PUBLIC SERVICE PENSIONS FUND

2021 ANNUAL REPORT

PUBLIC SERVICE PENSIONS FUND

KEEPING YOUR PENSION PROMISE

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MANDATE

The Public Service Pensions Fund (PSPF) was established by an act of Parliament under Cap 260 of the Laws of Zambia Act No. 35 of 1996. It is a partially funded defined benefits scheme, which provides pension benefits to retired public servants and survivors.

PSPF is financed by pension contributions from the employer (Government) and employees who contribute each at the rate of 7.25% of the pensionable monthly salary. Additional funds are appropriated by parliament to meet the funding gap and payment of early retirement and deceased cases.

The Membership of the Fund is defined by the PSP Act, and comprises staff from the Civil Service, the Teaching service, the Defence Forces, Security Wings and Judiciary.

VISION

Quality Life and a Secured Future for Members and their Dependents.

MISSION

To expeditiously pay the exact benefits whilst providing value added products to secure the future of our members and their dependents.

CORE VALUES

The Core Values of the Fund are:

1. Excellence
2. Professionalism
3. Integrity
4. Customer Focus
5. Accountability
6. Leadership

DEPARTMENTS OF THE FUND

The Fund has four key Directorates namely:

1. Pensions Administration
2. Human Resource and Administration
3. Finance & ICT
4. Investments

EXPLANATORY NOTE

This report has been published after the tenure of the Office of the Board of Directors that presided over the affairs of the Fund during the period under review.

BOARD OF DIRECTORS

Mr. John Kasanga
Board Chairman

Brig. General Nathan Chiselwa
Board Member

Mr. Isaac Ngoma
Board Member

Mrs. Bernadette Muzumbwe Katongo - **Board Member**

Mr. Kayula Chimfwembe
Board Member

Mrs. Musonda Ulaya
Board Member

Mr. Makai Makai
Board Member

Mr. Luwani Soko
Board Member

Mr. Allan Nyirenda
Board Member

Mr. Nicholas Kabaso
Board Member

Evangelist Sepiso Kabalanyana
Board Member

Mr. Chambani Lisulo
Board Member

Mr. Francis P. Nyirenda
Acting Secretary and Chief Executive

EXECUTIVE MANAGEMENT

Mr. Francis P. Nyirenda
Acting Secretary and Chief Executive

Ms. Sampa B. Kangwa
Director - Pension Administration

Mr. Kingsley Kabuta
Acting Director - Finance & ICT

Mrs. Kunda Musonda - Chola
Director - Investments

Mr. Derick Lungu
Director - Human Resource & Administration

CHAIRMAN'S REMARKS

It is my honor and pleasure to present the 2021 Annual Report for the Public Service Pensions Fund (PSPF). This report highlights some of the milestones achieved under various strategic objectives outlined in the 2020-2024 Strategic Plan.

We are proud to have witnessed a year which demonstrated the Government's commitment towards the plight of pensioners by releasing funds to dismantle the outstanding arrears owed over the years.

During the year under review, the Fund also recorded growth in its Net Assets and Investments portfolio, an indication of the positive trajectory towards the accomplishment of the deliverables in the 2020-2024 Strategic Plan.

PSPF also embarked on ensuring that operational efficiency was attained through the roll out of Information Technology equipment in district offices in line with its modernization plan.

We are also glad that the Fund has continued to embark on New Technological advancements aimed at making the institution more responsive to the needs of the clients.

The Board and Management of the Fund set bold and ambitious goals anchored on the vision of the institution. Success would not have been possible without the unwavering support of the Government of the Republic of Zambia through the Ministry of Finance and National Planning, our partners, the Zambia National Pensioners Association (ZANAPA), Civil Servants and Allied Workers Union (CSAWUZ) and the Zambia National Union of Teachers (ZNUT).

Going forward, the Board and Management of PSPF will remain focused on ensuring that it continues carrying out its mandate in line with its strategic plan, The National Development Plan, and the Vision 2030.

Mr. John Kasanga
Board Chairperson
Public Service Pensions Fund Board.

CHIEF EXECUTIVE'S REMARKS

Expeditiously paying pensioners and ensuring growth and sustainability of the Fund is critical to the Board and Management of the Fund. It is in this regard that we are always striving to focus on goals that help us increase our investment portfolio and ensure that we keep the pension promise.

It gives us pride and joy to see that we are heading towards further reducing the waiting period for pensioners from Five years to less than three months owing to the demonstrated government support.

We are glad that during the year under review, positives were recorded in terms technological advancements, total net assets base and Investment Portfolio growth.

Despite the uncertainties and disruptions caused by the Covid -19 Pandemic, Management and Staff continued working towards achieving objectives of the 2020-2024 Strategic Plan having put in place all Risk Mitigating factors that guaranteed the safety of our employees and clients.

The year under review would have not been successful without the Support of the Government and other co-operating partners. The Management and Staff of PSPF are also grateful for the support the Board renders through its oversight and guidance to the Fund.

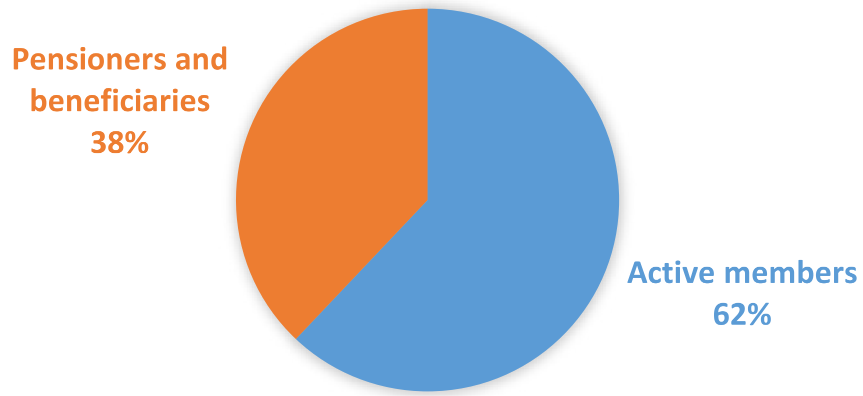
Mr. Francis P. Nyirenda
Acting Secretary and Chief Executive
Public Service Pensions Fund Board

1 Operations of the Fund

1.1. Membership Profile

The total membership of the Fund as of 31st December 2021 stood at 156,865 compared to 148,893 in December 2020. There was an increase of 7,972 representing 5.3%. This was mainly due to recruitments done under Defense Forces in the 1st and 3rd quarters of the year 2021. The total membership comprised 97,353 active members and 59,512 Pensioners and Beneficiaries.

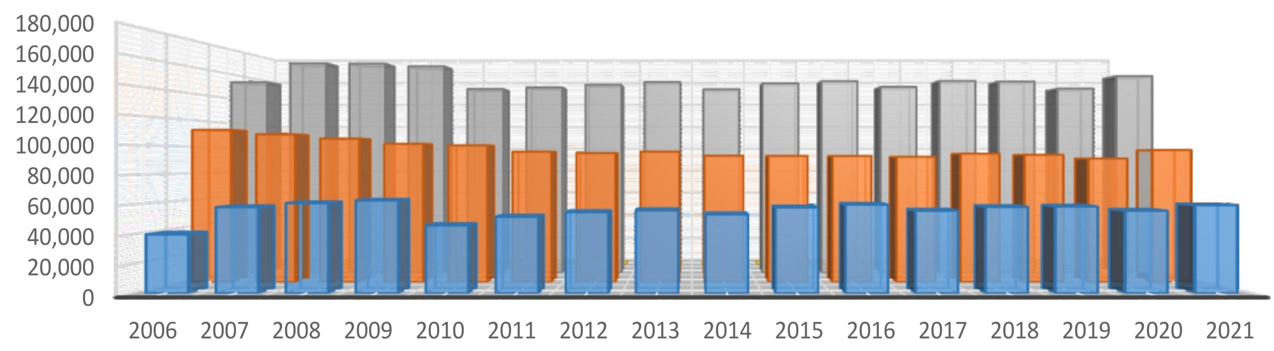
Figure 1: Membership Profile



The number of active members increased by 6,201 from the previous year of 91,152 representing 6.8% increase. The number of Pensioners and beneficiaries increased by 2,249 (3.93%) from the year 2020 of 57,263.

Figure 2 below highlights the membership and dependence ratio from 2006 to 31st December 2021. The support ratio stood at 1:1.6 against the ideal of 1:5.

Figure 2: Member Profile and Dependency Ratio from 2006 to December 2021



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Pensioners and Beneficiaries	39,791	58,223	60,954	62,755	45,830	51,716	54,827	56,079	53,281	58,008	59,887	55,815	58,363	58,634	55786	59,512
Active members	112,19	108,92	105,80	101,97	100,82	96,182	95,156	96,133	93,135	93,060	92,990	92,365	94,671	93,848	91152	97,353
Total	151,9	167,1	166,7	164,7	146,6	147,8	149,9	152,2	146,4	151,0	152,8	148,1	153,0	152,4	146,9	156,8
Dependance ratio	0.4	0.5	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6

The table shows that active members have been reducing due to the non-entry of new members from the Civil Service onto the Scheme since 2000.

Analysis of active members by Ministry

The PMEC (which represents all other Ministries except Defense, Home Affairs and OOP) accounted for 45% of total membership followed by Defense and Home Affairs at 25% and 27 % respectively and Office of the President at 2%.

Figure 3: Active members per Ministry

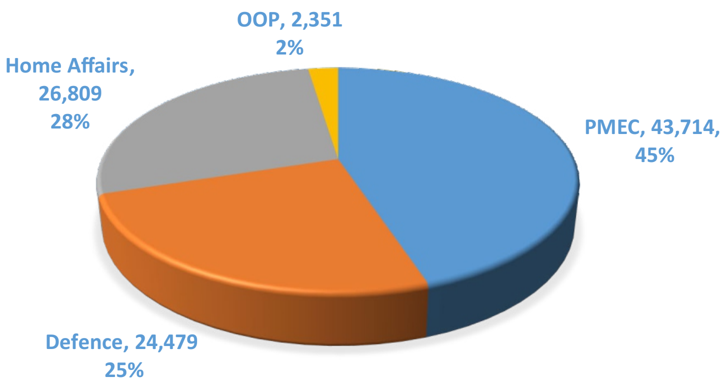


Table 1: Analysis of active members by Gender

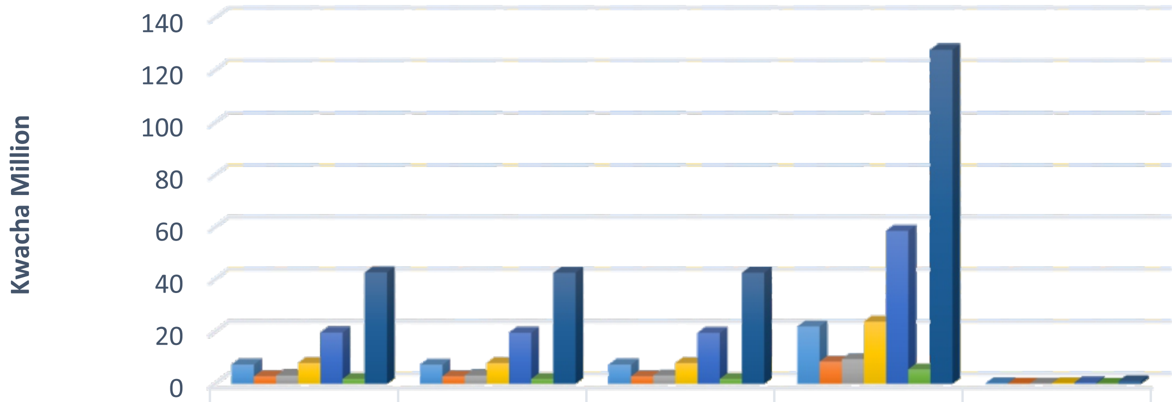
MINISTRY	FEMALE	MALE	TOTAL
ARMY	2,149	12,009	14,158
ZNS	753	5037	5,790
ZAF	685	3846	4,531
OOP	658	1,693	2,351
PMEC	30,214	40,309	70,523
TOTAL	**34,459**	**62,894**	**97,353**
	35.40%	**64.60%**	

The gender analysis indicates that female active members stand at 35.4% compared to 64.6% for male active members. In relation to longevity, women live longer than men implying that the Fund will have more female spouses and children being beneficiaries.

1.2. Contributions by active members

Total expected annual contributions stood at K1.01 billion compared to K920 million in 2020 representing an increase of K91.3 million or 10%. The contribution rate stands at 14.5% shared equally between the employer and employee.

Figure 4: 7.25% Contributions as of 31st December 2021



	OCT	NOV	DEC	Total	%
Army	7.352	7.294	7.335	21.981	17%
ZAF	2.836	2.831	2.834	8.501	7%
ZNS	3.138	3.151	3.166	9.455	7%
Home Affairs	7.944	7.924	7.921	23.789	19%
PMEC	19.6	19.528	19.475	58.603	46%
OOP	1.832	1.834	1.843	5.509	4%
Total	42.702	42.562	42.574	127.838	100%

1.3. Monthly pension to Pensioners and Beneficiaries

The total annual annuity bill in 2021 was K647.9 million (K54 million per month) for an average number of 59,404 compared to K 610.8 million (K50.9 million per month) for an average number of 57,741 Pensioners and Beneficiaries per month in 2020. The increase was attributed to the rise in the number of retirement cases. The effective date of 1st October in the monthly pension increment in 2021 assisted in reduction of annual monthly pension. The cost would have been high if the effective date was 1st January 2021.

Table 2: Monthly Pension

	2021	2020	Variance
Average no. of pensioners	59,404	57,741	1,663
Annuity bill K 'million per annum	647.9	610.8	37.1
Average Annuity bill per month K 'million	53.9	50.9	3.0

The total number of pensioners and beneficiaries was 59,512 by 31st December 2021.

Gender analysis of pensioners and beneficiaries

Table 3: Gender analysis as of 31st December 2021

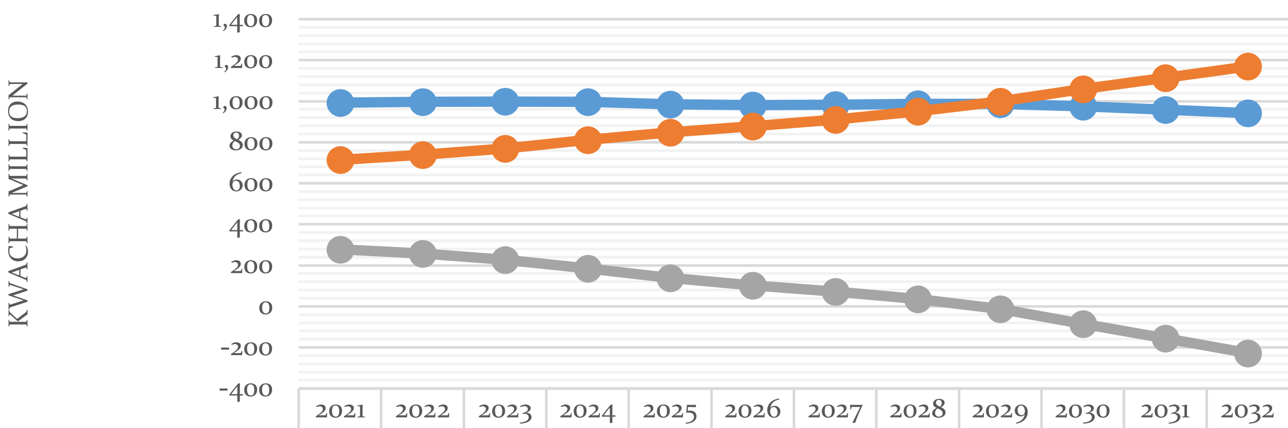
	MALE	%	FEMALE	%	TOTAL
Members	30,091	0.74	10,572	0.26	40,663
Spouses	1,395	0.08	16,042	0.92	17,437
Guardians	593	0.42	819	0.58	1,412
Total	32,079		27,433		59,512

The Gender analysis on pensioners and beneficiaries has overall 74% male and 26% female. However, on individual categories it shows 8% male and 92% female on spouses and 42% male and 58% female on guardians. The spouses gender shows more men dying earlier than female as earlier analyzed in table 2 above.

