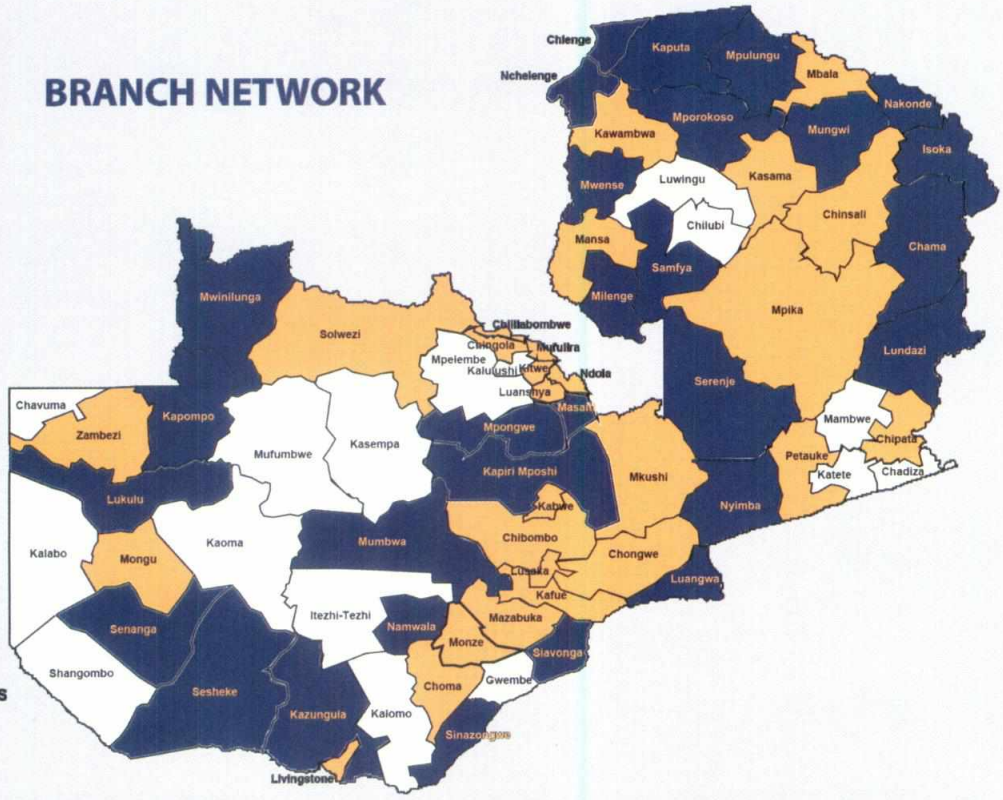
NATIONAL PENSION SCHEME AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2019

Be smart, secure your future

BRANCH NETWORK



NAPSA OFFICES

MOBILE MONTHLY OPERATIONS

CHINGOLA Clen Building P O Box 10324 Tel: +260-212-311823 / 312839	**CHIPATA** Provident House P O Box 510260 Tel: +260-216-223427/ 221003	**CHOMA** Provident House P O Box 267 Tel: +260-213-220786	**KAWAMBWA** Provident House P O Box 730718 Tel: +260-212-960053	**KAFUE** P O Box 360041 Tel: +260-211-311555
KABWE Chitanda House P O Box 80433 Tel: +260-215-221379/ 223129	**LUANSHYA** Nollies Building Buntungwa Avenue P O Box 90026 Tel: +260-212-512252	**KITWE** Provident House Matuka Avenue P O Box 223036 Tel: +260-212-224009/ 223361	**KASAMA** Compensation House P O Box 410125 Tel: +260-214-221324	**MAZABUKA** Provident House P O Box 670075 Tel: +260-213-230212/ 230345
LUSAKA Southern Region Lusaka House Tel: +260-211-226874/5	**LIVINGSTONE** Mosi Oa Tunya House P O Box 60573 Tel: +260-213-322145/ 321444	**MONGU** Provident House P O Box 910176 Tel: +260-217-221128/ 221415	**MBALA** Lake Press House P O Box 420289 Tel: +260-214-450457	**MANSA** Provident House P O Box 710190 Tel: +260-212-821236
MUFULIRA P O Box 40099 Tel: +260-212-411078/ 411654	**MONZE** Provident House Tel: +260-213-250533/ 250222	**MKUSHI** Provident House P O Box 840140 Tel: +260-215-362091/ 250222	**ZAMBEZI** P O Box 150151 Tel: +260-218-371105	**NDOLA** Kingstone Building P O Box 72035 Tel: +260-212-610849
MPIKA Provident House P O Box 450092 Tel: +260-214-370370	**SOLWEZI** Provident House P O Box 110065 Tel: +260-218-821576/ 821342/821180	**PETAUKE** Provident House P O Box 560170 Tel: +260-216-371123/ 371121	**CHISAMBA** Zambeef Building Fringila P O Box 39 Tel: +260-211-843267/ 843271	**CHONGWE** NAPSA Chongwe Plot #322 Chongwe Civic Centre Tel: +260-211-620134
REGIONAL OFFICE - NORTH ZCCM IH Building Katanda Street Nkana East, Kitwe P O Box 22929 Tel: 260-212-251406	**REGIONAL OFFICE SOCIETY HOUSE** P O Box 36342 Tel: +260-211-843268	**CHILILABOMBWE OFFICE** Plot# 1883, Bushbuck walk KCM-Konkola Integrated Business Unit P O Box 210078 Chililabombwe Tel: +260-212-380829	**CHINSALI OFFICE** Plot # 888 Nkalula Street P O Box 630267 Chinsali Tel: +260-214-565149	***CONTACT CENTRE:*** ***Tel: +260 211 395677*** ***SWITCH BOARD:*** ***Tel: +260 211 395000*** ***TOLL FREE: 677*** ***LEVY BUSINESS PARK*** ***Email: info@napsa.co.zm***

NAPSA ACTIVITIES IN PICTURES



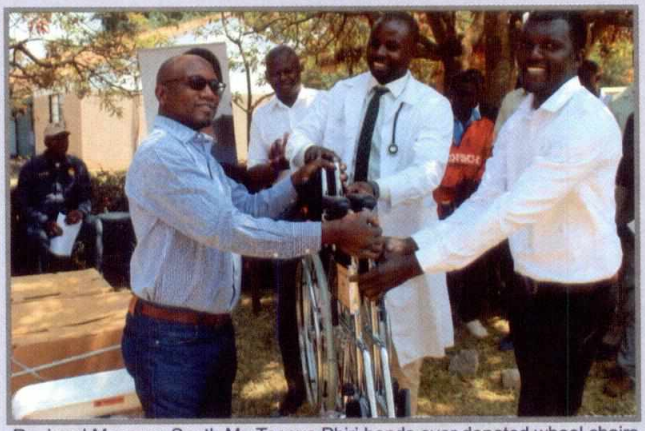
NAPSA Board of Trustees listening attentively during the Board Evaluation meeting at Hilton Garden Inn



NAPSA Director General Mr. Yollard Kachinda receives a dividend cheque from ZCCM - IH CEO Mr. Mabvuto Chipata



A team of Human Resources and Administration staff receiving the 3rd prize of the integrity challenge from the Director General



Regional Manager South Mr. Tapeya Phiri hands over donated wheel chairs to Mwinilunga District Hospital Administrator Dr. Brian Mwachisowa



NAPSA Director General, Mr. Yollard Kachinda hands over donated blankets to UTH - Director Clinical Care and Diagnostic Service Dr. Alex Makupe



NAPSA members of staff and UNZA management pose for a photo with pupils at the Special Needs Educational Centre, after NAPSA donated assorted items



Stanbic Bank CEO, Mr. Leina Gabaranne speaking before handing over a sponsorship cheque worth $70,000 to NAPSA Stars Fooball Club.



NAPSA Director General Hands over a K150, 000 cheque to North Western Province Minister Hon. Nathaniel Mubukwanu towards the hosting of North West Expo

NATIONAL PENSION SCHEME AUTHORITY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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NATIONAL PENSION SCHEME AUTHORITY

Annual Report and Financial Statements for the Year Ended 31 December 2019

Board of Trustees



Mr. Evans Chibiliti
Chairperson



Mr. Mukuli Chikuba
Vice Chairperson



Mrs. Agness Chakonta
Member



Mr. Chingati Msisika
Member



Mrs. Catherine Chinunda
Member



Mr. Chanda Kaziya
Member



Mrs. Euphemia Chambula
Member



Ms. Chanda Kasanda
Member



Mr. Kennedy Njamba
Member



Ms. Freda Tamba
Member

Senior Management



Mr. Yollard Kachinda
Director General



Mr. Utembele Simwinga
Director Finance



Mrs. Lydia Sameta Chilumba
Authority Secretary



Mr. Mason Mwiinga
Director Contributions & Benefits



Mr. Phillip Muyumbana
Director Projects



Mrs. Betty Chipika Meleki
Director Human Resources
& Administration



Dr. Greg Chola Nsofu
Director Information
Technology



Mr. Ronnie Kamanya
Director Strategy
& Business Performance



Mrs. Dorothy Phiri Soko
Director - Investments



Grant Thornton

National Pension Scheme Authority (NAPSA)

Financial Statements
31 December 2019

NATIONAL PENSION SCHEME AUTHORITY

BOARD OF TRUSTEES, SENIOR MANAGEMENT AND PROFESSIONAL ADVISORS

BOARD OF TRUSTEES

Mr. C. Evans Chibiliti (Independent)	-	Chairman Appointed 17 October 2019
Mr. Mukuli Chikuba (Ministry of Finance) (Government representative)	-	Vice-Chairperson Appointed 1 June 2017
Mr. Chanda Kaziya (Ministry of Labour and Social Security) (Government representative)	-	Member Appointed 1 July 2019
Mr. Chingati Msiska (Workers' representative)	-	Member Appointed 1 June 2017
Mrs. Agnes Chakonta (Pension Managers' representative)	-	Member Appointed 1 June 2017
Ms. Chanda Kasanda (Bankers Association representative)	-	Member Appointed 17 September 2019
Mr. Kennedy Ndala Njamba (Employers' representative)	-	Member Appointed 1 July 2019
Ms. Freda Tamba (Bank of Zambia representative)	-	Member Appointed 1 June 2017
Mrs. Catherine Nampasa Chinunda (Workers' representative)	-	Member Appointed 1 June 2017
Mrs. Euphemia Chambula (Employers' representative)	-	Member Appointed 1 June 2017

NATIONAL PENSION SCHEME AUTHORITY

BOARD OF TRUSTEES, SENIOR MANAGEMENT AND PROFESSIONAL ADVISORS

EXECUTIVE MANAGEMENT

Mr. Yollard Kachinda	-	Director General
Mr. Mason Mwiinga	-	Director Contributions & Benefits
Mrs. Lydia S. Chilumba	-	Authority Secretary
Mrs. Dorothy Soko	-	Director Investments (Retired August 2019)
Mr. Utembele Simwinga	-	Director Finance
Mr. Phillip Muyumbana	-	Director Projects
Dr. Greg Chola Nsofu	-	Director Information & Communication Technology
Mrs. Betty C. Meleki	-	Director Human Resource & Administration
Mr. Ronnie Kamanya	-	Director Strategy & Business Performance

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES

PROFESSIONAL ADVISORS

LEGAL ADVISORS:	Legal Counsel National Pension Scheme Authority Levy Business Park P.O Box 51275 Lusaka
AUDITORS:	Grant Thornton 5th Floor, Mukuba Pension House Dedan Kimathi Road P.O Box 30885 Lusaka
ACTUARIES:	Government Actuary's Department Finlaison House 15 – 17 Furnival Street London EC4A 1AB
BANKERS:	Zambia National Commercial Bank Plc Private Bag E119 Lusaka Citibank Zambia Limited P.O Box 30037 Lusaka Absa Bank Zambia Plc Private Bag E308 Lusaka Standard Chartered Bank Zambia Plc P.O. Box 32238 Lusaka Stanbic Bank Zambia Limited P.O Box 31955 Lusaka

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES

The Trustees of the National Pension Scheme Authority present their report for the year ended 31 December 2019, together with the audited financial statements.

1.0 Introduction

1.1 The National Pension Scheme Authority ("NAPSA" or "The Authority") was established by the National Pension Scheme Act No. 40 of 1996 ("The Act"), as a body corporate with perpetual succession and a common seal, and became operational on 1 February 2000.

Under The Act, NAPSA administers a defined benefit scheme ("The Scheme") into which is paid all contributions authorised under The Act, and out of which all payments authorised under The Act are met.

In 2015 NAPSA also took over the liabilities of members who contributed to the saving Scheme previously established under the now repealed Zambia National Provident Fund ("ZNPF").

The Authority's head office is:

Levy Business Park
P.O Box 51275
Lusaka

1.2 Trustees

Under the provisions of The Act, the members of the Authority are the Trustees of the Scheme and are appointed by the line Minister in accordance with the provisions of The Act. Subject to these provisions, a Trustee shall hold office for a period of three years from the date of appointment and may be re-appointed for a like period. The Trustees who held office in 2019 have been listed on page 1.

The Act requires the Authority to prudentially manage The Scheme to ensure that at all times it is in a state of actuarial soundness, financially sustainable, fair in its benefit distribution and affordable.

In accordance with prudential principles therefore, the Board of Trustees assume overall responsibility for internal controls, risk management, the maintenance of adequate accounting records and the safeguard of the scheme assets, as outlined in the Statement of Responsibility on page 19.

Under the provisions of The Act, the Trustees are required to meet for the transaction of business at least once in every three months at such places and at such times as the Chairperson may determine. In 2019, the Trustees met at least once in each quarter.

2 Strategic Objectives achieved during the year 2019

The following were the Strategic objectives achieved by the Authority in 2019:

i) Maintaining the financial sustainability of the Scheme by posting a weighted return of 18 percent against a target of 16 percent.

ii) The Authority increased its membership by 155,000 against the strategic plan target of 108,000 bringing the total membership to 858,000.

iii) The Authority managed to automate the member registration module and the income collection system which has resulted in contributions and penalties being paid using the eNAPSA Mobile money and visa payment, away from the NAPSA offices and at the convenience of the clients. This has increased employer and member productivity in doing away with over the counter transactions.

iv) In response to the call for informal sector extension of coverage, the Authority managed to form the subsector of the Scheme which resulted in membership registration of 33,000 members.

