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THE REPUBLIC OF UGANDA

OFFICE OF
THE AUDITOR GENERAL
P.O. BOX 7083
KAMPALA

VISION: "To be an effective and efficient Supreme Audit Institution (SAI) in promoting effective public Accountability."

MISSION: "To Audit and report to Parliament and thereby make an effective contribution to improving public accountability and Value for Money spent."

IN ANY CORRESPONDENCE ON:

THIS SUBJECT PLEASE QUOTE NO: **DCG.345/360/01**

29th October, 2014

The Accounting Officer
National Social Security Fund (NSSF)
Kampala

NATIONAL SOCIAL SECURITY FUND (NSSF)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2014

I am enclosing herewith a report which I have already sent to the Rt. Hon. Speaker of Parliament in accordance with Article 163 (4) of the Constitution of Uganda 1995 (as amended).

A handwritten signature in blue ink, appearing to read 'John F. S. Muwanga'.

John F. S. Muwanga
AUDITOR GENERAL

- c.c. The Inspector General of Government
- " The Hon. Minister of Ethics and Integrity
- " The Hon. Minister of State for Finance, Privatization Unit
- " The Permanent Secretary/Secretary to the Treasury
Ministry of Finance, Planning & Economic Development
- " The Chairman, National Social Security Fund
- " The Finance Manager, National Social Security Fund
- " The Librarian, Makerere University
- " M/s Ernst & Young, Certified Public Accountants

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

NATIONAL SOCIAL SECURITY FUND (NSSF)

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2014 TOGETHER
WITH THE REPORT AND OPINION THEREON BY THE AUDITOR GENERAL**

OFFICE OF THE AUDITOR GENERAL

UGANDA

**NATIONAL SOCIAL SECURITY FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

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**NATIONAL SOCIAL SECURITY FUND
FUND INFORMATION
FOR THE YEAR ENDED 30 JUNE 2014**

DIRECTORS

Mr. Ivan Kyayonka	Chairman
Mr. Richard Bigirwa	Member
Mr. Christopher M. Kassami (Resigned on 30/11/13)	Member
Mrs. Christine Guwatudde Kintu (Resigned on 30/08/13)	Member
Mr. Pius Bigirimana (Appointed on 05/09/13)	Member
Mr. Christopher Kahirita	Member
Mrs. Agnes Kunihira	Member
Mr. Henry Mukasa	Member
Mr. Musa Okello	Member
Mrs. Sarah Walusimbi	Member
Mr. Patrick Ocailap (Appointed on 11/12/13)	Member
Mr. Richard Byarugaba (Resigned on 31/12/13)	Managing Director.
Mrs. Geraldine Ssali Busuulwa	Acting Managing Director

HEAD OFFICE

14th Floor, Workers House
Plot No. 1, Pilkington Road
P.O. Box 7140
Kampala

AUDITOR

The Auditor General
Office of the Auditor General
Finance Building, Apollo Kaggwa Road
P.O. Box 7083
Kampala

DELEGATED AUDITORS

Ernst & Young
Certified Public Accountants
18 Clement Hill Road
Shimoni Office Village
P.O. Box 7215
Kampala

**NATIONAL SOCIAL SECURITY FUND
FUND INFORMATION (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2014**

BANKERS

Standard Chartered Bank Uganda Limited
Speke Road
P.O. Box 7111
Kampala

Citibank Uganda Limited
Centre Court, Plot 4 Ternan Avenue
Nakasero
P.O. Box 7505
Kampala

Stanbic Bank Uganda Limited
17 Hannington Road
P.O. Box 7131
Kampala

Bank of Baroda Uganda Limited
18 Kampala Road
P.O. Box 7197
Kampala

Housing Finance Bank Limited
25 Kampala Road
P.O. Box 1539
Kampala

Barclays Bank of Uganda Limited
Plot 2A & 4A Nakasero Road
P.O. Box 7101
Kampala

Tropical Bank Limited
Plot 27 Kampala Road
P.O. Box 9485
Kampala

Crane Bank Limited
Plot 38 Kampala Road
P.O. Box 22572
Kampala

ADVOCATES

Birungyi, Barata & Associates
Plot 3, Portal Avenue
First Floor Suite B1.6
P.O. Box 22971
Kampala

Kiwanuka & Karugire Advocates
Plot 5A2 Acacia Avenue
P. O. Box 6061
Kampala

Muhimbura & Co. Advocates
Jumbo Plaza
Plot 2, Parliament Avenue
P.O. Box 22971
Kampala

Kasirye, Byaruhanga & Co. Advocates
Plot 33 Clement Avenue
P.O. Box 10946
Kampala

GP Advocates
(Formerly Omunyokol & Co. Advocates)
Colline House, 3rd Floor
Plot4, Pilkington Road
P.O.Box 6737
Kampala

Ligormac Advocates
5th Floor Western Wing,
Social Security House
P.O. Box 8230
Kampala

**NATIONAL SOCIAL SECURITY FUND
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2014**

The directors submit their report together with the audited financial statements for the year ended 30 June 2014 which disclose the state of affairs of the National Social Security Fund ('the Fund'), in accordance with section 32 (Cap. 222) of the National Social Security Fund Act ('NSSF Act').

1. Principal activities

The principal activity of the Fund is to collect contributions from members and invest in a professional manner to earn a good return to meet the benefit obligations to its members. The Fund is financed by the employees' and employers' contributions. The total contribution is 15% of the employees' gross salary, of which 10% is paid by the employer and 5% is paid by the employee.

2. Results from operations

The results of the Fund for the year ended 30 June 2014 are set out on page 7.

3. Interest to members

Interest is computed based on the opening balances of the members' funds less benefit paid during the year. The rate paid during the year ended 30 June 2014 was 11.5% (2013: 11.23%).

4. Reserves and accumulated members' fund

The reserves of the Fund and the accumulated members' fund are set out on page 9.

5. Unallocated members' funds

These are collections received from employers that have not yet been allocated to individual member accounts due to missing details of the members. Management has put in place mechanisms to continuously follow up the missing details from employers in order to update the individual member accounts.

6. Directors

The directors who held office during the year and to the date of this report are set out on page 1.

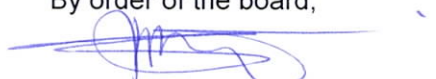
7. Auditors

In accordance with Section 32 (2) of the NSSF Act (Cap 222) Laws of Uganda, the financial statements shall be audited once every year by the Auditor General or an auditor appointed by him to act on his behalf. For the year ended 30 June 2014, M/s Ernst & Young Certified Public Accountants were appointed to act on behalf of the Auditor General.

8. Approval of the financial statements

The financial statements were approved at the meeting of the directors held on ^{22nd September} 2014.

By order of the board,


Mark Obia
Acting Corporation Secretary

**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2014**


The National Social Security Fund Act (Cap 222) of Uganda requires the directors of the Fund to prepare financial statements for each financial year, which give a true and fair view of the state of financial affairs of the Fund as at the end of the financial year and its operating results for that year. It also requires the directors to ensure that the Fund keeps proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Fund. They are also responsible for safeguarding the assets of the Fund.

The directors are ultimately responsible for the internal control of the Fund. The directors delegate the responsibility for the internal control to management. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of the Fund's assets. Appropriate accounting policies supported by reasonable and prudent judgments and estimates, are applied on a consistent basis and using the going concern basis. These systems and controls include proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

The directors accept responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the National Social Security Fund Act (Cap 222) of Uganda. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the results for the year ended 30 June 2014. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The pension sector is currently undergoing policy reforms as indicated in Note 1 to the financial statements. Despite these policy reforms, nothing has come to the attention of the directors to indicate that the Fund will not remain a going concern for at least twelve months from the date of this statement.

The financial statements were approved by the Board of Directors on 22nd September 2014 and signed on its behalf by:


Mr. Ivan Kyayonka
Chairman

Mrs. Geraldine Ssali Busuulwa
Acting Managing Director



Mrs. Sarah Walusimbi
Director



Mr. Mark Obia
Acting Corporation Secretary



**REPORT AND OPINION OF THE AUDITOR GENERAL ON THE FINANCIAL
STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2014**

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the Financial Statements of National Social Security Fund which comprise the Statement of Financial Position as at 30th June 2014, the Statement of Comprehensive Income, Statement of Changes in Reserves, the Statement of Cash flows for the year then ended, and a summary of significant Accounting Policies and other explanatory information as set out on pages 14 to 80.

Directors' Responsibility for the Financial Statements

The Fund's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Ugandan National Social Security Fund Act (Cap.222), and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility as required by Article 163 of the Constitution of the Republic of Uganda and Sections 13 and 19 of the National Audit Act, 2008 is to audit and express an opinion on these statements based on my audit. I conducted the audit in accordance with International Standards on Auditing. Those standards require that I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatements of financial statements whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Part "A" of this report sets out my opinion on the financial statements. Part "B" which forms an integral part of this report presents in detail all the significant audit findings made during the audit which have been brought to the attention of management.

PART "A"

OPINION

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of National Social Security Fund as at 30th June 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the National Social Security Fund Act (Cap 222).

Emphasis of Matter

Without qualifying my opinion, I draw your attention to Note 35(b) to the Financial Statements.

• Notice of Assessment for Corporation Tax

The Fund received a notice of assessment for Corporation tax from Uganda Revenue Authority amounting to UGX 84.4 billion. The Fund objected to the assessment on grounds that the Tax Authority computations wrongly disallowed expenses that are considered deductible for tax purposes. The Fund has initiated legal proceedings against URA from which a favourable outcome is expected and as such no provision has been made in the Financial Statements.

Report on other Legal Requirements

As required by the Public Finance and Accountability Act and the National Social Security Fund Act, I report to you, based on my audit, that;

- i. Sufficient and appropriate evidence which was necessary for the purposes of the audit was obtained.
- ii. Proper books of account have been kept by the Fund, so far as appears from my examination of those books, and
- iii. The Fund's balance sheet and income statement are in agreement with the books of account.



John F.S. Muwanga
AUDITOR GENERAL

24th October, 2014

PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL

This Section outlines the detailed audit findings, management responses, and my recommendations in respect thereof.

1.0 INTRODUCTION

Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended) requires me to audit and report on the public accounts of Uganda and all public offices including the courts, the central and local government administrations, universities, and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. Accordingly, I appointed M/S Ernst & Young, Certified Public Accountants to carry out the audit on my behalf and report to me to enable me report to Parliament.

2.0 BACKGROUND INFORMATION

National Social Security Fund (the "Fund") is a corporate body domiciled in Uganda. The Fund is primarily involved in collection of contributions and investment of the contributions in a professional manner to earn a good return to meet the benefit obligations to its members as stipulated under the National Social Security Fund (NSSF) Act, (Cap 222).

The Fund is largely financed by the employees' and employers' contributions. The total contribution is 15% of the employees' gross salary, of which 10% is paid by the employer and 5% is paid by the employee.

Government is currently implementing policy reforms whose objective is a liberalized and regulated retirement benefits sector. These reforms have entailed the enactment of the Retirement Benefits Regulatory Authority Act 2011, which came into force in September 2011. The new law establishes the Retirement Benefits Authority (RBA) whose function is to regulate all retirement schemes including NSSF, and grants a grace period of one year within which the Fund must obtain a license from RBA.

3.0 AUDIT SCOPE

The audit was carried out in accordance with International Standards on Auditing and accordingly included a review of the accounting records and agreed procedures as was considered necessary. In conducting my reviews, special attention was paid to establish:

- a. Whether the Fund managers are managing the Fund in accordance with the NSSF Act;
- b. Whether the financial statements present a true and fair view of Fund financial position as at 30th June 2012, and its revenue and expenditure incurred for the period, in conformity with Generally Accepted Accounting Principles;
- c. Whether the Fund has adhered to established financial compliance requirements;
- d. Whether goods and services financed have been procured in accordance with the procurement law;

- e. Whether all necessary supporting documents, records and accounts have been kept in respect of all Fund activities and whether linkages exist between the books of account and the financial statements;
- f. That the Fund's internal control structure for financial reporting and/or safeguarding assets, including controls in computer based systems are suitably designed and implemented to achieve the control objective;
- g. That the internal controls are in compliance with the relevant laws, policies, practices and regulations governing procurements, accounting and human resource;

4.0 PROCEDURES PERFORMED

The following audit procedures were undertaken:-

- a. Revenue/Receipts
Obtained all schedules of receipts and reconciled the amounts to the Fund's cashbooks and bank statements.
- b. Expenditure
Vouched transactions to establish whether documentation in support of expenditure agreed with the amount and description on the vouchers and/or application and bank statements, and was properly controlled and accounted for.
- c. Internal Control System
Reviewed the internal control system and its operations to establish whether sound controls were applied throughout the period.
- d. Procurement
Reviewed the procurement of goods and services under the Fund during the period under review and reconciled with the approved procurement plan.
- e. Fixed Assets Management
Reviewed the use and management of the Fund assets during the period under review.
- f. Financial Statements
Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by management; as well as evaluating the overall financial statement presentation.

5.0 DETAILED FINDINGS

5.1 Notice of Assessment for Corporation Tax

The Fund received a notice of assessment for Corporation tax from Uganda Revenue Authority amounting to UGX 84.4 billion. The Fund objected to the assessment on grounds that the Tax Authority computations wrongly disallowed expenses that are considered deductible for tax purposes. The Fund has initiated legal proceedings against URA from which a favourable outcome is expected and as such no provision has been made in the Financial Statements. I await the outcome of the court proceedings.

5.2 Placement of IT and Risk functions in the Organization Structure

The criticality of Information Technology (IT) and Risk management to the Fund's operations notwithstanding, a review of the newly approved Organizational Structure

revealed that the two functions were placed under the Chief Finance Officer and Head of Internal Audit respectively. In the circumstances, adequate attention may not be given to the proper planning and governance of these functions.

Placing the Risk function under the Internal Audit Function compromises the independence of the Internal Audit Function in monitoring compliance with the Risk management policies and controls.

In their response, Management explained that in view of the changing regulatory environment, the board is reviewing the long term strategy of the fund. The board will then determine the structure that will most appropriately support that strategy.

I have advised management to consider elevating these roles to full functions in the structure.

5.3 Simultaneous Expiry of Senior Management Contracts

A review of personnel records revealed that contracts for all senior management positions were awarded with the same terms and expiring at the same time.

For example, the Fund did not have substantive management for half of the year ended 30 June 2014. Additionally, there was no substantive Managing Director, Deputy Managing Director, Corporation Secretary and Head of Investment. Also noted was a misfit between the tenure of the strategy and that of key management staff. In the circumstances, there is no chance for smooth and proper role change management, thereby exposing the Fund to a leadership gaps that could have a negative impact on the achievement of the fund's objectives.

Management explained that the status quo remained but in view of the changing regulatory environment, the board was reviewing the Fund's long term strategy and then determine the most appropriate contract terms to support the strategy.

I have advised management to consider scheduling the terms of the contracts for senior management positions to end at different times to allow for proper role change management and minimize leadership vacuums. Additionally, management should consider aligning contract tenures to the strategy.

5.4 Property Management

5.4.1 Encroachment on Fund Property

The Expert engaged to value the Fund's property indicated that 0.484 hectares (out of 228.88 hectares) of land at Lubowa with an estimated market value of UGX 487,399,079 was encroached upon.

Also noted was that the valuer was denied access to a residential house that forms part of Plot 5 Mvule close Naguru because the occupant claimed ownership. The estimated market value of the property is UGX.894,674,556. There is a risk of loss of these properties.

Management explained that the Fund was in litigation with parties who had encroached on these properties. I have advised management to ensure that these matters are resolved expeditiously.

5.4.2 Delayed disposal of property

Properties at Plot 47 Masaka, Kampala Road, Plot 87 Churchill Road, Gulu and Plot 8 Masaka Close, Mbarara were approved for disposal by the Board of Directors in 2011 but had not been sold as at 30 June 2014. Also noted was that, there was no documentary proof to the effect that management was actively searching for a buyer of the properties despite the Board resolution to sale the properties. The delay in disposal means that funds that could be used more profitably are tied up in these properties.

In their response, Management explained that the Fund began the process of disposal with the Namirembe land which aroused controversy and the subsequent investigations surrounding the disposal of this land made management halt the process until the issues relating to disposals have been sorted out. The exercise would continue once the disposal process is streamlined.

I have advised management to always ensure timely implementation of Board resolutions.

5.5 Financial Reporting

5.5.1 Equity Securities

All investments that are managed by NSSF Fund managers and are denominated in foreign currencies, including bank balances were not recorded at the closing foreign exchange rates as required under IAS 21. However, the investments were recorded at the fund managers' exchange rates which were significantly different from the NSSF rates. A case in point is where foreign exchange gains on equity investments of UGX.1 billion and UGX.16.6 million on bank balances had not been recorded as at 30th June 2014.

Management explained that they were going to instruct the Fund Managers to provide information in the original currency.

I have advised management to ensure that the investments reported by the fund managers are translated at the same rates applied by NSSF to all balances denominated in foreign currencies.

5.5.2 Rental Income

The Fund invoices tenants occupying its properties in US Dollars. During the year ended 30 June 2014, some tenants paid rent in Uganda Shillings and at the time of receipting, an exchange rate (other than that in the system) was computed to ensure that the amount received in Uganda Shillings would fully net off the US Dollar invoice in the system. There is a risk of loss of income to the Fund.