Forecast of contributions and annuity bill in the next 10 years

The analysis provides a 10-year forecast and whether the Fund will be able to meet the annuity bill from member contribution given the high numbers of retirement cases and no new entrants from Civilians other than Defense and Security wings.

Figure 5: Contributions Versus Annuity Bill



	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Contributions	992	997	998	997	986	981	983	987	987	974	958	942
Annuity bill	714.00	740	770	811	848	878	911	950	998	1,059	1,114	1,169
Variance	278	257	228	186	138	103	73	36	-12	-85	-155	-227

Note: The pension indexation was implemented in the period under review (2021) and if the contribution rate is not adjusted upwards in the next few years, the Fund will fail to pay monthly pension using contributions by the year 2029. However, if the annuity bill remains constant, the Fund will manage up to the year 2030.

1.4. Lump sum pension benefits paid.

In 2021, a total of K2.59 billion was paid to 3,307 Pensioners and beneficiaries towards lump sum pension arrears compared to K1.15 billion paid in 2020 to 2,218 Pensioners and Beneficiaries. There was an increase of about K1.44 billion representing 125% increment above the budget in 2021 arising from the supplementary budget provided by Government. A total of K1.23 billion representing 48% was paid out to 1,430 statutory retirement cases and K1.36 billion representing 52% was paid to 1,877 early /death retirement cases.

Table 4: Lump Sum Benefits Paid in 2021 and 2020

Category	January to December 2021		January to December 2020	
	No. of cases	Amount K' million	No. of cases	Amount K' million
Statutory retirement	1,430	1,231.5	932	679.17
Early and Deceased	1,877	1,355.8	1,286	463.77
Recoveries-statutory Early/Deceased & refunds			-	7.99
Total	**3,307**	**2,587.3**	**2,218**	**1,150.93**

1.4.1. Outstanding lump sum benefits as of 31st December 2021

The Fund had 2,249 cases amounting to K1.38 billion compared to 1,501 cases pending to be paid lump sum pension amounting to K1.14 billion resulting in an increase in cases by 748. This was attributed to increased retirement cases in the period under review.

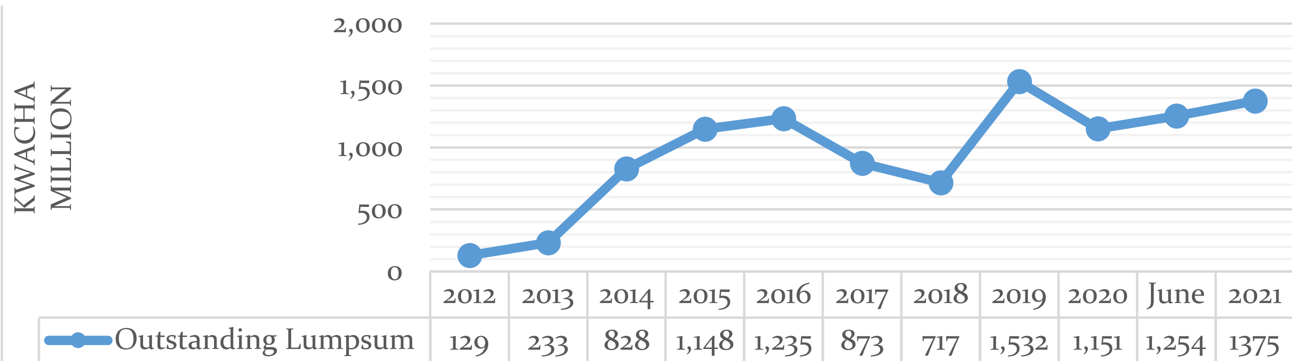
Out of the stated figure, statutory retirements were 1,375 cases which were a responsibility of the Fund and amounted to K879.58 million representing 61% of the total pending amount. Pending cases for early retirement and deceased were 874 cases which were a responsibility of Government and amounted to K495.40 million representing 39% of the pending amount.

Due to significant improvement in funding for lump sum payments to PSPF in the period under review, the average waiting time for payment of lump sum benefits drastically reduced. Waiting period for statutory cases was 229 days and 315 days for early retirements compared to 434 days for statutory and 961 for early retirement in 2020 showing a reduction of 205 days and 646 days respectively.

Table 5: Pension benefits arrears

Category	2021		2020	
	No. of cases	Amount (K' Million)	No. of cases	Amount (K' Million)
Statutory Retirements	375.0	879.58	414	369.5
Early and Deceased	874.0	495.40	1,087	772.4
Total	**2,249.0**	**1,374.98**	**1,501**	**1,141.9**

Figure 6: Analysis of unpaid lumpsum over a 9-year period

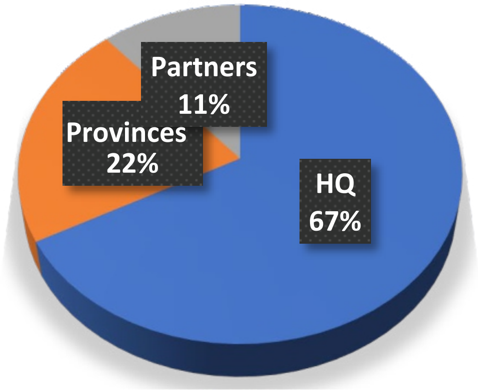


1.5. Customer Service and decentralization

The total number of cases attended to by the Fund was 41,816 compared to 34,763 cases in 2020 representing an increase of 7,053 or 20%. Headquarters handled 67% of the cases, Ndola Office 22% and 11% by partners.

To reduce staff and administrative cost, the Board approved closure of all provincial offices except Ndola. It was agreed that going forward partners would help in the running of all decentralized offices. 49 partners were trained as of 31st December 2021 and revised Memorandum of Understanding (MoU) signed with them.

Figure 7: Resolution of Cases



Of the 4,637 partners, the Zambia National Pensioners Association (ZANAPA) attended to 2,563 cases representing 55%, Zambia National Union of Teachers (ZNUT) 1,143 cases representing 25% and Civil Servants and Allied Workers Union of Zambia (CSAWUZ) attended to 931 cases representing 20%.

2 Investments of the Fund

The investment portfolio registered an annualized return of 31% (K721 million), which was 14.6 percentage points above the end of year inflation rate of 16.4%. The effective annualized return was 18%. This implies that a positive return was earned. This result does not include the non-performing asset (Longacres Mall) as it was still considered as work in progress. If included the return drops to 24%. Over the same period the previous year, an annualized return of 16% was achieved.

2.1. Equity Portfolio

The Equity portfolio registered a gain of about K234 million translating to an annualized return of 160% compared to 5% in 2020. There is a huge improvement in the performance of the portfolio resulting in the growth of the asset. The best performing stock was Lafarge Cement Plc followed by Zambia Sugar Plc. All stocks registered positive return except for British American Tobacco Plc and National Breweries Plc.

The Lusaka Securities Exchange All Share Index (LASI) grew by 15% between the opening and December 2021. The PSPF equity portfolio grew by over 100%.

2.1.1. Dividend Income

During the year under review, dividends were earned of K19.3 million compared to K13.7 million earned in the same period of 2020. The earnings grew by over 41% between the two periods.

The Management had budgeted to receive about K7.7 million from dividend income but managed to receive about K19.3 million, representing an achievement of 151%.

2.1.2. Acquisitions of Additional Shares

Management acquired 1,105,769 shares in Bata Shoe Plc worth K2,875,000 whose consideration was broken down as follows: -

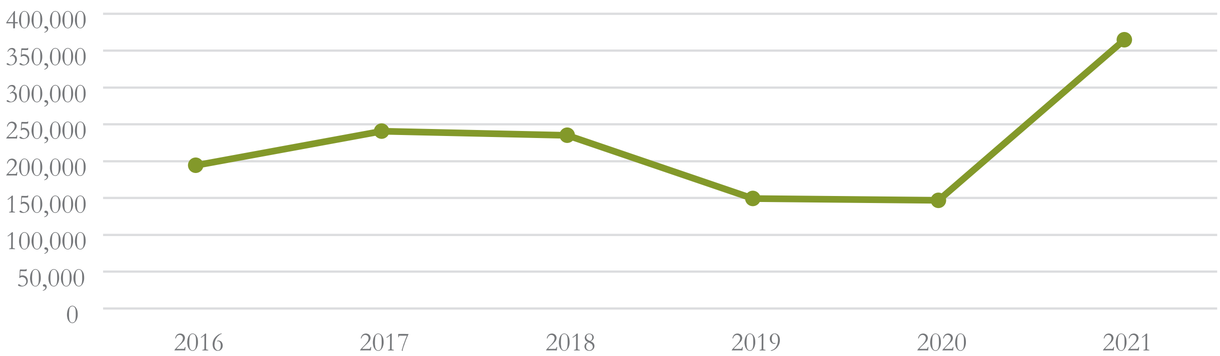
i) Swap 40,717 National Breweries Plc share worth K375,000 for 144,231 shares in Bata Shoe Plc,

ii) Acquire 961,538 shares in Bata Shoe Plc for a total cash consideration of K2, 500,000 at K2.60 per share.

2.1.3. Equity Portfolio Growth Trends

Below are the portfolio trends over the period of 6 years.

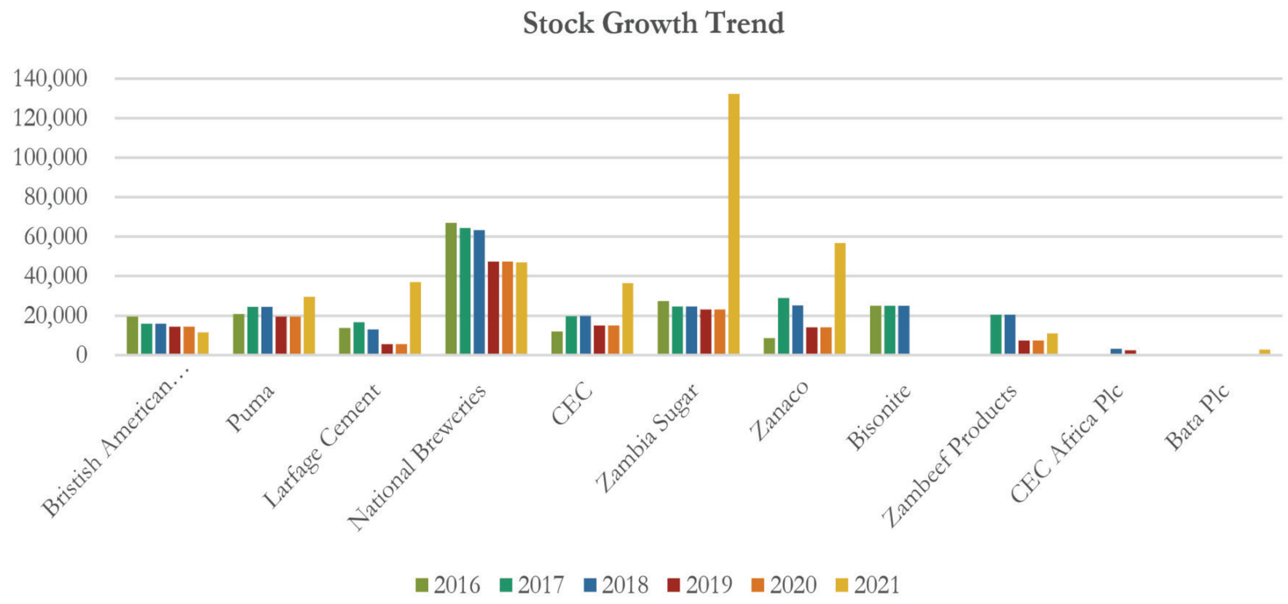
Figure 8: Growth trends of the Equity Portfolio



The portfolio registered a negative growth between 2018 and 2020 due to poor performance of stock market. In 2021, the portfolio witnessed some recovery and registered a huge growth.

The gain was estimated at about 146%. The compound annual growth rate (CAGR) over the 6-year period was estimated at 11%.

Figure 9: Individual Share Growth Trends

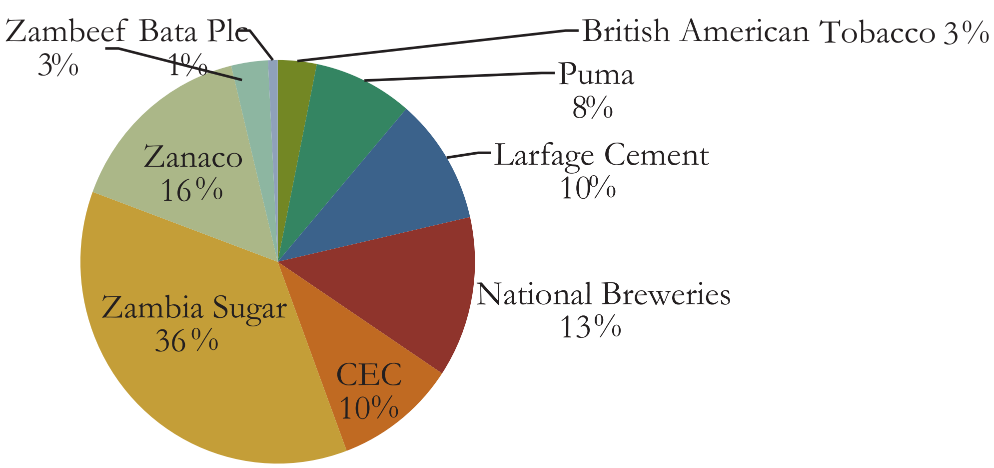


The graph above depicts the movement and performance of each stock held by PSPF between 2016 and 2021.

The investment in Zambia Sugar Plc was the largest, followed by ZANACO Bank Plc. Further, the investment in CEC Africa Plc was disposed of in the year. Bisonite (Z) Limited (In receivership) was also disposed of through Liquidation. The Fund recovered US$1.5 million from its liquidation.

The pie chart below depicts the distribution of the equity portfolio by each stock.

Figure 10: Equity Portfolio Distribution



2.2. MONEY AND OTHER FIXED INCOME SECURITIES

2.2.1. Local Money Market

Investments in fixed income securities registered a net income of about K234.2 million representing an annualized return of about 20% by the close of the year under review. This result was 3.6 percentage points above the end of year inflation rate of 16.4%. There was a drop in market rates while inflation rate rose sharply between April and June before dropping in the last quarter of the year.

The weighted average yield for treasury bills was 13.62% by close of 2021. The annualized effective yield of 16% achieved in the local fixed income securities was above this benchmark. Management was able to negotiate attractive rates on the local money market.

2.2.2. Acquisition of Fixed Income Securities

Management acquired K443 million worth of government bonds in the year under review.

