

THE ZIMBABWE ELECTRICITY SUPPLY AUTHORITY
PENSION FUND

ACTUARIAL VALUATION AS AT 31 DECEMBER 2023

PREPARED BY

QUANTUM CONSULTANTS & ACTUARIES
FEBRUARY 2024

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1. EXECUTIVE SUMMARY

To the Trustees,

- 1.1 Quantum Consultants & Actuaries (“Quantum” or “We”) have carried out an actuarial valuation of the Zimbabwe Electricity Supply Authority (ZESA) Staff Pension Fund (“the Fund”) as at 31 December 2023 (“the valuation date”) in line with your request.
- 1.2 This report summarises the results of the actuarial valuation carried out on the Fund as at 31 December 2023. We have referred to all relevant Insurance and Pensions Commission (IPEC) Guidelines in conducting this valuation, with particular attention paid to the *Guideline for the insurance and pensions industry on adjusting insurance and pension values in response to currency reforms dated 31 May 2021* (“the Guideline”).
- 1.3 All monetary amounts in this report are denominated in Zimbabwean dollars (i.e. ZW\$) unless stated otherwise.

Status of report

- 1.4 This is a final report.

Recap of December 2022 Financial Review

- 1.5 We conducted the previous valuation of the Fund as at 31 December 2022. The results of the 31 December 2022 valuation revealed that the Fund had earned investment returns of 306.1%. These returns were distributed to the members through a final interest declaration of 306.1% and a top-up pension increase of 55.2%.
- 1.6 Furthermore, the Fund was financially sound as at the previous valuation date as was shown by a funding level of 104.9%, after adoption of our recommendations. This translated to a surplus of ZW\$ 1.49 billion as at the same date.

Key Inter-valuation Events

Market Overview

- 1.7 The ZSE All Share index stood at 19,735.17 as at 3 January 2023 and at 192,837.21 as at 15 December 2023 reflecting a 877% growth in the index.

- 1.8 CPI (blended measurement of USD and ZW\$) between the months of January to December 2023 implied an inflation rate of 26.5%.
- 1.9 The foreign Exchange rate stood at US\$1: ZW\$671.45 as at 03 January 2023 and at US\$1: ZW\$ 6,104.72 as at 29 December 2023. This represents an 809% depreciation in the exchange rate.

Over the inter-valuation period the following circulars were issued:

Document	Issue Date	Content
Circular 1 of 2023	10 January 2023	Assessment of annual reporting
Circular 2 of 2023	27 January 2023	Request for information on Board of funds and terms of office
Circular 4 of 2023	16 February 2023	Compliance with section 64(4) of the Pension and Provident Funds Act Relating to Compliance of Fund Rules to the Act
Circular 5 of 2023	17 February 2023	Interim measures pending Gazetting of 2009 compensation regulations
Circular 6 of 2023	3 March 2023	Call for comments on the micro-pension's framework
Circular 8 of 2023	16 March 2023	Annual publication of Financial Statements
Circular 10 of 2023	08 March 2023	Issuance of the directive for the Insurance and Pension's industry on equities and Properties Valuation
Circular 18 of 2023	14 June 2023	Notification of Publication of the insurance and Pension (Levy) Regulations, 2023 and Insurance (Amendment) Regulations, 2022
Circular 18 of 2023	Circular 7 of 2023	Micro- Pension Framework
Circular 26 of 2023	1 September 2023	Cyber Security and Data Protection Framework
Circular 39 of 2023	14 December 2023	Proposed Limit on Exposure to Guaranteed Fund

The following instruments attained prescribed asset over the period under review

Issuer	Amount (millions)	Purpose	Date Approved
African Century	US\$ 15	Onward lending	17 January 2023
Pure oil	US\$ \$5	Import Soya Beans and Crude Oil	20 March 2023
Central West	US\$ 42.5	Construction of Marondera shopping mall	24 March 2023
ZEIPF	US\$ 6.5	Development of stands	24 March 2023
DATVEST	US\$ 7.5	Infrastructure Developments	24 March 2023
WestProp	US\$ 30	Residential area developments	23 April 2023
IDBZ-Rooiport	US\$ 4.9	Student Accomodation	25 April 2023
First Mutual Wealth	US\$ 5.6	Agriculture	22 May 2023
Agrowth - Debenture	US\$ 10	Agriculture	26 May 2023

