | 47,116,700 |
| **Total assets** | | 6,337,450,058 | 4,955,748,539 | 302,285,003 | 390,591,924 |
| **Liabilities** | | | | | |
| Current account with NAPSA | | - | - | 102,934,550 | 112,109,522 |
| Other payables and accruals | 22 | 86,110,839 | 57,065,868 | 14,889,912 | 17,976,527 |
| Claims payable | 25 | 10,583,747 | 13,873,103 | - | - |
| Deferred liabilities | 23 | 2,353,804 | 2,101,486 | 47,730,688 | 44,654,424 |
| Current tax liabilities | | 25,224,665 | 18,835,733 | 4,401,270 | 2,858,114 |
| Long term loan | 24 | - | - | 22,662,500 | 22,356,250 |
| | | 124,273,056 | 91,876,189 | 192,618,921 | 199,954,837 |
| **Accumulated funds** | | | | | |
| Accumulated funds | | 6,060,571,434 | 4,735,497,175 | - | - |
| Members' funds | | - | - | (231,469,658) | (168,335,285) |
| Investment revaluation reserve | | 152,605,568 | 128,375,174 | 136,950,654 | 155,938,993 |
| Property revaluation reserve | | - | - | 71,313,796 | 71,313,796 |
| Other reserves | | - | - | 132,844,692 | 131,692,982 |
| Annuity account | | - | - | 26,601 | 26,601 |
| | | 6,213,177,002 | 4,863,872,350 | 109,666,084 | 190,637,087 |
| **Total liabilities and accumulated funds** | | 6,337,450,058 | 4,955,748,539 | 302,285,003 | 390,591,924 |

NATIONAL PENSION SCHEME AUTHORITY

STATEMENT OF MOVEMENTS IN ACCUMULATED FUNDS
for the year ended 31 December 2012

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

| Pension Scheme | Investment revaluation reserves | Accumulated funds | Total |
|---|---|---|---|
| Balance at 1 January 2011 | 45,465,678 | 3,908,272,255 | 3,953,737,933 |
| Surplus of income over expenditure for year | - | 827,224,920 | 827,224,920 |
| Surplus on revaluation of equity | 82,909,496 | - | 82,909,496 |
| **Balance at 31 December 2011** | 128,375,174 | 4,735,497,175 | 4,863,872,350 |
| **Pension Scheme** | | | |
| Balance at 1 January 2012 | 128,375,174 | 4,735,497,175 | 4,863,872,350 |
| Surplus of income over expenditure for year | - | 1,325,074,259 | 1,325,074,259 |
| Surplus on revaluation of equity | 24,230,394 | - | 24,230,394 |
| **Balance at 31 December 2012** | 152,605,568 | 6,060,571,434 | 6,213,177,002 |

## NATIONAL PENSION SCHEME AUTHORITY

## STATEMENT OF MOVEMENTS IN ACCUMULATED FUNDS
for the year ended 31 December 2012

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

**Provident Fund**

| | Annuity account | Members' funds | Investment revaluation reserve | Other reserves | Total |
|---|---|---|---|---|---|
| Balance at 1 January 2011 | 26,601 | (119,393,102) | 143,612,897 | 121,034,502 | 216,594,695 |
| | | | | | - |
| Benefit claims and refunds (note 6) | - | (48,935,922) | - | - | (48,935,922) |
| Maternity and funeral grants | - | (6,261) | - | | (6,261) |
| Investment property | - | - | (2,312,983) | - | (2,312,983) |
| Surplus on revaluation of investments | - | - | 14,639,079 | - | 14,639,079 |
| Surplus of income over expenditure for year | - | - | - | 10,658,480 | 10,658,480 |
| Amortisation of revaluation surplus | - | - | - | - | - |
| Balance at 31 December 2011 | 26,601 | (168,335,284) | 155,938,993 | 131,692,982 | 190,637,086 |
| Balance at 1 January 2012 | 26,601 | (168,335,284) | 155,938,993 | 131,692,982 | 190,637,086 |
| Benefit claims and refunds (note 6) | - | (63,025,898) | - | - | (63,025,898) |
| Maternity and funeral grants | - | (108,475) | - | - | (108,475) |
| Surplus on revaluation of investments | - | - | (18,988,339) | - | (18,988,339) |
| Surplus of income over expenditure for year | - | - | - | 1,151,710 | 1,151,710 |
| Balance at 31 December 2012 | 26,601 | (231,469,657) | 136,950,654 | 132,844,692 | 109,666,083 |