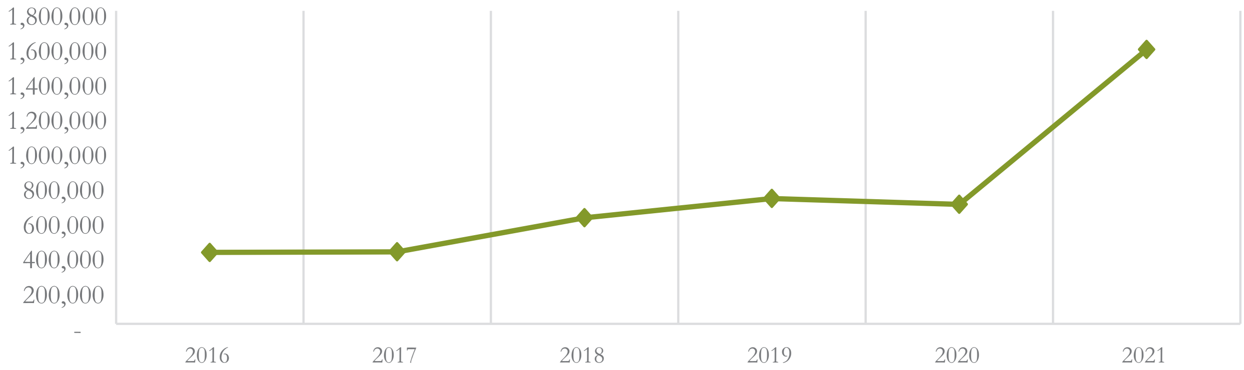
2.2.3. Offshore Investment (Crown Agents Investment Management Ltd)

The investment dropped from ₤2.664 million (December 2020) to about ₤2.509 million by the close of December 2021 due to losses and withdrawals. This investment had made a loss of ₤66,047 and the rest were withdrawals in the period under review.

2.2.4. Fixed Income Securities Trends

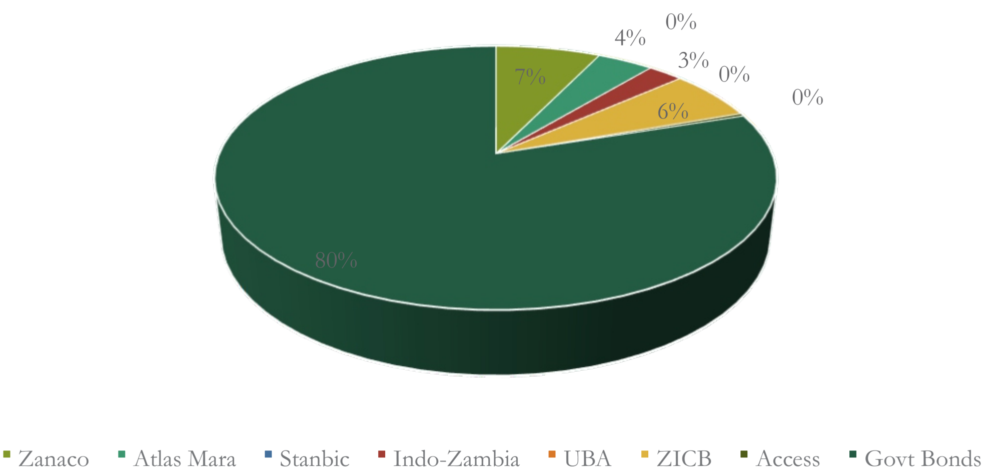
The figure below depicts the movements of the Fixed Income Securities for the period between 2016 and 2021.

Figure 11: Fixed Income Securities' Growth



This portfolio continued to register steady and consistent growth propelled by the acquisition of government securities and reinvestments. The compound annual growth rate (CAGR) was estimated at 25% over the last six years.

Figure 12: Fixed Income Security Distribution



The largest placements were made in Government Securities at 80% followed by ZANACO Plc with 7%.

2.3. MICROFINANCE

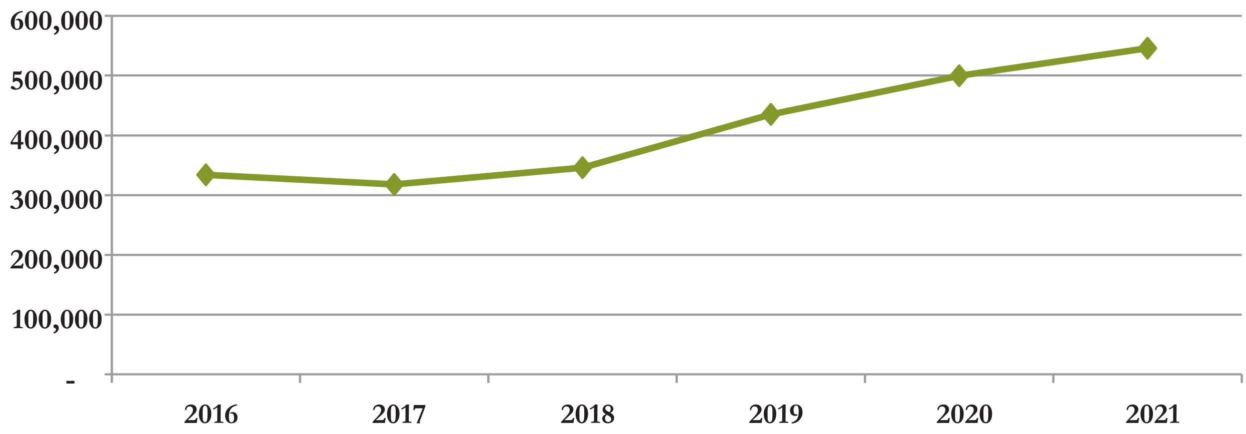
The Micro Finance portfolio grew from K499 million in 2020 to K546 million in 2021 representing a growth of 9%. Loans amounting to K85.6 million were disbursed in 2021 compared to K112.1 million disbursed during the same period of 2020.

The Microfinance Scheme registered 94% achievement, collecting K252.1 million in 2021 from K237.6 million of the expected cash inflows.

In the year under review, loans worth K85.6 million were disbursed against the budgeted K210.6 million.

Figure 16 below depicts the portfolio growth trends between 2016 and 2021. The portfolio has been growing at a compound annual growth rate (CAGR) of 9%.

Figure 13: Microfinance Portfolio Growth

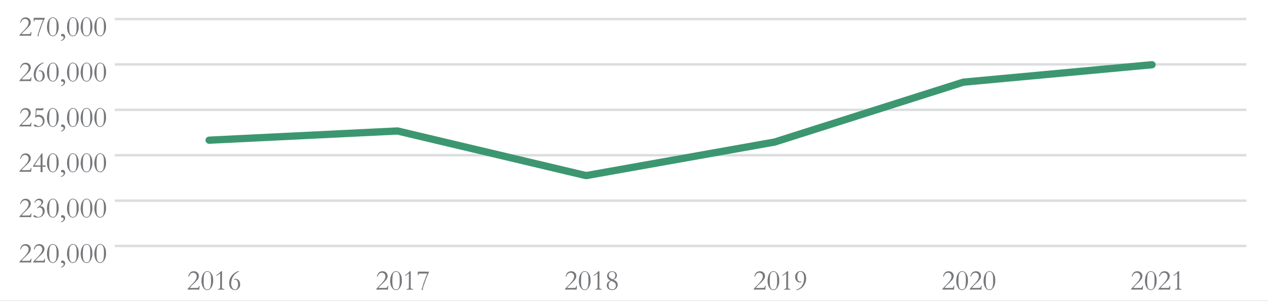


2.4. HOME OWNERSHIP SCHEME

The loan portfolio grew by 1% from K256 million to K260 million by the close of the year. During the year twenty-one (21) mortgages were approved valued at K7.4 million compared to K15.4 million approved in the previous year.

The performance of the scheme is depicted in the graphs below.

Figure 14: Home Ownership Scheme Portfolio



2.5. REAL ESTATE PORTFOLIO

Following the revaluation of the real estate portfolio, the value grew from K1.35 billion in 2020 to K1.45 billion by end of 2021.

2.5.1. Rental Income

Revenue collected was K5.7 million, which was 90% of the expected K5.8 million target for this asset class. This amount is higher than the K4.1 million collected in the previous year.

2.5.2. Alick Nkhata Road Project

The overall project excluding the hotel had reached 98% completion against the revised target of 100% by end of the period under review.

2.5.2.1. Tenancy

a) The Mall

By the end of the year, 72% of rentable space had been leased out.

b) Offices

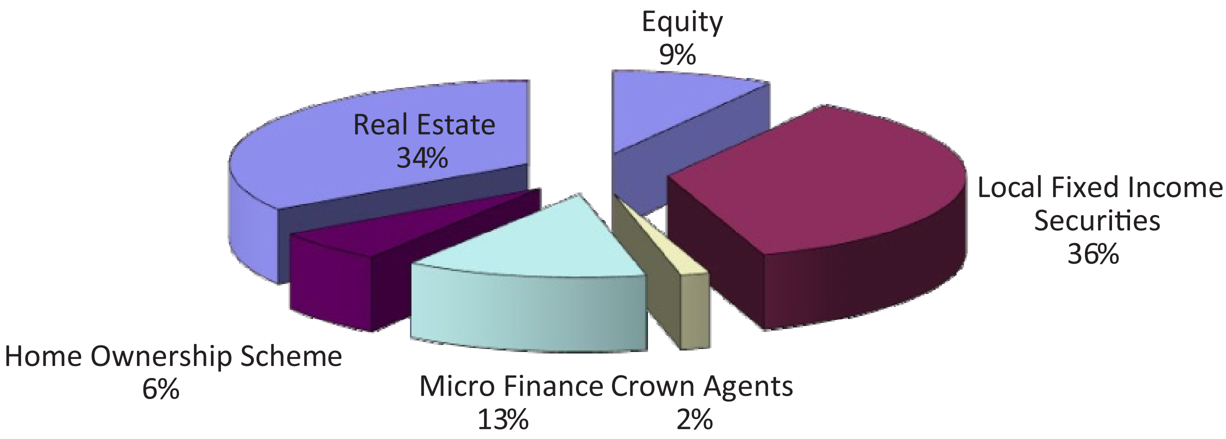
A significant portion of the total office space available (67%) was leased out, with notable tenants including the National Health Insurance Management Authority (NHIMA) and Zambia Industrial and Commercial Bank Ltd (ZICB).

3 Portifolio Distribution by Market Value

The local fixed income securities had the largest share with a total percentage of 36% followed by the real estate at 34%. The microfinance scheme was at 13%.

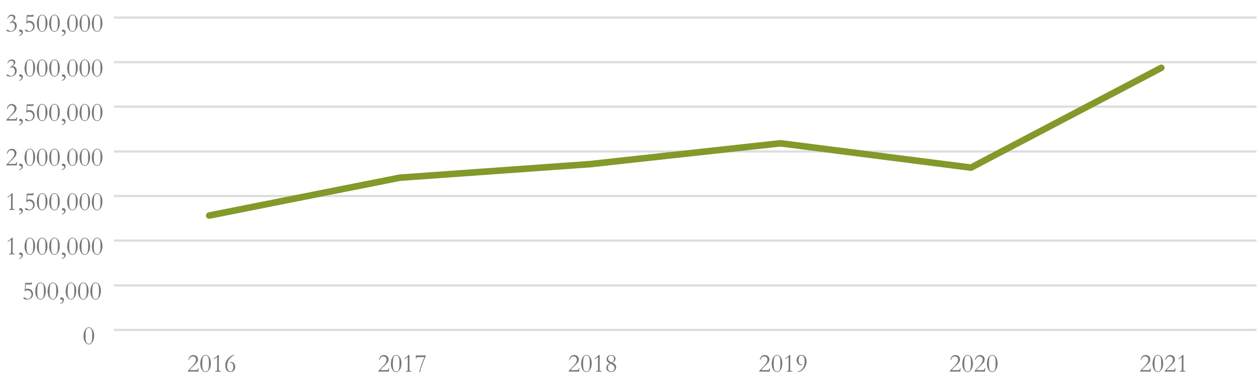
The Fund's investment portfolio consisted of the following asset classes as shown in the chart below.

Figure 15: Portfolio Distribution by Market Value



The investment portfolio continued to register steady and consistent growth. Between 2016 and 2021 a compounded annual growth rate of 15% was achieved as shown below.

Figure 16: Portfolio Growth



During the period of 2021, Management had targeted to achieve a rebalanced portfolio whose distribution was to be as follows:

Table 6: Asset Allocation

Class of Asset	Target Allocation	Actual Allocation
Equity	10%	9%
Fixed Income Securities & Crown Agents	20%	38%
Microfinance	20%	13%
Home Ownership Scheme	15%	6%
Real Estate	35%	34%

The target asset allocation was designed primarily to ensure compliance with the PSP Act and, secondarily, to enhance liquidity by focusing on assets with more predictable and stable income streams. Consequently, the portfolio continued to be heavily weighted towards fixed income securities and real estate investments.

4 Challenges

The Fund encountered several ongoing challenges during the review period:

4.1. The persistent Covid-19 pandemic continued to disrupt supply chains for goods and services, resulting in higher operational costs.

4.2. Longacres Mall was not fully operational during the review period, which affected its ability to generate the expected income.

4.3. As of December 31, 2021, outstanding pension benefits totaled K1.37 billion, with average waiting periods of 229 days for statutory cases and 315 days for early retirement cases.

PUBLIC SERVICE PENSIONS FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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TRUSTEES

The trustees who held office during the year and to the date of this report are:

KEY SUB COMMITTEES

Finance and Investments Committee

Kayula Chimfwembe (Appointed 2023)
Kabinda Kakoma Kawesha Co-Opted
Luwani Soko (Appointed 2022)
Lina Lungu (Appointed 2023)
Isaac Ngoma (Appointed 2022)
Willies Chipango (Retired 2022)
Priscilla Chikuni Sampa (Deceased 2022)

Audit Committee

Martin Lukwasa (Retired)
Ophelia Nyambe Co-Opted
Christopher Sandu (Retired 2020)
Boniface Chimbwali (Retired 2021)
Chimbani Lisulo
Allan Nyirenda
Bernadette Muzumbwe Katongo

Pensions Benefit Committee

Lurgard Sichalwe
Kamphata Botha Co-Opted
Makai Makai
Brig-Gen Nathan Chiselwa (Appointed 2022)
Ulaya Musonda (Appointed 2022)
Chanda Kaziya (retired 2021)
Newman Bubala (retired 2021)
Boniface Chimbwali(retired 2021)

Staff Committee

Makai Makai
Allan Nyirenda
Brig.Gen.Mike Ng'uni (retired 2021)
Roselyne Laureen Raelly Co-opted (Deceased 2021)

SENIOR MANAGEMENT

Patrick Bobo	Secretary and Chief Executive
Barbara Sampa Kangwa	Director Pension Administration
Francis Pindani Nyirenda	Director Finance (Appointed 2021)
Matandiko Matandiko	Director Investment
Derrick Lungu	Director Human Resource(Appointed 2021)

CUSTODIAN AND OTHER INFORMATION

INVESTMENT MANAGER

Public Service Pensions Fund
Plot No. 7534
Sapele Road
Lusaka

ACTUARY

Independent Actuaries & Consultants
6th Floor, Wale Str Chambers
38 Wale Str
Cape Town
South Africa

PROPERTY VALUERS

Platinum Consulting
29 Paseli Road, Northmead
P.O Box 32623
Lusaka

AUDITORS

PricewaterhouseCoopers Zambia
PwC Place
Stand no. 2374
Thabo Mbeki Road
P.O. Box 30942
Lusaka

BANKERS

Indo-Zambia Bank Limited
Atlas Mara (Z) Limited
Stanbic Bank (Z) Limited
United bank of Africa
Zambia National Commercial Bank Plc
Malawi Savings Bank
Standard Bank of South Africa
Crown Agents Investment Bank

REGISTERED OFFICE

Public Service Pensions House
Plot No. 7534
Sapele Road
Lusaka

REPORT OF THE TRUSTEES

The trustees submit their report together with the audited annual financial statements for the year ended 31 December 2021.