AFC-Agrobills	US\$ 20	Agriculture	29 May 2023
Stratus and Partners	US\$ 50	Agriculture	29 June 2023
Harvest Capital	US\$ 100	Agriculture	31 July 2023
Revitus-Reit	US\$ 11.88	Refurbishment of distressed properties	8 September 2023

- 1.10 As the pool of prescribed assets continues to widen, so do the opportunities for pension funds to comply with the prescribed asset ratio set by IPEC, through Circular 3 of 2019.
- 1.11 Trustees are advised to set processes in motion to ensure compliance within the deadlines set by the Regulator.

Revaluation Method

- 1.12 Revaluation Gains arise as a result of the revaluation to ZW\$ of pension fund assets and liabilities that were originally denominated in US\$ as of the Determination Date. These revaluations arise from investment returns being significantly higher than the economic assumptions used in the valuations of any liabilities.
- 1.13 We have set out the approach to the determination and distribution of revaluation gains in **Section 6**. We have also set out the results of our valuation based on the approaches used in **Section 9**.

Key Revaluation Assumptions used

- 1.14 The key assumptions for valuing pensioner liabilities used in carrying out this valuation have been maintained as those used in the Fund's actuarial valuations post 2017. We believe that the long-term outlook for the Fund experience and economy has not changed sufficiently since the last valuation date to warrant a change in assumptions.

Fair and Equitable Treatment of Pension Fund Members

- 1.15 A primary objective of the guideline as stated in Clause 6.1.1 is *“to ensure fair and equitable treatment of insurance policyholders and pension fund participants by insurance companies and pension funds following the 2019 currency reforms.”*
- 1.16 Clause 10.1.1 further states the general principle that *“the adjustment in policyholder and pension funds participant values must result in a fair transition from contracts and pension benefits denominated in USD or any of the other currencies that were legal tender under the multi-currency regime, to contracts and pension benefits denominated in ZWL.”*

1.17 Clause 28.4.1 requires the Trustees to enact a resolution that says that “*they have applied their minds based on the Guideline issued by IPEC and to the best of their knowledge, the distribution of revaluation profits is fair, transparent, equitable and in line with the reasonable expectations of the policyholders or pension fund participants.*”

Summary of Membership Statistics

1.18 After carrying out extensive data checks and reconciliations, this valuation is based on data relating mainly to the following membership groups:

- 2,013 Paid-up Members,
- 3,696 Pensioners in receipt of pensions from the Fund at the valuation date,
- 206 Deferred pensioners in the Fund; and
- Data relating to members who exited in prior periods.

Contributions and Expenses

1.19 The Fund is closed to new members and further accrual of benefits. Therefore, all Frozen Active members became Paid-up members at the conversion date. In terms of the proposed new DC rules of the Fund, the Fund is non-contributory.

1.20 We also note that with the rules of the Fund, all expenses incurred by the Fund are to be funded from the investment earnings generated from the Fund’s assets.

Financial Position

1.21 We have calculated the return earned by the Fund to be 1028% over the year to 31 December 2023.

1.22 Equitably distributing the Fund returns to the Fund’s membership, requires awarding interest of 1028% for the year to 31 December 2023 and a total pension increase of 964,75%.

1.23 We note that prior to the completion of this valuation, the Fund had awarded pension increases of 6.10%; 5.42%; 4.25%; 15%; 100% and 30.66% in respect of Fund performance over the 2023 calendar year. We propose an additional pension increase of 203.85% to fully distribute all revaluation gains attributable to pensioners as at 31 December 2023.

1.24 We are aware that the Fund awarded US\$ denominated bonuses to its pensioners, according to the pensioner categories over the inter-valuation period.

1.25 The Fund's pensioners received quarterly US\$ lump-sums equivalent to their monthly pension (excluding lump-sum) and round up to the nearest multiple of USD 10, subject to the following minimum thresholds:

- USD 30 for principal pensioners,
- USD 20 for spouse beneficiaries,
- USD 10 for child beneficiaries.