2 Strategic Objectives achieved during the year 2019 (continued)

v) The Authority scored a membership satisfaction index of 86.4 percent against the annual target of 80 percent reflecting superior delivery of scheme services to the members, employers and other stakeholders.

vi) Despite 2019 being a challenging year, the Authority managed to score performance at superior level which is at level 4 under the five-point scale framework.

3 Operational Highlights for the year 2019

3.1 Role of the Authority in the national economy

The Authority continued to play a catalytic role in the economy by providing funds for Investment. Through its diversified investment portfolio in various asset classes, the Authority supported the growth of the financial and capital markets by promoting depth and providing liquidity in the market. The Authority's investments in asset classes such as infrastructure and real estate are aligned to the Seventh National Development Plan.

Through payments of pension benefits to its members, the Authority contributed to boosting economic growth by facilitating increased consumer spending power and increasing consumer demand in the economy. In this regard, the Authority paid out One Billion One Hundred and Seventy-Three Million (K1,173 million) to its members in various pension benefits.

3.1.1 Overall Authority Performance

As at 31st December 2019, the Authority registered a 26% increase in the Net Assets Available for Benefits to K31.7 billion from K25.2 billion recorded at the end of 2018. The positive performance was attributable to:

i) favourable net investment performance;
ii) favourable performance on member service operations as the Scheme is relatively young;
iii) control on administrative expenditure, which was 13% below budget;

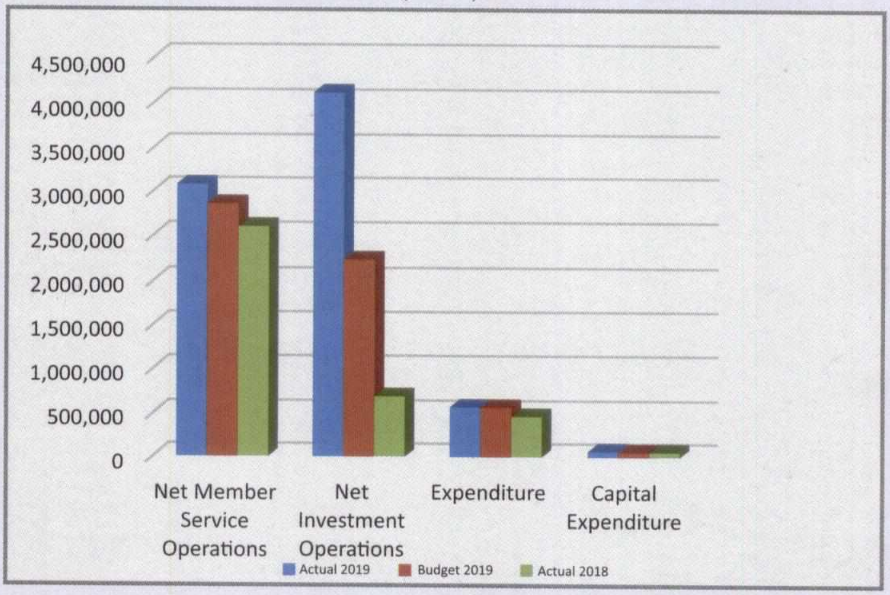
The overall performance is highlighted in the graph below:

3 Operational Highlights for the year 2019 (continued)

3.1 Role of the Authority in the national economy

3.1.1 Overall Authority Performance (continued)

Graph 1: Overall Performance (K'000)



3.2 Member Service operations

3.2.1 The Scheme recorded an increase in contribution collections of 23% in 2019 to K4.3 billion, compared to K3.5 billion achieved in 2018. The increase in contributions from the prior year figure was attributable to several factors such as; contributions received from Government as employer, increase in the National Average Earning (NAE) and the increased contribution ceiling. The contribution collections were marginally above the target of K4.1 billion. The contribution rate remained at 10% of the employee's gross wages up to a monthly ceiling of K1,990; shared equally at 5% between the employer and employee.

3.2.2 The Authority recorded an increase of 36% (K313 million) in benefit payments to K1.2 billion from K860 million in 2018. The increase reflects a number of factors such as; increase in the number of qualifying members, upward adjustment in the minimum monthly pension and funeral grant as well as increased number of qualifying members under the Provident Fund claiming their benefits.

3.2.3 The ratio of benefit payouts to contributions was 28% (2018: 25%). The ratio denotes that the Authority continues to pay out pension benefits to its members from contributions collections.

3 Operational Highlights for the year 2019 (continued)

3.3 Membership, Contributions and Benefits Trend

3.3.1 Table 1 and 2 below depict a five-year trend in contributions collected and benefits paid respectively:

Table 1:

Membership and Contributions trend	2019	2018	2017	2016	2015
Number of active employers	25,105	22,199	21,068	18,288	16,473
Number of active members	858,724	810,408	768,591	727,833	701,374
Average collection per month (K' millions)	353	299	270	243	214

Table 2:

Benefits trend	2019	2018	2017	2016	2015
Funeral grant per claim (K)	10,738	9,950	8,946	8,440	7,960
Minimum pension per member (K)	1,073	995	894	844	796
Highest pension per member (K)	5,779	5,050	3,994	3,644	3,437
Average monthly pension per member (K)	1,578	1,419	1,264	1,145	1,087
Highest lump sum per claim (K)	390,017	346,380	312,460	282,095	246,636
Number of pensioners	16,918	15,471	14,654	14,497	12,982
ZNPF payments (K' millions)	414	312	198	166	122

Table 1 and 2 above illustrates the steady increase in the Scheme membership and pensioners respectively. The number of pensioners is growing at an average rate of 1,400 pensioners per annum. During the year, 1,727 additional pensioners were included on the pension payroll while 1,110 were excluded mainly due to their omission to renew the life certificates and terminations due to death. The changes in the number of pensioners are summarised below:

i. The number of new entrants in 2019 was 1,727;

ii. 1,110 pensioners were permanently dropped from pension payroll due to:

   a) Deaths: 200 pensioners died during the year;

   b) Non-renewal of life certificates: 816 pensioners did not renew their life certificates; and

   c) 94 children attained age of 25

iii. Highest paid lump sum was K390,017

3 Operational Highlights for the year 2019 (continued)

3.4 Investments

3.4.1 The Scheme recorded overall net positive performance of K3.9 billion on investment operations, compared to K707 million recorded in 2018. The bulk of income in the sum of K5 billion was from Treasury operations, mainly net interest income which was K4.3 billion (2018: K2.8 billion) in 2019, a positive variance of K1.5 billion (53%) in comparison to 2018. The Scheme's favourable performance of its Investments was driven by several factors including the following;

i) Fresh funds of K1.9 billion from member contributions;
ii) Increased investment in higher yielding Government securities at an average interest rate of 28%;
iii) Increased interest income from fixed term deposits, owing to favourable market conditions;
iv) Increased interest income from loans under the Infrastructure asset class;
v) Net revaluation loss on listed equity securities amounting to K191 million compared to the K267 million loss in 2018;
vi) Net revaluation loss on Government securities amounting to K124 million compared to the net revaluation loss of K1.9 billion recorded in 2018; and
vii) Provision for loss arising from the expected credit losses on the fixed term deposits and loan receivables, amounting to K328 million.

3.4.2 Table 3 below illustrates the investment portfolio held at the end of 2019.

Table 3 -Net Investments

Net Investments	2019 Net Investments	2019 % of total portfolio	2018 Net Investments	2018 % of total portfolio
	K' 000		K'000	
Government securities	15,658,087	52	12,609,075	51
Fixed Term Deposits	6,533,236	22	4,972,397	20
Medium Term Notes	19,408	0.001	46,688	0.2
Shares in listed and unlisted corporations	1,121,100	3	1,312,402	5
Infrastructure & Real estate	3,704,226	12	2,911,512	11.8
Housing inventory	157,800	1	218,924	1
Investment properties	3,063,930	10	2,764,727	11
Total	30,257,787	100	24,835,725	100

3.4.3 Table 4 below highlights the Authority's major projects at various stages of completion and the expenditure thereon by 31 December 2019. The projects are displayed by category.

Table 4: (Kwacha Thousand)

Projects in progress	Type	2019	2018
Redevelopment of Society House	Hotel, retail, parkade and offices	1,028,717	992,955
ECL Business Park	Hotel, Shopping mall, Convention Centre and offices	1,458,396	1,213,450
New Chinsali offices	Offices	19,756	11,528
New Records Centre	Records Centre	81,220	49,080
Riverview Park	Housing units, retail and offices	188,034	108,006
Total		2,776,123	2,375,019

3 Operational Highlights for the year 2019 (continued)

3.5 Provident Fund

3.5.1 Since inception of the Pension Scheme, the Provident Fund became a depleting fund with no inflow of fresh funds from contributions. As a consequence, the Fund in recent years experienced liquidity challenges. This necessitated intervention by the Pension Scheme to assist the Fund meet its obligations such as benefit payments to members who contributed to the now closed ZNPF.

3.5.2 The Board of Trustees consequently resolved that the assets and liabilities of the Provident Fund be taken over by the Pension Scheme through merging of the two books of accounts. The audited positions of the Pension Scheme and the Provident Fund were thus merged as at 1 January 2017.

4.0 Staff Matters

4.1 The approved staff establishment as at 31 December 2019 was as shown in Table 5 below.

Table 5 (Staff establishment)

	2019	2018
Approved staff establishment	660	610
Actual numbers		
Permanent and pensionable	570	541
Directors	8	8
Contract staff	64	27
Total	642	576

4.2 The Authority prides itself in having a team of employees that support its strategic intent by way of their diverse skills and competencies. In maintaining a motivated and performance driven workforce, the Authority undertakes several measures and activities which includes the following:

4.2.1 **Training and Development**

Training and development of staff is a key component of the Authority's retention strategy. Through training and development programmes, the Authority has over the years acquired unique skill sets that set it apart from other pension institutions.

During the year, various local and international training interventions for members of staff were undertaken covering courses in Social Security, Enhanced Pension Administration Systems, Project Management, Monitoring and Evaluation, Enterprise Risk Management, Leadership, Customer Service, Fraud, Corruption Prevention and Forensic Auditing, etc.

4.2.2 **Health care and wellness programmes**

The Authority promoted several wellness initiatives such as group fitness exercises, in-house screening services for members of staff in various stations as well as medical insurance cover for all staff. These initiatives were aimed at promoting a healthy and physically fit workforce. A healthy workforce promotes increased productivity in any institution.

4.2.3 **Employee Engagement**

Regular engagement with staff is at the core of the Authority's activities. Given that the Authority has two categories of employees (represented and non-represented), it is imperative that there is free flow of information as well as regular communication within the institution. During the year, the Authority continued to embed the iCARE (Integrity, Collaboration, Accountability, Respect and Excellence) Values as a drive to becoming a values based institution. A massive sensitization campaign was undertaken in the year to embed these values and would continue in the following year.

4.0 **Staff Matters (continued)**

4.2.4 **Performance Management**

The Authority is working towards being a high performing public institution. This entails that employees are rewarded based on their performance. To this effect, the Balanced Scorecard framework was used as a performance management tool during the year and would continue in the following year.

5.0 **Statement on Corporate Governance**

5.1 The Authority subscribes to the tenets of good corporate governance. NAPSA's mandate, structure and operations are primarily premised on the National Pension Scheme Act, Number 40 of 1996 and its subsequent amendments thereof; the Investment Guidelines and other applicable laws. NAPSA has in place various policies, structures and procedures to ensure that the decision-making process, governance and administration of the institution are in accordance with applicable laws and good corporate governance practices. As a Social Security Institution, NAPSA further subscribes to International Social Security Association (ISSA) principles and practical guidelines on Good Governance Guidelines. The ISSA Good Governance Guidelines encourages social security institutions to ensure that the exercise of vested authority is accountable, transparent, predictable, participative and dynamic.

5.2 The Authority is governed by a Board of Trustees, comprising ten (10) members, who are appointed by the Minister of Labour and Social Security. The Board of Trustees is tripartite in nature as the majority of trustees are drawn from the Government, Employers and Employees' Associations. Other trustees are drawn from the industry and professional bodies prescribed by law. The current Board of Trustees was appointed by the Minister of Labour and Social Security on 1 June 2017. The current Board is comprised of six (6) women and four (4) men. The Board provides oversight over the operations of the Authority in line with its statutory mandate and the Board Charter which is reviewed regularly. The Minister also appoints the Director General who is responsible for the day to day management of the Scheme. The Office of the Authority Secretary acts as a central point of advice to the Trustees on governance issues and processes relating to the Authority's operations. All Trustees and Committee Members have access to the Authority Secretary.

5.3 The Board meets regularly to review the performance of the Institution and provide guidance to Management. Every year, the Board approves a Schedule of Board Meetings to assist members plan for attendance. However, ad hoc meetings are arranged to cater for urgent and time bound business. During the year under review a total of twenty (20) meetings were held of which ten (10) were scheduled and the remainder of ten (10) were ad hoc (special) meetings. The Board's key focus areas are summarised as follows:

i. the Authority's strategic direction;
ii. corporate governance;
iii. financial arrangements;
iv. key investment strategies and performance;
v. Scheme performance; and
vi. guidance to the executive team.

5.4 The proceedings of the meetings were duly recorded, and minutes were signed after confirmation by the Trustees.

6.0 Board Committees

The Board has powers to delegate its authority to committees and management to assist it discharge its mandate. There are currently four (4) standing Board Committees, namely, the Audit, Risk and Compliance Committee, Finance and Investments Committee, Technical Committee and the Staff Affairs Committee. The Board has powers to appoint to the Committees external subject matter experts to ensure the right balance of skills and knowledge is brought to bear into its decision-making processes for the benefit of the institution. The Committees are chaired by a Trustee meeting requisite skill and experience in line with the mandate of the Committee.

6.1 Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee, as recognised in Section 19 of the Public Finance Management Act of 2018, oversees financial reporting, risk management and compliance for the Authority.

6.1.1 The Committee is comprised of the following Members:

i. Ms. Chanda Kasanda (Chairperson)
ii. Mr. Mukuli Chikuba
iii. Mr. Julu Godfrey Simuule
iv. Mr. James Banda
v. Ms. Rosemary Mukuka

6.1.2 During the year, the Committee met six (6) times to consider audit, risk and compliance matters and make appropriate recommendations to the Authority.

6.2 Finance and Investments Committee

The Finance and Investments Committee oversees investment performance and management to ensure prudent management of assets and maximisation of returns.