ESTABLISHMENT, NATURE AND STATUS OF THE FUND

The Fund was established, and is governed, under the Public Service Pensions Act No. 35 of 1996. It is a defined benefit scheme and provides, under the rules of the Fund, retirement benefits for the Defence Forces, Security Forces, Civil Service, Police and Prisons Service, Teaching Service and Judicial service. It is a tax-exempt approved Fund under the Income Tax Act.

Employees contribute to the Fund at the rate of 7.25% of their respective basic salaries. The employer currently contributes 7.25%, however this rate may be revised based on periodic advice of the actuary.

Actuarial position

The last valuation of the Fund was carried out as of 31 December 2020 by Independent Actuaries & Consultants. As per the valuation, the scheme had an actuarial deficit of K50.42billion (2017: K46.18 billion) corresponding to a Funding level of 3.0% (2017: 2.6%) as at the valuation date. The total contribution rate to cover the cost of benefits accruing in the future is 36.38% (2017: 37.7%) of the pensionable salary. The deficit identified by the actuary is supported and will be funded by the Zambian Government. Refer to note 22 & 23. The Zambian Government finances the deficit through the annual government Funding and budgetary allocations.

Membership

		2021	2020
a)	**Total members**		
	Contributing members	**96,161**	91,152
	Pensioners	**59,512**	57,741
		155,673	148,893
b)	**Contributing members**		
	At start of year	**91,152**	93,551
	Joiners	**12,253**	3,458
		103,405	97,009
	Less:		
	Retired with pension	**(2,154)**	(3,096)
	Died in service	**(725)**	(725)
	Other leavers	**(4,365)**	(2,036)
	At end of year	**96,161**	91,152

REPORT OF THE TRUSTEES (continued)

c) Pensioners	2021	2020
At start of year	**57,741**	54,004
Contributing members who retired	**2,154**	3,096
Widows or widowers pension becoming payable	**638**	1,373
	60,533	58,473
Less: Deaths	**(1,021)**	(732)
At end of year	**59,512**	57,741

FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 13 shows an increase in the net assets of the scheme for the year of **K2.07 billion** (2020: increase of K612 million) and the statement of net assets available for benefits on page 14 shows the scheme's net assets as **K3.61 billion** (2020: net assets of K1.54 billion).

INVESTMENT OF FUNDS

Under section 29 of the Public Service Pensions Act (PSP) No. 35 of 1996, the Board is mandated to invest any monies of the Fund not required to meet current charges, in interest bearing accounts, stocks, securities issued by or on behalf of the Government or in stocks, securities or Funds guaranteed by the Government, and in such other investments as may be approved or specified by the Board.

The Fund's investment strategy is to buy and hold, in case of fixed maturity securities, until maturity, and then replace them with similar securities. The decisions to invest are made by the Board.

REPORT OF THE TRUSTEES (continued)

INVESTMENT OBJECTIVES OF THE FUND

The investment objective of the Fund is to maximise returns on investments while ensuring security of investments held. As per the PSPF Act, the Board should not invest assets in excess of twenty per centum of its net asset value in any one form of investment. The investment of the Fund at 31 December 2021 comprised the following:

	2021 Amount K	2020 Amount K	**2021 % of net assets**	2020 % of net assets	**Limit %**
Equity investments	364,557,344	146,823,365	**10%**	10%	20%
Investment property	253,426,748	243,988,592	**7%**	16%	20%
Government securities	1,046,050,705	541,417,295	**29%**	35%	20%
Fixed and time deposits	262,295,102	248,184,707	**7%**	16%	20%
Staff loans	8,130,931	36,092,677	**0%**	2%	20%
Microfinance	401,334,434	404,356,411	**11%**	26%	20%
Home loans	193,680,476	189,613,708	**5%**	12%	20%
	2,529,475,740	1,810,476,755			
Net assets	**3,610,950,328**	1,537,742,169			

Some investments were in excess of the 20% threshold prescribed in the PSPF Act, the board intends to rebalance the portfolio in the long-term to achieve the 20% limit through a balanced investment mix and net assets growth. Secondly, the Fund is in an actuarial deficit which is covered by the government of Zambia. Therefore, the 20% threshold is impractical, and the board is currently engaging the Government on the amendment of the PSPF Act.

Capital work in progress of K1.445 billion (2020:K1.206 billion) is in excess of the 20% threshold prescribed in the PSPF Act ,the board is currently engaging the Government on the amendment of the PSPF Act as highlighted above. The amendment will prescribe revised investment thresholds for the board to adhere to in the near future. All assets with the exception of staff loans, Microfinance loans and Homeownership loans are carried at fair value. The loans are carried at amortized cost.

FUND EXPENDITURE

The proportion of administrative expenses to contributions receivable and net investment income in the year was as follows:

	2021 K	2020 K
Contributions income	1,036,287,763	934,821,923
Net investment income	827,873,692	424,808,459
Total	1,864,161,455	1,359,630,382
Administrative expenses	176,977,342	147,588,505
Proportion	**9%**	**11%**

Trustees believe that the level of Fund management and administration expenses is reasonable.

REPORT OF THE TRUSTEES (continued)

SOLVENCY

As disclosed in note 19 to the annual financial statements the Fund had an actuarial deficit of K50,420 million as at 31 December 2020. The actuarial deficit is not recognized in the books of the Fund as the charge is on the general revenues of the Republic of Zambia as per Article 265(2) of the Zambian constitution.

The deficit is guaranteed by the Government of Zambia. It is currently Government's policy as the sponsoring employer to continue to give the Fund such financial support as may be necessary to enable it continue to operate in the foreseeable future. The next actuarial valuation of the Fund is due on 31 December 2023.

By order of the Board

Secretary and Chief Executive

Lusaka 27 September ***2023***

STATEMENT OF TRUSTEES RESPONSIBILITIES

The Public Service Pensions Act requires the trustees to prepare annual financial statements for each financial year that give a true and fair view of the state of affairs of the Fund as at the end of the financial year. It also requires the trustees to ensure that the Fund keeps proper accounting records of its income, expenditure, liabilities and assets and that contributions are remitted to the custodian in accordance with the rules of the Fund.

The trustees accept responsibility for the annual 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 (IFRS) and the requirements of the Public Service Pensions Act. The trustees are of the opinion that the annual financial statements give a true and fair view of the state of the net assets available for benefits and changes in net assets available for benefits in accordance with International Financial Reporting Standards. The trustees further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of annual financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement.

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

The actuaries assessed the actuarial liability at K51.96 billion as at 31 December 2020 (2017: K47.39 billion) but the fair value of the net assets available for benefits was K1.54 billion (2017: K1.22 billion) resulting in a deficit of K50.42 billion (2017: 46.18 billion) at that date.

The actuaries recommend that (i) action should be taken to address the misalignment between the total current contribution rate and the benefits offered by the Fund ; or (ii) the Fund could consider increasing the normal retirement age; reducing the accrual rate; introducing benefit reductions for early and ill health retirement; reduce commutation factors; reduce the maximum pension that can be commuted; reduce death in service and death in retirement benefits (gratuities and pensions);introduce an averaging period for pensionable salaries; reduce withdrawal benefits and (iii) the sponsor can consider the following to fund the deficit; lumpsum cash injection, additional regular contributions, reduction of accrued benefits or combination of the above proposals.

Members are at risk if the above actions are not implemented, since the Fund will experience liquidity problems in future.

Section 57 of the Public Service Pension Act 35 of 1996 states that, "this Act shall bind the Republic". The Government of the Republic of Zambia is fully responsible for funding the Fund's deficit. As a result the Fund's deficit is not recognized in the Fund's annual financial statements. It is currently Government's policy as the major stakeholder of PSPF to continue to give the Fund such financial support as may be necessary to enable it continue to operate in the foreseeable future. It is on this premise that the trustees believe that the Fund will remain a going concern for at least the next twelve months from the date of these annual financial statements.

Signed on their behalf by:

Trustee ....   Trustee ....

27 September 2023

pwc

Independent auditor's report

To the Members of Public Service Pensions Fund

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Public Service Pensions Fund (the "Fund") as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Public Service Pensions (PSP) Act No. 35 of 1996 of the Laws of Zambia.

What we have audited

Public Service Pensions Fund's financial statements are set out on pages 13 to 61 and comprise:

- the statement of changes in net assets available for benefits;
- the statement of net assets available for benefits;
- the statement of cash flows for the year then ended; and
- the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

pwc

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
1. Impairment provision for mortgages, loans and advances to customers Loans and advances at amortised cost form a significant portion of the Fund's assets. As at 31 December 2021, the Fund's gross loans and advances amounted to K778.2 million and the related provision for loan loss impairment recognised totaling K175.1 million. Management exercises significant judgment by applying assumptions in the model used to determine expected credit losses for mortgages, loans and advances carried at amortised cost. Significant judgments were made in determining probabilities of default, loss given default and selection of forward-looking information and the classification of mortgages, loans and advances. Further information about mortgages, loans and advances is presented in notes 3(b) and 9 of the financial statements.	We carried out the following procedures: • We reviewed the Fund's methodology for determining expected credit losses and evaluated this against the requirements of IFRS 9. • We tested how the Fund extracts 'days past due' applied in classifying the loans and advances portfolio into the three stages required by IFRS 9. For a sample of the portfolio, we recalculated the 'days past due' applied in the model to the Fund's IT system and to the respective customer files. For significant judgments made on staging, we challenged how management had determined the staging by reviewing management's basis and corroborated the same through review of corresponding customer credit files. • We obtained an understanding of the basis used to determine the probabilities of default and re-calculated the probabilities based on the Fund's past and current credit related financial information. • For loss given default we traced the expected future cash flows for a sample of Fund's customers, to collateral information produced from internal and external sources. We also tested assumptions on the timing of the cash flows based on the Fund's empirical evidence. • For forward looking assumptions used in the model, we corroborated the assumptions using publicly available information.

pwc

Other information

The Trustees are responsible for the other information. The other information comprises the Funds' Annual Report but does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the Trustees for the financial statements

The Trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as issued by the IASB and the requirements of the Public Service Pensions (PSP) Act No. 35 of 1996 of the Laws of Zambia, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Trustees are responsible for overseeing the Fund's financial reporting process.

pwc

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

pwc

Report on other legal and regulatory requirements

The Public Service Pensions Act

In accordance with the requirements of the Public Service Pensions (PSP) Act No. 35 of 1996 CAP 260 of the Laws of Zambia, we confirm that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In arriving at our opinion, we considered the following matters:

i. Whether or not the provisions of the PSP Act have been complied with;

ii. Whether or not all the information and explanations which were required have been obtained

iii. Whether according to the information and explanations given and as shown in the books relating to the Fund. The financial statements for the year concerned are properly drawn up so as to exhibit a true and correct view of the state of the Fund:

iv. And as whether the expenses of the Board incurred in the year concerned in connection with or incidental to management and administration of the Fund are excessive.

In respect of the foregoing, we have the following matter to report;

In the current year investments in Government Securities are 29% of total net assets. This is in excess of the 20% threshold prescribed by the Public Service Pensions (PSP) Act No. 35 of 1996 CAP 260 of the Laws of Zambia.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
Lusaka

9 October 2023

Andrew Chibuye
Practicing Certificate Number:
Partner signing on behalf of the firm

Statement of changes in net assets available for benefits

	Notes	2021	2020
		K	K
Income from dealings with members			
Employee Contributions		**529,312,952**	473,525,587
Employer Contributions		**506,974,811**	456,163,897
Financing Gap	23	**1,839,246,415**	989,189,981
Governments grants	22	**227,587,500**	173,862,678
Other income	24	**10,056,377**	7,465,329
		3,113,178,055	2,100,207,472
Outgoings from dealings with members			
Benefits payable to retiring members	4	**(1,678,451,256)**	(1,351,891,017)
Net withdrawals/additions from dealings with members		**1,434,726,799**	748,316,455
Returns on investments			
Investment income	5	**444,202,348**	392,858,351
Foreign Exchange (losses)/gains	10	**(26.461,319)**	51,565,374
Change in FV of investment property	8	**9,438,156**	9,871,367
Change in FV of equity investments	10	**215,922,801**	(6,020,821)
Change in FV of Government Securities	10	**-**	(255,888)
Impairment on non-Performing Home loans	9	**(598,009)**	10,660,810
Impairment provision on microfinance loans	9	**(46,848,980)**	(33,347,862)
Impairment provision on Staff loans	9	**(4,360,674)**	165,951
Gain/(Loss) on sale on disposal		**(687,847)**	(688,823)
Net returns on investments		**590,606,476**	424,808,459
Administrative expenses	7	**(176,977,342)**	(147,588,505)
With Holding Tax		**(12,414,990)**	(10,890,261)
Finance cost		**237,267,215**	(402,502,105)
		47,874,883	(560,980,871)
Increase in net assets for the year		**2,073,208,158**	612,144,043
Net assets available for benefits at start of the year excluding PV of actuarial benefits		**1,537,742,169**	925,598,126
Net assets available for benefits at end of the year		**3,610,950,327**	1,537,742,169

The notes on pages 16 to 61 form an integral part of these annual financial statements.

Statement of net assets available for benefits

	Notes	2021 K	2020 K
Assets			
Property plant and equipment	6(a)	**11,367,535**	5,721,619
Right of use asset	12	**-**	731,256
Intangible Assets	6(b)	**559,191**	82,154
Work-In-Progress	6(c)	**1,445,095,893**	1,206,054,941
Investment properties at fair value	8	**253,426,748**	243,988,592
Staff loans	9	**8,130,931**	36,092,677
Home loan scheme	9	**193,680,476**	189,613,708
Microfinance loans	9	**401,334,434**	404,356,411
Equity Investment at fair value	10	**364,557,344**	146,823,365
Fixed deposit	10	**262,295,102**	248,184,707
Government securities	10	**1,046,050,705**	541,417,295
Contributions due	11	**887,390,371**	978,610,997
Other receivables and accrued income	13	**55,150,425**	70,431,675
Cash and bank	14	**568,545,945**	276,870,267
Total assets		**5,497,585,100**	4,348,979,664
Liabilities			
Benefits payable	15	**(948,183,511)**	(1,600,139,392)
Other payables and accrued expenses	16	**(28,165,995)**	(59,579,602)
Lease liabilities	12	-	(988,093)
Staff pension liability	17	**(31,342,050)**	(34,319,974)
Long Term Loan	25	**(878,943,217)**	(1,116,210,433)
Total liabilities		**(1,886,634,773)**	(2,811,237,494)
Net assets available for benefits		**3,610,950,327**	1,537,742,170

The annual financial statements on pages 13 to 61 were approved for issue by the Trustees on..27..September..2023 and signed on their behalf by:

Board Chairman

Trustee

The notes on pages 16 to 61 form an integral part of these annual financial statements.