Management in response acknowledged the anomaly and undertook to amend the policy informing Tenants that all foreign currency transactions will be converted at Fund determined rents. I await management's commitment in this regard.

5.6 Follow-up of Prior Year Audit Recommendations

A review of the status of implementation of prior year audit recommendations revealed that a number of them had been implemented while others had either not been implemented or at different levels of implementation, as shown in the table below:

	Audit Issue	Status of Implementation	Management Comments
1.	Inappropriate foreign exchange rates used for income	Partially implemented.	Currently, only quarterly invoices made are re-booked monthly and not deferred but for quarterly payments received, they are booked in the month of receipt and deferred over the prepaid period. The fund will apply internally determined rates to these transactions. The difference each month would then be applied to the gain/loss account.
2.	Long outstanding uncollected rent	Partially implemented.	Follow up has been made with the Ministry of Finance for payments but not yet concluded.
3.	Unallocated members' contributions in the migration account	Partially Implemented	There will always be a need for migration account. The key control is to monitor and manage the same.
4.	Discrepancies in Lubowa land that require urgent attention	There is legal action that is ongoing.	As noted, there is a legal action that the Fund has taken against the encroachers. On the encroachment by NSSF, a review with the land board showed that the Fund's boundaries are within the proper title of the land.
5.	Dealing with service providers with contributions arrears	Implemented	These matters were resolved due to the unique circumstances related to the two companies. Both are paying arrears.
6.	Inadequate documentation of the compliance audit files	Partially implemented	The Bemuga Forwarders is an old audit executed before the new audit controls were put in place and does not have source documents. Only soft copy payrolls were availed by the employers to execute the audits for Kibibi SS and Najja Mixed Limited. These were posted under the SharePoint folder for the Bakuli Branch
7.	No basis for waiver of special contributions and adjustments made to final assessments	Not implemented	The SBI International was re-audited and a demand note issued to the employer on the 31 st July 2013 in respect of outstanding arrears of UGX.217,870,972 inclusive of accumulated interest. Employer is yet to pay up the audited arrears

			<p>For Speke Group of Companies and the Common Wealth Resort, notification about the planned audit reviews was issued to the employers but they have repeatedly dodged the audit team and are adamant to avail the required source documents for carrying out the re-audits for the period under review.</p> <p>Matter still being pursued and all the concessions earlier made on the statutory special and standard contributions are under reversal through the demand notes and re-audit notifications issued to the indicated employers</p>
8.	No evidence of review of the compliance audit reports and working papers	Implemented	
9.	Unsecured Loan to related party	Management is in the process of restructuring the loan.	
10.	Security deposit not collected from tenants	Implemented	
11.	No limits set for individual phone costs that are chargeable to the Fund	Implemented	
12.	Weakness in the procurement and disposal process	Implemented This was a one off	
13.	Lack of a data classification policy	Implemented	
14.	No detailed risk analysis of employers for compliance audit purposes	Implemented	
15.	No annual plans for compliance audits	Implemented	
16.	No oversight by those charged with governance on the activities of the compliance unit	Implemented The Head of Compliance reports to the Audit and Risk Assurance committee of the Board.	

17.	No policy or formal criteria for assessing employer's penalty waiver requests	Implemented	
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I have advised management to implement the still outstanding audit recommendations so as to ensure enhanced accountability and better stewardship.

NATIONAL SOCIAL SECURITY FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 Ushs'000	2013 Ushs'000 Restated*
Revenue			
Interest income	5	469,728,521	373,847,806
Rental income	6	11,701,610	11,402,665
Dividend income	7	12,898,276	7,974,425
Total revenue		494,328,407	393,224,896
Other income			
Other operating income	8	42,027,939	57,219,215
Fair value gains from equity investments	18	60,319,956	33,725,285
Net interest income		102,347,895	90,944,500
Expenditure			
Administrative expenses	9	(45,873,657)	(43,502,897)
Other operating expenses	10	(17,858,210)	(30,472,438)
Amortisation of intangible assets	26	(1,686,790)	(1,666,223)
Depreciation of property and equipment	27	(1,216,408)	(1,939,966)
Total expenditure		(66,635,065)	(77,581,524)
Share of results from Associates	22	672,716	7,637,357
Surplus from operations		530,713,953	414,225,229
Surplus before tax	11	530,713,953	414,225,229
Income tax expense (withholding tax as final tax)	12(a)	(78,297,276)	(69,616,573)
Surplus for the year		452,416,677	344,608,656
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		-	-
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		-	-
		-	-
Total comprehensive income for the year, net of tax		452,416,677	344,608,656

* Certain amounts here do not correspond to the 2013 financial statements and reflect adjustments made, refer to note 41.

**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014**

	Note	2014 Ushs'000	2013 Ushs'000 Restated*
ASSETS			
Cash and bank balances	13	14,634,466	15,376,672
Deposits with commercial banks	14	682,070,805	731,954,095
Trade and other receivables	16	21,716,377	16,244,417
Equity securities held-for-trading	15	73,318,553	35,313,327
Equity investments at fair value through profit or loss	18	251,274,475	153,851,580
Investments in securities held-to-maturity	17	2,792,735,207	1,990,125,710
Loans and advances	19	41,326,952	45,299,537
Inventories	20	2,910	4,625
Non-current assets held for sale	21	-	256,290
Capital work-in-progress	24	250,241,953	235,676,401
Investment properties	25	193,710,608	169,905,326
Intangible assets	26	7,312,122	8,414,853
Property and equipment	27	4,356,884	4,026,153
Investments in associates	22	71,495,208	73,143,202
Other investments		-	-
TOTAL ASSETS		4,404,196,520	3,479,592,188
LIABILITIES			
Withholding tax payable	28	971,228	1,043,919
Other payables	29	26,108,745	19,125,013
Provisions for litigation	30	9,420,196	9,239,702
		36,500,169	29,408,634
MEMBERS' FUNDS AND RESERVES			
Accumulated members' funds	31	4,147,285,690	3,322,576,227
Reserve account	32	50,149,442	36,829,033
Accumulated surplus		170,261,219	90,778,294
		4,367,696,351	3,450,183,554
TOTAL MEMBERS' FUNDS, RESERVES AND LIABILITIES		4,404,196,520	3,479,592,188

* Certain amounts here do not correspond to the 2013 financial statements and reflect adjustments made, refer to note 41.

The financial statements were approved for issue by the Board of Directors on 22nd September 2014 and signed on its behalf by:

Mr. Ivan Kyayonka
Chairman:

Mrs. Sarah Walusimbi
Director:

Mrs. Geraldine Ssali Busuulwa
Acting Managing Director:

Mr. Mark Obia
Acting Corporation Secretary:

NATIONAL SOCIAL SECURITY FUND
STATEMENT OF CHANGES IN MEMBERS' FUND AND RESERVES
FOR THE YEAR ENDED 30 JUNE 2014

	Reserve Account	Accumulated	Accumulated	Total
	Ushs 000	Members' Fund	Surplus	
	Ushs 000	Ushs 000	Ushs 000	
At 1 July 2012	34,328,993	2,621,222,866	27,566,881	2,683,118,740
Surplus for the year (restated)	-	-	344,608,656	344,608,656
Special contributions (Note 32 (a))	2,500,040	-	-	2,500,040
Members' contributions received (Note 31)	-	552,683,614	-	552,683,614
Benefits paid to members (Note 31)	-	(140,051,845)	-	(140,051,845)
Interest recovered on arrears (Note 31)	-	7,324,349	-	7,324,349
Interest paid to members (Note 31)	-	281,397,243	(281,397,243)	-
At 30 June 2013 (restated)	<u>36,829,033</u>	<u>3,322,576,227</u>	<u>90,778,294</u>	<u>3,450,183,554</u>
At 1 July 2013	36,829,033	3,322,576,227	90,778,294	3,450,183,554
Surplus for the year	-	-	452,416,677	452,416,677
Special contributions (Note 32 (a))	6,229,507	-	-	6,229,507
Transfer of fines and penalties received (Note 32 (a))	7,090,902	-	(7,090,902)	-
Members' contributions received (Note 31)	-	622,353,746	-	622,353,746
Benefits paid to members (Note 31)	-	(165,926,552)	-	(165,926,552)
Interest recovered on arrears (Note 31)	-	2,439,419	-	2,439,419
Interest paid to members (Note 31)	-	365,842,850	(365,842,850)	-
At 30 June 2014	<u>50,149,442</u>	<u>4,147,285,690</u>	<u>170,261,219</u>	<u>4,367,696,351</u>

NATIONAL SOCIAL SECURITY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 Ushs '000	2013 Ushs '000
Net cash used in operating activities	33	<u>(463,918,969)</u>	<u>(423,233,611)</u>
Investing activities			
Purchase of property and equipment	27	(1,294,263)	(1,530,207)
Purchase of intangible asset	26	(518,982)	(12,266)
Proceeds from disposal of property and equipment		<u>349,600</u>	<u>650,000</u>
Net cash flows used in investing activities		<u>(1,463,645)</u>	<u>(892,473)</u>
Financing activities			
Benefits paid out to members	31	(165,926,552)	(140,051,845)
Contributions received from members	31	622,353,746	552,683,614
Interest recovered on arrears	31	2,439,419	7,324,349
Special contributions	32	<u>6,229,507</u>	<u>2,500,040</u>
Net cash flows from financing activities		<u>465,096,120</u>	<u>422,456,158</u>
Decrease in cash and cash equivalents		(286,494)	(1,669,926)
Unrealised exchange loss on bank balances		(455,713)	(367,413)
Cash and cash equivalents at 1 July		<u>15,376,672</u>	<u>17,414,010</u>
Cash and cash equivalents at 30 June	13	<u>14,634,466</u>	<u>15,376,672</u>

NATIONAL SOCIAL SECURITY FUND NOTES TO THE FINANCIAL STATEMENTS

1. FUND INFORMATION

National Social Security Fund (the "Fund") is a corporate body domiciled in Uganda. The Fund is primarily involved in collection of contributions and investment of the contributions in a professional manner to earn a good return to meet the benefit obligations to its members as stipulated under the National Social Security Fund (NSSF) Act (Cap 222).

The Fund is a defined contribution scheme which covers all employees in the private sector, with a total contribution of 15% of the employees' gross salary (employer contribution 10%, employee contribution 5%).

During the year to 30 June 2014, 12,898 beneficiaries were paid (2013: 11,707).

According to the NSSF Act (Cap. 19), the benefits paid out of the Fund are:

- Age Benefit - payable to a member who has reached the retirement age of 55 years;
- Withdrawal Benefit - payable to a member who has attained the age of 50 years, and is out of regular employment for one year;
- Invalidity benefit - payable to a member who because of illness or any occurrence develops incapacity to engage in gainful employment;
- Survivors Benefit – Payable to the dependant survivor(s) in the unfortunate event of member's death; and
- Emigration Grant – Payable to a member (Ugandan or Expatriate) who is leaving the country for good. Such a member must have been contributing for a minimum of four financial years; else will have to forfeit the 10% employer contribution.

Government is currently implementing policy reforms whose objective is a liberalised and regulated retirement benefits sector. These reforms have entailed the enactment of the Retirement Benefits Regulatory Authority Act 2011, which came into force in September 2011. The new law established a Retirement Benefits Authority [RBA] whose function is to regulate all retirement schemes including NSSF. Like all other schemes, the Fund has an operating license, which has since been renewed until June 2015.

Government also tabled the Retirement Benefits Sector Liberalisation Bill 2011 before Parliament. The objective of the bill is, among others, to repeal the National Social Security Fund Act. There is ongoing debate in parliament including provisions to amend (not repeal) the NSSF Act, and to permit NSSF continue as a National scheme receiving a substantial portion of the mandatory contribution.

The Fund is also listed in Class 1 of the Public Enterprises Reform and Divestiture Act as an entity in which the Government of Uganda (GoU) shall retain 100% control and/or ownership. Consequently, management's expectation is that government will do all it can to ensure that the Fund continues to exist in the new liberalised and regulated framework.

The Board of Directors assessed the implications of the above developments and determined that they do not have an effect on the Fund's going concern in the foreseeable future.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

2. BASIS OF PREPARATION

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and the requirements of the Ugandan National Social Security Act (Cap 222).

The financial statements have been prepared on a historical cost basis except for some financial assets (equity investments held-for-trading or designated at fair value through profit or loss), and investment properties that have been measured at fair value. The financial statements are presented in Uganda Shillings (Ushs), which is the Fund's functional currency, and all values are rounded off to the nearest thousand (Ushs 000), except when otherwise indicated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies set out below have been applied consistently to all periods presented in the financial statements.

(a) Investment in Associates

The Fund's investments in its associates are accounted for using the equity method. An associate is an entity in which the Fund has significant influence but not control over the financial and operating policies. Significant influence is presumed to exist when the Fund holds 20 to 50 percent of the voting power of another entity and when the Fund is represented on the Board of the Investee Company for holdings below 20 percent. Under the equity method, the investment in the associates is carried in the statement of financial position at cost plus post acquisition changes in the Fund's share of net assets of the associate.

The statement of comprehensive income reflects the share of the results of operations of the associate. The share of the results of an associate is shown on the face of the statement of comprehensive income. These are the results attributable to equity holders of the associate and therefore the results after tax and non-controlling interests in the subsidiaries of the associate. Where necessary, adjustments are made to bring the accounting policies of the associates in line with those of the Fund.

(b) Foreign currencies

Transactions in foreign currencies during the year are converted into Uganda Shillings at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Uganda Shillings at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Uganda Shillings at the date when the fair value was determined. Foreign currency gains and losses arising from translation are recognised in the statement of comprehensive income.

(c) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognised:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

(i) Interest income

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

(ii) Dividends

Dividend income is recognised when the right to receive dividends is established.

(iii) Rental income

Rental income from investment properties is recognized in the statement of comprehensive on the straight line basis over the term of the lease.

(iv) Other income

Other income comprises gains less losses related to trading assets and liabilities, and includes gains from disposal of Fund assets and all realised and unrealised foreign exchange differences.

(d) Financial instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Fund determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Fund's financial assets include cash and cash equivalents, trade and other receivables, loans and advances, deposits with commercial banks, investments in government and corporate bonds and equity investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in surplus or deficit.

Financial assets held for trading

Financial assets held for trading include securities held for trading which are equity investments by fund managers. Financial assets held for trading are carried in the statement of financial position at fair value with changes in fair value recognised in surplus or deficit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the statement of comprehensive income. The losses arising from impairment are recognised in impairment losses in the statement of comprehensive income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Fund has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the statement of comprehensive income.

Other receivables

Other receivables are carried at amortised cost which approximates the original invoice amount less provision made for impairment losses. An allowance for impairment of other receivables is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a fund of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

ii) Impairment of financial assets

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in surplus or deficit. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings measured at amortised cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Fund determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value, plus, in the case of loans and borrowings, directly attributable transaction costs.

The Fund's financial liabilities include trade and other payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Trade payables

Trade payables include trade payables and are subsequently measured at amortised cost. Gains and losses on derecognition and amortisation are recognised in surplus or deficit.

Other accounts payable

Other accounts payable are carried at amortised cost, which approximates the consideration to be paid in the future for goods and services received.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

(e) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(f) Fair value of financial instruments

The Fund measures financial instruments such as financial assets, and non-financial assets such as investment properties, at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions- Notes 4.
- Quantitative disclosures of fair value measurement hierarchy- Note 38

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Fair value of financial instruments (continued)

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

- Financial instruments (including those carried at amortised cost)-Note 15,17,18,19, 29

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction of transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

(g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of replacing part of an item of property and equipment is recognized in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Fund and its cost can be measured reliably. The carrying value of the replaced part is de-recognised. The cost of day to day servicing of the property and equipment is recognized in surplus or deficit as incurred.

Depreciation is recognized in surplus or deficit and calculated to write off the cost of the property and equipment on a straight line basis over the expected useful lives of the assets concerned. Land is not depreciated.

The estimated depreciation rates for the current and comparative periods are as follows: -

	Percentage
Machinery	20 %
Motor vehicles	20 %
Furniture and equipment	12.5 %
Computer equipment	25%

Management and directors review the depreciation methods, residual value and useful life of an asset at the year end and any change considered to be appropriate is recorded in surplus or deficit as a change in estimates.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying value of property and equipment and recognized net within other income in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

(h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset. There are no intangible assets with indefinite useful lives.

Intangible assets are amortised at a rate of 10%.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

(i) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in surplus or deficit in the period in which they arise.

Fair values are evaluated every after two years by an accredited external, independent valuer.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in surplus or deficit in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. When the use of property changes from owner occupied to investment property, the property is re-measured at fair value and reclassified as investment property. Any gain arising on revaluation is recognized through other comprehensive income. Any loss arising on revaluation is recognized through the surplus or deficit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

(j) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on first-in-first out principle and includes the expenditure incurred in acquiring the inventory, and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses or the replacement cost as appropriate.

(k) Impairment of non-financial assets

The carrying amounts of the Fund's non-financial assets other than investment properties, and inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If such condition exists, the asset's recoverable amount is estimated and an impairment loss recognised in surplus or deficit whenever the carrying amount of an asset exceeds its recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount that would have been determined net of depreciation or amortization if no impairment loss was recognized.