1.26 We recommend that these lump sum bonuses be considered as advance payment of pension increases and be deducted from the arrear pension top-ups, arising from the back dated pension increase due.

1.27 The table below sets out the financial position of the Fund at 31 December 2023, together with comparative figures as at 31 December 2022.

Category	31 December 2022		31 December 2023	
	Before Interest (ZW\$)	After Interest (ZW\$)	Before Interest (ZW\$)	After Interest (ZW\$)
Net Assets	32 042 182 527	32 042 182 527	305 136 754 168	305 136 754 168
Total Liability (b= c + d + e)	14 256 339 625	30 556 833 771	62 998 051 589	302 131 238 216
Accrued Actuarial Liabilities (c)	13 480 243 097	27 405 346 870	59 846 564 688	266 582 236 754
Frozen Actives	2 586 752 928	10 504 000 051	10 281 606 766	115 977 272 108
Deferred Pensioners	202 691 651	314 477 898	1 141 056 867	3 467 143 649
Pensions in Payment	10 443 777 692	16 203 613 914	48 423 901 055	147 137 820 997
Suspended Pensioners	247 020 826	383 255 007	-	-
Outstanding Payments (d)	514 047 034	2 087 385 314	2 087 385 314	23 545 858 155
Pending Exits Actives	27 829 261	113 005 984	113 005 984	1 274 715 721
Pending Exits Pensioners	14 005 187	56 870 712	56 870 712	641 505 764
Commutated Pensions	2 455 358	9 970 445	9 970 445	112 467 345
Deferred Pension ER Only	12 613 659	51 220 150	51 220 150	577 767 016
Unexpired Pensions	83 379 144	338 576 801	338 576 801	3 819 170 940
Arrear pension benefits	221 086 147	897 762 162	897 762 162	10 126 822 487
Outstanding Benefits Payments			-	-
Claims O/S	46 462 629	188 670 302	188 670 302	2 128 214 723
Additional voluntary contributions	15 881 087	64 488 160	64 488 160	727 431 134
Unclaimed Benefits	24 473 422	99 378 963	99 378 963	1 121 001 929
ESC	65 861 141	267 441 635	267 441 635	3 016 761 096
Reserves (e)	262 049 494	1 064 101 588	1 064 101 588	12 003 143 307
Exits Revaluation Gains Reserve	87 172 711	353 981 299	353 981 299	3 992 934 795
Data Reserve	174 876 783	710 120 289	710 120 289	8 010 208 512
Surplus (f = a- b)	17 785 842 902	1 485 348 756	242 138 702 579	3 005 515 952
Funding level (j = a/b)	224.8%	104.9%	484.4%	101.0%

Conclusion

- 1.28 The revaluation disclosed a surplus of ZW\$ 3.01 billion. This translates to a funding level, that is, the ratio of the Fund's assets to that of its accrued liabilities, of 101.0 % as at 31 December 2023.
- 1.29 The results presented are in accordance with the IPEC Guideline on Currency Reforms dated 31 May 2021.

Future Service Contribution Rate

- 1.30 The Fund is closed to further accrual of service, and expenses are funded from investment returns; therefore, no future service contributions are required.

Fund Operating Expenses

- 1.31 Operating expenses, excluding investment related expenses over the period under review, were ZW\$ 2.7 billion. This translated to 1.63% of the Fund's average assets over the review period.

Recommendations and Certifications

- 1.32 A summary of all our recommendations is outlined in **Section 10** of the report.
- 1.33 We have set out the required certifications in **Section 11** and **Appendix V**.

2. INTRODUCTION

2.1 We refer to your request that African Actuarial Consultant (“AAC” or “We”) carries out a valuation of the Zimbabwe Electricity Supply Authority (ZESA) Staff Pension Fund (“the Fund”) as at 31 December 2023 in line with IPEC Guidelines.

2.2 We now have pleasure in presenting our report.

Addressee

2.3 This report is addressed to the Trustees of the Fund and may be made available to the Fund sponsor. This report and its contents are confidential and may not be used for any other purpose except the purposes outlined in the report.

Summary of Fund Benefit Structure

2.4 The Fund is a self-administered defined contribution arrangement, with effect from 1 January 2020. Deferred pensioners and pensions in payment at the conversion date remain as such with the applicable provisions of the old rules remaining in place for the pensioners.