Public Service Pensions Fund
Annual Financial Statements
For the year ended 31 December 2021

Statement of cash flows

	Notes	2021 K	2020 K
Cashflows from operating activities			
Contributions received		**1,127,508,389**	1,006,926,809
Government funding and financing gap received		**2,066,833,915**	1,163,052,659
Other income		**22,410,034**	2,000,046
Benefits paid to retiring members		**(2,330,407,138)**	(1,804,676,411)
Administrative expenses		**(221,923,825)**	(364,771,142)
Net cash from operations of the Fund		**664,421,375**	2,531,961
Cashflow from Investing activities			
Investment income received		**95,004,595**	227,573,396
Purchase of property and equipment	6(a)	**(7,563,623)**	(599,079)
Work in progress	6(c)	**(239,717,156)**	(202,056,240)
Staff loans issued		**(25,184,076)**	(40,268,270)
Staff loans repayments		**56,063,258**	33,810,054
Home loans issued		**(9,932,993)**	(16,424,120)
Home loan scheme repayments received		**40,131,237**	34,308,248
Purchase of fixed term deposits	10	**182,469,893**	(142,409,033)
Disposal of Treasury Bills	10	**-**	21,861,976
Purchase of Government bonds	10	**(443,119,594)**	(461,999,999)
Purchase of equity investments	10	**(1,811,177)**	-
Microfin loans issued		**(43,818,003)**	(139,259,488)
Microfin loans repayments		**223,699,868**	202,583,338
Proceeds from maturity & disposal of deposits	10	**(172,516,766)**	404,180,567
Proceeds from disposal		**10,159**	1,783,739
Net cash from investing activities		**(346,284,378)**	(76,914,911)
Cashflow from Financing Activities			
Long Term Loan		**-**	212,471,276
Net increase in cash and cash equivalents		**318,136,997**	138,088,326
Cash and cash equivalents at start of the year		**276,870,267**	87,216,567
Net increase in Cash and cash equivalents		**318,136,997**	138,088,326
Exchange gains on cash and cash equivalents		**(26,461,319)**	51,565,374
Cash and cash equivalents at end of the year	14	**568,545,945**	276,870,267

The notes on pages 16 to 61 form an integral part of these annual financial statements.

Notes to the Annual Financial Statements

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these annual financial statements are set out below. These policies have been consistently applied and where applicable, the prior year have been reclassified to align with fund operations.

(a) Statement of compliance

The annual financial statements are prepared in compliance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS interpretation Committee(IFRSIC) applicable to entities reporting under IFRS, and the Public Service Pensions Act of 1996. The annual financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB)

(b) Basis of preparation

The annual financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of trustees. They do not take account of obligations to pay pensions and benefits that fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the statement by the actuary and these annual financial statements should be read in conjunction with it.

The annual financial statements are presented in the functional currency, Zambian Kwacha. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

The annual financial statements have been prepared in the historical cost basis except for investment properties and financial instruments that are measured at fair value amounts at the end of each reporting period as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

(c) Solvency of the Fund

Based on the latest actuarial valuation that was completed as at 31 December 2020 by Independent Actuaries & Consultants (Pty) Ltd, an independent firm of actuaries, the financial position of the Fund has deteriorated over the three-year period since the previous actuarial valuation performed as of 31 December 2017. The valuation revealed an actuarial deficit of K50.42 billion as at 31 December 2020. The next valuation is due on 31 December 2023.

The actuarial present value of promised retirement benefits is as follows:

	2020 K	2017 K
Accrued liabilities		
Value of accrued liabilities as at 31 December	51,958,000,000	47,393,000,000
Assets		
Value placed on Fund assets as at 31 December	(1,538,000,000)	(1,217,000,000)
Actuarial shortfall		
Excess of accrued liabilities over assets	50,420,000000	46,176,000,000

Notes to the Annual Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(c) Solvency of the Fund (continued)

This deficit indicates that the Fund is technically insolvent. The actuaries recommended the following:

i. Action should be taken to address the misalignment between the total current contribution rate and the benefits offered by the Fund. One or a combination of the following proposals should be implemented to ensure the total contribution rate is equal to the cost of future benefit accrual and enable the Fund to pay promised benefits in future:

   - additional regular contributions by the employer,
   - benefits reduction, and
   - Settle outstanding contributions as soon as possible
   - a combination of the above.

ii. The Fund should consider the following possible reductions of future and/or accrued benefits:

   - Increase the normal retirement age,
   - reduce the accrual rate,
   - Introduce benefit reductions for early and ill-health retirements,
   - reduce commutation factors,
   - reduce the maximum percentage of pension that can be commuted,
   - reduce death in service and death in retirement benefits (gratuities and pensions),
   - introduce an averaging period for pensionable salaries, and
   - reduce withdrawal benefits.

iii. One of the following proposals should be considered to fund the deficit:

   - Lumpsum cash injection and/or additional contribution with interest,
   - additional regular contributions,
   - reduction of accrued benefits, and
   - a combination of the above.

To address the actuarial deficit, the employer of the scheme(government) makes an allocation in the National Budget every year to Fund the actuarial deficit. The actuarial recommendations are proposed to be implemented during the pension reforms.

Notes to the Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(d) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Fund

A number of new or amended standards became applicable for the current reporting period and the Fund had to change its accounting policies as a result of adopting the following standards.

International Financial Reporting Standards and amendments effective for the first time for December 2021 year-end

Number	Effective date	Executive summary
Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' – interest rate benchmark (IBOR) reform (Phase 2)	Annual periods beginning on or after 1 January 2021 (Published August 2020)	The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.
IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment	Annual periods beginning on or after 1 June 2020 (early adoption is permitted) (Published June 2020)	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

Notes to the Annual Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(d) Changes in accounting policy and disclosures (continued)

(ii) *New standards and interpretations not yet early adopted and not effective*

Certain new accounting standards and interpretations not yet effective and not early adopted have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Fund. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions. These standards are not expected to have a material impact on the annual financial statements.

Number	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17. (Published May 2017)	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.
IFRS 17, Insurance contracts Amendments	Annual periods beginning on or after 1 January 2023 (Published June 2020)	In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.
Amendment to IFRS 3, 'Business combinations' Asset or liability in a business combination clarity	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The Board has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

Notes to the Annual Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(d) Changes in accounting policy and disclosures (continued)

Number	Effective date	Executive Summary
Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.
Annual improvements cycle 2018 -2020	Annual periods beginning on or after 1 January 2022 (Published May 2020)	These amendments include minor changes to: • IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS. • IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. • IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives. • IAS 41, 'Agriculture' has been amended to align the requirements for measuring fair value with those of IFRS 13. The amendment removes the requirement for entities to exclude cash flows for taxation when measuring fair value.
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2022 (Published Jan 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).

There are no other standards that are not yet effective and that would be expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

Notes to the Annual Financial Statements (continued)

1. Summary of significant accounting policies (continued)

e) Foreign currency translation

Functional and presentation currency translation
Items included in the annual financial statements are measured using the currency of the primary economic environment in which the Fund operates (the functional currency). The annual financial statements are presented in the Zambian kwacha which is the functional currency.

Transactions and balances
Transactions in foreign currencies during the year are converted into Zambia kwacha at rates prevailing at transaction dates. Monetary assets and liabilities are converted using the exchange rate as at year end. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of changes in net assets available for benefits.

(f) Contributions receivable

Current service and other contributions from the members and employers are accounted for in the period in which they fall due. Members and the employer each contribute at the rate of 7.25% of the members' pensionable emoluments. Unless paid within one month from the date when they become payable, any contributions which are deferred are paid with interest at the ruling Central Bank of Zambia policy rate.

(g) Government early retirement Funding

Government early retirement Funding and financing gap Funds are recognised as income in the period in which it is received. Parliament appropriates a grant to the Public Service Pensions Fund to cater for benefits resulting from premature retirements and death of serving members.

(h) Benefits payable

Benefits payable comprise the entitlements of members who ceased employment prior to the year end, but have not yet been paid by that date. Benefits payable are recognised as liabilities in the period in which they fall due upon retirement, death or dismissal of a contributing member. The computation of the benefit payable is stipulated by the Public Service Pension Act of 1996 which will consider the contributions made to the Fund, number of years.

(i) Income from investments

Interest income is recognised for all interest bearing instruments on an accrual basis using the effective yield method. Interest income includes coupons earned on fixed income investments and accrued discount and premium on treasury bills and other discounted instruments.

Dividends are recognised as income in the period in which the right to receive payment is established.

Rental income from operating leases is recognised on a straight line basis over the lease term.

(j) Investment properties

Properties such as leasehold land and buildings and parts of buildings that are held for long-term rental yields or for capital appreciation or both are classified as investment properties (including property under construction for such purposes).

Notes to the Annual Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(j) Investment properties (continued)

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the Fund and the cost can be reliably measured. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Fund uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the reporting date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the annual financial statements.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Changes in fair values are recognised in the statement of changes in net assets available for benefit in the year in which they arise. Investment properties are derecognised when they have been disposed or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising from the derecognition of the investment property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of net assets available for benefits in the period in which the property is derecognised.

Notes to the Annual Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(k) Property and equipment

All categories of property and equipment are initially recorded at cost and subsequently measured at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of changes in net assets available for benefits during the financial period in which they are incurred.

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

• Leasehold buildings – shorter of	50 years or lease period
• Fixtures and fittings	10 years
• Equipment	5 years
• Motor vehicles	5 years
• Software	5 years

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining the decrease or increase in net assets for the year.

Work in progress are stated at cost. Such assets are initially shown as capital work in progress and transferred to the relevant class of assets when commissioned. Cost includes professional fees and, for qualifying assets, borrowing cost for long-term construction projects if the recognition criteria are met are capitalised in accordance with the Fund's accounting policy.

Notes to the Annual Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(l) Intangible Assets

Costs associated with developing or maintaining computer software programmes and the acquisition of software licences is enerally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will becontrolled by the Fund and have a probable future economic benefit beyond one year, are recognised as intangible assets. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses from the date that the assets are available for use.

Expenditure subsequently incurred on computer software is capitalized, only amortisation is recognised in operating expenses on a straight line basis at rates appropriate to the expected lives of the assets from the date that the asset is available for use.

Amortisation methods, useful lives and residual values are reviewed at each financial year end adjusted, if necessary useful life are tested annually for impairment and additionally when an indicator of impairment exists. The accounting treatment for computer software and other intangible assets is otherwise the same as for tangible asset.

(m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less from the acquisition date. The carrying amount of all fixed deposits and cash and cash equivalents approximates fair value.

(n) Provision for employee retirement benefits

The Fund has a self-administered defined benefit scheme for benefits accrued prior to 31 December 2014 and a defined contributions scheme for benefits accrued from 1 January 2015. For the defined contribution scheme, contributions are made to a separate administered fund, managed by an independent administrator and fund manager. The defined contribution scheme is funded through payments from employees and the employer at 5% and 10% of basic salary respectively. The costs relating to the scheme are charged to the statement of net assets available for benefits.

The Fund also contributes to the Government of Zambia operated social security scheme ,the National Pension Scheme Authority ("NAPSA) for its eligible employees as provided by the law. Membership is compulsory and monthly contributions by both the employer and the employee are made. The only obligation of the Board with regard to the Government scheme is to make the specified contributions and the employer contributions are charged to the statement of net assets available for benefits in the year it arises.

With regard to the Self-administered defined benefit scheme, the cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Further information is set out in note 17. Re-measurements, comprising of actuarial gains and losses, and the return on plan assets (excluding net interest) are recognised immediately in the Statement of net assets available for benefits with a corresponding debit or credit through Statement of changes in net assets available for benefits in the period in which they occur.

Notes to the Annual Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(o) Provision for employee retirement benefits (continued)

Past service costs are recognised in Statement of changes in net assets available for benefits on the earlier of:

- The date of the plan amendment
- The date that the Company recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Fund recognises the following changes in the net defined benefit obligation under administration expenses in the Statement of changes in net assets available for benefits: Service costs comprising current service and past service costs on curtailments and non-routine settlements, net interest expense or income.

(p) Financial Instruments

IFRS 9: Financial Instruments carried at amortised cost.

From 1 January 2018, the Fund has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Fund revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Notes to the Annual Financial Statements (continued)

1. Summary of significant accounting policies (continued)

IFRS 9: Financial Instruments carried at amortised cost (continued)

Interest income
Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e., net of the expected credit loss provision).

Initial recognition and measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Fund commits to purchase or sell the asset.

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

(i) Classification and subsequent measurement

Classification and subsequent measurement of debt instruments depend on:

I. the Fund's business model for managing the asset, and
II. the cash flow characteristics of the asset.

Based on these factors, the Fund classifies its loans and advances as financial assets carried at Amortised cost: This is because these assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Notes to the Annual Financial Statements (continued)

1. Summary of significant accounting policies (continued)

IFRS 9: Financial Instruments carried at amortised cost (continued)

(ii) Impairment

The Fund assesses on a forward-looking basis the expected credit losses ('ECL') associated with its loans and advances assets carried at amortised cost. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic condition

(iii) Modification of loans

The Fund sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Fund assesses whether or not the new terms are substantially different to the original terms. The Fund does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Fund derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Fund also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Fund recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Notes to the Annual Financial Statements (continued)

1. Summary of significant accounting policies (continued)

IFRS 9: Financial Instruments carried at amortised cost (continued)

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Fund transfers substantially all the risks and rewards of ownership, or (ii) the Fund neither transfers nor retains substantially all the risks and rewards of ownership and the Fund has not retained control.

Financial liabilities

I. Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost.

II. Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Fund and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial Assets at Fair Value

Classification and measurement

For financial assets other than loans and advances, the Fund carries its other financial assets like equity instruments, government securities fixed deposits and investment properties at fair value through profit or loss.

The fair values of financial instruments where no active market exists or where quoted prices are otherwise not available are determined by valuation techniques. In these cases, fair values are estimated from observable data in respect of similar financial instruments or using models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Note 3'd' contains details of the sensitivity of the main fair value estimates to the inputs into the model.

Notes to the Annual Financial Statements (continued)

2. Critical accounting estimates and judgements

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. In particular, critical estimates are made by the Trustees in determining the fair value of investments that are not traded in an active market and investment property.

(a) Fair value estimation of financial assets at fair value through profit or loss.

The fair values of financial instruments where no active market exists where quoted prices are otherwise not available are determined by valuation techniques. In these cases, fair values are estimated from observable data in respect of similar financial instruments or using models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Refer to note 3(d).

(b) Fair value of investment properties

Management estimates the fair value of investment properties by using the direct market comparison. Were the market comparable property transaction prices are higher or lower by 10% per annum from management's estimates, the carrying amount of investment properties would be an estimated **K25.3** million (2020:K24.40 million) higher/lower. Refer to note 3(d) for the key assumptions used in the estimation of the fair values.

(c) Defined benefit plans

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation. The mortality rate is based on publicly available mortality tables. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates. The key assumptions used to determine the actuarial gains or losses are provided in note 17.

Actuarial valuation of the Fund

As per the PSPF Act section 24, the Fund is required to appoint an actuary and conduct actuarial valuation of the Fund at intervals of every three years. Various assumptions and estimates are applied in the valuation of the Fund which could impact the disclosures in the annual financial statements as explained in note 19.

Notes to the Annual Financial Statements

2. Critical accounting estimates and judgements (continued)

(d) Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
- The time value of money.
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Funds' policies for determining if there has been a significant increase in credit risk are set out in the subsequent notes.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Notes to the Annual Financial Statements

3. Financial risk management objectives and policies

The Fund's activities expose it to a variety of financial risks, including credit risk, liquidity risk and the effects of changes in foreign currency exchange rates, interest rates, and market prices of equities. The Funds' overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the scheme does not hedge any risks. Risk management is carried out by investment manager under policies and guidelines approved by the Trustees.

(a) Market risk

(i) Foreign exchange risk
The scheme is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to foreign currency denominated loans and offshore fixed and time deposits denominated in US dollars and British Pounds. Currency exposure arising from assets and liabilities denominated in foreign currencies is managed by matching with the fixed and time deposits held offshore.

At 31 December 2021, if the Kwacha had weakened/strengthened by 10% against the US dollar with all other variables held constant, the decrease/increase in net assets available for benefits for the year would have been K86.5million (2020: K109.7million million) higher/lower.

At 31 December 2021, if the Kwacha had weakened/strengthened by 10% against the British pound with all other variables held constant, the decrease/increase in net assets available for benefits for the year would have been K5.76 million (2020: K7.7 million) lower/higher.