(l) Employee benefits

(i) Gratuity

The Fund's terms and conditions of employment provide for gratuity to qualifying employees equivalent to 20% of the monthly salary per year of service to the organisation. This employment benefit is accrued on a monthly basis and paid annually in arrears. The provision in the financial statements takes account of service rendered by employees up to the statement of financial position date and is based on the calculated staff benefits payable.

(ii) Staff provident fund

The Fund operates a defined contribution plan for all qualifying employees. The contribution payable to the plan is in proportion to the services rendered to the Fund by the employees and is recorded as an expense under 'staff costs'. Unpaid contributions are recorded as a liability. The Fund also contributes to the plan on behalf of the employees. The Fund's Contributions are charged to the income statement in the year to which they relate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

(m) Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where the Fund expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain

(n) Income tax

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised through other comprehensive income or equity, in which case it is recognised through other comprehensive income or equity.

Current tax is provided for on the surplus for the year adjusted in accordance with the Ugandan Income Tax Act. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided for using the liability method, for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. In respect of temporary differences associated with investments in subsidiaries and associates, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax is recognized as an expense/(income), except to the extent that the tax arises from a transaction which is recognized directly in other comprehensive income or equity. In this case the tax is also recognized in other comprehensive income or equity.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) **Income tax (continued)**

Revenue, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or rendering of services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of accounts receivables or account payables in the statement of financial position.

(p) **Cash and cash equivalents**

Cash and cash equivalents are measured at amortised cost subsequent to initial recognition. For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the reporting date and include cash and bank balances.

(q) **Capital work-in-progress**

The ongoing construction/installation of capital projects are recorded at the cost to date or valuation and are only transferred into the relevant assets categories once completed and commissioned. No depreciation is computed on capital work-in-progress as these assets are not yet available for use. However, an expected impairment loss on capital work-in-progress is recognized immediately in surplus or deficit.

(r) **Members' funds**

(i) *Contributions from members*

Contributions from employees remitted by the employers are recognized on a cash basis. Contributions due but not yet received at the end of the financial year are not accrued but accounted for and recognized in subsequent years when received.

(ii) *Benefit payments to members*

Benefits to members are accounted for on a cash basis. Benefit payments made but not collected by members are written back in the cash book and no liability thereof recognized in the financial statements.

(iii) *Interest payments to members*

Interest payable on members' accumulated contributions is calculated based on the opening accumulated contributions (standard contribution plus interest) less benefits paid during the year. The effective interest rate used to compute interest accrued to members is approved by the Minister of Finance, Planning & Economic Development in accordance with Section 35 (1) and (2) of the National Social Security Fund Act.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Reserve account

The reserve account is credited with contributions that cannot be allocated to members, special contributions by non-eligible employees and amounts recovered in form of fines and penalties from employers that fail to remit members funds as stipulated in the National Social Security Fund Act. The special contributions are credited directly to the reserve account while the fines and penalties are recognised through the statement of comprehensive income and then appropriated from the accumulated surplus/deficit to the reserve account. Transfers from the reserve account require the approval of the Minister of Finance in accordance with the NSSF Act.

(t) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for fair value disclosures. Changes resulting from the following new or revised standards and interpretations, amendments to existing standards and interpretations and improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the Fund except for some additional disclosure requirements under IFRS 13 *Fair Value Measurements* and the changes arising from amendments to IAS 1.

IFRS 13 was effective 1 January 2013 and provides guidance on how to measure fair value of financial and non-financial assets and liabilities when fair value measurement is required or permitted by IFRS. Financial and non-financial assets that require fair value measurement have been measured using IFRS 13 guidance. IFRS 13 had no impact on the Fund's financial position or performance as the Fund did not need to change the valuation techniques used for determining the fair value of its assets measured at fair value. However, the additional disclosure requirements regarding fair value disclosures had an impact on the financial statements and have been implemented.

Standards and interpretations issued or revised and effective for the current reporting period

Standard	Subject	Effective date
IFRS 7	Disclosures - offsetting financial assets and financial liabilities	1 January 2013
IAS 27	Separate Financial Statements	
IAS 28	Investments in Associates and Joint Ventures	
IFRS 10	Consolidated Financial Statements	
IFRS 11	Joint Arrangements	
IFRS 12	Disclosures of Interests in Other Entities	
IAS 19	Employee Benefits	
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	
IFRS 1	First-time Adoption of International Financial Reporting Standards	

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Changes in accounting policies and disclosures (continued)

Standards amended and effective for the current reporting period

Standard	Subject	Effective date
IFRS 10	Transition guidance Amendments	1 January 2013
IFRS 10	Investment entities final amendment – exception to consolidation	
IFRS11 and IFRS 12	Transition guidance Amendments	
IFRS 11	Interests in joint ventures and joint operations	

Improvement projects

Standard	Effective Date
IFRS 1 - First-time Adoption of International Financial Reporting Standards – repeat application of IFRS 1	Issued in May 2012 and effective 1 January 2013
IFRS 1 - First-time Adoption of International Financial Reporting Standards – borrowing costs	
IAS 1 Presentation of Financial Statements	
IAS 16 Property, Plant and Equipment	
IAS 32 Financial Instruments: Presentation	
IAS 34 Interim Financial Reporting	

As a result of the issue of IFRS 11 *Joint Arrangements*, IAS 28 *Investments in Associates* has been renamed to IAS 28 *Investments in Associates and Joint Ventures*. Joint ventures will be equity accounted in terms of IAS 28 requirements. The Fund does not have joint ventures while investments in associates were already accounted for using the equity method.

IFRS 12 includes all the disclosures that are required relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. An entity is now required to disclose the judgements made to determine whether it controls another entity. The Fund does not currently control other entities.

IFRS 11 and IFRS 12 Transition guidance Amendments: The IASB has amended IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* to provide transition relief, as follows:

-To limit the requirement to provide adjusted comparative information to the immediately preceding period only. Nevertheless, this information may be provided for earlier periods if the entity so chooses. If earlier comparative information is not restated, this should be made clear on the face of the financial statements.

-For the first year that IFRS 12 is applied, the requirement to present comparative information for the disclosures related to unconsolidated structured entities is removed. The Fund has no unconsolidated structured entities.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Changes in accounting policies and disclosures (continued)

IAS 1 Presentation of Financial Statements: The amendment clarifies that:

- Comparative information in respect of the previous period (the required comparative information) forms part of a complete set of financial statements
- The required comparative information includes comparatives for all amounts presented in the current period
- An entity may present additional comparative information for periods before the required comparative period, as long as it is prepared in accordance with IFRS. All accompanying notes and disclosures must be provided.
- The opening financial position should be presented as of the beginning of the required comparative period, if the effect of a prior year restatement is material.
- Relief is provided in that no “related notes” need accompany that opening statement of financial position.

Disclosures required by IAS 8.41-44 about the prior year restatement must however be provided.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Fund’s financial statements are described below.

Standards and interpretations that the Fund reasonably expects not to be applicable at a future date

Issued or revised standards and interpretations

- IFRS 15: Revenue from Contracts with Customers (Effective 1 January 2016)
- IFRS 14: Regulatory Deferral Accounts (Effective 1 January 2016)
- IAS 16 and IAS 41: Accounting for bearer plants (Effective 1 January 2016)
- IFRIC 21: Levies (Effective 1 January 2014)

Amended accounting standards

- IAS 19: Defined Benefit Plans: Employee Contributions (Effective 1 July 2014)
- IAS 39: Novation of Derivatives and Continuation of Hedge Accounting (Effective 1 January 2014)
- IAS 19: Defined Benefit Plans: Employee Contributions (Effective 1 July 2014)

Improvement projects

- IFRS 2 – Share-based Payment (Effective 1 July 2014)
- IFRS 3 – Business Combinations (Effective 1 July 2014)
- IFRS 3 – Business Combinations (Effective 1 July 2014)
- IAS 16 – Property, plant and equipment and IAS 38 Intangible Assets (Effective 1 July 2014)
- IFRS 8 – Operating Segments (Effective 1 July 2014)

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

Standards and interpretations that the Fund reasonably expects to be applicable at a future date

The description below includes standards and interpretations issued, which the Fund reasonably expects to be applicable at a future date. The Fund intends to adopt those standards when they become effective. The Fund expects that adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the Fund's financial position or performance in the period of initial application but additional disclosures will be required. The Fund is still assessing the possible impact.

Standard	Subject	Effective date	Date issued	Effect
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	May 2014	The IASB issued amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> prohibiting the use of revenue-based depreciation methods for fixed assets and limiting the use of revenue-based amortisation methods for intangible assets. The amendments are effective prospectively.
IFRS 9	Financial instruments	1 January 2018	November 2009	IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities, as well as hedge accounting. IFRS 9 does not yet have a mandatory effective date, but early adoption is allowed. A mandatory effective date will be set when the IASB completes the impairment phase of the project. At its February 2014 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after 1 January 2018.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

Standards and interpretations that the Fund reasonably expects to be applicable at a future date (continued)

Standard	Subject	Effective date	Effect
Amended IAS 32	Accounting standards Offsetting Financial Assets and Financial Liabilities	1 January 2014	The IASB issued an amendment to clarify the meaning of "currently has a legally enforceable right to set off the recognised amounts" (IAS 32.42(a)). This means that the right of set-off: <ul style="list-style-type: none"> • must not be contingent on a future event; and • must be legally enforceable in all of the following circumstances: <ul style="list-style-type: none"> ○ the normal course of business; ○ the event of default; and ○ the event of insolvency or bankruptcy of the entity and all of the counterparties.
IAS 36	Disclosure requirements for the recoverable amount of impaired assets	1 January 2014	The IASB has issued amendments to IAS 36 - <i>Impairment of Assets</i> , to clarify the disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments clarify the IASB's original intention: that the scope of these disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.
Improvement projects			
IAS 24 –	Related Parties	1 July 2014	The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.
IFRS 13 –	Fair Value Measurement	1 July 2014	Scope paragraph 52 (portfolio exception) - The portfolio exception in IFRS 13 can be applied to financial assets, financial liabilities and other contracts.
IAS 40 –	Investment Property	1 July 2014	The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. DETERMINATION OF FAIR VALUE

The fair value of both financial/non-financial assets and fair values have been determined for measurement and/or disclosure purposes based on the methods below.

(i) *Investment properties*

The Fund uses an external independent valuation company with recognized professional qualification experience and values the Fund's investment properties after every two years (previously on an annual basis). The fair values are based on the market conditions being the price that would be received to sell an asset in an orderly transaction between market participants on the measurement date. In the absence of an active price in an active market, the values are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. The yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

(ii) *Investment in debt and equity securities*

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available for sale is determined by reference to their quoted bid price at the reporting date. The fair value-of-held to maturity investments is determined for disclosure purposes only.

(iii) *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of trade and other receivables is determined at initial recognition and for disclosure purposes only.

5. INTEREST INCOME

	2014	2013
	Ushs 000	Ushs 000
Interest income on short term deposits with banks	107,982,217	118,284,715
Interest income on government bonds: held-to-maturity	338,784,799	239,535,558
Interest income on call deposits made by fund managers	46,804	17,233
Interest income on corporate bonds: held-to-maturity	14,460,542	7,707,376
Interest income on loans measured at amortized cost	<u>8,454,159</u>	<u>8,302,924</u>
	<u>469,728,521</u>	<u>373,847,806</u>

6. RENTAL INCOME

Workers House	6,031,647	5,955,584
Social Security House	2,251,584	2,097,564
Service charge	<u>3,418,379</u>	<u>3,349,517</u>
	<u>11,701,610</u>	<u>11,402,665</u>

This relates to rental income earned from investment properties (refer to Note 25) owned by the Fund, and rented out to tenants for commercial purposes. Tenants are charged rental fees based on the square metres occupied at agreed rental charges as specified in the tenancy agreements.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

7. DIVIDEND INCOME

	2014	2013
	Ushs 000	Ushs 000
Stanbic Bank Uganda Limited	1,600,732	1,308,717
Bank of Baroda (Uganda) Limited	131,675	99,913
New Vision Printing and Publishing Company Limited	525,000	525,000
DFCU Limited	525,912	546,996
Safaricom Kenya Public Limited Company	3,361,017	2,376,547
Umeme Limited	4,946,725	1,975,841
Equity Bank Kenya Limited	90,771	-
Kenya Commercial Bank (KCB)	52,237	-
Other dividend income earned from Fund Managers	<u>1,664,207</u>	<u>1,141,411</u>
	<u>12,898,276</u>	<u>7,974,425</u>

8. OTHER OPERATING INCOME

Gain/(loss) on disposal of property and equipment	346,186	(56,170)
Clearance fees	11,075	10,412
Miscellaneous income	375,900	1,054,610
Fair value gain on equity investments held for trading	11,679,788	7,856,720
Gain on disposal of equity investments held for trading	111,437	927,354
Accruals for legal and related costs no longer required	448,539	4,907,690
Litigation provisions no longer required	-	41,590,470
Notional income on staff loan	70,001	-
Fines and penalties from defaulting employers (note 32)	7,090,902	-
Fair value gain on investment property	19,197,330	-
Foreign exchange gains	<u>2,696,781</u>	<u>928,130</u>
	<u>42,027,939</u>	<u>57,219,215</u>

Miscellaneous income is majorly made up of fees from sale of bid documents and insurance claims.

9. ADMINISTRATIVE EXPENSES

Staff costs (Note 9a)	29,559,137	28,951,693
Staff medical insurance	855,426	839,623
General staff and training expenses	1,588,925	1,130,788
Advertising and promotion	3,564,482	3,024,555
Auditors' remuneration	171,080	140,400
Bank charges and commission	140,947	8,216
Board expenses	376,125	234,056
Cleaning expenses	254,798	232,435
IT connectivity and internet	513,459	584,221
Directors' allowances	391,500	394,803
Professional fees	1,224,703	490,518
Legal fees	1,573,432	3,700,884
Motor vehicle fuel costs, maintenance & repairs	795,753	628,281
Printing and stationery	492,798	454,814
Subscriptions	218,716	245,200
Telephone, fax, telex and post	427,196	428,079
Travel and subsistence costs	1,844,035	1,504,111
Commission and brokerage fees	580,990	231,357
Uganda Retirement Benefits Regulatory Authority annual levy	1,150,000	237,500
Other administrative expenses	<u>150,155</u>	<u>41,363</u>
	<u>45,873,657</u>	<u>43,502,897</u>

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. ADMINISTRATIVE EXPENSES (CONTINUED)

	2014	2013
	Ushs 000	Ushs 000
a) Staff costs		
Leave pay	399,137	351,232
Overtime expenses	51,723	23,465
Salaries and wages	24,155,480	23,675,535
Social security contributions	2,632,265	2,574,414
Contributions to the staff provident fund	1,808,688	1,797,097
Gratuity	<u>511,844</u>	<u>529,950</u>
	<u>29,559,137</u>	<u>28,951,693</u>

10. OTHER OPERATING EXPENSES

	2014	2013
	Ushs 000	Ushs 000
Rent and rates	3,769,936	3,820,215
Electricity and water	1,665,337	1,350,322
Repairs and maintenance	6,589,616	6,226,313
Insurance	893,266	812,173
Security expenses	637,398	589,576
Research and library expenses	163,318	132,855
Provision for bad debts	<u>4,139,339</u>	<u>17,540,984</u>
	<u>17,858,210</u>	<u>30,472,438</u>
a) Provision for bad debts		
Uganda Clays Limited (Note 19)	2,884,367	15,219,768
Rent receivable (Note 16)	<u>1,254,972</u>	<u>2,321,216</u>
	<u>4,139,339</u>	<u>17,540,984</u>

11. SURPLUS BEFORE TAX

Surplus before tax is arrived at after charging/(crediting):

	2014	2013
	Ushs 000	Ushs 000
Amortisation of intangible assets (Note 26)	1,686,790	1,666,223
Depreciation of property and equipment (Note 27)	1,216,409	1,939,965
Gain/(loss) on disposal of property and equipment	346,186	(56,170)
Auditors' remuneration	171,080	140,400
Directors' emoluments	391,500	394,803
Unrealised foreign exchange gains/(losses)	4,210,390	(13,489,586)
Provision for bad and doubtful debts	4,139,771	17,540,984
Fair value gains from equity instruments	(60,319,956)	(33,725,285)
Fair value gains on investment property	(19,197,330)	-
Decrease in provision for legal costs	<u>-</u>	<u>(46,498,160)</u>

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. TAX

a) Income tax expense

The income tax expense relates to withholding tax deducted at source from interest on investments in treasury bills and bonds as a final tax. No other income tax is charged because the Fund had accumulated current income tax losses amounting to Ushs 158 billion as at 30 June 2014 (2013: Ushs 94 billion).