2.5 The benefits for deferred pensioners were maintained in their DB format as pensions entitled to pension increases, with the pension increases being those which can be afforded from the future investment earnings. There was no prejudice to deferred pensioners, in maintaining them as such.

2.6 The benefit on exit for active members is based on the member’s Fund Credit. This is composed of the conversion value increased with returns earned on Fund assets and any other proportionate allocations or adjustments which may be required at the advice of the Actuary and as agreed by the Trustees from time to time.

2.7 The allocated returns are the returns generally reflecting the investment earnings on Fund assets less investment and fund administration expenses as determined by Trustees after consultation with the Actuary.

2.8 The Fund Rules are given in further detail in **Appendix II**.

Purpose

- 2.9 The purpose of this valuation is to:
- i. place a value on the liabilities and assets of the Fund;
 - ii. assess the financial position of the Fund by comparing the available assets to liabilities
 - iii. recommend a final return and pension increase for the year ended 31 December 2023; and
 - iv. to comment on any other issues pertinent to the Fund.

Professional Issues

- 2.10 This report has been prepared in accordance with the Actuarial Professional Standards (APSs) issued by the Institute and Faculty of Actuaries and the Technical Actuarial Standards (TAS) issued by the Financial Reporting Council current at the date of signing this report. These standards set out the minimum requirements of an actuarial valuation report to meet the standards of the actuarial profession.
- 2.11 This report has considered SAP 201 issued by the Actuarial Society of South Africa, except that as this Fund is not registered in South Africa, certain aspects not relevant to the Fund have been excluded.
- 2.12 This report further complies with guidelines set by the IPEC Commissioner in circular No. 7 of 2014 and the currency reform guidelines issued in March 2020 and updated in May 2021.
- 2.13 This report has also been peer reviewed internally. We are also aware that the report may be further peer reviewed by an independent Actuary.

Currency and Limitations

- 2.14 All amounts stated in this report are denominated in Zimbabwe Dollars (ZW\$) unless stated otherwise.
- 2.15 The calculations and recommendations in this report are based on the data provided and certified by the administrator to be correct and accurate. Should significant changes be made to the data, then our calculations would have to be revised.
- 2.16 The results of the valuation are an estimate of the cost of the benefits, which the Fund provides, based on assumptions regarding the future of the Fund, and does not influence the actual cost of the benefits. It is the experience of the Fund that will determine the actual cost.

3. SUMMARY OF KEY INTER-VALUATION DEVELOPMENTS

Fund Conversion

- 3.1 The Fund converted from a Defined Benefit (DB) arrangement to a Defined Contribution (DC) arrangement with effect from 1 January 2020. The Conversion was approved by IPEC on 16 June 2022.
- 3.2 On Conversion from DB to DC, the Employer Sponsor resolved to adopt the deficit at Conversion as a debt to the Fund. The debt will accrue interest at Bank overdraft interest rates. We were advised that the debt adoption and conditions were agreed to by the Trustees of the Fund and approved by IPEC.

Merger with the Zimbabwe Electricity Industry Pension Fund

- 3.3 The ZESA Staff Pension Fund (“ZESA PF”) was on course to merge with the Zimbabwe Electricity Industry Pension Fund (“ZEIPF”) over the course of 2023. However, this move was not approved by the Regulator, due to the former’s conversion deficit and the prejudice likely to be suffered by the ZEIPF members. ZESA PF had a conversion deficit amounting to ZW\$ 6.77 billion as at 31 December 2022.
- 3.4 We were informed by the administrators that this development has resulted in discussions over reverting back to a defined benefit structure. We are available to assist the Fund in this regard.

Development of the Zimbabwean 2023 Mortality Tables

- 3.5 The Insurance and Pensions Commission (IPEC) initiated the development of the new Zimbabwean 2023 mortality tables after receiving support from the Ministry of Finance and Economic Development.
- 3.6 We have considered the financial impact of adopting these tables for our determination of the pensioner liabilities. The adoption of these tables resulted in an increase of ZW\$ 10.28 billion in the value of the pensioner liabilities, from ZW\$ 49.56 billion using the current basis given in Section 6 of this report.