6.2.1 The Committee is comprised of the following Members:

i. Ms. Freda Tamba (Chairperson)
ii. Mr. Chanda Kaziya
iii. Mr. Watson Ngandu Mubanga
iv. Mrs. Christabel Banda
v. Mrs. Jane Musonda Mulenga
vi. Mr. Zachariah Chisha Musonda

6.2.2 The Committee met twelve (12) times in 2019 to review the Authority's financial performance, consider investment proposals, make investment decisions, adopt policies and propose appropriate recommendations to the Authority.

6.3 Technical Committee

The Technical Committee's main mandate is to assist the Board of Trustees discharge its statutory obligations in relation to monitoring pension administration, strategic planning, actuarial status, reforms and regulatory compliance.

REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

6.0 Board Committees (continued)

6.3 Technical Committee (continued)

6.3.1 Committee is comprised of the following Members:

i. Mrs. Agnes Nyondo Chakonta (Chairperson)
ii. Mrs. Euphemia Mubanga Chambula
iii. Mrs. Catherine Nampasa Chinunda
iv. Mr. Musonda Cheta
v. Dr. Stephen M. Kambani
vi. Mr. Anthony Dumingu
vii. Mrs. Ireen Mwezi Kunda

6.3.2 The Committee met six (6) times in 2019 to consider matters relating to member service operations, actuarial reports, pension reforms and make appropriate recommendations to the Authority.

6.4 Staff Affairs Committee

The Committee's key function is to oversee staff wellbeing and performance in order to ensure optimal overall organisation performance.

6.4.1 The Staff Affairs Committee is comprised of the following Members:

i. Mr. Kennedy Ndala Njamba (Chairperson)
ii. Mr. Chingati Msiska
iii. Mrs. Musonda Kunkuta
iv. Mr. Jumali Nkhoma
v. Ms. Mubanga Musakanya

6.4.2 The Committee met twelve (12) times in 2019 to consider matters pertaining to staff and make appropriate recommendations to the Authority.

6.0 **Committees (continued)**

6.5 **Attendance of meetings**

6.5.1 Attendance of meetings by Trustees and Committee members is shown in the Table below:

	Board meetings		Committee meetings		Note
	No. of Meetings held	No. of Meetings attended	No. of Meetings held	No. of Meetings attended	
Board Chairperson					
Mr. C. Evans Chibiliti	20	4			(i)
Mrs. Marian C. Munyinda	20	14			(ii)
Finance and Investments Committee					
Ms. Freda Tamba	20	15	12	11	
Mr. Barnaby Mulenga	20	12	12	8	(iii)
Mr. Chanda Kaziya	20	4	12	1	(iv)
Mr. Watson Ngandu Mubanga*	*		12	12	
Mrs. Christabel Michel Banda*	*		12	11	(v)
Mrs. Jane Musonda Mulenga*	*		12	11	(vi)
Mr. Zachariah Chisha Musonda*			12	6	
Audit Risk and Compliance Committee					
Ms. Chanda Kasanda	20	4	6	2	(vii)
Mrs. Mutale Chilangwa Chisela	20	8			(viii)
Mr. Mukuli Chikuba	20	14	6	4	
Mr. Julu Godfrey Simuule*	*		6	6	
Mr. James Banda*	*		6	3	
Ms. Rosemary Mukuka*	*		6	6	
Staff Affairs Committee					
Mr. Kennedy Ndala Njamba	20	7	12	6	(ix)
Mr. Mabvuto Daka	20	7	12	4	(x)
Mr. Chingati Msiska	20	17	12	12	
Mrs. Musonda Kunkuta*	*		12	10	
Mrs. Mubanga Musakanya*	*		12	12	
Mr. Jumali Nkhoma*	*		12	12	
Technical Committee					
Mrs. Agnes Nyondo Chakonta	20	16	6	6	
Mrs. Euphemia Mubanga Chambula	20	20	6	5	
Mrs. Catherine Nampasa Chinunda	20	15	6	4	
Dr. Stephen M. Kambani*	*		6	6	
Mr. Musonda Cheta*	*		6	5	
Mr. Anthony Dumingu*	*		6	5	
Mrs. Irene Mwezi Kunda*	*		6	4	

Notes

*Not applicable

(i) Appointed to the Board effective 17 October 2019.

(ii) Exited the Board on 23 August 2019.

(iii) Exited the Board on 3 September 2019.

(iv) Appointed to the Board on 5 September 2019.

(v) One meeting attended via Skype.

(vi) Three meetings attended via Skype.

(vii) Appointed to the Board on 17 September 2019.

(viii) Exited the Board on 2 April 2019.

(ix) Appointed to the Board on 1 July 2019.

(x) Exited the Board on 30 April 2019.

REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

7.0 Board Performance Evaluation

7.1 In order to enhance Board effectiveness, the Authority conducts performance evaluations of the Board, and its Committees. In 2019, a Board Self Performance evaluation exercise was conducted through questionnaires administered electronically. The participants' responses from the evaluation were compiled and presented for discussion at a Board Self Evaluation workshop conducted from 6th to 7th August 2019 by an independent external consultant. Overall, the outcome of the evaluation was satisfactory around the Board's role and processes. The Board identified key themes, such as enterprise risk management, succession planning and the Authority's overall control environment as areas requiring more concerted effort and focus in future.

8.0 Board Induction and Continued Development

8.1 The Authority has in place a comprehensive induction process for new Trustees and Committee members as and when they join the Board. The induction process takes the form of presentations from executives and functional heads. The Authority endeavours to expose Trustees to specific tailored trainings in pension administration and fund management during the tenure of their office in order to better equip them to discharge their functions.

8.2 Further, the Authority recognises the importance of Trustees' continued understanding of the changing regulatory environment in the pension industry and their role as fiduciaries. Arrangements for training or exposure to new developments are regularly made for Trustees' continued learning and development. From time to time, the Authority makes arrangements for Trustees to attend seminars, board development tours with peer institutions in areas such as strategy, corporate governance, risk management and investments in different asset classes.

9.0 Board Remuneration

9.1 Board Trustees and Committee Members are remunerated for services rendered to the Authority through sitting allowances and quarterly retainer fees. The Board is empowered by law to set its remuneration, which is subject to approval by the Minister. Before Trustees' remuneration is reviewed upward, surveys are conducted with peer institutions within the Public Sector for comparison. If deemed appropriate, the Staff Affairs Committee makes recommendations for review of Board remuneration.

9.2 The Authority has put in place a Board Remuneration Policy which sets out key considerations for determining Trustees' remuneration. The Trustees' remuneration was last reviewed in 2017 when the new Board was constituted.

9.3 Details of the total remuneration and board expenditure is provided on page 62 of the audited financial statements.

10.0 Senior Management

10.1 The Board of Trustees has within the provisions of The Act delegated the day-to-day administration of the Scheme to the Director General, who is the Chief Executive Officer of the Authority.

10.2 Senior Management is comprised of the Director General, supported by eight (8) Directors who each heads a Directorate.

10.3 There is open communication between the Board of Trustees and Senior Management. The Board and its Committees are supplied with full information prior to each meeting to enable them to discharge their responsibilities.

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

11.0 NAPSA's Strategic Direction, Vision, Mission and Culture

11.1 As part of its vision and commitment to being a high performing public institution, the Authority adopted a new Strategic Plan in 2018. The Strategic Plan builds on the successes scored by the Authority's previous strategic plans and is also aligned to the Seventh National Development Plan (7NDP), with a focus on multi-sectoral integrated approach. The new Strategic Plan runs from 2018 to 2021. It was developed in a highly consultative bottom up approach with an extensive external and internal environmental scan, so that the Authority remained suitably responsive to the needs of its stakeholders, particularly its members.

11.2 The Strategic Plan is tied to the Authority's new vision of being "**A trusted partner that protects people's future and brings pride to the Nation"**.

The Authority's new mission statement and core values guide its operations in its new trajectory as set out below:

Mission Statement: ***"Securing the social and economic well-being of the people of Zambia"***

The Authority's Core Values which are modeled on the **iCARE** principle are:

Integrity – "Do the Right Thing"

Collaboration – "Work Together"

Accountability – "Be Responsible for Your Actions"

Respect – "Listen to Every Voice"

Excellence – "Perform at Your Best"

All Trustees and employees of the Authority are expected to exhibit behaviors that are consistent with the Authority's core values.

REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

11.0 NAPSA's Strategic Direction, Vision, Mission and Culture (continued)

11.3 Upholding an Ethical Culture

11.3.1 In line with the National Anti-Corruption Policy, the Authority is one of the Public Institutions that has established an Integrity Committee (IC). The IC supports the Authority's resolve to uphold the highest standards of ethics in its operations and its main role is to institutionalize the fight against corruption by spearheading corruption prevention activities and entrenching ethical behaviour in the Authority.

11.3.2 During the period under review, the IC assisted the Authority to plan and implement integrity activities under the 2019 Anti-corruption Preventative Action Plan (ACPAP). The bulk of the activities were aimed at increasing the public's awareness on the role of the IC in the Authority and how the public can report any corruption or maladministration by or involving Authority staff.

11.3.3 The Authority has a Code of Conduct that guides employees and Trustees regarding the standard of behaviour expected to be complied with, including the adherence to the core values, compliance with applicable laws and regulations, conflict of interest, confidentiality, protection of Authority assets from abuse. The Code further guides employees on steps to be taken to foster an environment that would encourage ethical behaviour by those doing business with the Authority and other stakeholders such as suppliers, contractors and agents as well as other stakeholders.

The Authority has further put in place critical policies such as the Integrity Policy, Conflict of Interest Policy, Gifts and Benefits Policy to assist the IC embed the culture of integrity in the institution. The Authority also has in place a 24-hour Toll-free line (**5080)** called **'Tip Off Anonymous**' through which members of the public can report suspected or actual malpractices within the institution. The toll-free line is managed by an Independent Service Provider.

11.3.4 As part of its commitment to safeguarding transparency and managing conflicts and ensuring timely disclosure of interests, the Authority requires all Trustees, executives and all employees to make annual standing declarations on relationships and engagements with potential conflict to their positions in the Authority.

12.0 Risk Management

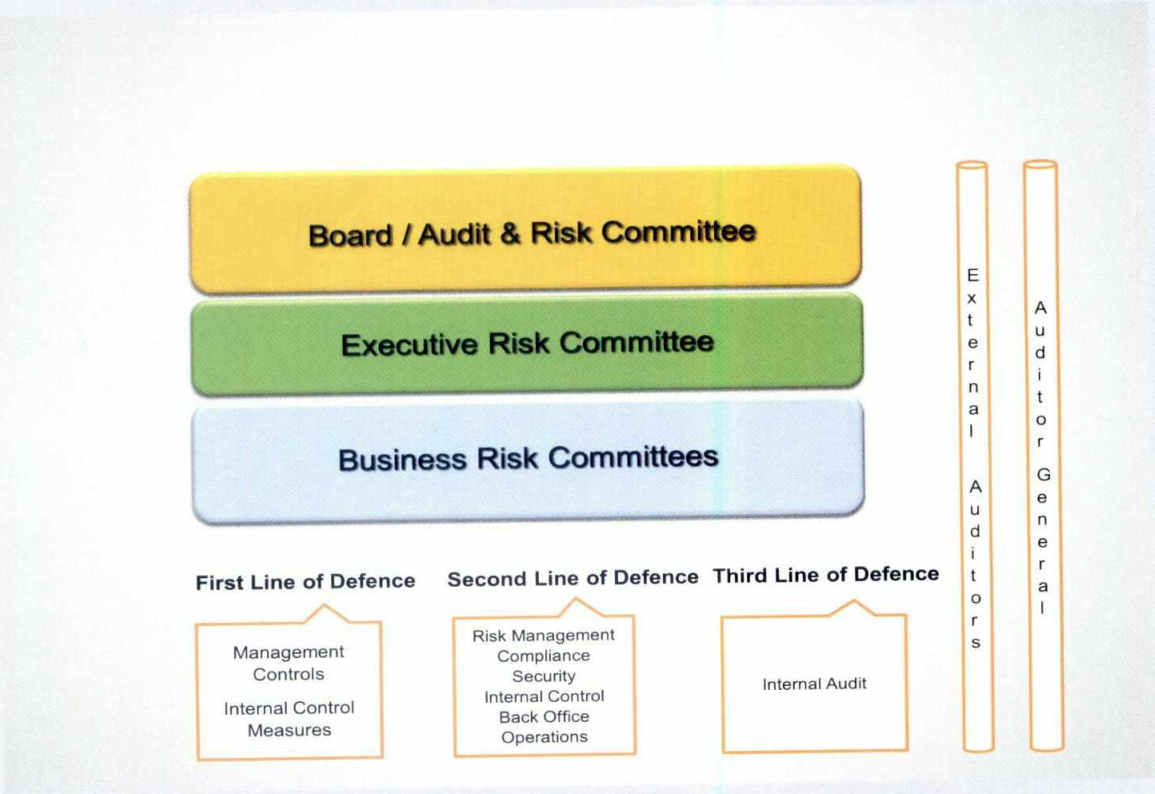
12.1 During the year under review, the Board approved, for implementation, the Enterprise-Wide Risk Management (ERM) Framework as an approach to risk management. ERM is a process that will enable the Authority to effectively deal with varied types of risks and opportunities thereby increasing stakeholder value and is a departure from a "silo" approach to risk management

12.2 ERM – a part of our businesses strategic work

The ability to effectively identify and manage risk is a vital element of business success for all parts of the Authority's business. To this end, the ERM function was repositioned in order to bring on board important set of tools aimed at effective implementation of risk management. Key activities included the identification of fifteen (15) principal risks inherent in our business model and the rollout of Risk Appetite Statement (RAS). Each principal risk identified has an accountable executive assigned as a risk owner. Manifestation of risks are linked to these principal risks and mitigation measures focused on potential consequences form part of the risk action plans that are subject to constant monitoring and reporting.

12.0 Risk Management (continued)

12.3 The Authority's risk management approach follows our decentralized structure where risks are managed and owned by the unit generating the risks. The Board of Trustees is ultimately responsible for the governance of risk management. Senior Management ensures there is a common and efficient process in place. This approach is summarised below:



12.4 Crisis management complements our risk management

The requirements for local management teams on how to act in a crisis situation is outlined in a business continuity policy, which is implemented in all business units in the Authority. The overall purpose of Authority's crisis management is to compliment our proactive risk management work. Once a risk materializes, the priority of our crisis management is to minimize harm to the environment, people and to minimize damage to our business, as well as ensuring a swift return to normal activities and safeguarding the Authority's reputation.

During the year under review, the Authority continued to make significant strides in enhancing its Business Continuity Management [BCM] function. These include the following:

- Continued training of staff in BCM
- Development of supporting tools to effectively manage business disruptions aimed at the adoption of procedures and tools to effectively manage unforeseen business disruptions.