The tax on the Fund's surplus after interest to member's funds differs from the theoretical amount that would arise using the basic rate of 30% as follows:

	2014	2013
	Ushs 000	Ushs 000
Surplus before tax	<u>530,713,953</u>	<u>413,847,310</u>
Tax calculated at 30%	159,214,186	124,154,193
Effect of expenses related to income taxed at source	44,151,541	38,396,825
Effect of interest expense transferred to members' funds	(107,843,972)	(84,419,173)
Effect of income taxed at source	(127,487,129)	(96,634,478)
Effect of non- taxable income	(3,274,862)	(2,177,831)
Effect of other non-deductible expenses	98,136	164,577
Deferred tax prior year (over)/under provision	(9,801,951)	10,711,603
Unrecognised deferred tax credit	44,944,050	9,804,284
Unrecoverable withholding tax deducted at source	<u>78,297,276</u>	<u>69,616,573</u>
Statement of comprehensive income tax charge	<u>78,297,276</u>	<u>69,616,573</u>

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. TAX (CONTINUED)

b) Deferred income tax asset

Deferred income tax is calculated on all temporary differences under the liability method using the principal tax rate of 30% (2013: 30%).

	At 1 July 2013 Ushs 000	Movement for the year Ushs 000	At 30 June 2014 Ushs 000
Deferred tax assets			
Unrealized foreign exchange losses	(5,120,173)	(3,570,373)	(8,690,546)
Provision for impairment loss on trade and other receivables	(6,492,947)	(1,241,802)	(7,734,749)
Tax Losses carried forward	<u>(93,890,060)</u>	<u>(60,210,590)</u>	<u>(154,100,650)</u>
	<u>(105,503,180)</u>	<u>(65,022,765)</u>	<u>(170,525,945)</u>
Deferred tax liabilities			
Unrealized foreign exchange gains	-	4,833,490	4,833,490
Fair value gains on investment properties	63,994,378	3,659,199	67,653,577
Fair value changes on equity instruments	28,929,853	18,095,987	47,025,840
Unrealised gains in investments with fund managers	-	3,503,936	3,503,936
Accelerated depreciation	<u>2,774,665</u>	<u>(209,614)</u>	<u>2,565,051</u>
	<u>95,698,896</u>	<u>29,882,998</u>	<u>125,581,894</u>
Net income deferred tax asset	<u>(9,804,284)</u>	<u>(35,139,767)</u>	<u>(44,944,051)</u>
	At 1 July 2012 Ushs 000	Movement for the year Ushs 000	At 30 June 2013 Ushs 000
Deferred tax assets			
Unrealized foreign exchange losses	(1,682,517)	(3,437,656)	(5,120,173)
Provision for impairment loss on trade and other receivables	(1,230,652)	(5,262,295)	(6,492,947)
Tax Losses carried forward	<u>(94,832,651)</u>	<u>942,591</u>	<u>(93,890,060)</u>
	<u>(97,745,820)</u>	<u>(7,757,360)</u>	<u>(105,503,180)</u>
Deferred tax liabilities			
Fair value gains on investment properties	63,994,378	-	63,994,378
Fair value changes on equity instruments	18,812,268	10,117,585	28,929,853
Accelerated depreciation	3,177,861	(403,196)	2,774,665
	<u>85,984,507</u>	<u>9,714,389</u>	<u>95,698,896</u>
Net income deferred tax asset	<u>(11,761,313)</u>	<u>1,957,029</u>	<u>(9,804,284)</u>

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. TAX (CONTINUED)

b) Deferred income tax asset (Continued)

The net deferred income tax asset of Ushs 45 billion (2013: Ushs 9.8 billion) has not been recognised in these financial statements due to the uncertainty regarding whether the Fund will have sufficient taxable profits against which the deferred tax asset can be utilised. Despite the Fund making surplus earnings, the Fund obtained a ruling from Uganda Revenue Authority in 2001 advising that interest paid to members is tax deductible. The Fund follows this ruling when preparing income tax computations and it is unlikely that the Fund will have taxable profits against which the deferred income tax asset can be utilised.

However, as disclosed in Note 35(b), the Fund received an assessment for tax of Ushs 84.4 billion from Uganda Revenue Authority (URA) in which the interest paid to members was disallowed as a deductible tax expense, among others. The Fund objected to the assessment on the grounds that URA's tax computations contained expenses that were wrongly disallowed. The Fund initiated legal proceedings against URA and expects to prevail basing on the advice of its tax consultants and legal team. As such, the Fund continues to treat interest paid to members as deductible for tax purposes until decided otherwise in the ongoing legal proceedings.

13. CASH AND BANK BALANCES

	2014	2013
	Ushs 000	Ushs 000
Barclays Bank of Uganda Limited	732,604	691,005
Citibank Uganda Limited	299,578	1,695,422
Housing Finance Uganda Limited (Note 34)	614,616	119,085
Stanbic Bank Uganda Limited	3,247,590	2,529,700
Standard Chartered Bank Uganda Limited	8,541,938	9,160,840
Imperial Bank Limited	-	16,979
Ecobank Uganda Limited	225,212	71,647
Bank of Africa	205,424	189,705
Crane Bank Limited	2,483	36,074
Centenary Bank	476,937	146,607
DFCU Bank Limited	45,194	200,988
United Bank for Africa	30,401	84,892
Orient Bank Limited	2,087	198,667
Global Trust Bank	6,578	61,763
Tropical Bank -collection account	18,453	10,370
Bank of Baroda Uganda Limited-collection account	124,801	136,756
Cash at hand	60,570	26,172
	<u>14,634,466</u>	<u>15,376,672</u>

Collecting banks are required to transfer amounts collected at the end of every week to the Fund's custodian Standard Chartered Bank. There are no transfer charges and the banks do not pay interest on amounts held to the Fund except for Standard Chartered Bank, Citibank and Stanbic Bank which pays interest at the rate of 7%, 5% and 1% respectively. The fair value of the cash and bank balances is equal to its carrying amount.

For the purpose of the statement of cash flows, cash and cash equivalents comprise of the above cash and bank balances.

14. DEPOSITS WITH COMMERCIAL BANKS

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	2014	2013
	Ushs 000	Ushs 000
ABC Bank Limited	-	6,237,304
Bank of Baroda Uganda Limited	160,045,554	135,223,543
Bank of India	-	1,074,625
Cairo International Bank Limited	9,614,746	10,937,923
Global Trust Bank Limited	17,599,110	-
Crane Bank Limited	195,598,634	225,291,785
DFCU Bank Limited	67,806,535	99,605,010
Diamond Trust Bank Uganda Limited	10,740,189	18,782,031
Housing Finance Bank Limited (Note 34)	66,666,176	39,122,698
Orient Bank Limited	53,645,140	63,935,735
Standard Chartered Bank Uganda Limited	29,794,221	31,721,471
Tropical Bank Limited	5,501,442	22,886,833
United Bank for Africa	-	12,639,210
Equity Bank Uganda Limited	5,202,137	16,623,132
Deposit with Banks by Fund Managers	404,481	-
Imperial Bank Limited	13,589,405	9,761,977
KCB Bank Uganda Limited	36,620,230	38,110,818
Uganda Finance Trust Limited	9,239,805	-
	<u>682,070,805</u>	<u>731,954,095</u>

The deposits with commercial banks are analysed as follows:

Amounts due within three (3) months	93,545,656	220,860,570
Amounts due after three (3) months	<u>588,525,149</u>	<u>511,093,525</u>
	<u>682,070,805</u>	<u>731,954,095</u>

The change in the equity investments during the year was as follows;

	2014	2013
	Ushs 000	Ushs 000
At 1 July	731,954,095	686,151,323
Purchases	1,048,961,370	1,104,727,247
Maturities	(1,089,488,400)	(1,067,957,904)
Interest Accrued	107,982,217	118,284,715
Interest Received	(119,084,912)	(109,967,332)
Foreign exchange gains/(losses)	<u>1,746,435</u>	<u>716,046</u>
At 30 June	<u>682,070,805</u>	<u>731,954,095</u>

The deposits are at amortised cost. The deposits are made for varying periods of between one day and 365 days depending on the cash requirements of the Fund. The weighted average effective interest rate on deposits with commercial banks as at 30 June 2014 was 16.45% (2013:17%).

15. EQUITY SECURITIES HELD-FOR-TRADING

	2014	2013
	Ushs 000	Ushs 000
Uganda Securities Exchange	9,916,262	6,094,008
Nairobi Stock Exchange	53,990,329	25,965,249
Dar es Salaam Stock Exchange	<u>9,411,962</u>	<u>3,254,070</u>
Total	<u>73,318,553</u>	<u>35,313,327</u>

15. EQUITY SECURITIES HELD-FOR-TRADING (CONTINUED)

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

The investments in securities held-for-trading are equity investments managed by the Fund Managers, Stanlib and Pinebridge Investments. The Fund Managers have the mandate to make investments at their discretion but in compliance with the Fund's investment policy.

	Number of shares held		Market Value	
	2014	2013	2014 Ushs'000	2013 Ushs'000
Uganda Securities Exchange				
Stanbic Bank (U) Ltd	94,758,530	60,671,040	2,842,756	1,516,777
DFCU Bank	2,717,790	1,299,980	3,315,704	1,338,979
New Vision Group	2,185,857	1,398,888	1,311,514	846,327
UMEME Ltd	2,143,164	1,569,800	814,402	563,558
Uganda Clays	9,575,568	9,575,568	191,511	287,267
Bank of Baroda (Uganda)	12,525,000	12,525,000	1,440,375	1,503,000
BAT Uganda Limited	-	15,000	-	38,100
			<u>9,916,262</u>	<u>6,094,008</u>

	Number of shares held		Market Value	
	2014	2013	2014 Ushs'000	2013 Ushs'000
Nairobi Stock Exchange				
BAT Kenya Ltd	283,700	95,800	5,570,940	1,587,100
Safaricom	13,000,000	-	4,897,079	-
Kenya Commercial Bank	2,650,974	2,447,274	4,090,723	2,758,258
East African Breweries Ltd	719,466	248,211	6,160,573	2,506,067
Bamburi Cement Ltd	460,745	217,745	2,425,684	1,425,269
Equity Bank Limited	2,852,042	2,414,042	3,969,522	2,288,866
NIC Bank Limited	1,644,128	690,495	2,860,407	1,113,901
Barclays Bank Kenya	3,005,800	1,680,800	1,518,801	802,722
Athi River Mining	994,025	964,025	2,406,089	1,875,081
Nation Media Group	310,712	263,412	2,914,366	2,406,825
Diamond Trust Bank	775,887	604,387	5,634,224	3,108,268
Standard Chartered Bank	148,317	117,817	1,386,672	1,031,641
Centum Investments (ICDC)	720,690	395,690	899,491	262,575
Kenya Power & lighting	2,550,750	2,550,750	1,026,465	1,124,119
Scan group ltd	457,100	457,100	632,742	841,690
Diamond Trust Bank Rights	57,456	-	57,803	-
Co-operative Bank	2,615,386	1,557,960	1,527,276	721,552
CFC Stanbic Holdings	773,000	620,000	3,017,127	1,187,868
Britam	1,550,000	-	933,274	-
I&M Holdings Ltd	299,400	-	1,250,130	-
Kenya Airways	1,428,000	1,428,000	447,194	428,701
TPS Serena Ltd	247,013	247,013	257,848	342,831
Kenol Kobil Ltd	400,000	400,000	105,899	106,205
Housing Finance Company Ltd	-	60,000	-	45,710
			<u>53,990,329</u>	<u>25,965,249</u>

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. EQUITY SECURITIES HELD-FOR-TRADING (CONTINUED)

Dar es Salaam Stock Exchange

	Number of shares held		Market Value	
	2014	2013	2014	2013
			Ushs'000	Ushs'000
Tanzania Breweries Ltd	460,000	460,000	7,039,251	2,360,892
CRDB Bank Plc	4,700,000	2,000,000	<u>2,372,711</u>	<u>893,178</u>
			<u>9,411,962</u>	<u>3,254,070</u>

The change in Held-for-trading investments during the year were as follows;

	2014	2013
	Ushs 000	Ushs 000
As at 1 July	35,313,327	20,870,429
Purchases	25,512,569	9,558,921
Disposals	(274,093)	(1,241,817)
Fair value gain	11,679,788	7,856,720
Foreign exchange gain/(loss)	<u>1,086,962</u>	<u>(1,730,926)</u>
As at 30 June	<u>73,318,553</u>	<u>35,313,327</u>

The trading prices at the last date of trading for the years ended 30 June 2014 and 2013 were as follows:

	2014			2013		
	Ushs	Kshs	Tshs	Ushs	Kshs	Tshs
Stanbic Bank (U) Ltd	30.00	-	-	25.00	-	-
DFCU Bank	1,220.00	-	-	1,030.00	-	-
New Vision Group	600.00	-	-	605.00	-	-
UMEME Ltd	380.00	-	-	359.00	-	-
Uganda Clays	20.00	-	-	30.00	-	-
Bank of Baroda (Uganda)	115.00	-	-	120.00	-	-
British American Tobacco Uganda	6,515.00	-	-	2,540.00	-	-
BAT Kenya Ltd	19,636.73	649.00	-	16,463.69	543.00	-
Safaricom	376.70	12.45	-	198.60	6.55	-
Kenya Commercial Bank	1,543.10	51.00	-	1,121.84	37.00	-
East African Breweries Ltd	8,562.70	283.00	-	10,096.52	333.00	-
Bamburi Cement Ltd	5,264.70	174.00	-	6,518.77	215.00	-
Equity Bank Limited	1,391.82	46.00	-	947.50	31.25	-
NIC Bank Limited	1,739.77	57.50	-	1,606.95	53.00	-
Barclays Bank Kenya	505.29	16.70	-	476.02	15.70	-
Athi River Mining	2,420.55	80.00	-	1,940.47	64.00	-
Nation Media Group	9,379.64	310.00	-	9,126.28	301.00	-
Diamond Trust Bank	7,261.66	240.00	-	5,154.38	170.00	-
Standard Chartered Bank	9,349.38	309.00	-	8,701.81	287.00	-
Centum Investments (ICDC)	1,248.10	41.25	-	659.46	21.75	-
Kenya Power & lighting	402.42	13.30	-	439.64	14.50	-
Scan group Ltd	1,384.25	45.75	-	1,834.35	60.50	-
Diamond Trust Bank Rights	1,006.04	33.25	-	-	-	-
Co-operative Bank	583.96	19.30	-	465.41	15.35	-
CFC Stanbic Holdings	3,903.14	129.00	-	1,925.31	63.50	-
Britam	602.11	19.90	-	242.56	8.00	-
I&M Holdings Ltd	4,175.45	138.00	-	2,910.71	96.00	-

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. EQUITY SECURITIES HELD-FOR-TRADING (CONTINUED)

	2014			2013		
	Ushs	Kshs	Tshs	Ushs	Kshs	Tshs
Kenya Airways	313.16	10.35	-	301.68	9.95	-
TPS Serena Ltd	1,043.86	34.50	-	1,394.71	46.00	-
Kenol Kobil Ltd	264.75	8.75	-	266.81	8.80	-
Housing Finance Company Ltd	1,293.48	42.75	-	765.58	25.25	-
Tanzania Breweries Ltd	15,302.72		9,700.00	5,135.78	-	3,220.00
CRDB Bank Plc	<u>504.83</u>		<u>320.00</u>	<u>446.59</u>	<u>-</u>	<u>280.00</u>

16. TRADE AND OTHER RECEIVABLES

	2014	2013
	Ushs 000	Ushs 000
Prepayments	1,562,788	878,853
Staff advances	681,851	838,930
Trade receivables	8,117,311	7,926,082
Contributions receivable	1,021,943	1,021,943
Rent receivable	3,149,352	2,765,223
VAT recoverable	1,110,052	1,099,556
Cash advances to Fund Managers	915,224	1,735,733
Dividends receivable	12,825,639	6,390,908
Provisions for impairment loss	<u>(7,667,783)</u>	<u>(6,412,811)</u>
	<u>21,716,377</u>	<u>16,244,417</u>

The staff advances are interest free and repayable in a one month period through payroll deductions. The Contributions receivable relate to cheque payments in previous years (2011) that were not honoured and fully recognised as a receivable.

Provisions for impairment loss is analysed as follows:-

	Ushs 000
At 1 July 2013	4,102,173
Charge for the year	2,321,216
Utilised	(10,578)
Unused amounts reversed	-
Discount rate adjustment	-
At 30 June 2013	<u>6,412,811</u>
Charge for the year	1,254,972
Utilised	-
Unused amounts reversed	-
Discount rate adjustment	-
At 30 June 2014	<u>7,667,783</u>

The provision relates to the trade receivable, contributions receivable, and rent receivable accounts.

The carrying amount for trade receivables reasonably approximate its fair value due to the short term nature of the receivables.

17. INVESTMENTS IN SECURITIES HELD-TO-MATURITY

	2014	2013
	Ushs 000	Ushs 000
Treasury bonds	2,649,550,032	1,922,181,862
Corporate bonds	143,185,175	67,943,848
	<u>2,792,735,207</u>	<u>1,990,125,710</u>

The investments are analysed as follows:

Maturing within 3 months	205,756,417	109,615,696
Maturing after 3 months but within 1 year	276,283,330	353,308,202
Maturing after 1 year	<u>2,310,695,460</u>	<u>1,527,201,812</u>
	<u>2,792,735,207</u>	<u>1,990,125,710</u>

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. INVESTMENTS IN SECURITIES HELD-TO-MATURITY (CONTINUED)

The change in Held-to Maturity investments during the year were as follows;

	2014	2013
	Ushs 000	Ushs 000
As at 01 July	1,990,125,710	1,386,294,688
Purchases	1,198,171,798	761,470,065
Maturities	(425,858,902)	(205,318,996)
Interest Accrued	353,245,341	247,242,934
Interest Received	(326,756,009)	(200,937,127)
Foreign exchange gains	3,807,269	1,374,146
As at 30 June	<u>2,792,735,207</u>	<u>1,990,125,710</u>

The yield rates on the treasury bonds ranged from 10.25% to 14.35% (2013: 9.25% to 14.5%) and the treasury bonds mature in 1 to 21 years. The interest rates for corporate bonds ranged from 11.03% to 17% (2013: 11.5% to 17%) and the corporate bonds mature in 1 to 9 years.