There were no changes to the foreign market risk policies and processes during the year. The Kwacha equivalent of amounts translated from foreign currencies at year end is as follows:

	Currency	2021 Base amount	Exchange rate	ZMW	2020 Base amount	Exchange rate	ZMW
Fixed term deposit							
Crown Agents Investments	GBP	2,561,777	22.38	57,332,569	2,664,364	28.40	75,667,938
Bank							
Crown Agents	GBP	13,958	22.38	312,380	45,623	28.40	1,295,693
Indo Zambia	USD	16,821	16.67	280,406	16,881	21.17	357,371
Stanbic Bank	USD	813,582	16.67	13,562,412	871,021	21.17	18,439,515
Standard Bank	ZAR	114,131	1.10	125,544	114,131	1.45	165,490
Long Term Loan							
International Commercial Bank of China	USD	(52,726,048)	16.67	(878,943,220)	(52,726,048)	21.17	(1,116,210,436)
				(807,329,909)			(1,020,284,429)

Notes to the Annual Financial Statements (continued)

3. Financial risk management objectives and policies (continued)

(a) Market risk (continued)

(ii) Interest rate risk

Interest rate risk arises from the effects of the fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and future cash flows. The Fund holds investments in fixed rate government securities and fixed deposits which expose it to fair value interest rate risk. The PSP Act guides the Fund on the appropriate balance of the portfolio between variable and fixed rate interest investments.

At 31 December 2021, if the interest rate had fluctuated by 10% with all other variables held constant on government securities, and fixed deposits, the decrease/increase in net assets available for benefits for the year would have been K25.0 million (2020: K22.20 million) lower/higher.

Additionally, the loan facility acquired to fund the construction of the mall and hotel may be affected by decrease or increase in LIBOR. If the LIBOR fluctuated by 10% with all variables held constant on the loan, the net assets available for benefits would have been K4.07 million (2020: K4.8 million) lower/higher.

(iii) Other price risk

The Fund is exposed to price risk in respect of its investments in listed and unlisted shares. The exposure to price risk is managed primarily by setting limits on the percentage of net assets available for benefits that may be invested in equity, and by ensuring sufficient diversity of the investment portfolio.

As at 31 December 2021, if the prices of all equity investments had decreased/increased by 10% with all other variables held constant, the decrease/increase in net assets available for benefits for the year would have been K 36.46 million (2020: K14.68 million) lower/higher.

There were no changes to the market risk policies and processes during the year.

(b) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Fund's customers, clients or market counterparties fail to fulfil their contractual obligations to the Fund. Credit risk arises from investments other than equity investments, contributions receivable, home loans, microfinance loans, staff loans, cash equivalents, and other receivables. The Fund has significant concentrations of credit risk in the contributions due from the Government which have been however guaranteed for settlement. The investment Manager assesses the credit ratings in accordance with limits set by the Trustees. The fixed deposits are held with reputable banks in Zambia.

Risk limit control and mitigation policies

Cash at bank
The Investment Manager internally assesses all banks before maintaining any cash deposits.

Government Securities, fixed term deposits
The Fund structures the levels of credit risk it undertakes by limiting the amount of risk accepted in relation to one borrower. The trustees have assessed that all investments in government securities and fixed term deposits are fully recoverable.

Notes to the Annual Financial Statements (continued)

3. Financial risk management objectives and policies (continued)

(b) Credit risk (continued)

Risk limit control and mitigation policies (continued)

Rental debtors
Ordinarily no credit is offered on the letting of properties, as all the tenants are required to pay rentals three months in advance. No interest is charged on any outstanding amounts. Before accepting any new customer, the Fund uses credit vetting procedures to assess the potential customer's creditworthiness and defines credit limits by customer. Limits attributed to customers are reviewed on an ongoing basis.

Pension contribution debtors
The pension debtors arise as a result of non-remittance of employees and employers pension contributions from all ministries and the defence forces. The Fund engages the Government regularly to release the contributions within the stipulated time frame.

The risk of default is insignificant because The Government of the republic of Zambia is the guarantor of the scheme and every year a letter of comfort is provided to address the going concern of the Fund. The accumulation of pension arrears is mitigated by the provision of a budget line in the national budget. Management believes that the impact of the possible impairment on the contributions is immaterial.

The Fund has provided fully for all receivables over 120 days because past experience is such that rent receivables that are past due beyond 120 days are generally not recoverable. Rent receivable between 60 days and 120 days are provided for based on the estimated irrecoverable amounts from the letting of the properties, determined by reference to past default experience.

Loans and advances
The home loans are given to members of the scheme who have served for a minimum of five years and confirmed in the public service as permanent and pensionable. The collateral for default is mortgage itself and the members pension benefits that are paid out upon retirement or death by Public Service Pensions Fund.

The Fund uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Fund use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

Definition of default

The Fund considers a financial asset to be in default which is fully aligned with the credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria
The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

Notes to the Annual Financial Statements (continued)
3. Financial risk management objectives and policies (continued

(b) Credit risk (continued)

Definition of default

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Fund and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Fund's expected loss calculations.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Fund expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Fund includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Fund's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Notes to the Annual Financial Statements (continued)

3. **Financial risk management objectives and policies (continued**

(b) Credit risk (continued)

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change are monitored and reviewed on an annual basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Notes to the Annual Financial Statements (continued)

3. Financial risk management objectives and policies (continued)

(b) Credit risk (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Fund's maximum exposure to credit risk on these assets.

- Microfin loan Portfolio

ECL staging					2021	2020
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total	Total
	K	K	K	K	K	K
Credit grade						
Investment grade						
Performing Loans	226,136,171	26,847,184	-	-	252,983,355	407,064,553
Satisfactory Loans	-		-	-	0	0
Non Performing Loans	-	-	290,270,710	-	290,270,710	92,362,508
Gross carrying amount	226,136,171	26,847,184	290,270,710	-	**543,254,065**	**499,427,061**
Loss allowance	(52,797,744)	(10,051,627)	(79,070,260)		(141,919,631)	(95,070,650)
Carrying amount	**173,338,427**	**16,795,557**	**211,200,450**	-	**401,334,434**	**404,356,411**

- Home ownership loan Portfolio

ECL staging					2021	2020
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total	Total
	K	K	K	K	K	K
Credit grade						
Investment grade						
Performing Loans	164,340,104	2,933,928			167,274,032	167,627,909
Satisfactory Loans	-	-	-	-	-	-
Non Performing Loans	-	-	55,103,684	-	55,103,684	50,085,030
Gross carrying amount	164,340,104	2,933,928	55,103,684	-	**222,377,716**	**217,712,939**
Loss allowance	(15,511,176)	(157,921)	(13,028,143)		(28,697,240)	(28,099,231)
	148,828,928	**2,776,007**	**42,075,541**	-	**193,680,476**	**189,613,708**

- Staff Loan Portfolio

ECL staging					2021	2020
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total	Total
	K	K	K	K	K	K
Credit grade						
Investment grade	-	-	-	-	-	-
Performing Loans	12,565,102	-			12,565,102	36,068,519
Satisfactory Loans	-	-	-	-	-	0
Non Performing Loans	-	-	48,763	-	48,763	146,418
Gross carrying amount	12,565,102	-	48,763	-	**12,613,865**	**36,214,937**
Loss allowance	(4,478,006)	-	(4,928)	-	(4,482,934)	(122,260)
Carrying amount	**8,087,096**	-	**43,835**	-	**8,130,931**	**36,092,677**

Notes to the Annual Financial Statements (continued)

3. Financial risk management objectives and policies (continued

(c) Liquidity risk

The following table summarises the maturity profile of the Fund's financial assets and liabilities. Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated benefit payments. The Trustees agree with investment manager on the amount to be invested in assets that can be easily liquidated. All financial liabilities are payable within the year, the Government provides in the National budget every year to clear outstanding pension payments." Staff pension obligations are payable when the employee satisfies the conditions of retirement. There were no changes to the liquidity risk policies and processes during the year.

The table below summarises the maturity profile of the Fund's financial assets and liabilities based on contractual undiscounted payments.

2021	**Within 12 months**	**Above one year**	**No fixed maturity**	**Total**
	K	**K**	**K**	**K**
Assets				
Equity	-	-	364,557,344	364,557,344
Fixed term deposits	215,989,246	57,332,562	-	273,321,808
Government Securities	159,164,581	2,812,509,270	-	2,971,673,851
Other debtors	55,150,425	-	-	55,150,425
MicroFinance loans	288,237,712	426,142,703	-	714,380,415
Home Loans	61,354,273	254,927,603	-	316,281,876
Staff loans	1,633,608	7,208,780	-	8,842,388
Cash and bank	568,545,945	-	-	568,545,945
Total financial assets	**1,350,075,790**	**3,558,120,918**	**364,557,344**	**5,272,754,052**
Liabilities				
Benefits payable	948,183,511	-	-	948,183,511
Other payables	28,165,995	-	-	28,165,995
Long Term Liabilities	233,486,179	687,868,732	-	921,354,911
Total financial liabilities	1,209,835,685	687,868,732	-	1,897,704,417
Net asset/(liability)	**140,240,105**	**2,870,252,186**	**364,557,344**	**3,375,049,635**

Notes to the Annual Financial Statements (continued)

3. Financial risk management objectives and policies (continued)

(c) Liquidity risk (continued)

2020	Within 12 months	Above one year	No fixed maturity	Total
	K	K	K	K
Assets				
Equity	-	-	146,823,365	146,823,365
Fixed term deposits	268,009,893	75,667,942	-	343,677,835
Government Securities	99,030,486	1,882,842,886	-	1,981,873,372
Other debtors	70,431,675	-	-	70,431,675
MicroFinance loans	285,359,104	616,627,699	-	901,986,803
Home Loans	55,689,695	284,680,026	-	340,369,721
Staff loans	1,739,684	37,511,103	-	39,250,787
Cash and bank	276,870,265	-	-	276,870,265
Total financial assets	**1,057,130,802**	**2,897,329,656**	**146,823,365**	**4,101,283,823**
Liabilities				
Benefits payable	1,600,139,392	-	-	1,600,139,392
Other payables	59,579,602	-	-	59,579,602
Long Term Liabilities	137,720,968	1,019,148,845	-	1,156,869,812
Total financial liabilities	1,797,439,962	1,019,148,845	-	2,816,588,806
Net asset/(liability)	**(740,309,160)**	**1,878,180,811**	**146,823,365**	**1,284,695,017**

The maturity analysis of the financial assets and liabilities are undiscounted. The maturity analysis above does not include the present value of the obligation which is an off-balance sheet liability as it is not established when the liability would be settled.

(d) Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded equity) are based on listed market prices at the close of trading on the reporting date.

Government securities, equity investments and fixed deposits are measured at fair value. Home loans, Microfin loans and staff loans are measured at amortised cost and adjusted for ECL allowance as per IFRS 9.

Notes to the Annual Financial Statements (continued)

3. Financial risk management objectives and policies (continued)

(d) Fair values of financial assets and liabilities (continued)

The following table presents the Funds' financial assets that are measured at fair value or for which fair value is disclosed at 31 December 2021

Financial instruments by level

	Level 1	**Level 2**	**Level 3**
31 December 2021	**K**	**K**	**K**
Assets			
Government securities	-	1,046,050,705	-
Equity investments	364,557,344	-	-
Fixed deposits	-	-	262,295,102
	364,557,344	**1,046,050,705**	**262,295,102**

	Level 1	Level 2	Level 3
31 December 2020	K	K	K
Assets			
Government securities	-	541,417,295	-
Equity investments	146,823,365	-	-
Fixed deposits	-	-	248,184,707
	146,823,365	541,417,295	248,184,707

The different level of fair value measurement hierarchy is described as follows:

- Quoted prices(unadjusted) in active markets for identical assets (level 1)
- Inputs other than quoted shares included in level 1 that are observable for the asset, either directly (that is, as prices) or indirectly(that is, derived from prices) (level 2)
- Inputs for the assets that are not based on observable market data(that is , unobservable data) (level 3)

All fair value measurements disclosed are recurring fair value measurements, required for the purposes of measuring the Fund's assets at fair value. During the year no transfers were made amongst the different levels.

Level 2 valuation

These include inputs other than quoted shares included in level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. These take into account valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs. The input used in the valuation of these instruments is based on market rates for comparable instruments based on similar quoted rates provided to the Fund by similar institutions or, in the case of government bonds, latest published Government auctions.

Notes to the Annual Financial Statements (continued)

3. Financial risk management objectives and policies (continued)

(d) Fair Value of Financial Assets and Liabilities (continued)

Level 3 valuation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Level 3 valuations are reviewed monthly by the Fund's investment team who report to the Board of Trustees. Due to the nature of the financial assets in this category adjustments are only made annually. The Fund's investment team considers the appropriateness of the valuation model inputs, as well as the valuation results using various valuation methods and techniques generally recognised as standard within the industry.

Offsetting financial assets

Financial assets and liabilities are only off-set and the net amount reported in the statement of net assets available for benefit where the Fund currently has 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.

(e) Capital risk management

The capital of the Fund is represented by the net assets available for benefits. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide benefits for members and maintain a strong capital base to support the development of the investment activities of the Fund.

Notes to the Annual Financial Statements (continued)

4. Benefits expense

	2021	2020
	K	K
Pensions	**647,835,238**	612,318,248
Commutation and lump sum retirement benefits	**746,858,779**	415,969,480
Lump sum payments on early retirement and death of members	**283,757,239**	323,603,289
	1,678,451,256	1,351,891,017

5. Investment income

	2021	2020
	K	K
Rents income	**5,398,734**	5,313,195
Less: Operating expenses on investment properties	**(1,979,397)**	(1,051,408)
Net rental income	**3,419,337**	4,261,787
Dividends receivable		
- Listed shares	**20,114,315**	14,234,297
Interest receivable		
- Micro Finance interest income	**145,942,694**	125,397,204
- Micro Finance handling fees	**753,572**	1,303,915
- Micro Finance insurance fees	**51,208**	108,699
- Fixed and time deposits	**50,705,123**	74,266,120
- Government Bonds	**199,051,081**	147,480,742
- Members' homeownership scheme	**27,533,370**	24,880,495
Crown Agents investment revaluation gain/(loss)	**(2,301,784)**	2,221,719
Homeownership Scheme - Fair Value adjustment	**(1,066,568)**	(1,296,627)
	444,202,348	392,858,351

Interest income is recognised in the statement of changes in net assets available for benefits for all interest-bearing financial instruments using the effective interest method.