13.0 **Corporate Social Responsibility**

13.1 As a good corporate citizen, the Authority recognizes the importance of supporting community initiatives aimed at uplifting the living standards of the people in areas of its operations. NAPSA has a well-established Corporate Social Responsibility (CSR) programme. In 2019, the Authority made significant CSR donations to various social causes in line with its Corporate Social Responsibility Policy. The following were some of the activities undertaken:

Period/Date	Beneficiary	Description	Amount (K)
February 2019	Ministry of Health (University Teaching Hospital Adult Hospital)	Donation of 1,000 blankets and 1,000 beddings	550,000
March 2019	IDAI victims through the Disaster Management and Mitigation Unit (DMMU)	Support towards cyclone IDAI victims	150,000
August 2019	Zambezi General Hospital	Assorted medical equipment including: 20 Wheelchairs 50 Adult blankets 50 Baby blankets 50 Bed sheets 2 Oxygen concentrators 4 Infant suction machines 5 Medicine trolleys 100 Eating utensils 5 Weighing scales 10 Thermometers 5 BP machines	124, 503
August 2019	Mwinilunga District Hospital	Assorted medical equipment: 20 Wheelchairs 50 Adult blankets 50 Baby blankets 50 Bed sheets 2 Oxygen concentrators 4 Infant suction machines 5 Medicine trolleys 100 Eating utensils 5 Weighing scales 10 Thermometers 5 BP machines	124, 503

Signed on behalf of the Trustees on 24th April 2020 by:

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TRUSTEE

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TRUSTEE

NATIONAL PENSION SCHEME AUTHORITY

STATEMENT OF RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

Part II of the First Schedule of the National Pension Scheme Act, No. 40 of 1996 requires the Trustees to prepare:

- an audited statement of financial position (statement of net assets available for benefits);
- an audited statement of income and expenditure (statement of changes in net assets available for benefits); and
- such other information as the Minister may require.

In preparing the financial statements the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements that are reasonable and prudent; and
- follow International Financial Reporting Standards.

The Trustees are responsible for ensuring that the Authority keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Authority. They are also responsible for safeguarding the assets of the Authority and taking reasonable steps for the prevention and detection of fraud and other irregularities.

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, Messrs Grant Thornton, have audited the annual financial statements and their report is shown on pages 20 to 23.

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 these controls, procedures and systems has occurred during the year under review.

In the opinion of the Trustees the financial statements are drawn up so as to present fairly the financial activities of the Authority for the year ended 31 December 2019 and its financial position as at that date, and have been prepared in accordance with International Financial Reporting Standards and in the manner required by the National Pension Scheme Act, No. 40 of 1996.

Signed on behalf of the Trustees on 24th April 2020 by:

TRUSTEE **TRUSTEE**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

NATIONAL PENSION SCHEME AUTHORITY

Report on the financial statements

Opinion

We have audited the financial statements of National Pension Scheme Authority set out on pages 24 to 68, which comprise the statement of net assets available for benefits as at 31 December 2019, the statement of changes in net assets available for benefits, the statement of movement in accumulated funds and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of National Pension Scheme Authority as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Authority in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA" code), together with ethical requirements that are relevant to our audit of the financial statements in Zambia. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

NATIONAL PENSION SCHEME AUTHORITY

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Measurement of Financial Assets	
Due to the complex and subjective nature of judgements made in the assumptions by the Directors over the measurement of financial assets this was considered a key audit matter.	Our procedures included but were not limited to the following:
• The Directors are required to apply the forward-looking approach to recognize expected credit losses based on IFRS 9's impairment requirements.	• Assessing the design and implementation of the impairment model adopted with focus on compliance with the requirements of IFRS 9: "Financial Instruments". • Reviewing management's evaluation of possible outcomes and the probability of occurrence. • Checking the reasonableness of the information and ensuring the information was supported with reference to past events, current conditions as well as forecast of the future.
• Further, in assessing the fair value of financial assets, the Directors use a variety of valuation methods based on the classification of assets and make assumptions that are based on market conditions and other relevant valuation data existing at each reporting date.	• Obtain the analysis prepared by management in calculating the fair value of the assets. • We evaluated management's valuation assumptions and changes in assumptions to ensure they were reasonable and consistent with market information and other relevant valuation data. • Performed audit procedures over the valuation and accounting of investments in financial assets, to ensure that the valuation inputs applied to various valuation techniques were reasonable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

NATIONAL PENSION SCHEME AUTHORITY

Other information
The Trustees are responsible for the other information. The other information comprises the Trustees' Report as required by the National Pension Scheme Act No. 40 of 1996, which we obtained prior to the date of this auditors' report, and the annual report which we obtained prior to the date of this auditors' report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Trustees for the financial statements
The Trustees are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the authority or to cease operations, or have no realistic alternative but to do so.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

NATIONAL PENSION SCHEME AUTHORITY

Auditor's responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of the Trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Trustees regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Trustees with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Trustees, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

National Pension Scheme Act No. 40 of 1996 requires that in carrying out our audit, we consider and report to you on the following matter: We confirm that, in our opinion, the accounting and other records and registers have been properly kept in accordance with the Act.

Grant Thornton
Chartered Accountants

Christopher Mulenga (AUD/F000178)
Name of Partner signing on behalf of the Firm

Lusaka

Date: 24th April 2020

NATIONAL PENSION SCHEME AUTHORITY

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 K	2018 K
Net assets available at beginning of the year		25,249,315,781	22,398,721,966
Member service operations:			
Contributions from members		4,260,318,932	3,473,600,842
Pension claims and withdrawals	6	(404,008,311)	(243,817,112)
ZNPF claims	6'	(413,795,786)	(312,160,017)
Normal retirement pensions	7	(336,073,825)	(284,500,827)
Funeral grants		(18,966,529)	(19,126,111)
		3,087,474,481	2,613,996,775
Investment operations:			
Investment income	8	5,025,279,038	3,730,781,936
Net exchange gains	9	(633,209)	1,156,000
Tax expense	10	(384,553,212)	(227,495,052)
Reversal/(Impairment) loss on stocks and bonds	14	1,100,000	(1,900,000)
Impairment loss on term deposits	14	(6,293,955)	(18,718,413)
Impairment loss on loans and advances	16	(322,087,660)	(531,765,633)
Impairment loss on housing inventory	17	(3,122,536)	(29,878,580)
Bad debts provision	21	(29,857,509)	(3,920,897)
Change in market value for investments	23	(311,677,719)	(2,179,384,557)
Handling fees		(17,954,890)	(31,836,394)
		3,950,198,348	707,038,410
Management expenses:			
Employee benefit expenses	11	(320,418,591)	(306,515,025)
Administration expenses	12	(182,259,605)	(143,688,141)
Depreciation expense	24	(87,243,811)	(20,229,903)
Gain/(loss) on disposal of equipment		(1,275,659)	(8,301)
		(591,197,666)	(470,441,370)
Increase in net assets		6,446,475,163	2,850,593,815
Net assets available at end of the year		31,695,790,944	25,249,315,781

NATIONAL PENSION SCHEME AUTHORITY

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AS AT 31 DECEMBER 2019

	Note	2019 K	2018 K
MEMBERS' INTEREST			
Members Funds		31,695,790,944	25,249,315,781
Represented by:			
ASSETS			
Investments			
Government securities	13	15,658,086,768	12,609,075,153
Other securities	14	6,552,644,150	5,019,084,901
Equity investments	15	1,121,099,640	1,312,402,110
Loans and advances	16	3,704,226,338	2,911,511,763
Housing inventory	17	157,799,941	218,924,145
Investment properties	18	3,063,930,410	2,764,727,008
		30,257,787,247	24,835,725,080
Other assets			
Bank and cash balances	19	869,493,470	229,146,966
Employee receivables	20	3,262,008	3,309,467
Other receivables	21	149,805,718	131,506,290
Consumable stores		1,568,909	1,322,079
Contributions receivable	22	664,612,068	236,917,406
Property and equipment	24	129,847,878	156,495,882
		1,818,590,051	758,698,090
TOTAL ASSETS		32,076,377,298	25,594,423,170
LIABILITIES			
Income tax liabilities	10	(101,241,991)	(76,057,634)
Provisions for claims payable	26	(7,286,600)	(7,286,600)
Other payables and accrued expenses	27	(267,567,612)	(253,484,982)
Deferred liabilities	28	(4,490,151)	(8,278,173)
TOTAL LIABILITIES		(380,586,354)	(345,107,389)
NET ASSETS AVAILABLE FOR BENEFITS		31,695,790,944	25,249,315,781

The responsibilities of the Trustees with regard to the preparation of the financial statements are set out on page 19. The financial statements on pages 24 to 68 were approved by the Board of Trustees on 24th April 2020 and were signed on its behalf by:

TRUSTEE **TRUSTEE**

NATIONAL PENSION SCHEME AUTHORITY

STATEMENT OF MOVEMENTS IN ACCUMULATED FUNDS FOR THE YEAR ENDED 31 DECEMBER 2019

	Annuity Account K	Accumulated funds K	Total K
Balance at 1 January 2018	26,601	22,398,695,365	22,398,721,966
Surplus of income over expenditure for year	-	2,850,593,815	2,850,593,815
Balance at 31 December 2018	26,601	25,249,289,180	25,249,315,781
Surplus of income over expenditure for year	-	6,446,475,163	6,446,475,163
Balance at 31 December 2019	26,601	31,695,764,343	31,695,790,944

NATIONAL PENSION SCHEME AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 K	2018 K
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase in net assets		6,446,475,163	2,850,593,815
Adjusted for:			
Depreciation expense	24	87,243,811	20,229,903
Income tax expense	10	384,553,212	227,495,052
Dividend income		(29,129,738)	(53,362,167)
Investment income		(4,992,658,406)	(3,677,419,769)
Change in fair value of investment property	18	(3,490,895)	3,857,245
Impairment loss on loans and advances		322,087,660	531,765,633
(Reversal)/Impairment loss on stocks and bonds		(1,100,000)	1,900,000
Impairment loss on term deposits		6,293,955	18,718,413
Impairment loss on housing inventory		3,122,536	29,878,580
Change in fair value of Government Securities	13	123,866,143	1,908,566,543
Change in fair value of listed securities	15	191,302,470	266,960,769
Loss on disposal of property and equipment		1,275,659	8,301
		2,539,841,570	2,129,192,318
Movement in working capital:			
Increase in Government securities		(3,172,877,758)	(3,658,088,319)
Increase in other securities		(1,538,753,204)	(764,045,750)
Increase in loans and advances		(1,114,802,235)	(917,021,807)
Decrease in employee receivables		47,459	3,077,375
(Increase)/decrease in contribution receivables		(427,694,662)	452,973,605
Decrease/(increase) in deferred liabilities		(3,788,022)	1,291,436
Increase in other receivables		(18,299,428)	(32,156,672)
Decrease in inventories		57,754,838	57,712,404
Increase/(decrease) in other payables and accruals		12,828,170	(144,327,627)
Cash used in operations		(6,205,584,842)	(5,000,585,355)
Income tax paid	10	(359,368,855)	(287,787,167)
Net cash utilised in operations		(4,025,112,127)	(3,159,180,204)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire property and equipment	24	(62,119,960)	(36,093,443)
Proceeds on disposal of property and equipment		1,502,954	8,376,841
Purchase of investment properties		(295,712,507)	(453,799,658)
Dividends received		29,129,738	53,362,167
Investment income		4,992,658,406	3,677,419,769
Net cash generated from investing activities		4,665,458,631	3,249,265,676
Net cash inflows for the year		640,346,504	90,085,472
Cash and cash equivalents at beginning of the year		229,146,966	139,061,494
Cash and cash equivalents at end of the year		869,493,470	229,146,966
Comprising:			
Bank and cash balances		869,493,470	229,146,966

NATIONAL PENSION SCHEME AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

The National Pension Scheme Authority (the "Authority") was established by the National Pension Scheme Act No. 40 of 1996 (the "Act"). The Authority has the sole management rights and control of the National Pension Scheme. The principal activities of the Authority are to manage the National Pension Scheme and pay 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 soundness, financially sustainable, fair in its benefit distribution and is affordable.

Under the Act and its regulations, the Authority took over the liabilities of members who contributed to a saving Scheme 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 accrued rights 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 four 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.

The address of Authority's registered office and principal place of business are disclosed in the financial statements on page 4.

2 NEW OR REVISED STANDARDS OR INTERPRETATIONS

2.1 New Standards and amendments that are effective at 1 January 2019 and are applicable to the Authority

IFRS 16 'Leases'

- The Authority has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Authority has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

- Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Authority has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

- On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Authority has applied the optional exemptions to not recognize right-of use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

- For those leases previously classified as financial leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

- The Authority has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

2. NEW OR REVISED STANDARDS OR INTERPRETATIONS (CONTINUED)

2.1 New Standards and amendments that are effective at 1 January 2019 and are applicable to the Authority (continued)

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 on 1 January 2019:

	Carrying amount at 31 December 2018	Reclassification	Remeasurement	IFRS 16 carrying amount at 1 January 2019
Property, plant and equipment	-	-	-	-
Lease liabilities	-	-	-	-
Deferred gain on sale and leaseback (current)	-	-	-	-
Deferred gain on sale and leaseback (non-current)	-	-	-	-
Total	-	-	-	-

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognized at 1 January 2019:

	K	K
Total operating lease commitments disclosed at 31 December 2018		1,254,459
Recognition exemptions:		
• Leases of low value assets	-	-
• Leases with remaining lease term of less than 12 months	-	
Variable lease payments not recognized	-	
Other minor adjustments relating to commitment disclosures	-	
		-
Operating lease liabilities before discounting		1,254,459
Discounted using incremental borrowing rate		-
Operating lease liabilities		1,254,459
Reasonably certain extension options		-
Finance lease obligations		-
Total lease liabilities recognized under IFRS 16 at 1 January 2019		1,254,459

2.2 Other Standards and amendments that are effective for the first time in 2019 and could be applicable to the Authority are:

- IFRIC 23 Uncertainty over Income Tax Treatments
- IFRS 9 Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- IAS 28 long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Annual Improvements to IFRS 2015 – 2017 Cycle.
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).

These amendments do not have a significant impact on these financial statements and therefore the disclosures have not been made.

2. NEW OR REVISED STANDARDS OR INTERPRETATIONS (CONTINUED)

2.3 Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Authority

At the date of authorisation of these financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards, amendments or Interpretations have been adopted early by the Authority.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the Authority's financial statements.