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014	2013	2014	2013
	% Held	% Held	Ushs 000	Ushs 000
Bank of Baroda (Uganda) Limited	2.00	2.00	5,744,969	5,994,750
DFCU Limited	5.93	5.93	17,987,471	15,186,144
Centum Investments Limited	0.73	0.73	5,187,600	2,785,200
Stanbic Bank Uganda Limited	2.05	1.72	31,444,062	24,703,504
New Vision Printing and Publishing Company Limited	19.61	19.60	9,000,000	9,075,000
Umeme	14.27	8.12	88,054,653	47,288,475
Safaricom Kenya Public Co. Ltd	0.60	0.60	89,729,583	48,818,507
Equity Bank Kenya	0.03	-	2,783,639	-
Kenya Commercial Bank	0.05	-	1,342,498	-
			<u>251,274,475</u>	<u>153,851,580</u>

All the above equity investments are traded on the Uganda Security Exchange (USE) except for Safaricom, KCB, and Equity Bank which are traded on the Nairobi Stock Exchange (NSE). The trading prices at the last date of trading for the years ended 30 June 2014 and 2013 were as follows:

	2014		2013	
	Ushs	Kshs	Ushs	Kshs
Bank of Baroda (Uganda) Limited	115.00	-	120.00	-
DFCU Limited	1,220.00	-	1,030.00	-
Centum Investments Limited	1,179.00	-	633.00	-
Stanbic Bank Uganda Limited	30.00	-	25.00	-
New Vision Printing and Publishing Company Limited	600.00	-	605.00	-
Umeme	380.00	-	359.00	-
Safaricom Kenya Public Co. Ltd	376.70	12.45	198.60	6.55
Equity Bank Kenya	1,543.10	51.00	-	-
Kenya Commercial Bank	<u>1,391.82</u>	<u>46.00</u>	-	-

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

During the year, the Fund purchased the following shares;

	Currency	Shares	Share price	Rate	Cost Ushs 000
Stanbic Bank Uganda Limited	Ushs	59,995,248	30	1.00	1,799,857
Umeme	Ushs	100,000,000	340	1.00	34,000,000
Equity Bank Kenya	Kshs	1,000,000	32	29.37	939,840
Equity Bank Kenya	Kshs	1,000,000	31.99	29.42	941,146
Kenya Commercial Bank	Kshs	870,000	37	31.14	1,002,320
					<u>38,683,163</u>

The change in the equity investments during the year was as follows:

	2014 Ushs 000	2013 Ushs 000
At 1 July	153,851,580	78,291,687
Acquisition of new shares	38,683,163	37,620,100
Bonus issue	-	3,596,850
Change in fair value	60,319,956	33,725,285
Foreign exchange (losses)/gains	<u>(1,580,224)</u>	<u>617,658</u>
At 30 June	<u>251,274,475</u>	<u>153,851,580</u>

The Fund's investment in equities that are designated at fair value through profit or loss represent equities for which there is an active market and where the Fund holds less than 20% of the voting rights of the investee companies and the Fund does not have significant influence over the financial and operating decisions of the investee companies.

19. LOANS AND ADVANCES

	2014 Ushs 000	2013 Ushs 000
DFCU Limited	519,352	1,500,000
Uganda Clays Limited (Note 34)	18,104,135	15,219,768
Housing Finance Bank Limited (Note 34)	37,019,686	40,727,357
Staff loans	<u>3,787,914</u>	<u>3,072,180</u>
	<u>59,431,087</u>	<u>60,519,305</u>
Provision for Uganda Clays Limited loan	<u>(18,104,135)</u>	<u>(15,219,768)</u>
	<u>41,326,952</u>	<u>45,299,537</u>

The provision for Uganda Clays Limited loan is analysed as follows;

	Ushs 000
At 1 July 2013	-
Charge for the year	15,219,768
Utilised	-
Unused amounts reversed	-
Discount rate adjustment	-
At 30 June 2013	<u>15,219,768</u>
Charge for the year	2,884,367
Utilised	-
Unused amounts reversed	-
Discount rate adjustment	-
At 30 June 2014	<u>18,104,135</u>

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. LOANS AND ADVANCES (CONTINUED)

	2014	2013
	Ushs 000	Ushs 000
At 1 July	45,299,537	62,044,823
Placements/(disbursements)	-	-
Maturities (proceeds from maturing loans)	(9,542,376)	(9,828,442)
Interest Accrued	8,454,158	8,302,924
Provisions for Bad Debts	<u>(2,884,367)</u>	<u>(15,219,768)</u>
At 30 June	<u>41,326,952</u>	<u>45,299,537</u>

The loan to DFCU Limited is unsecured and attracts an interest rate equivalent to the 182-day treasury bill weighted average rate plus 2% per annum currently at 17% (2013: 17%) subject to an automatic review where the treasury bill rates rise above 20% or fall below 5%. The principal and interest are repayable semi-annually.

The loan to Uganda Clays Limited is unsecured and is repayable within 96 months in equal monthly instalments commencing after a grace period of two years (effective 27 December 2013). The loan has a fixed interest rate of 15%, plus a penalty default surcharge of 2%. For the six months period to 30 June 2014, Uganda Clays Limited made a loss of Ushs 3.417 billion and the current liabilities exceeded the current assets by Ushs 2.872 billion as at 30 June 2014. The Company has experienced financial problems since the loan was disbursed and no loan repayment has been received as at 30 June 2014. The loan has therefore been fully impaired.

Housing Finance Bank Limited (the bank) has two loan facilities with the Fund of Ushs 25 billion at a rate of 11.5% and Ushs 22.5 billion of 15.5% (2013: 15.5%) respectively. The loan of Ushs 25 billion is repayable over a period of 15 years while that of Ushs 22.5 billion is repayable over 10 years. Instalments are due on a quarterly basis after a grace period of 24 months from the date of the first disbursement. During the grace period, interest accrued is payable. The loans are secured by the bank's property on Plot 25, Kampala Road and identifiable and performing condominium mortgage book portfolio worth at least Ushs 10 billion of present and future assets representing 25% of the loan sum for the duration of the loan agreement. In addition, a lien imposed at all times on the government securities owned and held by the bank with a total value of at least Ushs 10 billion representing 25% of the loan sum. The reported amount represents the carrying amount as at year-end.

The staff loans are loans issued by the Fund to its employees at a discounted interest rate of 6.5% (2013: 6.5%). The loans are issued to employees to acquire/construct houses. The loans are secured by the acquired houses and are to be paid over a period of 15 to 20 years. As at 30 June 2014, the average market rate for mortgages was 17.1% resulting into notional interest of Ushs 1.25 billion (2013: Ushs 1.36 billion). As at 30 June 2014, the market value of staff loans was Ushs 3.79 billion (2013: Ushs 3.07 billion).

All the above loans and advances are measured at amortised cost with exception of the staff loans which are marked to market. Management assessed all loans outstanding as at 30 June 2014 for indicators of impairment and determined that no loans exhibited signs of impairment and as such no provision for impairment loss has been made with exception of the Uganda Clays Limited loan which has been fully impaired.

Based on the impairment provision, the carrying value of the loans and advances reasonably approximates the fair value.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

20. INVENTORIES

	2014	2013
	Ushs 000	Ushs 000
Consumables and stationery	<u>2,910</u>	<u>4,626</u>

This relates to consumables and stationery maintained by the Fund for day to day operations.

21. NON-CURRENT ASSETS HELD FOR SALE

	2014	2013
	Ushs 000	Ushs 000
Property	<u>-</u>	<u>256,290</u>

The non-current assets held for sale related to Leasehold land held in Gulu, Hoima, Masaka and Mbarara that had been acquired for use by the Fund for which the directors resolved to dispose of. As at 30 June 2014, the Fund had suspended actively marketing the properties. As such, the assets were reclassified to property and equipment since the classification criteria under IFRS 5 was no longer met.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. INVESTMENTS IN ASSOCIATES

	Housing Finance Bank Limited Ushs 000	Uganda Clays Limited Ushs 000	TPS Uganda Limited Ushs 000	Total Ushs 000
At 1 July 2012	49,145,683	10,675,826	3,361,847	63,183,356
Share of profit	4,632,767	341,348	1,740,416	6,714,531
Less: Dividends	(1,660,696)	-	-	(1,660,696)
At 30 June 2012	52,117,754	11,017,174	5,102,263	68,237,191
Share of profit - restated	4,307,583	2,721,863	607,911	7,637,357
Less: Dividends	(2,444,184)	-	(287,162)	(2,731,346)
At 30 June 2013 restated	53,981,153	13,739,037	5,423,012	73,143,202
Share of profit/(loss)	1,592,824	(1,800,142)	880,034	672,716
Less: dividends	(1,935,917)	-	(384,794)	(2,320,710)
At 30 June 2014	53,638,060	11,938,895	5,918,253	71,495,208

As at 30 June 2014, the Fund had shareholding of 50%, 32.52% and 13.99% in the issued share capital of Housing Finance Bank Limited, Uganda Clays Limited and TPS Uganda Limited respectively. These investments have been accounted for under the equity method. The shareholding of TPS Uganda Limited was diluted from 20% to 13.99% during the year following the conversion to equity of a loan due to one of the shareholders without calling for additional capital from the other shareholders. The Fund retained representation on the Board of Directors of TPS thus retaining significant influence. As such, the investment in TPS Uganda Limited continues to be accounted for as an investment in associate.

Nature of activities of associate companies

Company **Nature of activities**

Housing Finance Bank Limited	The Bank is engaged in the business of commercial banking and the provision of related services, and is licensed under the Financial Institutions Act, 2004.
Uganda Clays Limited	The principal activities of the company are the production and sale of a wide range of clay building products. The main items produced are roofing tiles.
TPS (Uganda) Limited	The principal activities of the company are that of operating and running a hotel facility in Uganda, serving the business and tourist markets.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. INVESTMENTS IN ASSOCIATES (CONTINUED)

	Housing Finance Bank Limited	Uganda Clays Limited	TPS (Uganda) Limited
Principle place of business	Investment House , Plot 4 Wampewo Avenue, Kololo, P. O. Box 1539, Kampala	14 kms, Entebbe Road, Kajjansi, P. O. Box 3188, Kampala	SN Chambers, Plot 36 Nile Avenue, P. O. Box 7814, Kampala
Market price	Not listed, the share price for DFCU Bank has been used to determine the fair value of the investment.	Ushs 20 per share	Not listed, the share price of TPS (Kenya) Limited has been used to determine the fair value of the investment.

	Number of Shares Held		Price per Share		Fair Value	
	2014	2013	2014	2013	2014	2013
			Ushs	Ushs	Ushs 000	Ushs 000
Housing Finance Bank	3,050,000	3,050,000	1,220	1030	3,721,000	3,141,500
TPS (Uganda) Limited	19,500	19,500	1,043.86	1394.71	20,355	27,197
Uganda Clays Limited	292,640,000	292,640,000	20	30	5,852,800	8,779,200
					<u>9,594,155</u>	<u>11,947,897</u>

The summary of the financial information for the investments in associates is as follows:

	Housing Finance Bank Limited		Uganda Clays Limited		TPS (Uganda) Limited	
	2014	2013	2014	2013	2014	2013
	Ushs 000	Ushs 000	Ushs 000	Ushs 000	Ushs 000	Ushs 000
Current assets.	161,193,631	134,534,551	10,720,615	13,990,756	13,612,809	12,068,730
Non-current assets.	457,748,541	421,836,230	56,328,094	61,349,904	61,394,246	63,328,078
Current liabilities.	353,487,528	286,820,990	13,593,191	9,881,696	7,139,327	9,907,556
Non-current liabilities.	157,972,275	160,371,353	23,887,892	27,862,833	3,430,480	4,808,387
Revenue	91,121,673	47,873,203	20,766,935	17,684,768	44,814,777	19,979,946
Profit or loss from continuing operations	-	-	-	-	-	-
Post-tax profit or loss from discontinued operations	-	-	-	-	-	-
Other comprehensive income	-	-	-	6,013,006	-	-
Total comprehensive income	<u>3,185,647</u>	<u>8,615,166</u>	<u>6,697,605</u>	<u>13,220,707</u>	<u>6,777,633</u>	<u>3,039,555</u>
Percentage held	<u>50%</u>	<u>50%</u>	<u>32.52%</u>	<u>32.52%</u>	<u>13.99%</u>	<u>20%</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

23. OTHER INVESTMENTS

Victoria Properties Development Limited (VPDL) was incorporated in 2004 to develop the Fund's property at Lubowa for sale to the public. NSSF held a 50% equity interest in VPDL, through its wholly owned subsidiary, Premier Developments Ltd (PDL). VPDL borrowed US\$ 1 million from Premier Developments Limited to finance its preliminary activities. VPDL entered into a contract for the design and supervision of the Lubowa Housing Project with M/s SBI, at a contract price of US\$ 4.9 million, and paid the US\$ 1 million borrowed from PDL to SBI to deliver preliminary designs. PDL was later dissolved by the Constitutional Court, and in 2009, the shareholders of VPDL agreed to wind up the joint venture company and instead have an arm's length contract for design and supervision of the Lubowa Housing Project. The investment was therefore written off in 2009. The winding up/dissolution agreements and arm's length design/supervision contract were signed and the joint venture was finally wound up during the year. The Fund retained 100% ownership of the land, while the other party was retained to provide an arm's length contract for design and supervision of the Lubowa Housing Project.

24. CAPITAL WORK-IN-PROGRESS (CWIP)

	Arua Ushs 000	Lubowa Ushs 000	Other Ushs 000	Total Ushs 000
Cost				
At 01 July 2012	2,330,000	-	-	2,330,000
Additions	-	12,611,325	65,076	12,676,401
Transfer from investment properties	-	<u>223,000,000</u>	-	<u>223,000,000</u>
At 30 June 2013	<u>2,330,000</u>	<u>235,611,325</u>	<u>65,076</u>	<u>238,006,401</u>
Additions	-	7,034,218	596,410	7,630,628
Transfers to intangible assets	-	-	(65,076)	(65,076)
Revaluation gains	-	<u>7,000,000</u>	-	<u>7,000,000</u>
At 30 June 2014	<u>2,330,000</u>	<u>249,645,543</u>	<u>596,410</u>	<u>252,571,953</u>
Provision for impairment				
At 1 July 2013/30 June 2014	<u>(2,330,000)</u>	-	-	<u>(2,330,000)</u>
Net carrying amount				
At 30 June 2014	<u>-</u>	<u>249,645,543</u>	<u>596,410</u>	<u>250,241,953</u>
At 30 June 2013	<u>-</u>	<u>235,611,325</u>	<u>65,076</u>	<u>235,676,401</u>

The Arua capital work-in-progress relates to construction costs for a hotel at the golf course. As at 30 June 2009, construction of the hotel was near completion but modalities of share of interest in the hotel had not been finalized with the trustees of the Arua Golf Club. The Fund has estimated to incur losses as a result of the delayed implementation of this joint venture and ownership structure of the joint venture. Due to uncertainties surrounding the recoverability of these amounts, the balance was fully impaired in 2008. Management is currently negotiating with the trustees of Golf Club with a view of finalizing the joint venture arrangements. During the year, the Fund commenced development of the Lubowa land into a housing project (Lubowa Housing Project) and contracted Soleh Boneh International (SBI) Holdings AG Uganda as the project designer and supervisor for the project. Consequently, the land previously recognised under investment property was reclassified to capital work-in-progress. The housing units constructed will be presented as inventory on completion.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. INVESTMENT PROPERTIES

	Valuation at	Re- classification from CWIP	Change in Fair value	Valuation at	Disposal	Change in Fair value	Valuation at	Disposal	Change in Fair value	Valuation at
	30 June 12			30 June 13			30 June 14			
	Ushs 000	Ushs 000	Ushs 000	Ushs 000	Ushs 000	Ushs 000	Ushs 000	Ushs 000	Ushs 000	Ushs 000
Workers House	52,900,000	-	-	52,900,000	-	1,594,730	5,270	-	1,594,730	54,500,000
Plot 5 Mvule Rd Naguru	1,620,000	-	-	1,620,000	-	180,000	-	-	180,000	1,800,000
Land on Yusuf Lule Road	17,622,000	-	-	17,622,000	-	1,378,000	-	-	1,378,000	19,000,000
Independence Ave Arua	135,000	-	-	135,000	-	15,000	-	-	15,000	150,000
Land in Kisugu	185,000	-	-	185,000	-	10,000	-	-	10,000	195,000
Land in Kabale	225,000	-	-	225,000	-	5,000	-	-	5,000	230,000
Land in Jinja	535,000	-	-	535,000	-	25,000	-	-	25,000	560,000
Land in Tororo	125,000	-	-	125,000	-	65,000	-	-	65,000	190,000
Lumumba Avenue	54,435,588	4,482,738	-	58,918,326	-	-	3,467,282	-	-	62,385,608
Social Security House	21,015,000	-	-	21,015,000	-	4,942,850	42,150	-	4,942,850	26,000,000
Mbuya Property M65	-	-	2,840,000	2,840,000	-	260,000	-	-	260,000	3,100,000
Land in Mbuya	1,620,000	-	-	1,620,000	-	180,000	-	-	180,000	1,800,000
Land in Lubowa	223,000,000	-	(223,000,000)	-	-	-	-	-	-	-
Land in Busiro Temangalo	12,165,000	-	-	12,165,000	-	3,435,000	-	-	3,435,000	15,600,000
Plot 16 Nakasero Rd (FRV 304)	-	-	-	-	-	106,750	8,093,250	-	106,750	8,200,000
Total	385,582,588	4,482,738	(220,160,000)	169,905,326	11,607,952	12,197,330	11,607,952	12,197,330	193,710,608	

Investment properties comprise of land and buildings held to earn rentals and/or capital appreciation. Property under construction is recognised as investment property and carried at cost until either its fair value becomes reliably determinable or construction is completed, whichever is earlier. As at 30 June 2014, the property under construction presented under investment properties related to the Pension Towers project on Lumumba Avenue. The fair value of this property under construction is not reliably determinable and the Fund expects that this will continue to be the case until completion.