Pension Increases

- 3.7 Based on the results of the Fund's 31 December 2023 financial review, total pension increases amounting to 964,75% were due in respect of the 2023 Revaluation Gains. Considering the cumulative pension increase of 350.42% awarded over the 2023 financial year, we recommend an additional pension increase of 203.85% to fully distribute the revaluation gains due to the Fund's pensioners.
- 3.8 We are aware that the Fund awarded US\$ denominated bonuses to its pensioners, according to the pensioner categories over the inter-valuation period.
- 3.9 The Fund's pensioners received quarterly US\$ lump-sums equivalent to their monthly pension (excluding lump-sum) and round up to the nearest multiple of USD 10, subject to the following minimum thresholds:
- USD 30 for principal pensioners,
 - USD 20 for spouse beneficiaries,
 - USD 10 for child beneficiaries.

Market Overview

- 3.10 The ZSE All Share index stood at 19,735.17 as at 3 January 2023 and at 192,837.21 as at 15 December 2023 reflecting a 877% growth in the index.
- 3.11 CPI (blended measurement of USD and ZW\$) between the months of January to September 2023 implied an inflation rate of 26.5%.
- 3.12 The foreign Exchange rate stood at US\$1: ZW\$671.45 as at 03 January 2023 and at US\$1: ZW\$ 6,104.72 as at 29 December 2023. This represents a 809% depreciation in the exchange rate.
- 3.13 The continued depreciation of the ZW\$ against the USD over the valuation period has resulted in the revaluation of market values of property investments. Consequently, investment returns amounting to over ZW\$ 270.15 billion were reported as at 31 December 2023. This is reflected in the relatively high investment return over the 2023 financial year of 1024%.

Regulatory changes during the inter-valuation period

3.14 Over the inter-valuation period the following circulars were issued:

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Stratus and Partners	US\$ 50	Agriculture	29 June 2023
Harvest Capital	US\$ 100	Agriculture	31 July 2023
Revitus-Reit	US\$ 11.88	Refurbishment of distressed properties	8 September 2023

3.15 As the pool of prescribed assets continues to widen, so do the opportunities for pension funds comply with the prescribed asset ratio set by IPEC, through Circular 3 of 2019.

3.16 Trustees are advised to set processes in motion to ensure compliance within the deadlines set by the Regulator.

Rule Amendments and Ex-gratia payments

3.17 A summary of the DC Fund rules is set out in **Appendix II**.

3.18 We have not been notified of any amendments to the rules during the inter-valuation period.

4. MEMBERSHIP DATA

- 4.1 The data required for the valuation has been obtained from records which are maintained by the Fund.
- 4.2 We were provided with details relating to the following:
- i. Members' Accumulated Credits as 31 December 2022;
 - ii. Deferred Pensions as at 31 December 2023; and
 - iii. Pensions in payment as at 31 December 2023 which incorporate the pension increases awarded.
- 4.3 The data was checked for reasonability. We have set out in **Appendix III** summary details of the data checks performed.
- 4.4 The accuracy of any values quoted in this report and the conclusions reached are limited to the accuracy of the underlying data and information (listed above) on which this report is based. Should this data be any different from the actual membership and asset position of the Fund this valuation may need to be re-done.
- 4.5 While data checks are performed for the purposes of this valuation the final accountability for the accuracy of the Fund's data resides with the Trustees and the Fund Management.
- 4.6 A summary of the membership data on which this valuation has been based together with statistics derived from this data is set out in the section below.

Key membership statistics

- 4.7 The following tables summarize the membership data provided at the current and previous valuation dates:

Category	31 December 2022	31 December 2023	Change
Frozen Active Members	2 050	2 013	(37)
Deferred Pensioners	210	206	(4)
Pensions in payment	3 465	3 696	231
Suspended Pensioners	953	-	(953)
Total	6 678	5 915	(763)