Notes to the Annual Financial Statements (continued)

6. (a) Property and equipment

	Leasehold Buildings	Office Equipment	Motor Vehicles	Furniture and fittings	Total
At 1 January 2020					
Opening NBV	2,151,186	2,330,701	1,258,596	1,501,543	7,242,026
Additions	-	598,022	-	1,056	599,078
Disposal	-	(8,213)	-	-	(8,213)
Depreciation on disposal	-	4,402	-	-	4,402
Depreciation charge	(67,481)	(1,062,026)	(674,332)	(311,835)	(2,115,674)
31 December 2020	2,083,705	1,862,886	584,264	1,190,764	5,721,619
Cost	3,370,000	11,443,918	4,829,695	5,637,894	25,281,507
Accumulated depreciation	(1,286,295)	(9,581,031)	(4,245,431)	(4,447,130)	(19,559,887)
31 December 2020	2,083,705	1,862,886	584,264	1,190,764	5,721,620
At 1 January 2021					
Opening NBV	2,083,705	1,862,886	584,264	1,190,764	5,721,619
Additions	-	631,918	6,329,664	602,040	7,563,622
Disposal	-	(73,938)	-	-	(73,938)
Depreciation on disposal	-	64,760	-	-	64,760
Transferred Depreciation charge		3,251		(3,251)	-
Depreciation charge	(65,979)	(796,095)	(829,879)	(216,575)	(1,908,528)
31 December 2021	2,017,726	1,692,782	6,084,049	1,572,978	11,367,535
Cost	3,370,000	12,001,898	11,159,359	6,239,934	32,771,191
Accumulated depreciation	(1,352,274)	(10,309,116)	(5,075,310)	(4,666,956)	(21,403,656)
31 December 2021	2,017,726	1,692,782	6,084,049	1,572,978	11,367,535

6 (b) Intangible Assets

	2021	2020
	K	K
Computer Software at Cost	**1,398,515**	727,486
Less Depreciation Charge	**(193,993)**	(128,348)
Less accumulated Depreciation	**(645,331)**	(516,984)
At 31 December	**559,191**	82,154

Notes to the Annual Financial Statements (continued)

6 (c) Capital Work in Progress

	2021 K	2020 K
As at 1 January	**1,206,054,941**	1,003,998,701
Additions	**239,717,156**	202,056,240
Transfers out to Intangible Assets	**(676,204)**	-
At 31 December	**1,445,095,893**	1,206,054,941

This represent construction works completed at Alick Nkhata Road property and will be reclassified to investment property upon full completion.

The Industrial Commercial Bank of China (ICBC) has provided a line of credit of USD 61 million for the construction of the Alick Nkhata Road property. The interest relating to the loan has been capitalized and the total included under CWIP amounts to K40,659,173 (2020: K74,046,825). The loan bears interest at 6 months libor plus 300 basis points which is payable semi-annually. The interest rate as at 31 December 2021 stood at 3.77% (2020: 3.26% per annum).

7. Administrative expenses

The increase in net assets for the year is arrived at after charging the following items:

	2021 K	2020 K
Bank charges	**3,846,050**	3,109,854
Communication expenses	**296,543**	631,950
Decentralisation expense	**3,093,364**	3,899,082
Depreciation on property plant and equipment	**2,102,519**	2,244,022
Amortisation on right of use asset	-	406,918
Audit fees	**1,104,996**	333,374
Trustees fees	**436,200**	693,633
Trustees allowances	**2,474,539**	3,955,873
Legal and professional fees	**1,001,152**	845,821
Repairs and maintenance	**1,695,243**	1,592,070
Stationery	**572,256**	493,235
Employee benefit expenses		
- Salaries	**50,646,248**	62,943,029
- Redundancies and Other staff costs	**53,852,042**	25,568,106
- Staff inhouse pension costs	**259,144**	83,640
- staff adjustments	**44,251,773**	27,838,883
Other administration expenses	**11,345,273**	12,949,014
	176,977,342	147,588,505

Notes to the Annual Financial Statements (continued)

8. Investment properties

	2021 K	2020 K
At start of year	**243,988,592**	234,117,225
Fair value gains	**9,438,156**	9,871,367
Additions	-	-
Reallocation from CWIP	-	-
At end of year	**253,426,748**	243,988,592

The Funds' investment properties were valued at 31 December 2021 by Platinum Consulting who are independent and professionally qualified valuers, have recent experience in the location category of the respective investment property.

Basis of valuation

The Funds' properties are valued individually and valuations and appraisals are carried out on a basis appropriate to the purpose for which they are intended. The valuation has been prepared in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual, as recognised by the Surveyors Institute of Zambia, Valuation Chapter.

Method of valuation
Land and Buildings
The land and buildings have been valued using the direct comparison. This method has been adopted as the most appropriate for the purpose of the valuation as there are enough comparisons available on the open market for land and building.

Description of valuation techniques used and key inputs to valuation on investment properties:

Property	Valuation Technique	Significant unobservable inputs
Residential property	Direct comparison	Comparable properties transacted prices
Commercial property	Direct comparison	Comparable properties transacted prices
Undeveloped land	Direct comparison	Comparable properties transacted prices

Quantitative information of significant unobservable inputs – Level 3

Property	Valuation Technique	Significant inputs	2021 Range	2020 Range
Residential Property	Direct comparison	Price per month	**2000 – 15,000**	2000 – 15,000
Commercial Property	Direct comparison	Price per sqm	**150 - 650**	150 - 650
Undeveloped	Direct comparison	Price per sqm	**8,000,000**	8,000,000

Notes to the Annual Financial Statements (continued)

8. Investment properties (continued)

Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Fund's portfolios of investment property comprise comparable properties transacted prices.

Significant increases/(decreases) in the comparable properties transacted prices would result in a significant higher/(lower) fair value measurement as highlighted on note 2(b).

The Fund does not lease out its investment property under finance leases, but under operating leases. The leases are for terms of one year.

Below is the breakdown of the income and expenses attributable to the investment properties:

	2021	2020
	K	K
Rental Income	**5,398,734**	**5,313,195**
Less: Operating expenses	**(1,979,397)**	**(1,051,408)**
Net rental income	**3,419,337**	**4,261,787**

All operating expenses relate to investment property that generated rental income during the year.

9. Loans and advances to customers and staff

	2021			2020		
	Gross Carrying Amount	**ECL Allowance**	**Carrying Amount**	Gross Carrying Amount	Impairment Allowance	Carrying Amount
	K	**K**	**K**	K	K	K
Microfin Loans	**543,254,064**	**(141,919,630)**	**401,334,434**	499,427,061	(95,070,650)	404,356,411
Home Ownership Loans	**222,377,716**	**(28,697,240)**	**193,680,476**	217,712,939	(28,099,231)	189,613,708
Staff Loans	**12,613,865**	**(4,482,934)**	**8,130,931**	36,214,937	(122,260)	36,092,677
	778,245,645	**(175,099,804)**	**603,145,841**	753,354,937	(123,292,141)	630,062,796

				2021	2020
	Microfin	Home ownership	Staff	**Total**	
	K	K	K	**K**	K
Current	48,173,230	9,709,833	1,502,168	**59,385,231**	51,111,941
Non current	353,161,204	183,970,643	6,628,763	**543,760,610**	578,950,855
	401,334,434	**193,680,476**	**8,130,931**	**603,145,841**	630,062,796

Notes to the Annual Financial Statements (continued)

9. Loans and advances to customers and staff (continued)

(i) Gross carrying amount-Portfolio reconciliation.

The following table further explains changes in the gross carrying amount of the portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

2021 Loan Carrying Amounts

	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	K	**K**	**K**	**K**
Gross carrying amount as at 1 January 2021	**603,381,476**	**7,379,504**	**142,593,957**	**753,354,937**
Transfers:				
Transfer to stage 1	50,299,438	(2,421,586)	(47,877,852)	-
Transfer to stage 2	(13,844,913)	23,786,850	(9,941,937)	-
Transfer to stage 3	(198,224,562)	(2,650,705)	200,875,267	-
New financial assets originated or purchased	36,531,181	2,740,368	29,961,896	69,233,445
Modification and other movements of contractual cash flows of financial assets	(21,926,843)	(6,994,587)	(15,421,307)	(44,342,737)
Gross carrying amount as at 31 December 2021	**617,985,814**	**3,125,285**	**157,134,546**	**778,245,645**

2020 Loan Carrying Amounts

	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	K	**K**	**K**	**K**
Gross carrying amount as at 1 January 2020	**513,533,269**	**41,713,179**	**124,586,502**	**679,832,950**
Transfers:				
Transfer to stage 1	88 801 839	(26 605 339)	(62 196 500)	-
Transfer to stage 2	(7 924 565)	8 406 377	(481 812)	-
Transfer to stage 3	(8 971 563)	(14 523 791)	23 495 354	-
New financial assets originated or purchased	12,658,470	(1,408,238)	60,455,959	**71,706,191**
Modification and other movements of contractual cash flows of financial assets	5,284,026	(202,684)	(3,265,546)	1,815,796
Gross carrying amount as at 31 December 2020	**531,475,765**	**40,102,257**	**181,776,915**	**753,354,937**

Notes to the Annual Financial Statements (continued)

9. Loans and advances to customers and staff (continued)

(ii) Expected Credit Loss Recon- Portfolio Reconciliation

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

2021 Loans	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	K	K	K	K
Loss allowance as at 1 January 2021	**46 504 324**	**3 098 261**	**73 689 556**	**123 292 141**
Movements without P&L impact				
Transfers:				
Transfer to stage 1	12,708,748	(609,348)	(12,099,400)	-
Transfer to stage 2	(4,965,865)	8,783,544	(3,817,679)	-
Transfer to stage 3	(54,225,314)	(635,832)	54,861,146	-
Total net P&L charge during the period	**(46,482,431)**	**7,538,364**	**38,944,067**	-
Other movements with P&L impact				
New financial assets originated or purchased	6,989,438	1,167,659	8,426,865	16,583,962
Modification and other movements of contractual cash flows of financial assets	19,293,158	5,943,634	9,986,909	35,223,701
Charge/(credit) to profit and loss	26,282,596	7,111,293	18,413,774	**51,807,663**
Loss allowance as at 31 December 2021	**72,786,920**	**10,209,554**	**92,103,330**	**175,099,804**

2020 Loans	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	K	K	K	K
Loss allowance as at 1 January 2020	**2,753,783**	**13,005,755**	**85,011,502**	**100,771,040**
Movements without P&L impact				
Transfers:				
Transfer to stage 1	32 459 555	(8 220 921)	(24 238 634)	-
Transfer to stage 2	(465 905)	719 947	(254 042)	-
Transfer to stage 3	25 471 416	(4 596 265)	(20 875 151)	-
Total net P&L charge during the period	**57 465 066**	**(12 097 239)**	**(45 367 827)**	-
Other movements with P&L impact				
New financial assets originated or purchased	(20 461 897)	2 181 308	71 528 187	53 247 598
Modification and other movements of contractual cash flows of financial assets	6 747 372	8 438	(37 482 307)	(30 726 497)
Charge/(credit) to profit and loss	**(13 714 525)**	**2 189 746**	**34 045 880**	**22 521 101**
Loss allowance as at 31 December 2020	**46 504 324**	**3 098 262**	**73 689 555**	**123 292 141**

Notes to the Annual Financial Statements (continued)

10. Other investments

Other Investments

Year ended	**Value at**	**Purchases**	**Sales/**	**Change in**	**foreign exchange**	**Value at**
31-Dec-21	**01-Jan-21**	**At cost**	**Redemption**	**fair value/**	**gains/losses**	**31-Dec-21**
	K	**K**	**K**	**K**		**K**
Financial assets at fair value through profit or loss						
Equity						
- listed shares (Zambia)	146,823,365	-	1,811,178	215,922,801	-	364,557,344
Government Securities						
Government Bonds	541,417,295	443,119,593	-	61,513,817		1,046,050,705
Fixed Term deposits						
Fixed term deposits(Zambia)	172,516,765	182,469,893	(172,516,765)	22,492,647	-	204,962,540
Fixed term deposits(offshore)	75,667,942	-	-	(2,679,511)	(15,655,869)	57,332,563
Total deposits	**248,184,707**	**182,469,893**	**(172,516,765)**	**19,813,136**	**(15,655,869)**	**262,295,103**
	936,425,367	625,589,486	(170,705,587)	297,249,754	(15,655,869)	1,672,903,151

Fixed term deposits are made for a period of twelve months.

Year ended	**Value at**	**Purchases**	**Sales/ Redemption**	**Change in**	**Foreign exchange gains/ losses**	**Value at**
31-Dec-20	**1-Jan-20**	**At cost**		**fair value**		**31-Dec-20**
	K	**K**	**K**	**K**		**K**
Financial assets at fair value through profit or loss						
Equity						
- listed shares (Zambia)	155,316,749	-	(1,783,740)	(6,020,821)	(688,823)	146,823,365
Government Securities						
Treasury bills (Zambia)	21,861,976	-	(21,861,976)	-	-	-
Government Bonds	-	461,999,999	-	79,417,296		541,417,295
Fixed Term deposits						
Fixed term deposits(Zambia)	404,180,567	142,409,033	(404,180,567)	30,107,732	-	172,516,765
Fixed term deposits(offshore)	47,920,494	-	-	27,747,448	-	75,667,942
Total deposits	**452,101,061**	**142,409,033**	**(404,180,567)**	**57,855,180**	**-**	**248,184,707**
	629,279,786	604,409,032	(427,826,283)	131,251,655	(688,823)	936,425,367

Notes to the Annual Financial Statements (continued)

10. Other investments (continued)

The Funds individual investments as a percentage of the net assets of the Fund are:

	2021 Amount K	2020 Amount K	**2021 % of net assets**	2020 % of net assets
Equity investments	**364,557,344**	146,823,365	**10%**	10%
Investment property	**253,426,748**	243,988,592	**7%**	16%
Government securities	**1,046,050,705**	541,067,270	**29%**	35%
Fixed term deposits	**262,295,102**	248,184,707	**7%**	16%
Microfinance loans	**401,334,434**	404,356,411	**11%**	26%
Home loans Fund	**193,680,476**	189,613,708	**5%**	12%
Capital work in progress	**1,445,095,893**	1,206,054,941	**40%**	78%
Total investments	**3,966,440,702**	2,980,088,994		
Net assets/(liabilities)	**3,610,950,328**	1,537,742,169		

As per PSP Act, the Board should not invest assets in excess of twenty per centum of its net asset value in any one form of investment. Fixed deposits exceed the twenty-percentage limit and is due to timing differences as funds are reinvested into Home loans and investment properties.

Capital works in progress and Government bond were in excess of the 20% threshold prescribed in the PSP Act, the board is currently engaging the Government on the amendment of the PSPF Act. The amendment will prescribe revised investment thresholds for the board to adhere to in the near future.

The Investment of the Fund at 31 December 2021 comprised the following:

	2021	2020	**2021 % of assets**	2020 % of assets	**Limit**
	K	K	**%**	%	**%**
Equity investments	**364,557,344**	146,823,365	**10%**	**10%**	20%
Investment property	**253,426,748**	243,988,592	**7%**	**16%**	20%
Government Securities	**1,046,050,705**	541,067,270	**29%**	**35%**	20%
Fixed and time deposits	**262,295,102**	248,184,707	**7%**	**16%**	20%
Microfinance	**401,334,434**	404,356,411	**11%**	**26%**	20%
Home loans	**193,680,476**	189,613,708	**5%**	**12%**	20%
Staff loans	**8,130,931**	36,092,677	**0%**	**2%**	20%

Notes to the Annual Financial Statements (continued)

10. Other investments (continued)

The Fund does not hold any single investment exceeding 5% of the respective class or type of security in one institution except for the following:

	2021	2020	**2021**	2020
			% of	% of
	Value	Value	**investment**	investment
Equity	**K**	K	**class**	class
British American Tobacco	11,600,000	15,200,000	3%	10%
Lafarge Cement Plc	36,986,300	5,207,457	9%	3%
National Breweries Plc	46,982,404	47,408,475	12%	31%
ZANACO Plc shares	56,797,650	14,946,750	15%	10%
Zambia Sugar Plc	132,384,913	22,824,985	34%	15%
Puma Zambia	29,586,342	23,962,492	8%	15%
Copperbelt Energy Corp	36,401,611	17,170,571	9%	11%
Fixed deposits				
ZICB – 10%-21% 365 days	69,218,697	-	38%	-
Atlasmara – 11%-22% 364 days	46,959,346	14,196,960	26%	4%
Indo Bank – 8.5%-19%364 days	27,291,851	20,000,000	15%	5%
ZANACO - 23% 364 days	35,000,000	20,000,000	19%	5%

Foreign exchange gains/(losses) comprises the following items:

	2021	2020
	K	K
Offshore fixed deposits	**15,655,868**	25,541,521
Foreign currency denominated cash and bank amounts	**4,512,589**	9,387,477
Other foreign currency denominated transactions	**(230,974,353)**	(385,679,231)
	(210,805,896)	(350,750,233)
Realized exchange (losses)/gains	**4,512,589**	37,118,137
Unrealised exchange losses on borrowings	**(215,318,485)**	(387,868,370)
	(210,805,896)	(350,750,233)

Notes to the Annual Financial Statements (continued)

11. Contributions due

	2021 K	2020 K
Outstanding for more than 30 days	**887,390,371**	**978,610,997**
	887,390,371	**978,610,997**

The Fund charges Interest on contributions due using the Bank of Zambia Policy Rate on the monthly outstanding amount except for the year 2016 to 2021. All contributions are expected in the month they are deducted.