The Temangalo property was acquired in 2008. The 2012 valuation exercise discovered that portions of the land had been occupied by squatters who had never been settled by the seller. The Fund referred the matter to court, which subsequently, referred the matter to arbitration in 2014. The outcome of the arbitration is that the seller of the property is to provide land that is of equal value and adjacent to the main property in question. The process of the land swap is still ongoing with the Fund expected to receive the land as stipulated in the arbitration agreement.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

25. INVESTMENT PROPERTIES (CONTINUED)

With exception of property under construction, the fair values as at 30 June 2014 are based on the valuation done by Katuramu and Company, certified professional valuer. In determining the fair values of investment properties, the valuer used the open market value which is the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of assessment. In instances where the market value of a property could not be ascertained due to lack of information, the valuers adopted an approach based on the depreciated replacement cost. With this method, the values for buildings and other improvements are determined by calculating the present day replacement cost of putting up a similar and functional structure ready to provide the same facilities at the same place but depreciating them accordingly.

The impact of revaluing investment properties on profit for the year is Ushs 12.2 billion (2013: Nil) as disclosed in the table above which also shows the reconciliation of the movement in the carrying amount of the investment property between the opening and closing dates

Key inputs to valuation of investment properties:

	Range (weighted average)	2013
	2014	
Significant unobservable inputs		
Office properties	Ushs 31,300 - Ushs 39,000 (Ushs 35,000)	No material change in fair value as assessed by the Fund's independent valuer
Estimated rental value per square meter per month	2% - 3% (2.5%)	
Rent growth per annum	10% - 16% (13%)	
Long-term vacancy rate	11%	
Discount rate		
Land & buildings	Ushs 1,000,000 – Ushs 3,000,000	

Valuation techniques for investment properties:

Land was valued by the sales comparison method on the basis of its unimproved state taking into account the various categories of existing and potential use. Other factors such as location, services, accessibility, and proximity to suppliers, inputs and markets were also taken into account. Attention was paid to the concept of 'Highest and Best Use' of property.

Land

Buildings

Buildings, structures and services were valued at current replacement costs taking into account their depreciation

For the purposes of the fair value hierarchy, valuation of investment properties is categorised under Level 3.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

25. INVESTMENT PROPERTIES (CONTINUED)

The Fund generated rental income from its investment properties for the period that ended 30 June 2014 as below:

	2014	2013
	Ushs 000	Ushs 000
Workers House	6,031,647	5,955,584
Social Security House	2,251,584	2,097,564
Service charge (Workers House and Social Security House)	<u>3,418,379</u>	<u>3,349,517</u>
	<u>11,701,610</u>	<u>11,402,665</u>

The Fund incurred direct operating expenses (including repairs and maintenance) arising from investment properties that generated rental income during the period as below;

	2014		
	Workers House	Social Security House	Total
	Ushs 000	Ushs 000	Ushs 000
Maintenance & Repairs	2,596,556	996,894	3,593,450
Ground & Property rent	184,336	74,690	259,026
Cleaning Services	112,726	48,001	160,727
Security Service	162,000	67,200	229,200
Electricity	835,657	363,159	1,198,816
Water	<u>294,914</u>	<u>67,067</u>	<u>361,981</u>
Total	<u>4,186,189</u>	<u>1,617,011</u>	<u>5,803,200</u>

	2013		
	Workers House	Social Security House	Total
	Ushs 000	Ushs 000	Ushs 000
Maintenance & Repairs	1,899,430	594,493	2,493,923
Ground & Property rent	167,851	128,680	296,531
Cleaning Services	165,631	48,001	213,632
Security Service	162,000	67,200	229,200
Electricity	580,333	343,226	923,559
Water	<u>252,388</u>	<u>67,085</u>	<u>319,473</u>
Total	<u>3,227,633</u>	<u>1,248,685</u>	<u>4,476,318</u>

The Fund incurred direct operating expenses (including repairs and maintenance) arising from investment properties which did not generated rental income during the period as below (no expenses were incurred on properties other than those indicated in the table below):

	2014			
	Land in Lubowa	Land in Busiro Temangalo	Land in Mbuya	Total
	Ushs 000	Ushs 000	Ushs 000	Ushs 000
Security expenses	25,488	25,488	31,860	2,836
Demolition expenses	2,000	-	-	2,000
Cleaning expenses	-	-	<u>8,408</u>	<u>18,408</u>
Total	<u>27,488</u>	<u>25,488</u>	<u>50,268</u>	<u>103,244</u>

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. INVESTMENT PROPERTIES (CONTINUED)

	2013			Total Ushs 000
	Land in Lubowa Ushs 000	Land in Busiro Temangalo Ushs 000	Land in Mbuya Ushs 000	
Security expenses	25,488	25,488	31,860	2,836
Demolition expenses	-	-	-	-
Cleaning expenses	-	-	18,408	18,408
Total	<u>25,488</u>	<u>25,488</u>	<u>50,268</u>	<u>101,244</u>

There was no sale of investment properties during the year and in the previous year. As at 30 June 2014, there were no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal and there were no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

26 INTANGIBLE ASSETS

	2014 Ushs 000	2013 Ushs 000
Cost		
At 1 July	18,584,571	18,572,573
Transfers from capital work in progress	65,076	-
Additions	<u>518,982</u>	<u>12,266</u>
At 30 June	<u>19,168,629</u>	<u>18,584,839</u>
Amortisation		
At 1 July	10,169,717	8,503,763
Charge for the year	<u>1,686,790</u>	<u>1,666,223</u>
At 30 June	<u>11,856,507</u>	<u>10,169,986</u>
Net carrying amount	<u>7,312,122</u>	<u>8,414,853</u>

Intangible assets relate to software which makes up the Integrated Management Information System (IMIS) of the Fund. The remaining useful life as at 30 June 2014 is four years.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. PROPERTY AND EQUIPMENT

	Land Ushs 000	Machinery Ushs 000	Motor vehicles Ushs 000	Furniture and equipment Ushs 000	Computer equipment Ushs 000	Total Ushs 000
Cost						
At 1 July 2012	1,106,170	1,453,130	3,592,955	3,091,281	9,313,070	18,556,606
Additions	-	166,902	-	48,400	1,314,905	1,530,207
Disposals	(706,170)	-	-	-	-	(706,170)
At 30 June 2013	400,000	1,620,032	3,592,955	3,139,681	10,627,975	19,380,643
Additions	-	147,975	-	834,200	312,088	1,294,263
Reclassification from assets held for sale	256,290	-	-	-	-	256,290
Disposals	-	-	(1,003,232)	-	-	(1,003,232)
At 30 June 2014	656,290	1,768,007	2,589,723	3,973,881	10,940,063	19,927,964
Depreciation						
At 1 July 2012	-	962,632	3,035,110	1,361,299	8,055,483	13,414,524
Charge for the year	-	251,092	417,374	307,495	964,005	1,939,966
At 30 June 2013	-	1,213,724	3,452,484	1,668,794	9,019,488	15,354,490
Charge for the year	-	131,467	133,643	335,302	615,996	1,216,408
Disposals	-	-	(999,818)	-	-	(999,818)
At 30 June 2014	-	1,345,191	2,586,309	2,004,096	9,635,484	15,571,080
Net carrying amount						
At 30 June 2014	656,290	422,816	3,414	1,969,785	1,304,579	4,356,884
At 30 June 2013	400,000	406,308	140,471	1,470,887	1,608,487	4,026,153

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. WITHHOLDING TAX PAYABLE

	2014	2013
	Ushs 000	Ushs 000
Withholding tax payable	<u>971,228</u>	<u>1,043,919</u>

This relates to withholding tax withheld from suppliers and consultants which is payable to Uganda Revenue Authority.

29. OTHER PAYABLES

	2014	2013
	Ushs 000	Ushs 000
Accounts and other payables	17,099,529	11,108,499
Accrual for legal costs	7,277,857	6,810,744
Alcon retention payable	1,202,310	1,202,310
Deferred income	529,049	3,460
	<u>26,108,745</u>	<u>19,125,013</u>

The accounts payables are interest free and not overdue. Deferred income relates to advance rent payments from customers as required by the fund's rental agreements.

The accrual for legal costs is analysed as follows:

	2014	2013
	Ushs 000	Ushs 000
At 1 July	6,810,744	11,937,811
Payments made during the year	(1,004,887)	(219,377)
Increase/(decrease) in accrual during the year	<u>1,472,000</u>	<u>(4,907,690)</u>
At 30 June	<u>7,277,857</u>	<u>6,810,744</u>

The accrual for legal costs relates to fees for the lawyers who handled the Alcon case as disclosed in Note 30. The accruals are based on the fee notes raised by the lawyers. The fee notes have been referred to court for assessment of reasonableness before they can be paid.

30. PROVISIONS FOR LITIGATION

	2014	2013
	Ushs 000	Ushs 000
Alcon International Limited		
At 1 July	9,239,702	41,590,470
Foreign exchange losses	180,494	-
Reversal of provision	-	(41,590,470)
Additional provision	-	<u>9,239,702</u>
At 30 June	<u>9,420,196</u>	<u>9,239,702</u>

On 21 July 1994, the Fund and Alcon International Limited (Alcon), a company incorporated in the Republic of Kenya, entered into a building contract to erect a building on land located on Plot 1 Pilkington Road, Kampala ("the site") at the contract price of USD 16,160,000. In addition, the parties signed a co-financing agreement by which Alcon agreed to lend NSSF USD 8,080,000 in the form of materials, workmanship and labour. On 8 June 1996, the parties signed an additional agreement to carry out "improvement works" for an additional sum of USD 9,066,917.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

30. PROVISIONS FOR LITIGATION (CONTINUED)

NSSF alleged default on the terms of the contract by Alcon and construction of all the works contemplated by the contract was not completed. NSSF terminated the contract on 15 May 1998 due to breaches by Alcon. Consequently, on 30 November 1998, Alcon filed Civil Suit No.1255 of 1998 against NSSF seeking general damages for breach of contract. The High Court stayed the suit and referred the dispute to arbitration.

On 29 March 2001, the arbitrator awarded Alcon USD 8,858,470 and interest at 6% per annum. NSSF was dissatisfied with the award and filed an objection in the High Court under Misc. Application No. 417 of 2001 seeking to set it aside. On 30 September 2003, the High Court dismissed the objection. NSSF filed a Civil Appeal No. 2 of 2004 in the Court of Appeal which was also dismissed with costs on 25 August 2009. NSSF then filed Civil Appeal No. 15 of 2009 in the Supreme Court against the decision of the Court of Appeal.

During the previous year, the Fund adopted a new litigation strategy, introduced new grounds of appeal and also instructed new lawyers to conduct the case. In February 2013, the Supreme Court delivered a judgment setting aside the arbitration award, and ordered that the case be tried afresh in the High Court.

Management is of the opinion the claim has no chance of success owing to the Supreme Court's findings of fraud and lack of a cause of action for breach of contract which are binding on the High Court. The High Court trial will therefore be a formality. The provision hitherto made for that liability was accordingly reversed. However, a provision of USD 3,553,731 as at 30 June 2013 was made in the financial statements for works performed by Alcon that had not been settled by the Fund.

In a related development, the East African Court of Justice has also dismissed Alcon's suit against Standard Chartered Bank seeking to enforce the bank guarantee that NSSF had deposited with court as security for the arbitration award.

31. ACCUMULATED MEMBERS' FUNDS

	2014	2013
	Ushs 000	Ushs 000
At 1 July	3,322,576,227	2,621,222,866
Contributions received during the year	622,353,746	552,683,614
Interest received on arrears	2,439,419	7,324,349
11.5% interest (2013: 11.23%) **	<u>365,842,850</u>	<u>281,397,243</u>
Members fund liability before benefit payments	4,313,212,242	3,462,628,072
Benefits paid during the year		
Age benefits	(57,509,800)	(47,738,802)
Withdrawal benefits	(46,630,298)	(35,328,891)
Exempted employee benefits	(19,324,449)	(15,895,893)
Invalidity benefits	(14,261,378)	(11,475,425)
Survivors benefits	(4,544,874)	(6,241,868)
Emigration grant benefits	<u>(23,655,753)</u>	<u>(23,370,966)</u>
Total benefits payments	<u>(165,926,552)</u>	<u>(140,051,845)</u>
At 30 June	<u>4,147,285,690</u>	<u>3,322,576,227</u>

31. ACCUMULATED MEMBERS' FUNDS (CONTINUED)

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

** This represents interest payment to members as declared by the Minister in accordance with section 35 (2) of the National Social Security Fund Act, (Cap 222). For the year ended 30 June 2014, the Minister for Finance, Planning & Economic Development approved an interest rate of 11.5% (2013: 11.23%) to be calculated and added to the members' funds.

Included in the contributions received during the year is Ushs 14 billion, whose schedules had not been received by 30 June 2014. The amount will be allocated to members' accounts when schedules are received from the employers.

32. RESERVES

		2014	2013
	Note	Ushs 000	Ushs 000
Special contributions, fines and penalties	(a)	25,556,942	12,236,533
Unallocated members contributions	(b)	<u>24,592,500</u>	<u>24,592,500</u>
		<u>50,149,442</u>	<u>36,829,033</u>

a) Special contributions, fines and penalties

		2014	2013
		Ushs 000	Ushs 000
At 1 July		12,236,533	9,736,493
Special contributions received		6,229,507	2,500,040
Fines and penalties		<u>7,090,902</u>	-
At 30 June		<u>25,556,942</u>	<u>12,236,533</u>

In accordance with Section 13 (1) and Section 14 (1) of the National Social Security Fund Act, (Cap 222), special contributions by non-eligible employees are recognised directly in reserves since they relate to members' contributions and not operating results of the Fund. Fines and penalties recovered from employers that fail to remit members' funds are recognised through the income statement and then appropriated from the accumulated surplus/deficit to the reserve account.

b) Unallocated members' contributions

		2014	2013
		Ushs 000	Ushs 000
At 1 July		24,592,500	24,592,500
Transfer from accumulated members' funds		-	-
At 30 June		<u>24,592,500</u>	<u>24,592,500</u>

As at 30 June 2014, the Fund had unallocated members' contributions of Ushs 24.6 billion that formed part of the reserve account. As at 30 June 2007, the unallocated members' contributions amounted to Ushs 360 billion and through the measures taken by management to identify the respective members to whom the amounts belonged, the unallocated amounts gradually reduced over the years to Ushs 24.6 billion as at 30 June 2012. The directors believe that, in addition to putting in place measures to curtail the growth of the unallocated amounts, the Fund had exhausted all possible measures to identify the members to whom these amounts belonged and accordingly resolved to transfer the Ushs 24.6 billion to the reserve account in accordance with Section 36 (1) (b) of the NSSF Act. In the event that a member of the Fund presents adequate documentation to prove that there are contributions that should have been credited to their account, NSSF will transfer the contributions from the reserve account to the members' account following approval by the Minister of Finance as stipulated in Section 36 (2) of the NSSF Act.