Other standards and amendments that are not yet effective and have not been adopted early by the Authority include:

- IFRS 17 Insurance Contracts;
- Definition of a Business (Amendments to IFRS 3);
- Definition of Material (Amendments to IAS 1 and IAS 8);
- Conceptual Framework for Financial Reporting.

These amendments are not expected to have a significant impact on the financial statements in the period to initial application and therefore the disclosures have not been made.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below:

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The Board of Trustees have, at the time of approving the financial statements, a reasonable expectation that the Authority has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Authority takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

3.3 Functional and presentation currency

These financial statements are presented in Zambian Kwacha ("Kwacha"), which is the Authority's functional currency. All amounts have been rounded to the nearest Kwacha except as otherwise indicated.

The Authority has consistently applied the following accounting policies to all periods presented in these financial statements.

a) Foreign currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Zambian Kwacha (K).

Transactions and balances

In preparing the financial statements of the Authority, transactions in currencies other than the Authority's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in the statement of changes in net assets in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Functional and presentation currency (continued)

Transactions in foreign currencies are translated into Kwacha at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences are generally recognised in profit or loss.

Finance income and finance cost

The Authority's finance income and finance costs include:

- Interest income; and
- Interest expense.

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Authority estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

b) The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.
- Interest income and expense on all trading assets and liabilities are considered to be incidental to the Authority's trading operations and are presented together with all other changes in the fair value of equity investments held for trading.
- Foreign currency exchange gain or loss.

3.4 Contribution income

The National Pension Scheme requires eligible employers to remit contributions for each month by the 10th of the following month. Accordingly, contributions receivables are accounted for as received by the Authority from 11th of January 2019 to the 10th of January 2020. At the reporting date, the Authority accrued, as receivable, contributions received from 1 January 2020 to 10 January 2020. The Authority does not recognise contributions receivable from defaulting employers as the amount is not reliably determinable.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Dividend income

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

3.6 Interest revenue

Interest revenue comprises interest from financial assets. Interest revenue is recognised when it is probable that the economic benefits will flow to the Authority and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.7 Inventories

The Authority's inventory comprises largely housing units constructed for sale as well as consumable stores.

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Revenue from the sale of inventory items largely comprises sale of housing units. Housing revenue is recognised as control of a housing unit is passed at the point of handing over a unit to a customer. Factors that indicate that control of a unit passes from the Authority to a buyer include, but not limited to; (a) the Authority has transferred physical possession of the unit (b) the customer has the significant risks and rewards related to ownership of the unit (c) the customer has accepted the unit in its current condition. The Authority satisfies its performance obligation when a customer has fully paid for a unit.

3.8 Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, for which it is probable that the Authority will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Property and equipment

All property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of property and equipment over their estimated useful lives, on a straight-line basis, at the following annual rates:

Furniture and fittings	8 years
Computer equipment	3 years
Motor vehicles	4-5 years

Capital work in progress is not depreciated.

Management has estimated the residual values of the property and equipment at 31 December 2019 to be negligible and for purpose of the financial statements have been assigned a nil value.

3.10 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in statement of changes in net assets available for benefits in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in statement of changes in net assets available for benefits in the period in which the property is derecognised.

3.11 Impairment of tangible assets

At the end of each reporting period, the Authority reviews the carrying amounts of its tangible 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). When it is not possible to estimate the recoverable amount of an individual asset, the Authority estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in statement of changes in net assets available for benefits.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Impairment of tangible assets (continued)

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in statement of changes in net assets available for benefits.

3.12 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 employees on non-fixed term contracts as provided for in 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.

3.13 Leasing

i) **Leased assets**

As described in Note 2 the Authority has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 1 January 2019

(i) **The Authority as a lessee**

For any new contracts entered into on or after 1 January 2019, the Authority considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Authority assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Authority.
- the Authority has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- the Authority has the right to direct the use of the identified asset throughout the period of use.

The Authority assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED

3.13 Leasing (continued)

Measurement and recognition of leases as a lessee

At lease commencement date, the Authority recognises a right-of-use asset and a lease liability on the statement of net assets available for benefits. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Authority, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Authority depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Authority also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Authority measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Authority's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable if it is reasonably certain [illegible] agreement, the liability will be reduced for payments made and increased if it is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Authority has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. On the statement of net assets available for benefits, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in other liabilities.

a) **The Authority as a lessor**

The Authority's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Authority classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

b) **Accounting policy applicable before 1 January 2019**

The Authority as a lessee

Finance leases

Management applied judgement in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Authority obtains ownership of the asset at the end of the lease term. For leases of land and buildings, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease, taking into consideration the fact that land normally has an indefinite economic life.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED

3.13 Leasing (continued)

b) **Accounting policy applicable before 1 January 2019 (continued)**

See Note 4.2.2 for the depreciation methods and useful lives for assets held under finance leases.

The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

Operating leases

All other leases are treated as operating leases. Where the Authority is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

c) **Leasehold improvements and equipment**

Recognition and measurement

Items of leasehold improvements and equipment are measured at cost less accumulated
If signific... accumulated impairment losses.
useful lives, then they
leasehold improvements and equip...

Any gain or loss on disposal of an item of leasehold improvements and equipment have different
recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Exchange. Ongoing repairs and maintenance are expensed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Financial instruments

Financial assets and financial liabilities are recognised when the Authority becomes a party to the contractual provisions of the instrument. At initial recognition, the Authority measures all its financial instruments at fair value plus or minus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability.

The Authority's objective is to hold its financial assets after acquisition within a business model by collecting contractual cashflows (rather than to sell the instrument prior to its contractual maturity to realise its fair value changes). The contractual terms of the Authority's most financial assets give rise on specified dates to cashflows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

3.14.1 Financial assets and liabilities

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in statement of changes in net assets available for benefits.

3.14.2 Financial assets measured at amortised cost

The Authority classifies a financial asset as subsequently measured at amortised cost when (a) an asset is held within a business model whose objective is to hold the asset in order to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding on a specified date. The Authority's financial assets classified as measured at amortised cost include those securities (infrastructure bond and medium term notes) whose rates are linked to specified benchmark interest rates. The following other securities are also classified and accounted for at amortised cost (i) placements with counterparties (ii) rental debtors (iii) loan receivables (iv) sundry receivables.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

The Authority designates, at initial recognition, some financial assets at fair value through profit or loss. These financial assets mainly comprise Government bonds and Treasury bills. Subsequent to initial recognition, the Authority measures the financial assets at fair value by discounting the expected future cash flows at the effective yield rates prevailing in the market at the measurement date, with changes in fair value recognised in the statement of changes in net assets available for benefits.

3.14.4 Financial assets at fair value through other comprehensive income (FVTOCI)

The equity investments that are neither held for trading nor contingent consideration recognised by the acquirer in a business combination. At initial recognition, the instruments are classified as at FVTOCI, with the subsequent changes in fair value recognised in other comprehensive income (OCI). The Authority has not elected to classify its equity investments as at FVTOCI.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Financial instruments (continued)

3.14.4 Financial assets at fair value through other comprehensive income (FVTOCI) (continued)

The Authority classifies all its equity investments as measured at fair value in the statement of net assets available for benefits, with changes in fair value recognised in profit or loss.

Listed redeemable notes held by the Authority that are traded in an active market are classified as measured at FVTPL and are stated at fair value at the end of each reporting period. The Authority also has investments in unlisted shares that are not traded in an active market but that are also classified as at FVTPL and stated at fair value at the end of each reporting period (unless the Trustees consider that fair value cannot be reliably measured). Changes in the carrying amount of monetary financial assets relating to changes in interest income calculated using the effective interest method and dividends on equity investments are recognised in profit or loss. Other changes in the carrying amount of financial assets classified as at FVTOCI are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment's revaluation reserve is reclassified to profit or loss.

Dividends on equity instruments are recognised in profit or loss when the Authority's right to receive the dividends is established.

3.14.5 Financial assets

Impairment of financial assets

The Authority assesses its financial assets for impairment on the basis of a 'three-stage' model (general model) from initial recognition. The three-stage model for impairment is based on changes in credit quality since initial recognition of the financial assets. These three-stages determine the amount of impairment recognised as expected credit losses (ECL) at each reporting date as well as the amount of interest income recorded in future periods.

The Authority's financial assets, classified as measured at amortised cost or FVTOCI, could be at any of the following stages:

Stage 1 Financial instruments that have not had a significant increase in credit risk since initial recognition or that (at the option of the Authority) have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the ECL that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset, weighted by the probability that the loss will occur in the next 12 months.

Stage 2 Financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date and this option is taken by the Authority) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the ECL that result from all possible default events over the maximum contractual period during which the entity is exposed to credit risk. ECL are the weighted average credit losses, with the respective risks of a default occurring as the weights.

Stage 3 Financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

In estimating ECLs, the Authority considers a range of possible outcomes. At a minimum, the Authority considers that (a) a credit loss occurs; and (b) no credit loss occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Financial instruments (continued)

3.14.6 Derecognition of financial assets

The Authority derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Authority neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Authority recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Authority retains substantially all the risks and rewards of ownership of a transferred financial asset, the Authority continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.14.7 Financial liabilities and equity instruments

The Authority's principal financial liabilities are benefits payable and sundry payables. Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability and equity instrument. Benefits payable and sundry payables 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.

3.14.7.1 Derecognition of financial liabilities

The Authority derecognises financial liabilities when, and only when, the Authority's obligations are discharged, cancelled or they expire.

3.14.8 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, judgement 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Authority's accounting policies, which are described above, the Trustees are required to make judgements, 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.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations below, that the Trustees have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

4.1.1 Impairment losses on loans receivable

In determining whether an impairment loss should be recorded in the statement of changes in net assets available for benefits, the Authority makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the group, or local economic conditions that correlate with defaults on assets in that group. The Authority assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to note 16 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

4.1.2 Impairment losses on housing inventory

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 judgement and makes assumptions that are mainly based on market conditions existing at the reporting date. For housing inventory, the lower of cost and net realisable value was used.

4.1.3 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 judgement and makes assumptions that are mainly based on market conditions existing at the reporting date.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2.1 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 Available for Benefits. At end of each annual reporting period, the Authority makes an estimate of the recoverability of the rental debtors and an allowance for doubtful debts.

4.2.2 Useful lives of property and equipment

The Authority reviews the estimated useful lives of property 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 and fittings	8 years
Computer equipment	3 years
Motor vehicles	4 to 5 years
Right of use assets	3 years

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

4.2.3 Claims payable

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

4.2.4 Actuarial valuation assumptions

Actuarial assumptions made in determining the present obligation of retirement benefits as disclosed on Note 5.

NATIONAL PENSION SCHEME AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

5. ACTUARIAL DEFICIT

In accordance with Section 44 (2) of the National Pension Scheme Act No. 40 of 1996, the Scheme's actuarial obligation is required to be assessed on a tri-annual basis by independent actuaries. The last actuarial valuation was carried out as at 31 December 2017. This was a combined valuation of the Provident Fund and Pension Scheme necessitated by the Authority's decision for the Pension Scheme to take over the liabilities of the Provident Fund. There was need to ascertain the financial impact on the Scheme. The actuarial valuation report is available for examination by the members at the National Pension Scheme Authority Head office.

The following results were obtained from the actuarial valuation:

Pension Scheme	**Long records* K' billion**	**Short records* K' billion**
Value of benefits accrued	41	35
Assets	22	22
Deficit	(19)	(13)

The key assumptions used in the valuation were:	%
Valuation interest rate	13
Long term inflation rate	7.5
Expected rate of return on Scheme assets	Earning +5%
Future salary increases	11
Future pension increases	11
Mortality rate	
Men	19.4
Women	21.8

In accordance with IAS 26 paragraph 28 (b), the Authority has elected to disclose the actuarial deficit and not record it as a liability on the statement of net assets available for benefits. The actuarial deficit is K19 billion based on long records and K13 billion based on short records.

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 at least 180 months or more and qualify for a pension.

*** Short records**

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

Significant actuarial assumptions for the determination of the actuarial deficit or surplus include discount rate and expected salary increase. The sensitivity analyses below have been determined based on reasonable possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

NATIONAL PENSION SCHEME AUTHORITY

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5. ACTUARIAL DEFICIT (CONTINUED)

Long records

	Earnings +5% K'Billion	Earnings- 0% K'Billion	Earnings -5% K'Billion
Value of scheme liabilities	41	115	657
Assets	22	22	22
Deficit	(19)	(93)	(635)
Fund status	54.9%	19.5%	3.4%

Short records

	Earnings +5% K'Billion	Earning 0% K'Billion	Earnings -5% K'Billion
Value of scheme liabilities	35	91	500
Assets	22	22	22
Deficit	(13)	(69)	(478)
Fund status	63.4%	24.6%	4.5%

The Scheme is designed to be financed on a scaled premium basis and is therefore not fully financed. However, the Scheme is still a young scheme and benefits expenditure can be expected to increase significantly as additional members (with longer contribution records) draw their benefits. The break-even contribution rate is projected to remain below the current rate of 10% until around 2045 to 2050 depending on the scenario considered either short or long periods.

6. PENSION CLAIMS AND WITHDRAWALS

Pension Scheme	2019 K	2018 K
Retirement Lumpsum	128,544,335	41,179,383
Survivors Lumpsum	55,145,644	46,271,788
Invalidity refund	666,036	247,507
	184,356,015	87,698,678
Indexed payments	208,074,787	148,761,496
Interest on refund	11,577,509	7,356,938
	219,652,296	156,118,434
	404,008,311	243,817,112

The indexed payment is meant to help a member's income maintain a certain level of buying power in line with the determined wage inflation. In addition to the indexation, interest is paid on the Members' contributions using the rate as determined by the Authority.

From 2006, the Authority has been paying pensions to members who qualified under the reduced criteria (sliding scale). In November 2018, the Authority discontinued the application of the sliding scale following the Supreme Court judgement in a matter where a member challenged its validity. As from February 2015, the Scheme has fully insured members who are now qualifying based on a full criterion of 180 months of contributions. Additionally, members who reach the retirement age but have not made 180 contributions are given a lumpsum payment comprising principal contributions, indexation amount and interest.