As at 31 December, the aging analysis of contributions due is, as follows:

	Total K	30-60 days K	61-90 days K	91-120 days K	>120 days K
2021	**887,390,371**	**26,610,567**	**13,323,951**	**13,287,761**	**834,168,092**
2020	**978,610,997**	**123,623,563**	**61,796,946**	**61,945,995**	**731,244,493**

12 Leases

This note provides information for leases where the Fund is a lessee.
(i) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

Right-of-use assets	31 December 2021 K	31 December 2020 K
Buildings	-	731,256

There were no additions to the right-of-use assets during the 2020 financial year(2019: K661,468).

Lease liability

Current	-	448,723
Non- current	-	539,370
	-	988,093

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

Amortisation charge of rights of use assets	**2021 K**	2020 K
Buildings	-	406,918
Interest expense (included in finance cost)	-	186,498
The principle repayments for leases in 2020	-	466,378

Notes to the annual financial statements (continued)

12. Leases (continued)

(iii) The Fund's leasing activities and how these are accounted for

The Fund leases include Buildings. Rental contracts are typically made for fixed periods varying between 2 to 6 years but may have renewal periods as described below.

From 1 January 2019, at inception of a contract, the Fund assessed whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

The Fund recognises right-of-use assets and lease liabilities at the lease commencement date for most leases. However, the Fund has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. office equipment) and for short-term leases, i.e. leases that at commencement date have lease terms of 12 months or less. The Company defines low-value leases as leases of assets for which the value of the underlying asset when it is new is K50,000 or less and is not considered fundamental to its network. The Fund recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Fund.

Lease liabilities include the net present value of the following lease payments:

Fixed payments (including in-substance fixed payments), less any lease incentives receivable.
Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date.
Amounts expected to be payable by the Fund under residual value guarantees
The exercise price of a purchase option if the Fund is reasonably certain to exercise that option, and
Payments of penalties for terminating the lease, if the lease term reflects the Fund exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Funds's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Generally, the Fund uses its incremental borrowing rate as the discount rate. The Fund determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments specific to the lease, e.g. term, country, currency and security.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Interest costs are charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Notes to the annual financial statements (continued)

12. Leases (continued)

(iii) The Fund's leasing activities and how these are accounted for (continued)

It is remeasured when there is a change in future lease payments arising from a change in index or rate, a change in the estimate of the amount payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use assets are initially measured at cost comprising the following:
- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs

The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

(iv) Renewal and termination options

A number of lease contracts include the option to renew the lease for a further period or terminate the lease earlier. The majority of extension and termination options held are exercisable only by the Fund and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Fund applies judgement in assessing whether it is reasonably likely that options will be exercised. Factors considered include how far in the future an option occurs, the Fundss business planning cycle of three to five years and history of terminating/not renewing leases.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

A number of leases entitle both the Fund and the lessor to terminate the lease without a termination penalty. In determining whether the Fund has an economic incentive to not exercise the termination option, the Fund considers the broader economics of the contract and not only contractual termination payments.

(v) Lease and non-lease components

The Fund allocates the consideration in the contract to each lease and non-lease component based on their relative stand-alone selling prices. The stand-alone selling prices of each component are based on available market prices. The Fund has not elected the practical expedient to account for non-lease components as part of its lease liabilities and right-of-use assets. Therefore, non-lease components are accounted for as operating expenses and are recognised in profit or loss as they are incurred.

Notes to the annual financial statements (continued)

13. Other receivables and accrued income

	2021	2020
	K	K
Other receivables	**53,537,411**	68,226,969
Rent receivable	**1,613,014**	2,204,706
Total other receivable and accrued income	**55,150,425**	70,431,675

As at 31 December, the aging analysis of other receivables and accrued income is, as follows:

	Total	30-60 days	61-90 days	91-120 days	>120 days
	K	K	K	K	K
2021	**55,150,425**	**3,629,638**	**293,077**	**180,703**	**51,047,007**
2020	70,431,675	31,218,201	32,285,358	-	6,928,116

Included in other receivables and accrued income are rental debtors, dividend receivables, interest receivables. The rental receivables are due on the lease anniversary while the dividend receivable is due on declaration. The interest receivable is due at the maturity of the investment.

Notes to the Annual Financial Statements (continued)

14. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise of cash at bank and Fixed deposits with original maturity of less than three months.

	2021 K	2020 K
Cash at bank	**568,545,945**	276,870,267
	568,545,945	276,870,267

15. Benefits payable

	2021 K	2020 K
Pensions	**62,174,234**	57,121,941
Pensions unconfirmed	**-**	-
- Commutation and lump sum retirement benefits	**618,798,722**	581,268,621
Lump sum payments on early retirement and death of members	**267,210,555**	961,748,830
	948,183,511	1,600,139,392

Reconciliation of the benefits payable

	2021 K	2020 K
Balance at 1 January	**1,600,139,392**	2,052,924,789
Accrued during the year	**1,678,451,256**	1,351,891,017
Paid during the year	**(2,330,407,138)**	(1,804,676,412)
Balance at 31 December	**948,183,511**	1,600,139,392

16. Other payables and accrued expenses

	2021 K	2020 K
Local creditors	**1,997,026**	47,195,635
Homeownership contributions	**4,108,548**	3,931,139
Accruals and provisions	**22,060,421**	8,452,828
	28,165,995	59,579,602

Notes to the Annual Financial Statements (continued)

17. Staff pension liability

The movement in the defined benefit obligation over the year was as follows:

	2021	2020
	K	K
Projected benefit obligation at start of year	**34,319,974**	15,548,843
Remeasured amount	**-**	-
Projected restated benefit obligation at start of year	**34,319,974**	15,548,843
Interest cost	**11,497,193**	4,076,840
Benefits paid	**(44,165,632)**	(3,183,967)
(Gains)/loss from change in financial and demographic assumptions	**15,007,728**	15,905,799
Experience (gains)/ losses	**14,682,787**	1,972,459
Projected benefit obligation at year end	**31,342,050**	34,319,974

The amounts recognised in the statement of changes in net assets for the year are as follows:

	2021	202
	K	
Interest cost	**11,497,192**	4,076,84
(Gains)/loss from change in financial and demographic assumptions	**15,007,728**	15,905,79
Experience (gains)/ losses	**14,682,788**	1,972,45
Total included in employee benefits expense (Note 7)	**41,187,708**	21,955,09

Five year summary:	**2021**	**2020**	**2019**	**2018**	**2017**
	K	**K**	**K**	**K**	**K**
Present value of defined benefit obligation	**31,342,050**	**34,319,974**	**15,548,843**	**17,927,640**	**18,577,934**
Deficit in the plan	**31,342,050**	**34,319,974**	**15,548,843**	**17,927,640**	**18,577,934**
Total movement for the year	**(2,977,924)**	**18,771,131**	**(2,378,797)**	**(650,295)**	**(5,316,144)**

Staff pension liability is a defined benefit pension scheme which relates to PSPF's unfunded pension liat for its employees as at 31 December 2021 based on the actuarial valuation by Quantum Consultants Actuaries. The valuation was performed using the projected unit Credit method. The plans are final sa pension plans, which provide benefits to members in the form of a guaranteed level of retirement benefits. level of benefits provided depends on members' length of service and their salary in the final years leadin to retirement. The plan has no Board of Trustees and the responsibility for governance of the plans lies the Fund's management. All payments paid under the scheme are through the normal operational costs. staff pension Fund is subject to annual actuarial revaluation. The resulting actuarial gains and losses recognised in the statement of changes in net assets available for benefits.

Notes to the Annual Financial Statements (continued)

17. Staff pension liability (continued)

Prior to 1 January 2015, the Fund had a staff non-contributory pension scheme. The present value calculated is based on the benefits accrued based on the salary and service to 31 December 2014, and determined the liabilities as at December 2021.

The significant actuarial assumptions were as follows:

	2021	2020
Discount rate	**26.0%**	33.5%
Salary Inflation	**19.2%**	19.2%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

2021 Impact on defined benefit obligation

	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	1%	Decrease by K2,745,742	Increase by K3,063,197
Salary increase	1%	Increase by K5,329,407	Decrease by K4,565,868

2020 Impact on defined benefit obligation

	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	1%	Decrease by K2,597,903	Increase by K2,862,344
Salary increase	1%	Increase by K4,964,205	Decrease by K4,326,497

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the Statement of changes in net assets available for benefits.

Through its defined benefit pension plans, the Fund is exposed to a number of risks, the most significant of which are detailed below:

Changes in bond yields	A decrease in government bond yields will increase plan liabilities. Moreover, there are no plan assets invested in government bonds, hence a change in government bond yield rates may have a more impact on the plan if it differs from the employer's opportunity cost of benefit provision.
Changes in salaries	The plan benefits are calculated with reference to employees' salaries; An increase in salaries will increase the plan liabilities. The risk becomes higher as the expectations of short-term inflation increase, due to the weakened strength of the Zambian Kwacha against other currencies.
Liquidity	The plan is unfunded, posing a risk in that resources are not available when needed to pay benefits that have become due.

Notes to the Annual Financial Statements (continued)

17. Staff pension liability (continued)

The weighted average duration of the defined benefit obligation is 12.5 years. Expected maturity analysis of undiscounted pension benefits:

At 31 December 2021	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Pension benefits	5,561,715	-	K3,166,561	K11,351,072	K20,079,348

At 31 December 2020	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Pension benefits	1,818,235	K1,969,627	K6,136,441	K35,638,505	K45,562,808

The staff pension Fund is subject to annual actuarial valuation. The resulting actuarial gains and losses are recognised in the statement of changes in net assets available for benefits in administrative expenses.

18. Tax status of the scheme

The Public Service Pensions Scheme is an approved Fund under the fourth schedule of the Income Tax Act Chapter 323 ("the Principle Act"). Consequently, it is exempt from income taxes under paragraph 5 of the second schedule of the Principle Act.

19. Statutory Actuarial position

The actuarial valuation was performed for the year ended 31 December 2020 by Independent Actuaries & Consultants (Pty) Ltd, an independent firm of actuaries, using the attained age method. The assumptions adopted at the previous valuation performed for the year ended 31 December 2017 remained unchanged, except for the family statistics assumptions In the previous valuation it. According to the valuation at that date, the actuarial present value of promised retirement benefits was as shown below:

	2020	2017
Accrued liabilities	K	K
Present value of accrued liabilities as at 31 December	51,958,000,000	47,393,000,000
Assets		
Present value placed on Fund assets available for benefits as at 31 December	(1,538,000,000)	(1,217,000,000)
Actuarial shortfall		
Excess of accrued liabilities over assets	50,420,000,000	46,176,000,000

Notes to the Annual Financial Statements (continued)

19. Statutory Actuarial position (continued)

The principal actuarial assumptions used were as follows:

- Salary escalation rate	30.0% per annum
- Valuation interest rate	34.0% per annum
- Pension increases	27.0%per annum
- Inflation rate	30.0% per annum

No allowance has been made for any increase to pensions on the basis that no provision is made for explicit pension increases in the PSPF Act. The Fund utilises the actuary for periodic advice and in assessing the financial condition of the plan as well as the investment performance and operating efficiency of the plan. The deficit identified by the actuary is to be funded in full by the Zambian Government and is not recognized in these annual financial statements. The government is currently evaluating options for funding the deficit.

The principal demographic assumption on mortality is based on standard tables. Active member mortality is based on the SA56-62 life table. Pensioner mortality is based on the (55) ultimate life table.

As explained in this note, the valuations and assumptions are based on the last actuarial valuation performed for the year ended 31 December 2020. The next valuation is supposed to be performed as at 31 December 2023 in accordance with the three year valuation cycle required by the PSPF Act.

20. Contingent liabilities

The fund is a part to some cases under the courts of law relating to disputed pension benefit payments.

21. Related party transactions

The entity is owned by the Government of the Republic of Zambia through an act of parliament PSPF Act No. 35 of 1996.

Related parties comprise the Trustees, the participating government of Zambia ministries, and companies which are related to these parties through common shareholdings or common Trusteeships.

Notes to the Annual Financial Statements (continued)

21. Related party transactions (continued)

In addition to contributions receivable (Notes 3(b) and 12) and the payment of Trustees' fees disclosed in Note 7, the following transactions were carried out with related parties during the year:

		2021	2020
		K	K
(i)	**Expenditure**		
	Trustees fees	**436,200**	693,633
	Trustees allowances	**2,474,539**	3,955,873

		2021	2020
(iv)	Key management compensation	K	K
	Salaries and other short term employment benefits, and Trustees fees	**8,366,424**	11,445,365
	Pension Contributions – All	**1,249,247**	1,524,933

Key management personnel include the Chief executive, who is also secretary of the board, and four Trustees. Included in the Salaries and other short-term employment benefits and Trustee's fees are salaries paid to management amounting to **K5,195,223** (2020: **K6,577,708**) and Trustee's fees and allowances amounting to **K3,171,201**(2020: **K4,649,507**).

22. Government early retirement Funding

The government provides a grant to aid the Fund in paying for early retirement cases in the defense forces and deceased pensioners. Ordinarily the Fund is supposed to cater for pensioners that attain statutory retirement at the age of 55 years, the government pays out this grant as budgeted for in the National Budget. These are recognized when the amount has been communicated to the Fund by the ministry of Finance. At the year end the Funding amounted to **K227,587,500** (2020: K173,862,678).

Notes to the Annual Financial Statements (continued)

23. Financing gap funds

Financing gap Funds represents budgetary allocation received from the Government of Zambia to finance pension benefits due during each financial year. The financing gap Funds are recognised when the amount has been communicated to the Fund by the ministry of Finance. At the end of the year the Financing gap amounted to **K1,839,246,415** (2020: K989,189,981).

24. Other income

The other income represents the following items:

	2021	2020
	K	K
Interest on staff loans	**440,880**	648,824
Staff loans mark to market	**5,981,502**	5,465,282
Operational income	**3,305,107**	944,143
Medical contribution	**328,888**	407,078
	10,056,377	7,465,327

25. Long Term Liability

The movement in long term liability over the year was as follows

*Interest payments have been capitalized and included under capital work in progress (see note 6)

At start of year	**1,116,210,433**	501,423,551
Drawdowns	**-**	254,514,759
Repayment	**-**	(42,043,483)
Exchange difference	**(237,267,216)**	402,315,606
At end of year	**878,943,217**	1,116,210,433

The Fund has acquired a loan from the Industrial Commercial Bank of China to fund the construction of a mall and hotel at the Alick Nkhata property. The tenure of the loan is fifteen years with three years moratorium at an interest rate of LIBOR Plus 3%. The loan facility is guaranteed by the Government of Zambia through the Ministry of Finance.

26. Subsequent events

After the year end, the Fund in 2022 received a total of K2.07billion from the government and a further allocation of K2.38 billion was provided for in the National budget.

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