**33. NET CASH USED IN
OPERATING ACTIVITIES**

Note	2014	2013
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**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

		Ushs 000	Ushs 000
Surplus before tax		530,713,953	414,225,229
Depreciation of property and equipment	27	1,216,408	1,939,966
(Gain)/loss on disposal of property and equipment		(346,186)	56,170
Gain on disposal of equity investments held for trading		(111,437)	(927,354)
Amortization of intangible assets	26	1,686,790	1,666,223
Share of results from associates	22	(672,716)	(7,637,357)
Unrealised foreign exchange losses/(gains) on equity investments at fair value through profit or loss	18	1,580,224	(617,658)
Unrealised foreign exchange gains on held to maturity investments	17	(3,807,269)	(1,374,146)
Unrealised foreign exchange (gains)/losses on held for trading investments	15	(1,086,962)	1,730,926
Unrealised foreign exchange gains on deposits with commercial Banks	14	(1,746,435)	(716,046)
Withholding tax at source in accrued income		(31,217,520)	(25,895,506)
Unrealised exchange loss on bank balances		455,713	367,413
Fair value gains on investment properties & CWIP	25&24	(19,197,330)	-
Fair value gain on equity investments held for trading	15	(11,679,788)	(7,856,720)
Fair value gain on equity investments at fair value through profit or loss	18	(60,319,956)	(33,725,285)
Increase/(Decrease) in provisions		180,494	(32,693,310)
Increase in provisions for bad loans		2,884,367	15,219,768
Bonus equity investments received	18	-	(3,596,850)
Decrease in inventories		1,715	3,066
Decrease/(Increase) in trade and other receivables		(5,471,962)	6,347,902
Increase in other payables		6,911,041	1,914,011
Additions to investment properties	25	(11,607,952)	(4,482,738)
Purchase of equity investments at fair value through profit or loss	18	(38,683,163)	(37,620,100)
Purchase of equity investments held for trading	15	(25,512,569)	(9,558,921)
Proceeds from disposal of equity investments held for trading		385,530	2,169,171
Purchase of held to maturity investments	17	(1,198,171,798)	(761,470,065)
Maturities of held to maturity investments	17	425,858,902	205,318,996
Purchase of deposits with commercial banks	14	(1,048,961,370)	(1,104,727,247)
Maturities of deposits with commercial banks	14	1,089,488,400	1,067,957,904
Maturities of loans and advances	19	9,542,376	9,828,442
Payment for capital work-in-progress	24	(7,630,628)	(12,676,401)
Dividends received		2,320,710	244,088
Interest income on loans & Advances	19	(8,454,159)	(8,302,924)
Interest income on held to maturity investments	17	(353,245,341)	(247,242,934)
Interest income on commercial bank deposits	14	(107,982,217)	(118,284,715)
Interest received from held to maturity investments	17	326,756,009	200,937,127
Interest received from commercial bank deposits	14	119,084,912	109,967,332
Income tax (withholding tax) paid		<u>(47,079,755)</u>	<u>(43,721,068)</u>
Net cash used in operating activities		<u>(463,918,969)</u>	<u>(423,233,611)</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

34. RELATED PARTY DISCLOSURES

The following table provides the total amount of transactions that have been entered into with related parties. For further information regarding the outstanding balances at 30 June 2014 and 2013, refer to Notes 13, 14, 17 and 19:

	2014 Ushs'000	2013 Ushs'000
Housing Finance Bank Limited		
Cash balances as at 30 June	<u>614,616</u>	<u>119,085</u>
Fixed deposits		
As at 01 July	39,122,699	29,500,000
Placements	126,803,147	52,139,676
Maturities	(103,787,036)	(44,500,000)
Interest Accrued	<u>4,527,366</u>	<u>1,983,023</u>
As at 30 June	<u>66,666,176</u>	<u>39,122,699</u>
Housing Finance Bank Limited		
Corporate bonds		
As at 01 July	10,612,207	10,602,301
Placements	-	-
Maturities	(2,832,123)	(602,301)
Interest Accrued	<u>1,238,887</u>	<u>612,207</u>
As at 30 June	<u>9,018,971</u>	<u>10,612,207</u>
Loans and Advances		
As at 01 July	40,727,357	43,515,733
Placements	-	-
Maturities	(7,741,755)	(7,781,179)
Interest Accrued	<u>4,034,084</u>	<u>4,992,803</u>
As at 30 June	<u>37,019,686</u>	<u>40,727,357</u>
Uganda Clays Limited		
Loans and Advances		
As at 01 July	15,219,768	14,349,274
Placements	-	-
Maturities	-	99,649
Interest Accrued	<u>2,884,367</u>	<u>770,845</u>
As at 30 June	<u>18,104,135</u>	<u>15,219,768</u>
Dividends Receivable (Associate Companies)		
Housing Finance Bank Limited	4,380,101	2,444,185
TPS (Uganda) Limited	327,074	-
Uganda Clays Limited	<u>111,192</u>	<u>111,192</u>
	<u>4,818,367</u>	<u>2,555,377</u>

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. RELATED PARTY DISCLOSURES (CONTINUED)

	2014 Ushs'000	2013 Ushs'000
Government of Uganda		
Government bonds		
As at 01 July	1,764,245,253	1,334,690,056
Placements	667,075,265	527,316,087
Maturities	(681,535,357)	(288,935,548)
Interest Accrued	<u>251,190,067</u>	<u>191,174,658</u>
As at 30 June	<u>2,000,975,228</u>	<u>1,764,245,253</u>
Withholding tax expense for the year	78,297,276	69,616,573
Key management personnel		
Staff loans		
As at 01 July	849,713	1,010,715
Advances	-	-
Repayments	(343,237)	(161,002)
Accrued interest	<u>-</u>	<u>-</u>
As at 30 June	<u>506,476</u>	<u>849,713</u>

a) Housing Finance Bank Limited

The Fund has 50% shareholding in Housing Finance Bank Limited (the bank).

Bank balances - The bank balances relate to balances on the current accounts held by NSSF in the bank. These accounts are non-interest bearing.

Fixed deposits - The Fund has fixed deposit placements with the bank maturing within a period of 365 days and with interest rates ranging from 16.5% to 21.2%.

Corporate bond - The corporate bond is for a period of 10 years with an interest rate of 13.5% and matures on 12 January 2018.

Loans - Loans to the bank are at interest rates ranging between 12.5% and 15.5%. Refer to Note 19 for the terms and conditions of the facilities.

b) Uganda Clays Limited

The Fund has 32.5% shareholding in Uganda Clays Limited. Refer to Note 19 for the terms and conditions of the facilities.

c) TPS -The Fund has 13.9% shareholding in TPS.

d) Government of Uganda

The Government has 100% control of the Fund. The Fund invests in treasury bonds issued by the Government which have the terms and conditions presented in Note 17. Other significant related party transactions with the Government of Uganda include payment of taxes (Pay as-You-Earn (PAYE), VAT and withholding tax on local supplies and professional services), utility costs and rental income earned from government ministries that occupy the Fund's properties.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

34. RELATED PARTY DISCLOSURES (CONTINUED)

e) Terms and conditions

Other than the terms disclosed above, there have been no guarantees provided or received for any of the above related party balances. For the year ended 30 June 2014, the Fund has recorded an impairment of receivables relating to amounts owed by related parties of Ushs 2.88 billion (2013: Ushs 15.22 billion). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

f) Compensation for key management personnel and directors emoluments

	2014	2013
	Ushs 000	Ushs 000
Non-executive directors' emoluments:		
Directors' allowances	<u>391,500</u>	<u>394,803</u>
Key management remuneration:		
Salaries and allowances	2,645,999	3,071,467
Gratuity	<u>511,844</u>	<u>335,112</u>
	<u>3,157,843</u>	<u>3,406,579</u>
Total compensation for key management personnel	<u>3,549,343</u>	<u>3,801,382</u>

The amounts disclosed above are the amounts recognised as an expense during the reporting period related to key management personnel and directors.

35. CONTINGENT LIABILITIES

- a) The Fund is a litigant in various cases for breach of contract arising in the normal course of business. The directors are of the view that the Fund has high chances of success against the plaintiffs and none of the cases individually or in aggregate would have a significant impact on the Fund's operation. The directors are confident that the Fund shall receive favourable ruling from the outstanding cases. Information on these cases has not been disclosed as the directors consider that the disclosure of the information could prejudice the Fund's position. The cases in which the Fund is a litigant majorly relate to breach of contracts that the Fund entered into and members suing for their unsettled benefit claims.
- b) The Fund received a notice of assessment for corporation tax from Uganda Revenue Authority (URA) amounting to Ushs 84.4 billion. The Fund objected to the assessment on the grounds that URA's tax computations wrongly disallowed expenses that are actually deductible for tax purposes. The Fund has initiated legal proceedings against URA and expects to prevail. No provision has therefore been made in the financial statements.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

36. NSIMBE HOLDINGS LIMITED

Through its wholly owned subsidiary, Premier Developments Limited (PDL), the Fund entered into a joint venture arrangement with Mugoya Estates Limited in which the latter held a 51% share of the joint venture entity, Nsimbe Holdings Limited. Subsequent to the formation, the Fund's investment in Nsimbe Holdings Limited was investigated by the Inspector General of Government (IGG) who declared the Fund's investment illegal and one done in bad faith. As a result of this investigation, Nsimbe Holdings Limited challenged the IGG's findings in the Constitutional Court. The Constitutional Court subsequently declared the agreement leading to the formation of Nsimbe Holdings Limited unconstitutional and therefore the company did not exist in law i.e. a non-entity which cannot sue or be sued. PDL was later dissolved by the Constitutional Court and the Board of Directors of the Fund resolved that the joint venture is formally liquidated and both parties share the joint venture assets in proportion to their shareholding. This investment was written off in 2010 but the Fund has taken legal action to recover its investment. The matter has been referred by court to arbitration.

37. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The estimates and associated assumption are based on historical experiences, the results of which form the basis of making the judgments about the carrying values and liabilities that are not readily apparent from other sources. Actual results ultimately may differ from these estimates.

The Fund makes estimates and assumptions that could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The accounting policies that involve high judgement in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are:

- (i) *Impairment* - The Fund regularly reviews its assets and makes judgements in determining whether an impairment loss should be recognized in respect of observable data that may impact on future estimated cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Further information on impairment is disclosed in Note 16.
- (ii) *Determining fair values* - The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Further information on determination of fair value is disclosed in Notes 25 and 38.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

(iii) *Provisions and contingencies* - A provision is recognized if, as a result of past events, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Management has made judgements in determining the provisions presented in Note 30.

(iv) *Investment property*- The Fund carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Fund engaged an independent valuation specialist to assess fair value as at 31 December 2014. The investment properties were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in note 25.

38. FINANCIAL RISK MANAGEMENT

The Fund has exposure to the following risks from its use of financial instruments:

- Market risk,
- Liquidity risk,
- Credit risk, and
- Capital management risk

Included below is information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing the risks and the Fund's management of capital.

Risk management framework

The Fund's Board of Directors has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board has established an Audit and Risk Committee, and the Risk Department, which are responsible for developing and monitoring the risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Fund through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Fund's Audit and Risk Committee is responsible for monitoring compliance with the Fund's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Fund. The Audit and Risk Committee is assisted in these functions by Internal Audit and Risk functions.

Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, while optimising the return on risk.

Management of market risks

Market risk arises from a decrease in the market value of a portfolio of financial instruments caused by adverse movements in the market variables such as equity, bonds and commodity prices, currency exchange rates and interest rates.

The Board grants authority to take on market risk exposure to the Management Investment Committee (MIC). This committee manages this risk through the guidelines set out in the Fund's investment policy.

Share price risk

The Fund is exposed to equity securities price risk through its investments in quoted shares classified as investments held at fair value through profit or loss and investments held for trading subsequently measured at fair value with the gains/ (losses) are credited/ (debited) to fair value reserves in the shareholders' equity. The Fund's Investment committee diversifies its portfolio. Diversification of the portfolio is done in accordance with the guidelines set out in the Fund's investment policy. All shares held by the company are either quoted or traded on the Uganda, Dar-es-salaam and Nairobi Securities Exchanges.

The table below shows the effect of share price sensitivity on the surplus before tax based on the share price volatility as at 30 June 2014;

Stock Exchange Market	Change in share price %	Effect on surplus before tax Ushs 000
Uganda Securities Exchange	+/- 8.25%	+/- 13,805,139
Nairobi Stock Exchange	+/- 28.61%	+/- 42,298,755
Dar es Salaam Stock Exchange	+/- 20.29%	+/- 1,909,687

Currency risk

The Fund is exposed to currency risk through transactions in foreign currencies. The Fund transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. In respect of monetary assets and liabilities in foreign currencies, the Fund ensures that its net exposure is kept to an acceptable level by matching foreign currency assets to liabilities when considered appropriate. Monitoring of foreign currency fluctuations is done through the Audit and Risk Committee.

The Fund operates wholly within Uganda and its assets and liabilities are reported in Uganda Shillings, although it maintains some of its assets and trades with banks in foreign currencies.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

The Fund had the following currency positions as at 30 June 2014. All balances are in Ushs 000.

	USD	Kshs	Tshs	Ushs	Total
Financial assets					
Cash and bank balances	42,540	153	-	14,591,773	14,634,466
Deposits with commercial banks	41,778,817	404,481	-	639,887,507	682,070,805
Equity securities held-for-trading	-	53,990,329	9,411,962	9,916,262	73,318,553
Trade and other receivables	-	890,270	142	20,825,967	21,716,379
Investments in securities held-to-maturity	-	647,062,696	-	2,145,672,511	2,792,735,207
Equity investments at fair value through profit or loss	-	93,855,720	-	157,418,755	251,274,475
Loans and advances	-	-	-	41,326,952	41,326,952
Total Assets	41,821,357	796,203,649	9,412,104	3,029,639,727	3,877,076,837
Financial liabilities					
Withholding tax payable	-	-	-	901,895	901,895
Other payables	645,562	-	-	25,532,516	26,178,078
Provision for litigation	9,420,195	-	-	-	9,420,195
	10,065,757	-	-	26,434,411	38,500,168
Currency gap					
At 30 June 2014	31,755,600	796,203,649	9,412,104	3,003,205,316	3,838,576,669

The Fund had the following currency positions as at 30 June 2013. All balances are in Ushs 000.

	USD	Kshs	Tshs	Ushs	Total
Financial assets					
Cash and bank balances	322,137	2,411,929	-	12,642,606	15,376,672
Deposits with commercial banks	42,017,631	-	-	689,936,464	731,954,095
Equity securities held-for-trading	-	25,965,249	3,254,070	6,094,008	35,313,327
Trade and other receivables	-	-	-	16,244,417	16,244,417
Investments in securities held-to-maturity	-	154,441,351	-	1,835,684,359	1,990,125,710
Equity investments at fair value through profit or loss	-	48,818,508	-	105,033,072	153,851,580
Loans and advances	-	-	-	45,299,537	45,299,537
Total Assets	42,339,768	231,637,037	3,254,070	2,710,934,463	2,988,165,338
Financial liabilities					
Withholding tax payable	-	-	-	901,895	901,895
Other payables	143,848	-	-	19,123,189	19,267,037
Provision for litigation	9,239,702	-	-	-	9,239,702
	9,383,550	-	-	20,025,084	29,408,634
Currency gap					
At 30 June 2013	32,956,218	231,637,037	3,254,070	2,690,909,379	2,958,756,704

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

The table below indicates the currencies to which the Fund had significant exposure at 30 June on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US Dollar and Kenya Shilling, with all other variables held constant, on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the statement of comprehensive income and equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the US Dollar and Kenya Shilling would have resulted in an equivalent but opposite impact.

Currency	Change in currency rate in %	Effect on profit before tax	Effect on accumulated surplus	Change in currency rate in %	Effect on profit before tax	Effect on accumulated surplus
		2014 Ushs '000	2014 Ushs '000		2013	2013 Ushs '000
USD	+/-0.9%	+/-285,800	+/-1,525,548	+/-0.9%	+/-296,606	+/-813,603
KES	+/-3.5%	+/-27,867,128	+/-5,932,688	+/-3.5%	+/-8,107,296	+/-3,164,013
TZS	+/- 0.3%	+/-28,236	+/-508,516	+/- 0.3%	+/-9,762	+/-271,201

The following exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2014 Ushs	2013 Ushs	2014 Ushs	2013 Ushs
KES	30.19	31.28	30.26	31.28
USD	2,578.62	2,601.20	2,650.79	2,639.06
TZS	1.5776	1.5821	1.5691	1.5950

Interest rate risk

In broad terms, interest rate risk is the risk that concerns the sensitivity of the Fund's financial performance to changes in interest rates. The Fund's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the Fund's business strategies. In order to minimize interest rate risk, the Fund has a policy whereby the approved investment commitments are matched to members' funds.