6. PENSION CLAIMS AND WITHDRAWALS (CONTINUED)

Provident Fund	2019 K	2018 K
Interest on benefits	323,601,823	239,508,856
Home ownership	2,713,496	1,476,407
Age	53,785,368	36,046,430
Survivors	33,471,037	34,687,194
Disability	224,062	441,130
	413,795,786	312,160,017

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

7. NORMAL RETIREMENT PENSIONS

	2019 K	2018 K
Normal retirement pensions	336,073,825	284,500,827

In accordance with the National Pension Scheme Act No. 40 of 1996 and amendment Act No. 7 of 2015, Members qualify for payment of pension following retirement from employment as follows;

Early retirement (accrued rights)	50 years
Normal retirement (accrued rights)	55 years
Early retirement (new)	55 years
Normal retirement (new)	60 years
Late retirement (new)	65 years

The pension payments made in 2019 relate to Members who have qualified after making 180 contributions by their retirement age.

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

The Authority in 2018 discontinued the award of pensions to members under the sliding scale, which was a reduced criterion for those aged between 39 and 48 years at inception of the Scheme on 1 February 2000. This followed the Supreme Court Judgement of 25th October 2018 which annulled the sliding scale as provided under Regulation 3 of the National Pension Scheme Statutory Instrument No. 71 of 2000.

NATIONAL PENSION SCHEME AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
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8. INVESTMENT INCOME

	2019 K	2018 K
Gross interest income on Government Bonds	2,766,231,712	2,282,046,749
Gross interest income on treasury bills	332,105,389	199,658,188
Interest income on fixed term deposits	1,038,040,307	541,520,478
Infrastructure and Real estate	483,889,610	386,977,334
Society House Development Company Limited (SHDCL)	299,275,880	180,514,181
Net rental income	45,175,791	54,634,061
Interest on cash deposits	19,830,776	20,349,225
Dividends from equities	29,129,738	53,362,167
Interest income on other stocks and bonds	6,266,688	8,917,823
Sundry income	5,333,147	2,801,730
	5,025,279,038	3,730,781,936

9. NET EXCHANGE (LOSSES)/ GAINS

Foreign exchange losses	(1,134,032)	(1,362,844)
Foreign exchange gains	500,823	2,518,844
	(633,209)	1,156,000

This denotes translation of foreign currency transactions and dollar denominated bank accounts for the Authority.

10. TAXATION

The Authority is exempt from income tax under the terms of the Second Schedule to the Income Tax Act, 1996 (as amended) except as follows: under the terms of the income tax amendment Act 3 of 2003 interest arising from Treasury Bills ("TB") or Government bonds is subject to withholding tax at source at 15% with effect from 1 April 2003; the tax withheld at source is also the final tax. The discount income for government bonds is not subject to tax beginning 1 January 2016. Furthermore, the Authority is required to pay withholding tax on rental receipts at a rate of 10% following the removal of the exemption on withholding tax on rent for statutory bodies.

	2019 K	2018 K
10.1 Withholding tax @ 15% on interest on Treasury Bills and Government bonds	372,514,695	222,324,095
Tax on rental receipts	12,038,517	5,170,957
	384,553,212	227,495,052
10.2 Included under current liabilities		
Payable in respect of previous year	76,057,634	136,349,749
Payable in respect of the current year	384,553,212	227,495,052
	460,610,846	363,844,801
Payments during the year	(359,368,855)	(287,787,167)
Current tax liabilities	101,241,991	76,057,634

NATIONAL PENSION SCHEME AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 K	2018 K
11. EMPLOYEE BENEFIT EXPENSES		
Salaries and other staff benefit costs	300,361,655	288,511,230
Pension costs	20,056,936	18,003,795
	320,418,591	306,515,025

11.1 The Authority runs an in-house pension scheme for non-fixed contract staff in which it pays its share of contributions. The in-house pension scheme operates independently from the Authority and manages both the defined contribution and defined benefit schemes. The defined benefit scheme was closed to new members in 2007.

11.2 The in-house pension scheme has rules which specify that the Authority has no recourse over the actuarial surplus and accordingly, the surplus is not recorded in the Authority's accounting records.

11.3 The last actuarial valuation was completed for the year ended 31 December 2017 and the report was issued in August 2018 by Quantum Consultants and Actuaries (Zambia) Limited, an independent firm of actuaries, using the Attained Age Method. According to the valuation at that date, the actuarial present value of promised retirement benefits was:

	K
Pension plan assets	205,071,000
Liability to members	(162,833,000)
Surplus	42,238,000

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Valuation method		Attained Age Method
Rate of interest		12% per annum
Rate of pension increase		5% per annum
Rate of revaluation in deferment		5% per annum
Mortality	-Pre- retirement	A49/52 Ultimate table
		-Post retirement A (55) Males/females ultimate table
Number of members		25

On the basis of the Attained Age Method of valuation, the rate of contribution required to meet the cost of future accrual of benefit in respect of DB Scheme members is estimated at 17.75% of DB Scheme members' total Pensionable Salaries which, net of members' contributions at 10%, gives the Sponsor's required contribution rate of 7.75% of DB Scheme Members' Pensionable Salaries. This is before any adjustments are made for the actuarial surplus disclosed by the actuarial valuation.

The plan typically exposes the Authority to actuarial risks such as interest rate risk, salary risk and mortality risk. Increases or decreases in these actuarial risks may result in an increase or decrease of the actuarial surplus.

The actuarial valuation results of the DB Scheme are sensitive to the actuarial assumptions made. The actuarial assumptions reflect one view of likely future events and there is therefore uncertainty as to how the financial position of the DB Scheme will develop in future. There is no guarantee that the assumptions made will be borne out in practice and the expectation is that the DB Scheme's actual experience will from time to time be better or worse than that assumed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

12. ADMINISTRATIVE EXPENSES

	2019 K	2018 K
Rent	25,566,289	23,584,501
Staff welfare and training	7,148,417	7,548,829
Office and related expenses	10,176,073	10,566,982
Computer expenses	29,378,354	17,271,244
Sports expenses	16,346,508	16,700,230
Advertising and promotion	18,260,876	12,159,458
Travelling expenses	17,019,185	14,766,551
Motor vehicle expenses	9,975,314	10,501,189
Authority expenses	4,357,332	6,241,044
Printing and stationery	3,814,358	3,109,935
Other expenses	8,345,461	7,422,471
Business research and projects	12,757,653	-
Appointments	3,709,667	2,973,113
Building and repairs	1,498,192	536,835
Legal fees	4,276,360	988,241
Audit fees	1,357,559	1,500,000
Employer seminars	931,673	970,271
Bank charges	1,667,306	2,135,226
Telephone and postage	518,736	1,011,503
Cleaning materials	481,929	336,981
Corporate Social Responsibility	1,131,640	900,094
Professional fees CSO	852,400	780,000
Electricity and water	1,735,748	1,045,705
Donations and grants	167,892	153,216
Relocation costs	119,920	192,894
Books and magazines	631,604	291,628
Interest expense	33,159	-
	182,259,605	143,688,141

13. GOVERNMENT SECURITIES

Government bonds	13,097,803,229	12,165,991,952
Treasury bills	2,560,283,539	443,083,201
	15,658,086,768	12,609,075,153

13.1 Government bonds

At beginning of year	12,165,991,952	7,922,210,236
Purchases	4,269,839,133	7,882,289,422
Bonds matured during the year	(3,201,302,054)	(1,930,287,329)
Change in fair value (note 23)	(136,725,802)	(1,708,220,377)
At end of the year	13,097,803,229	12,165,991,952
Maturity analysis:		
2 to 5 year Government bonds	8,338,758,393	6,008,916,721
7 to 15 year Government bonds	4,759,044,836	6,157,075,231
	13,097,803,229	12,165,991,952

The Authority holds Government bonds with varying interest rates between 9% and 14%. Interest is receivable semi annually. The bonds mature on diverse dates between February 2020 and December 2033.

13. GOVERNMENT SECURITIES (CONTINUED)

		2019	2018
		K	K
13.2	**Treasury bills**		
	At beginning of the year	443,083,201	2,937,343,141
	Purchases	2,757,223,800	418,434,019
	Maturities during the year	(652,883,121)	(2,712,347,793)
	Change in fair value (note 23)	12,859,659	(200,346,166)
	At end of the year	2,560,283,539	443,083,201
	Total Government securities	15,658,086,768	12,609,075,153
13.3	**Fair value movement**		
	Government bonds	(136,725,802)	(1,708,220,377)
	Treasury bills	12,859,659	(200,346,166)
		(123,866,143)	(1,908,566,543)

14 OTHER SECURITIES

Fixed term deposits	6,533,236,315	4,972,397,213
Other stocks and bonds	19,407,835	46,687,688
	6,552,644,150	5,019,084,901
Opening balance	5,019,084,901	4,275,657,564
Purchases	6,299,315,979	5,167,014,444
Receipts	(4,765,066,730)	(4,423,587,107)
	6,553,334,150	5,019,084,901

14.1 Fixed term deposits

Access Bank Zambia Limited	294,591,096	258,483,562
Atlasmara Limited	514,347,610	322,228,199
Barclays Bank Zambia Plc	788,570,552	630,890,890
Capital Bank Limited (In liquidation)	430	430
Cavmont Capital Bank Limited	81,173,453	102,810,658
Commerce Bank Limited (In Liquidation)	1,365,977	1,365,977
Credit Africa Bank Limited (In Liquidation)	793,790	793,790
Development Bank of Zambia	104,630,724	89,267,310
Ecobank Limited	289,318,201	275,335,188
First Alliance Bank Limited	33,095,618	27,668,630
First Merchant Bank Limited (In liquidation)	847,187	847,187
First National Bank Limited	300,307,954	483,546,027
Indo-Zambia Bank Limited	1,202,393,750	659,361,511
Investrust Bank Plc	57,750,236	59,964,384
Stanbic Bank Zambia Limited	700,519,779	768,963,259
Standard Chartered Bank Zambia Plc	510,735,779	566,506,958
UniFinance Zambia Limited (In liquidation)	119,837	119,837
Union Bank Limited (In Liquidation)	231,762	231,762
Union Bank Limited (In Liquidation)	299,850	299,850
Union Leasing Zambia Limited (In liquidation)	202,835	202,835
United Bank of Africa Limited	50,498,630	-
United Bank of Zambia Limited (In Liquidation)	80,517	80,517
Zambia National Building Society	79,556,080	79,553,048
National Saving Bank	310,913,956	-
Zambia Industrial Commercial Bank	108,984,384	-
Industrial Development Corporation	60,095,343	-
Zambia National Commercial Bank Plc	1,055,619,790	651,390,254
	6,547,045,120	4,979,912,063
Less impairment	(13,808,805)	(7,514,850)
	6,533,236,315	4,972,397,213

14. OTHER SECURITIES (CONTINUED)

Outstanding interest in the sum of K5.6 million on fixed term deposits held in the Development Bank of Zambia (DBZ) has been written down to reflect the default risks. The term deposits matured at diverse dates during the year, with the last one being due for redemption in July 2019. At the reporting date, the Authority had received only K1.8 million from the total proceeds of K105 million from these investments.

The investment in fixed term deposits in DBZ is secured with collateral.

	2019 K	2018 K
14.2 **Other stocks and bonds**		
Stanbic Bank Zambia Ltd (a)	13,728,770	40,587,688
Madison Financial Services Plc (b)	6,479,065	8,000,000
Meridian BIAO Bank Limited (In liquidation)	11,252	11,252
	20,219,087	48,598,940
Less: Impairment provision	(811,252)	(1,911,252)
	19,407,835	46,687,688
Movement in impairment provision		
At beginning of year	1,911,252	11,252
(Reversal)/impairment loss recognised in the year	(1,100,000)	1,900,000
At end of year	811,252	1,911,252

(a) **Stanbic Bank Zambia Limited**

This consists of 1 corporate bond with maturity of 5 years. The corporate bond is denominated in Zambian Kwacha and bears interest on a floating rate at 182 days Treasury bills + 450 basis points margin. It is due to mature in July 2021.

(b) **Madison Financial Services Plc**

This is a 5 year corporate bond denominated in Zambian Kwacha. The bond bears interest on a floating rate at 182 days Treasury Bills + 450 basis points margin respectively. As at the year end, the bonds were due to mature in December 2020.

15. EQUITY INVESTMENTS

	2019 K	2018 K
Investments in shares listed on LuSE	1,099,656,371	1,290,958,841
Investment in Society House Development Company	19,630,853	19,630,853
Investment in Levy Business Park Hotel	17,844,345	17,844,345
Zambia Industrial Commercial Bank Limited	46,700,000	46,700,000
	1,183,831,569	1,375,134,039
Less Impairment	(62,731,929)	(62,731,929)
	1,121,099,640	1,312,402,110

Impairment comprises the following:

(a) The impairment of K16,031,929 relates to the value of the 683,956 disputed Lafarge Cement Zambia Plc shares.

(b) There is an impairment of K46,700,000 relating to the value of shares held in Zambia Industrial Commercial Bank. The equity investment relates to a fixed term deposit previously held in the defunct Intermarket Banking Corporation Limited, prior to conversion into shares upon ZICB taking over its operations.

15. EQUITY INVESTMENTS (CONTINUED)

15.1 Investments in shares listed on LuSE

The movements in investment in shares listed during the year were as follows:

	2019 K	2018 K
At beginning of the year	1,290,958,841	1,557,919,611
Change in fair value	(191,302,470)	(266,960,769)
At end of the year	1,099,656,371	1,290,958,842
Fair value Movement		
Shares	(191,302,470)	(266,960,769)

The equity investments comprised shares in the following entities:

NAPSA	No. of shares	Share price	2019 Market Value	2018 Market Value
ZCCM - Investments Holdings Plc	24,120,043	28.48	686,938,825	687,421,226
Zambia Sugar Plc	30,788,019	2.50	76,970,047	83,127,650
Standard Chartered Bank Plc	39,873,975	1.63	64,994,580	104,868,554
Zambeef Products Plc	24,797,819	0.90	22,318,037	74,393,457
Lafarge Zambia Plc	9,499,942	1.95	18,524,887	46,264,718
Puma Energy Zambia Plc	49,972,746	0.98	48,973,291	49,972,746
Zambia National Commercial Bank Plc	140,355,063	0.50	70,177,531	117,898,253
Real Estate Investments Zambia Plc	5,691,431	4.49	25,554,525	34,091,672
National Breweries Plc	1,400,000	9.21	12,894,000	17,220,000
Metal Fabricators of Zambia Plc	3,290,567	4.79	15,761,815	15,860,533
British American Tobacco Zambia Plc	6,394,439	1.90	12,149,434	12,788,878
Copperbelt Energy Corporation Plc	15,779,333	1.25	19,724,167	22,880,033
CEC Africa Plc	15,779,333	0.18	2,840,280	3,155,866
Prima Re-Insurance Plc	4,281,895	2.80	11,989,306	11,989,306
Pamodzi Hotel Plc	4,164,607	0.62	2,582,056	2,582,056
African Explosives Zambia Plc	293,798	21.00	6,169,758	5,350,061
Cavmont Capital Holdings Plc	546,916	2.00	1,093,832	1,093,832
			1,099,656,371	1,290,958,841
Provident Fund				
Commerce Bank Limited (In Liquidation)	2,157,780,000	0.0010	2,157,780	2,157,780
Development Bank of Zambia	4,505	10.000	45,050	45,050
Zambia Consumers Buyers Co-operative (In Liq.)	500,000	0.0005	2,500	2,500
Lima Bank Limited (In Liquidation)	500,000	0.001	500	500
Kapiri Glass Products Limited (In Liquidation)	150,000	0.001	150	150
			2,205,980	2,205,980
Less: Impairment provision			(2,205,980)	(2,205,980)
			-	-

The shares above are in the name of the closed Zambia National Provident Fund.

15. EQUITY INVESTMENTS (CONTINUED)

15.2 Investments in Levy Business Park Hotel Limited and Society House Development Company Limited

The Authority in line with its investments guidelines holds 100% interest in Special Purpose Vehicles (SPVs), namely Society House Development Company Limited and Levy Business Park Hotels Limited. As there is no reliable measure of the fair value of these investments at the reporting date, the investment has been carried at cost. In subsequent reporting periods, the Authority will revalue these investments when a reliable measure will be available.

Equity investments in special purpose vehicles comprised of shares in the following entities:

	2019 K	2018 K
Investment in Society House Development Company Ltd	19,630,853	19,630,853
Investment in Levy Business Park Hotels Ltd	17,844,345	17,844,345
	37,475,198	37,475,198

16. LOANS AND ADVANCES

This asset class mainly relates to loans for real estate and infrastructure that the Authority has advanced.

Receivable from:		
National Road Fund Agency Loan (Note 16.1)	2,808,761,706	2,088,164,551
Society House Development Company Limited (Note 16.2)	2,205,876,271	1,340,970,633
Phantom Exchange (Note 16.3)	2,362,592	2,362,592
Socially targeted Loans (Note 16.4)	62,472,468	14,142,212
Livingstone Market and Bus- Station Management Company Limited (Note 16.4)	11,689,285	-
Other Receivables (Note 16.5)	1,067,087	1,067,087
	5,092,229,409	3,446,707,074
Impairment provision (Note 16.6)	(1,388,003,071)	(535,195,312)
	3,704,226,338	2,911,511,763

16.1 National Road Fund Agency Loan (NRFA)

This is an investment in the road sector under the debt finance to National Road Fund Agency (NRFA). Initially, the debt facility was K2.1 billion intended for the construction of the North corridor road stretching from Ndola to Solwezi and included the construction of road toll plazas. During the year, the facility was increased by a further K1.8 billion to a total sum of K3.9 billion after the initial loan facility was fully disbursed. The additional investment is intended to finance the completion of the stretch covering Chingola and Solwezi roads as well as construction of Solwezi to Kipushi road.

Under the revised terms of the agreement, the debt instrument is benchmarked to a 15 year Government bond without any added margin and is secured with enhanced collateral via an escrow agreement. The tenor of the debt facility was also extended from 10 years to 15 years.

At the reporting date, the loan outstanding stood at K2.8 billion comprising solely the principal amount.

16. LOANS AND ADVANCES (CONTINUED)

16.2 Society House Development Company Limited ('SHDCL")

The balance represents advances made, up to the reporting date, to the Authority's fully owned subsidiary, Society House Development Company Limited ("SHDCL").

On 20 May 2011, the Authority entered into a Concession Agreement with Zambia National Building Society ("ZNBS"), for the redevelopment of Society House and Central Arcades, a property in the central business district of Lusaka and which formerly housed ZNBS's head office. The redevelopment consisted of a hotel, shopping mall, office space and a structured parking space, and was fully funded by the Authority. The Concession is for a period of 20 years at the end of which the Authority would be paid 50% of the market value of the redevelopment property as terminal value. In addition, interest income on the loan and dividend income when declared during the Concession period would be paid fully to the Authority.

A special purpose vehicle, SHDCL, was created in terms of the Concession Agreement to carry out the redevelopment and operate the commissioned property following finalisation of the redevelopment for the period of the Concession. Accordingly, the funding for the redevelopment was to be advanced to SHDCL as a loan and be recovered from the Company. Advances made to date are denominated in Kwacha and interest is recoverable at 15% p.a. Should recovery of the loaned funds not be achievable within the Concession period of 20 years, the Authority is entitled to extend the Concession period until full recovery of the funds is achieved.

Preliminary estimates made by Management indicate that the advances made to date would only be recoverable beyond the concession period of 20 years. The Loan agreement provides for amendment of the concession period at the sole discretion of the Authority should the amounts due to it not be fully recovered at the end of the concession period. Further, the collateral of the loan is the Project assets.

The Authority made a proposal to Zambia National Building Society to purchase the Project assets (Society house). The ZNBS board approved the request, which was then approved by its Shareholder, Ministry of Finance, as required by Government regulations. Valuation of the assets was completed, and a valuation report submitted by the appointed Valuer. The Authority is in discussion with ZNBS to determine the amount payable to acquire the asset.

At the reporting date, the Authority had received a total sum of K880,000 from SHDCL towards payment of outstanding interest which stood at K1.2 billion at 31st December 2019.

16.3 Phantom Exchange

The Authority guaranteed a loan in the sum of K3 million granted to Phantom Exchange Limited by Stanbic Bank Limited. Subsequently Phantom defaulted on its loan repayment and the Authority paid Stanbic bank the outstanding amount.

The Authority subsequently sued and obtained judgement against Phantom for the payment of the guaranteed sum plus interest.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

16. LOANS AND ADVANCES (CONTINUED)

16.4 Socially Targeted Loans

Under the socially targeted investment class, the Authority disbursed a total sum of K49 million under a mortgage facility to its staff. At the reporting date, the loan receivable stood at K62 million comprising solely the principal outstanding.

The Authority increased its socially targeted portfolio by investing a sum of K33 million in the completion of a modern bus terminus and market in Livingstone through a Special Purpose Vehicle (SPV), the Livingstone Market and Bus-Station Company Limited. A total sum of K11.7 million was disbursed towards the project at the end of the reporting period.

16.5 Other receivables

	2019 K	2018 K
Government	971,145	971,145
Parastatal and private sector	88,227	88,227
Local Authorities	7,715	7,715
	1,067,087	1,067,087

16.6 Impairment provisions

	2019 K	2018 K
The provisions are comprised of the following:		
Phantom Exchange	2,362,592	2,362,592
Other receivables	1,067,087	1,067,087
National Road Fund Agency	56,000,000	34,000,000
Society House Development Company Limited	1,327,789,385	497,765,633
Livingstone Market and Bus-Station Company Limited	784,007	-
Balance at end of the year	1,388,003,071	535,195,312
Balance at the beginning of the year	535,195,312	3,429,679
Impairment loss recognised in the year	322,087,660	531,765,633
Accrued interest differential	530,720,099	-
Balance at the end of the year	1,388,003,071	535,195,312

The SHDCL loan is reflective of the market value of K878 million deemed recoverable through acquisition of the project asset from Zambia National Building Society (ZNBS).

17. HOUSING INVENTORY

	2019 K	2018 K
Housing inventory:		
Inventory - Northgate Gardens	85,932,339	140,304,696
Inventory - Kalulushi Housing	87,231,593	122,528,048
Inventory - Nyumba Yanga	50,900,042	52,125,007
River View Park	408,500	-
	224,472,474	314,957,751
Impairment loss	(66,672,533)	(96,033,606)
	157,799,941	218,924,145

17 **HOUSING INVENTORY (CONTINUED)**

Movement in impairment on housing inventory		
Balance at beginning of the year	96,033,606	99,408,867
Impairment derecognised on inventories (sale of houses)	(32,483,609)	(33,253,841)
Impairment recognised on inventories	3,122,536	29,878,580
Balance at end of the year	66,672,533	96,033,606

The Authority wrote down the value of housing inventory by K29,878,580 to reflect the net realisable value in 2018. A further write down of K3,122,536 was made in 2019.

	2019	**2018**
	K	**K**
18. **INVESTMENT PROPERTIES**		
Balance at beginning of the year	2,764,727,008	2,314,784,595
Additions	295,712,508	453,799,658
Changes in fair value	3,490,894	(3,857,245)
Balance at end of the year	3,063,930,410	2,764,727,008

(a) **Fair value measurement of the Authority's investment properties**

The Authority's portfolio of investment properties comprises properties that are under development, parcels of bare land acquired through outright purchase and debt swaps with District Councils and commercial buildings for rent as well as housing units for sale. The fair value model is applied to account for investment properties which are revalued on a continuing basis to reflect the carrying amounts that approximate the market values of similar properties. The Authority contracts professional independent valuers, holding recognised professional qualifications and are registered members of the Valuation Surveyors Registration Board, to value its investment properties.

During the year, the Authority contracted the valuation services of Sandridge Associate, Platinum Consulting and Upmarket Property Consultants, who are registered valuation surveyors to revalue all its investment properties. The properties include all Ex ZNPF properties, Levy Business Park, Kalulushi shopping complex and school building at Kalulushi Housing Complex, Nyumba Yanga Highrise flats and Edgar Chagwa Lungu (ECL) Business Park. Further, the Authority continued its investments in real estate such as the construction of a modern Record Centre at River View Park Project, office blocks in Mpika and Chinsali, as well as refurbishment of selected Ex ZNPF properties.

At the reporting date, the Authority also held other investment properties including the following; (a) parcels of bare land in various locations across the country and (b) housing units for sale at Ibex Hill in Lusaka. These properties were not revalued during the year. The Ibex Hill Gardens and the Nyumba Yanga Highrise Flats were offered for sale in 2019 at market value. The pieces of bare land across the Country acquired through debt swaps with the District Councils had not been marked with beacons.

(b) **Fair value hierarchy**

The fair value measurement for investment property of K3,063,930,410 (31 December 2018: K2,764,727,008) has been categorised as a Level 2 fair value based on the inputs to the valuation technique used.

The Trustees are of the view that the valuation of these properties approximates their fair values.

18. INVESTMENT PROPERTIES (CONTINUED)

(c) Valuation technique and significant unobservable inputs used

The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties/ capitalisation of net income method, where the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood.

The following table shows the significant unobservable inputs used and sensitivity.

Significant unobservable inputs	Sensitivity
The following are the significant unobservable inputs	The estimated fair value would increase/ (decrease) if:
• Expected market rental growth (7-11.5%. Weighted average 9.25%).	• Expected market rental growth were higher/ (lower);
• Void periods (average 2 months after the end of each cancelled lease).	• Void periods were shorter/(longer);
• Occupancy rate (92-95% weighted average (93.5%).	• The occupancy rate were higher/(lower);
• Rent-free periods (2-month period on new leases).	• Rent-free periods were shorter/(longer); or
• Risk-adjusted discount rates (7-15% weighted average 11%).	• The risk-adjusted discount rate were lower/ (higher).

	2019 K	2018 K
19. BANK AND CASH BALANCES		
Bank balances held at various banks	869,493,470	229,146,966
20. EMPLOYEE RECEIVABLES		
Staff loans and advances	3,284,944	3,332,403
Bad debts provision	(22,936)	(22,936)
	3,262,008	3,309,467
Movement in allowance for doubtful debts		
Balance at the beginning of year	22,936	23,250
Amounts recovered during the year	-	(314)
Balance at end of the year	22,936	22,936

		2019 K	2018 K
21.	**OTHER RECEIVABLES**		
	Rental receivables	181,439,717	140,291,214
	VAT recoverable	126,020,122	109,060,246
	Dividend receivables	12,930	176,426
	Prepayments	4,747,164	4,983,001
	Sundry receivables	4,228,196	13,780,305
		316,448,129	268,291,192
	Bad debt provision	(166,642,411)	(136,784,902)
		149,805,718	131,506,290
	Movement in allowance for doubtful debts		
	Balance at the beginning of year	136,784,902	132,864,004
	Impairment losses recognised on rent receivables	29,857,509	3,920,898
	Amounts recovered during the year	-	-
	Balance at end of the year	166,642,411	136,784,902
22.	**CONTRIBUTIONS RECEIVABLE FROM MEMBERS**		
	Member contributions	664,612,068	236,917,406

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

The Authority's policy requires that contribution income is accounted for on the basis of receipts from 11 January of each year to 10 January of the following year. Contribution income from 1 January to 10 January 2020 recognised in 2019 amounted to K664,612,068 (2018: K236,917,406).

Other than contributions received between 1 January and 10 January 2020, the Authority received member contributions during the year which were partially receipted by year end owing to partial returns submitted by the contributing employers.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

23 CHANGE IN MARKET VALUE OF INVESTMENTS

	Note	Value at 1 January 2019	Purchases at Cost	Receipts	Change in Market value	Value at 31 December 2019
Equity	15.1	1,290,958,841	-	-	(191,302,470)	1,099,656,371
Government Bonds	13.1	12,165,991,952	4,269,839,133	(3,201,302,054)	(136,725,802)	13,097,803,229
Treasury bills	13.2	443,083,201	2,757,223,800	(652,883,121)	12,859,659	2,560,283,539
Other securities	14	5,019,084,901	6,299,315,979	(4,765,066,730)	-	6,553,334,150
Investment property	18	2,764,727,008	295,712,508	-	3,490,894	3,063,930,410
		21,683,845,903	**13,622,091,420**	**(8,619,251,905)**	**(311,677,719)**	**26,375,007,699**

24 PROPERTY AND EQUIPMENT

24.1 Property and equipment

	Land and buildings K	Capital Work in Progress K	Motor vehicles K	Office furniture, equipment and fittings K	Total K
Cost					
Balance at 1 January 2018	-	92,855,903	66,040,727	49,180,028	208,076,657
Additions	-	4,578,730	19,911,338	11,603,374	36,093,443
Disposals	-	-	(5,693,630)	(6,544,634)	(12,238,264)
Balance at 31 December 2018	-	97,434,633	80,258,435	54,238,768	231,931,836
Additions	-	522,000	24,057,301	37,540,659	62,119,960
Reclassification	-	(97,956,633)	-	97,956,633	-
Adjustment on transition to IFRS 16	1,254,460	-	-	-	1,254,460
Disposals	-	-	(7,709,342)	(288,844)	(7,998,186)
Balance at 31 December 2019	1,254,460	-	96,606,394	189,447,216	287,308,070
Accumulated depreciation					
Balance at 1 January 2018	-	-	34,640,006	24,419,167	59,059,173
Charge for the year	-	-	11,777,097	8,452,806	20,229,903
Eliminated on disposal	-	-	(3,490,587)	(362,535)	(3,853,122)
Balance at 31 December 2018	-	-	42,926,516	32,509,438	75,435,954
Charge for the year	396,145	-	13,551,599	73,296,067	87,243,811
Eliminated on disposal	-	-	(4,945,878)	(273,695)	(5,219,573)
At 31 December 2019	396,145	-	51,532,237	105,531,810	157,460,192
Carrying amount					
At 31 December 2019	858,315	-	45,074,157	83,615,406	129,847,878
At 31 December 2018	-	97,434,633	37,331,919	21,729,329	156,495,882

24. PROPERTY AND EQUIPMENT (CONTINUED)

24.2 Leased office buildings

The right-of-use assets by class of assets is as follows:

Buildings	Carrying amounts	Depreciation expense	Impairment
	858,315	396,145	-

The Authority includes the right-of-use assets in the same line item in the statement of net assets as it would present the corresponding underlying assets if they were owned.