The Fund does not account for any fixed rate or variable rate financial assets at fair value through profit or loss. Therefore a change in interest rate at the statement of financial position date will not affect the Fund's surplus or deficit. The financial assets held at variable interest rates relate to the corporate bonds for East African Development Bank (EADB). These balances are not significant when compared with the total financial assets of the Fund as at year end, hence a change of 1 basis point in the interest rate for these instruments would have an insignificant effect on the statement of comprehensive income. The table below summarizes the exposure to interest rate risk. Included in the table are the Fund's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing dates and the maturity dates. All balances are in Ushs 000.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Assets	Matured	<3 months	3-12 months	> 1 year	Non-Interest bearing	Total
Cash and bank balances	-	-	-	-	14,634,466	14,634,466
Deposits with commercial banks	-	93,545,656	588,525,149	-	-	682,070,805
Equity securities held-for-trading	-	-	-	-	73,318,553	73,318,553
Trade and other receivables	915,224	-	-	-	20,801,155	21,716,379
Investments in securities held-to-maturity	-	205,756,417	276,283,330	2,310,695,460	-	2,792,735,207
Equity investments at fair value through profit or loss	-	-	-	-	251,274,475	251,274,475
Loans and advances	-	-	-	41,326,952	-	41,326,952
Total Assets	915,224	299,302,073	864,808,479	2,352,022,412	360,028,649	3,877,076,837
Liabilities						
Withholding tax payable	-	-	-	-	901,895	901,895
Trade and other payables	-	-	-	-	26,178,078	26,178,078
Total Liabilities	-	-	-	-	27,079,973	27,079,973
Gap as at 30 June 2014	915,224	299,302,073	864,808,479	2,352,022,412	332,948,676	3,849,996,864

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Assets	Matured	<3 months	3-12 months	> 1 year	Non Interest bearing	Total
Cash and bank balances	-	-	-	-	15,376,672	15,376,672
Deposits with commercial banks	-	220,860,570	511,093,525	-	-	731,954,095
Equity securities held-for-trading	-	-	-	-	35,313,327	35,313,327
Trade and other receivables	1,735,733	-	-	-	14,508,684	16,244,417
Investments in securities held-to-maturity	-	109,615,696	353,308,202	1,527,201,812	-	1,990,125,710
Equity investments at fair value through profit or loss	-	-	-	-	153,851,580	153,851,580
Loans and advances	-	-	-	45,299,537	-	45,299,537
Total Assets	1,735,733	330,476,266	864,401,727	1,572,501,349	219,050,263	2,988,165,338
Liabilities						
Withholding tax payable	-	-	-	-	901,895	901,895
Trade and other payables	-	-	-	-	19,267,037	19,267,037
Total Liabilities	-	-	-	-	20,168,932	20,168,932
Gap as at 30 June 2013	1,735,733	330,476,266	864,401,727	1,572,501,349	198,881,331	2,967,996,406

NATIONAL SOCIAL SECURITY FUND
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONT'D)

Fair value versus carrying amounts

The management assessed that the fair values of cash and deposits with commercial banks, trade receivables, loans and advances and other payables reasonably approximate their carrying amounts largely due to the short-term maturities of these instruments and/or because they carry interest rates that reasonably approximate to market rates.

The carrying amounts of equity securities held for trading and at fair value through profit or loss are the same as their fair values since the instruments are presented at fair value.

The financial instruments whose fair values differ from the carrying value as shown in the statement of financial position are analysed as follows:

	30 June 2014		30 June 2013	
	Carrying amount Ushs '000	Fair Value Ushs '000	Carrying amount Ushs '000	Fair Value Ushs '000
Investment securities held to maturity	2,792,735,207	2,819,527,806	1,990,125,710	2,016,918,309

Valuation hierarchy

IFRS 13 requires a three tiered disclosure for all financial assets and financial liabilities that are carried in the books of entities at fair value. This fair value disclosure is divided into three levels as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities e.g. quoted equity securities.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (e.g. prices) or indirectly (e.g. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data. These items are not Level 1 products and contain at least one significant input parameter which could not be price tested from any of the methods described for Level 2 products. Examples are products where correlation is a significant input parameter and products where there is severe illiquidity in the markets for a prolonged period of time.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value measurement hierarchy

The following table provides the fair value measurement hierarchy of the Fund's assets and liabilities measured at fair value or those for which fair value is disclosed:

	Date of valuation	Total Ushs '000	Fair value measurement using		
			Quoted price in active market (Level 1) Ushs '000	Significant observable input (Level 2) Ushs '000	Significant unobservable input (Level 3) Ushs '000
Financial instruments measured at fair value					
Quoted equities- at fair value through profit or loss (Note 18)	30-Jun-14	251,274,475	251,274,475	-	-
Quoted equities-held for trading (Note 15)	30-Jun-14	73,318,554	73,318,554	-	-
Assets for which fair values are disclosed					
Investment securities held to maturity	30-Jun-14	2,819,527,806	-	2,819,527,806	-

There have been no transfers between the levels during the period.

Description of valuation techniques used and key inputs to valuation of held to maturity investments:

Valuation technique	Significant observable inputs	Range (weighted average)
Held to maturity investments	Market approach	10.25% - 14.35% (12%)
	Market interest rate for similar bonds	9.25% - 14.5% (11.8%)

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations on its financial liabilities. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management of liquidity risk

The Fund has access to a diverse funding base. Funds are raised mainly from members' contributions and reserves. The Fund continually assesses liquidity risk by identifying and monitoring changes in funding required in meeting business goals and targets set in terms of the overall Fund strategy. In addition, the Fund has a Management Investment Committee that meets on a regular basis to monitor liquidity risk, review and approve liquidity policies and procedures.

Exposure to liquidity risk

The table below analyses financial assets and financial liabilities into relevant maturity groupings based on the remaining period at 30 June 2014 to the contractual maturity date. All balances are in Ushs 000.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 30 June 2014	Matured	<3 months	3-12 months	1-5 years	> 5 years	Total
Financial assets						
Cash and bank balances	14,634,466	-	-	-	-	14,634,466
Deposits with commercial banks	-	93,545,656	588,525,149	-	-	682,070,805
Equity securities held-for-trading	-	-	-	73,318,553	-	73,318,553
Trade and other receivables	915,224	-	20,801,155	-	-	21,716,379
Investments in securities held-to-maturity	-	205,756,417	276,283,330	833,748,441	1,476,947,019	2,792,735,207
Equity investments at fair value through profit or loss	-	-	-	251,274,475	-	251,274,475
Loans and advances	-	2,200,375	6,957,736	37,838,403	19,637,519	66,634,034
Total financial assets	15,549,690	301,502,448	892,567,370	1,196,179,872	1,496,584,538	3,902,383,919
Financial liabilities						
Other payables	-	26,178,078	-	-	-	26,178,078
Financial liabilities	-	26,178,078	-	-	-	26,178,078
Gap as at 30 June 2014	15,549,690	275,324,370	892,567,370	1,196,179,872	1,496,584,538	3,876,205,841

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 30 June 2013	Matured	<3 months	3-12 months	1-5 years	> 5 years	Total
Financial assets						
Cash and bank balances	15,376,672	-	-	-	-	15,376,672
Deposits with commercial banks	-	220,860,570	511,093,525	-	-	731,954,095
Equity securities held-for-trading	-	-	-	35,313,327	-	35,313,327
Trade and other receivables	1,735,733	-	14,508,684	-	-	16,244,417
Investments in securities held-to-maturity	-	109,615,696	353,308,202	1,027,017,205	500,184,607	1,990,125,710
Equity investments at fair value through profit or loss	-	-	-	153,851,580	-	153,851,580
Loans and advances	-	2,398,409	7,583,933	41,243,860	21,404,895	72,631,097
Total financial assets	17,112,405	332,874,675	886,494,344	1,257,425,972	521,589,502	3,015,496,898
Financial liabilities						
Other payables	-	19,267,037	-	-	-	19,267,037
Financial liabilities	-	19,267,037	-	-	-	19,267,037
Gap as at 30 June 2013	17,112,405	313,607,638	886,494,344	1,257,425,972	521,589,502	2,996,229,861

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's loans and advances, trade and other receivables, deposits with commercial banks and investments in government and corporate bonds. For risk management reporting purposes, the Fund considers all elements of credit risk exposure such as individual obligator default risk, country and sector risk.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Management Investment Committee. The Investments Department is responsible for oversight of the Fund's credit risk, including:

- Formulating credit policies, covering collateral requirements and credit assessments, risk grading and reporting. Documentary, legal procedures and compliance with regulatory and statutory requirements is done in consultation with the Fund's Legal and Compliance Department.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Management Investment Committee. Larger facilities require approval by the Board of Directors as appropriate.
- Reviewing compliance of investment mix with agreed exposure limits, including those for selected industries, country risk and product types. The Fund's Investment Committee is responsible for monitoring the credit quality of investments and ensuring that appropriate corrective action is taken and providing advice, guidance and specialist skills to business units to promote best practice throughout the Fund in the management of credit risk.

The Investment Department is required to implement the Fund's credit policies and procedures, with credit approval authorities delegated from the Fund's Board of Directors. The Investment Department is responsible for the quality and performance of the Fund's investment portfolio and for monitoring and controlling all credit risks in the Fund's portfolio, including those subject to Board approval.

Regular audits of the Investment Department and the Fund's credit processes are undertaken by the Internal Audit Department.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure as at the statement of financial position date was:

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Note	2014 Ushs 000	2013 Ushs 000
Bank balances		14,573,896	15,350,500
Deposits due from banks	14	682,070,805	731,954,095
Trade and other receivables		27,821,374	21,778,375
Investment securities held-to-maturity	17	2,792,735,207	1,990,125,710
Loans and advances	19	<u>59,431,087</u>	<u>60,519,305</u>
		<u>3,576,632,369</u>	<u>2,819,727,985</u>

The concentration of credit risk for loans at amortised costs as at the reporting date was:

	2014 Ushs 000	2013 Ushs 000
DFCU Bank Limited: Loan for mortgage financing	519,352	1,500,000
Housing Finance Bank Limited	37,019,686	40,727,357
Uganda Clays Limited	18,104,135	15,219,768
Staff loans	<u>3,787,914</u>	<u>3,072,180</u>
	<u>59,431,087</u>	<u>60,519,305</u>

The ageing of loans at amortized cost as at the statement of financial position date was as follows:

	30 June 2014		30 June 2013	
	Gross Ushs 000	Impairment Ushs 000	Gross Ushs 000	Impairment Ushs 000
Not past due nor impaired	41,326,952	-	45,299,537	-
Past due 30-60 days	-	-	-	-
Past due 31-120 days	-	-	-	-
Past due 120-360 days	18,104,135	(18,104,135)	15,219,768	(15,219,768)
More than a year	-	-	-	-
	<u>59,431,087</u>	<u>(18,104,135)</u>	<u>60,519,305</u>	<u>(15,219,768)</u>

As at the reporting date, there was no impairment loss allowances in respect of held to maturity investments.

The concentrations of credit risk for trade and other receivables as at the reporting date by the type of receivables was as follows:

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2014 Ushs 000	2013 Ushs 000
Staff advances	681,851	838,930
Trade receivables	8,117,311	7,926,082
Contributions receivable	1,021,943	1,021,943
Rent receivable	3,149,352	2,765,223
VAT recoverable	1,110,054	1,099,556
Cash advances to investment managers	915,224	1,735,733
Dividends receivable	12,825,639	6,390,908
Total	<u>27,821,374</u>	<u>21,778,375</u>

The ageing of trade and other receivables as at the reporting date was as follows:

	30-Jun-14		30-Jun-13	
	Gross Ushs 000	Impairment Ushs 000	Gross Ushs 000	Impairment Ushs 000
Not past due nor impaired	16,201,916	-	11,087,070	-
Past due 30-60 days	-	-	26,632	-
Past due 31-120 days	3,951,675	-	3,281	(1,641)
Past due 120-360 days	7,667,783	(7,667,783)	10,661,392	(6,411,170)
	<u>27,821,374</u>	<u>(7,667,783)</u>	<u>21,778,375</u>	<u>(6,412,811)</u>

Based on historical default rates, the Fund believes that no impairment allowance is necessary in respect of trade receivables not past due by 90 days.

The allowance account in respect of trade and other receivables (as per Note 16) is used to record impairment losses unless the Fund is satisfied that no recovery of the amount owing is possible. At that point the amount considered irrecoverable is written off against the financial asset directly.

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Categories of financial assets and financial liabilities	2014	2013
	Ushs 000	Ushs 000
FINANCIAL ASSETS		
Held-for-trading		
Investment securities held-for-trading	<u>73,318,553</u>	<u>35,313,327</u>
Financial assets at fair value through profit or loss		
Equity investments	<u>251,274,475</u>	<u>153,851,580</u>
Held-to-maturity Investments		
Deposits with commercial banks	682,070,805	731,954,095
Investments in securities held-to-maturity	<u>2,792,735,207</u>	<u>1,990,125,710</u>
Total	<u>3,474,806,012</u>	<u>2,722,079,805</u>
Financial Assets at amortised cost		
Cash and bank balances	14,634,466	15,376,671
Trade and other receivables	21,716,379	16,244,417
Loans and advances	<u>41,326,953</u>	<u>45,299,752</u>
	<u>77,677,798</u>	<u>76,920,840</u>
Total financial assets	<u>3,877,076,838</u>	<u>2,988,165,552</u>
FINANCIAL LIABILITIES		
Financial liabilities at amortised cost		
Other payables	<u>26,178,078</u>	<u>19,267,037</u>

e) Capital management risk

The primary source of capital used by the Fund is member contributions and income from investments. The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analyses. The process is ultimately subject to approval by the Board. There have been no significant changes in the Fund's capital management policies and processes and capital structure during the past year and previous year."

An important aspect of the Fund's overall capital management process is the setting of target risk and inflation adjusted rates of return, which are aligned to performance objectives and ensure that the Fund is focused on the creation of value for the members. The Fund's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, and taking appropriate actions that will provide the target return in light of changes in economic conditions and risk characteristics.

The Fund seeks to optimise the structure and investment of capital to ensure that it consistently maximises returns to its members within an acceptable risk appetite. The NSSF Act provides that members must be provided with a minimum return of at least 2.5%. An interest rate of 11.5% was declared for the year 2014 (2013: 11.23%).

39. ESTABLISHMENT

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

The Fund was established in Uganda under section 2 of the NSSF Act (Cap 222).

40. SUBSEQUENT EVENTS

There were no events occurring after the reporting date which had an impact on the financial position or results of the Fund.

41. PRIOR YEAR ADJUSTMENTS AND RECLASSIFICATIONS

(i) Service fees from tenants

The Fund bills tenants for service fees for maintenance of the properties on a monthly basis, as part of the rental agreements. The maintenance is performed by a property manager, who then bills the Fund for the expenses incurred. Therefore, the property manager acts as a contractor to maintain the properties. The service fee billed to the tenants should be recognised as income in the Fund's financial statements, and the fee paid to the property manager should be recognised as operating expenses. However, during the year ended 30 June 2013, the service fee charged to the tenants and the fee paid to the property manager amounting to Ushs 3,142.714 million and US\$ 2,211.879 million, respectively, were recognised in other payables instead of the statement of comprehensive income.

(ii) Share of associate's profit or loss and other comprehensive income

One of the Fund's associates, Uganda Clays Limited, uses the revaluation model to measure its property, plant and equipment while the Fund uses the cost model. Therefore, before recognising its share of profit or loss in the associate, the Fund needs to adjust the associate's financial results and position to be in line with the Fund's accounting policy.

The associate's property, plant and equipment were revalued during the year ended 30 June 2013. However, in preparing the financial statements for the year ended 30 June 2013, the fund did not adjust the associate's financial statements to be in line with its accounting policy. Instead, it recognised Ushs 1,955.43 million as its share of the associate's revaluation surplus. Ushs 1,308.753 million was recognised in a reserve in equity (Share of associate's reserves) through other comprehensive income while Ushs 586.629 million was credited directly to accumulated surplus. In addition, it did not adjust the associate's profit for the year ended 30 June 2013 for the impact of the revaluation on the depreciation charge for the year. Therefore, its share of profit in the associate was understated by Ushs 377.918 million.

(iii) Reclassification of withholding tax payable

An amount of US\$ 142.024 million, being withholding tax payable as at 30 June 2013 which was classified as other payables in the financial statements for the year then ended, has been reclassified to withholding tax payable in the statement of financial position.

The misstatements have been corrected by restating/reclassifying each of the affected financial statement line items for the year ended 30 June 2013 as follows (there is no effect on the balances at 1 July 2012):

NATIONAL SOCIAL SECURITY FUND
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41. PRIOR YEAR ADJUSTMENTS AND RECLASSIFICATIONS (CONTINUED)

	Note	As previously stated Ushs '000	Adjustment Ushs '000	As restated Ushs '000
Impact on the statement of comprehensive income				
Rental income	a	8,259,951	3,142,714	11,402,665
Share of results from Associates	b	7,259,438	377,918	7,637,356
Other operating expenses	a	(28,260,559)	(2,211,879)	(30,472,438)
Impact on the statement of financial position				
Investment in associates	c	74,720,713	(1,577,511)	73,143,202
Withholding tax payable	d	901,895	142,024	1,043,919
Other payables	e	20,197,871	(1,072,858)	19,125,013
Accumulated surplus	f	90,056,169	722,125	90,778,294
Share of associate's reserves	g	1,368,801	(1,368,801)	-

- a) Recognition of service fees billed to tenants and fee paid to the property managers.
- b) This adjustment relates to de-recognition of the depreciation charge on the revaluation surplus during the year ended 30 June 2013 to ensure that the Fund's share of the profits of the associate exclude the impact of the revaluation.
- c) Relates to de-recognition of the share of the revaluation surplus of Ushs 1,955.43 million net of the depreciation charge in b) above.
- d) Reclassification of withholding tax liabilities from other payables.
- e) De-recognition of difference between the service fee recovered from tenants and fee paid to the property managers of Ushs 930.834 million and reclassification of withholding tax of Ushs 142.024 million to the withholding tax payable line.
- f) Made up of the net effect of the adjustments to the statement of comprehensive income of Ushs 1,308.753 million and the de-recognition of the amount credited directly to accumulated surplus of Ushs 586.629 million relating to the share of the associate's revaluation surplus
- g) De-recognition of the share of associate's revaluation surplus as explained in b) above.