25. CAPITAL COMMITMENTS

As at 31 December 2019 the Authority had capital commitments of K170 million (2018: K295 million).

26. PROVISIONS FOR CLAIMS PAYABLE

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

	2019 K	2018 K
At the beginning of the year	7,286,600	13,037,136
Charge for the year	1,500,000	3,625,000
Paid during the year	(1,500,000)	-
Reversal of provision*	-	(9,375,536)
At the end of the year	7,286,600	7,286,600

* This relates to litigations that had been settled without the Authority incurring legal charges.

27. OTHER PAYABLES AND ACCRUALS

	2019 K	2018 K
Provisions	53,817,744	68,366,690
Other creditors	69,254,767	43,678,480
Lease liability	1,052,567	-
Accrued expenses	25,756,276	47,548,980
Amounts due to related parties	38,437,284	31,203,042
Deposit on sale of houses	79,248,974	60,709,243
Collateral held on investments	-	1,978,547
	267,567,612	253,484,982

27.1 Collateral Held on investments

This relates to funds received from collateral securities that matured in the books of the Authority. At the reporting date, the Authority had transferred all proceeds from collateral maturities to its borrowers.

27.2 Collateral Held by the Authority

As at 31 December 2019, the Authority held collateral worth K1.8 billion in form of Government bonds and Treasury bills in respect of Fixed Term deposits.

	2019 K	2018 K
27.3 Lease liability		
Current	104,655	-
Non-current	947,912	-
	1,052,567	-

27.3 **Lease Liabilities (continued)**

The lease liability relates to the rented office building in Kafue District. The lease commenced on 1st April 2017 for a period of fifty-nine (59) months and expires in March 2022.

Movement in lease liabilities:	2019 K	2018 K
At beginning of the year	-	-
Leases on transition to IFRS 16	1,158,291	-
Lease repayments during the year	(190,539)	-
Exchange loss (gain)	84,815	-
At end of the year	1,052,567	-

The lease liabilities are denominated in US dollar, the currency in which rent for offices is payable.

28. DEFERRED LIABILITIES

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:

	2019 K	2018 K
At beginning of the year	8,278,173	6,986,738
Charge for the year	6,291,218	4,058,065
Paid during the year	(10,079,240)	(2,766,630)
At end of the year	4,490,151	8,278,173

29. CONTINGENT LIABILITIES

Other than the liability to pay pensions and other benefits there were no other contingent liabilities of the Scheme as at 31 December 2019, as all other deemed likely to crystalise have been provided for.

30. RELATED PARTY TRANSACTIONS

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

- The Government;
- Members of the Board of Trustees;
- Key management personnel;
- NAPSA Staff Pension Scheme;
- Levy Business Park Hotel Limited;
- Society House Development Company Limited;
- Garden Court Hotel and
- Hilton Garden Hotel

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.

30. RELATED PARTY TRANSACTIONS (CONTINUED)

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.

The financial impact of transactions with related parties at the end of the year are as follows:

	2019 K	2018 K
(a) Amounts due from subsidiaries		
Society House Development Company Limited	2,205,876,271	1,340,970,633
Credit loss provision	(1,327,789,385)	(497,765,633)
	878,086,886	843,205,000

The loan has been disclosed on Note 16

(b) Amounts due to subsidiaries		
Levy Business Park Hotel Limited (note 27)	38,437,284	31,203,042

The amount relates to the funds from the subsidiary which the Authority is investing on its behalf. The increase in the funds relates to the accrued interest earned thereon in the sum of K7 million during the year.

(c) Other receivables

	2019 K	2018 K
National Road Fund Agency (note 16)	2,808,761,706	2,088,164,551
Impairment provision	(56,000,000)	(34,000,000)
	2,752,761,706	2,054,164,551
Recoverable from the Ministry of Labour and Social Security	559,155	559,155
Government loans	187,463	187,463
Parastatal and private sector	88,227	88,227
Interest on Government loans	23,746	23,746
Local Authority loans	2,918	2,918
	861,509	861,509

(d) Compensation to Trustees

The remuneration to Board and Committee members during the year was as follows:

	2019 K	2018 K
Allowances and expenses	4,357,332	6,241,044

(e) Compensation to key management personnel

The remuneration to key management personnel during the year was as follows:

Salaries and allowances	12,691,268	14,691,872
Gratuity	8,273,427	3,402,199
	20,964,695	18,094,071

31. FAIR VALUE MEASUREMENTS

Fair value measurements of financial instruments

Some of the Authority's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

*This amount excludes prepayments and VAT receivable.

Financial asset	Fair value hierarchy	Valuation techniques	2019 K	2018 K
Listed securities	Level 1	(i)	1,083,624,442	1,274,926,912
Government bonds	Level 2	(ii)	13,097,803,229	12,165,991,952
Treasury bills	Level 2	(ii)	2,560,283,539	443,083,201
Other stocks and bonds	Level 2	(ii)	19,407,835	46,687,688

(i) Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities on the Lusaka Securities Exchange.

(ii) Level 2 – Discounted cash flows are estimated based on Bank of Zambia rates observable on Treasury Bills & GRZ Bonds at the end of the reporting period.

(iii) Level 3 – Inputs are unobservable inputs for the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

31. FAIR VALUE MEASUREMENTS (CONTINUED)

Financial Assets	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	K	K	K	K
Loans and receivables				
Loans and advances	3,704,226,338	3,704,226,338	2,911,511,763	2,911,511,763
Contribution receivables	664,612,068	664,612,068	236,917,406	236,917,406
Bank and cash balances	869,493,470	869,493,470	229,146,966	229,146,966
Other receivables*	19,038,432	19,038,432	17,463,043	17,463,043
Employee receivables	3,262,008	3,262,008	3,309,467	3,309,467
	5,260,632,316	5,260,632,316	3,398,348,645	3,398,348,645

At 31 December 2019, the Authority did not have financial liabilities measured at fair value (2018: nil).

31. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value of the Authority's financial assets that are measured at fair value on a recurring basis (continued)

Fair value hierarchy

2019

	Fair value hierarchy as at 31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Government securities	-	15,658,086,768	-	15,658,086,768
Other securities	-	19,407,835	6,533,236,315	6,552,644,150
Equity investments	1,083,624,442	-	37,475,198	1,121,099,640
Loans and advances	-	-	3,704,226,338	3,704,226,338
Bank and cash balances	-	-	869,493,470	869,493,470
Contributions receivables	-	-	664,612,068	664,612,068
Other receivables*	-	-	19,038,432	19,038,432
Employee receivables	-	-	3,262,008	3,262,008
Total	1,083,624,442	15,677,494,603	11,831,343,829	28,592,462,874

	Fair value hierarchy as at 31 December 2018			
2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Government securities	-	12,609,075,153	-	12,609,075,153
Other securities	-	46,687,688	4,972,397,213	5,019,084,901
Equity investments	1,274,926,912	-	37,475,198	1,312,402,110
Loans and advances	-	-	2,911,511,763	2,911,511,763
Bank and cash balances	-	-	229,146,966	229,146,966
Contributions receivables	-	-	236,917,406	236,917,406
Other receivables*	-	-	17,463,043	17,463,043
Employee receivables	-	-	3,309,467	3,309,467
Total	1,274,926,912	12,655,762,841	8,408,221,056	22,338,910,809

32. FINANCIAL RISK MANAGEMENT

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

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

32.1 Market risk

(i) Fair value interest rate risk

The Authority's interest-bearing assets are mostly at fixed rate (fixed term deposits, treasury bills and Government Bonds). Few other assets including Infrastructure Debt instrument and medium-term notes are at rates benchmarked to the yield rates for Government securities. Movements in yield rates for GRZ securities expose the Authority to interest rate risks.

(ii) Equity market prices

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

At 31 December 2019, if the market prices had strengthened by 10%, increase in net assets for the year would have been K108,362,444 higher (2018: K127,492,691) mainly as a result of equity investments.

At 31 December 2019, if the market prices had weakened by 10%, decrease in net assets for the year would have been K108,362,444 lower (2018: K127,492,691) mainly as a result of equity investments.

32.2 Credit risk

Credit risk arises from cash and cash equivalents, corporate bonds and deposits with banks, as well as other receivables. The Board assesses the credit quality of each investment, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by the Board of Trustees.

32 FINANCIAL RISK MANAGEMENT (CONTINUED)

32.2 Credit risk (continued)

The Authority's maximum exposure to credit risk at 31 December 2019 is as follows:

	2019 K	2018 K
Government securities (note 13)	15,658,086,768	12,609,075,153
Fixed term deposits (note 14)	6,533,236,315	4,972,397,213
Equity investments (note 15)	1,121,099,640	1,312,402,110
Other receivables (note 21)	149,805,718	131,506,290
Cash and cash equivalents (note 19)	869,493,470	229,146,966
Other bonds (note 14)	19,407,835	46,687,688
	24,351,129,746	19,301,215,420

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):

	2019 K	2018 K
Debtors due within 30 days	181,439,717	140,291,214
Provision for bad debts	(166,642,411)	(136,784,902)
	14,797,306	3,506,312

32.3 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 flows.

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 reporting date to the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not considered significant.

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32. FINANCIAL RISK MANAGEMENT (CONTINUED)

32.3 Liquidity risk (continued)

At 31 December 2019	Less than 1 year K	Between 1 and 3 years K	Total K
Other payables and accrued expenses	267,567,612	-	267,567,612
Deferred liabilities	3,105,425	1,384,726	4,490,151
	270,673,037	1,384,726	272,057,763
At 31 December 2018			
Other payables and accrued expenses	253,484,982	-	253,484,982
Deferred liabilities	8,278,173	-	8,278,173
	261,763,155	-	261,763,155

33. EVENTS AFTER THE REPORTING DATE

There were no significant events after the reporting date requiring disclosure in or adjustment to the financial statements.

NATIONAL PENSION SCHEME AUTHORITY

APPENDIX I - STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 K	2018 K
Contributions receivable from Members	4,260,318,932	3,473,600,842
Benefit claims and refunds	(422,974,840)	(262,943,223)
Normal retirement pensions	(336,073,825)	(284,500,827)
ZNPF payments	(413,795,786)	(312,160,017)
	3,087,474,481	2,613,996,775
Investment operations:		
Investment revenue		
- Interest on Government bonds	2,766,231,712	2,282,046,749
- Interest on treasury bills	332,105,389	199,658,188
- Interest on term deposits	1,038,040,307	541,520,478
- Infrastructure loans	483,889,611	386,977,334
- SHDCL loans	299,275,880	180,514,181
- Rental income	45,175,791	54,634,061
- Dividend income	29,129,738	53,362,167
- Other investments	31,430,610	32,068,778
Handling fees	(17,954,890)	(31,836,394)
Revaluation of equity	(191,302,471)	(266,960,769)
Surplus on revaluation of investments properties	3,490,894	(3,857,245)
Surplus on revaluation of financial assets	(123,866,142)	(1,908,566,543)
Impairment on loan and advances	(322,087,660)	(531,765,633)
Impairment on stocks and bonds	1,100,000	(1,900,000)
Impairment loss on fixed term deposits	(6,293,955)	(18,718,413)
Impairment housing inventory	(3,122,536)	(29,878,580)
Doubtful debts provision	(29,857,509)	(3,920,897)
	4,335,384,769	933,377,462
Other operating income:		
- Exchange (losses)/gains	(633,209)	1,156,000
- (Loss)/gain on disposal of plant and equipment	(1,275,659)	(8,301)
	(1,908,868)	1,147,699
Management expenses:		
- Employee benefit expenses	300,361,655	(288,511,230)
- Administration expenses	(182,259,605)	(143,688,141)
- Pension cost	(20,056,936)	(18,003,795)
- Depreciation	(87,243,811)	(20,229,903)
	(589,922,007)	(470,433,069)
Surplus of income over expenditure before finance costs and taxation	6,831,028,375	3,078,088,867
	6,831,028,375	3,078,088,867
Surplus of income over expenditure/ for year before taxation	6,831,028,375	3,078,088,867
Income tax expense	(384,553,212)	(227,495,052)
Surplus of income over expenditure after tax	6,446,475,163	2,850,593,815

NATIONAL PENSION SCHEME AUTHORITY

APPENDIX II - STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED 31 DECEMBER 2019

ASSETS	2019 K	2018 K
Bank and cash balances	869,493,470	229,146,966
Government and other securities	23,331,830,558	18,940,562,164
Loans and advances	3,704,226,338	2,911,511,763
Employee receivables	3,262,008	3,309,467
Members' contributions receivables	664,612,068	236,917,406
Other receivables	149,805,718	131,506,290
Inventory	1,568,909	1,322,079
Inventory investments	157,799,941	218,924,145
Investment properties	3,063,930,410	2,764,727,008
Property, plant and equipment	129,847,878	156,495,882
TOTAL ASSETS	32,076,377,298	25,594,423,170
LIABILITIES		
Other payables and accruals	267,567,612	253,484,982
Claims payable	7,286,600	7,286,600
Deferred liabilities	4,490,151	8,278,173
Current tax liabilities	101,241,991	76,057,634
	380,586,354	345,107,389
ACCUMULATED FUNDS		
Accumulated funds	31,695,790,944	25,249,315,781
Total liabilities and accumulated funds	32,076,377,298	25,594,423,170