Membership Summary			
	31 December 2022	31 December 2023	Change
Actives			
Number	2 050	2 013	-37
Average Age	52.4	53.4	1.0
Average term to retirement	7.7	6.8	-0.9
Total Opening Fund credits (ZW\$)	2 586 752 928	10 281 606 766	297.5%
Average Fund Credits (ZW\$)	1 261 831	5 107 604	304.8%
Deferred Pensions			
Number	210	206	-4.0
Pension weighted average age	54.5	55.4	0.9
Total Pensions (ZW\$)	23 967 793	128 022 591	434.1%
Average Pensions (ZW\$)	114 132	621 469	444.5%
Pensions in Payment			
Number	3 465	3 696	231
Pension weighted average age	63.4	63.2	-0.2
Total Pensions (ZW\$)	884 842 273	5 154 177 032	482.5%
Average Pensions (ZW\$)	255 366	1 394 528	446.1%
Suspended Pensioners			
Number	953	-	-953
Pension weighted average age	40.0	-	-
Total Pensions (ZW\$)	30 630 301	-	-100.0%
Average Pensions (ZW\$)	32 141	-	-100.0%

4.8 We await the data certificate from Fund Management that attests to the accuracy and completeness of the data for the purpose of the actuarial valuation.

5. ASSETS

- 5.1 The objective of the valuation of a pension Fund's assets for comparison with the Fund's accrued liabilities is to place a value on the assets which represents an assessment of the underlying long-term value of assets that is consistent with the principles used in placing a value on the Fund's liabilities.
- 5.2 We were provided with final financial statements for the period from 1 January 2023 to 31 December 2023. We have relied on the accuracy of these financial statements in stating the market value of Fund assets held at the valuation date.
- 5.3 In carrying out this exercise, we have assumed that the market value of assets recorded in the financial statements represents the fair value as at 31 December 2023.

Employer Debt

- 5.4 The value of employer debt amounted to ZW\$ 25.66 billion as at the valuation date, compared to ZW\$ 8.92 as at 31 December 2022.

Investment Allocation

- 5.5 The Fund's asset mix is broadly in line with the Fund's Investment Policy Statement, which tolerates an 80% asset holding in real assets. The Fund is invested 89.8% in real assets (Property- 83.6% and Equities- 6.2%).
- 5.6 We also note that the adoption of the Fund's deficit as a debt in the Fund has resulted in 8.4% of the Fund assets being represented by the Employer Debt. At the 31 December 2022 valuation the employer deficit amounted to 27.9% of the Funds total liabilities. At 31 December 2021 valuation, the employer debt amounted to 41.6% of the Fund's assets.
- 5.7 The financial statements provided showed that the value of assets amounted to ZW\$ 305.14 billion at the valuation date. A split of the assets invested in each investment class at 31 December 2023 with comparative figures at 31 December 2022, is summarized in the table below:

Category	31 December 2022		31 December 2023	
	Amount (ZW\$)	Proportion of net assets	Amount (ZW\$)	Proportion of net assets
Fixed Property	19 623 785 042	61.2%	255 225 433 168	83.6%
Ordinary Shares	2 733 347 221	8.5%	18 839 253 507	6.2%
Prescribed Assets & Debentures	345 621 558	1.1%	-	-
Money Market	-	-	1 448 860 726	0.5%
Actuarial Deficit – Loan	8 920 811 460	27.8%	25 662 032 411	8.4%
Cash on hand and at Bank	237 605 648	0.7%	2 370 224 884	0.8%
Operating Assets	4 903 600	0.0%	35 348 786	0.0%
Current Assets	231 571 982	0.7%	2 552 547 851	0.8%
Current Liabilities	(55 463 984)	-0.2%	(996 947 166)	-0.3%
Net Assets	32 042 182 527	100%	305 136 754 168	100%

Category	31 December 2022		31 December 2023	
	Amount (ZW\$)	Proportion of net assets	Amount (ZW\$)	Proportion of net assets
Current Assets	231 571 982	0.7%	2 552 547 851	8.0%
Rental Arrears	83 172 933	0.2%	1336 426 802	0.4%
Other Debtors	148 399 049	0.5%	1210 313 081	0.4%
Interest Accrued			5 807 967	0.0%
Current Liabilities	(55 463 984)	-0.2%	(996 947 166)	-0.3%
Tenants Deposit	(9 208 316)	0.0%	-	-
Other Creditors	(41 180 781)	-0.1%	(736 513 164)	-0.2%
Other Provisions	(5 074 887)	0.0%	(258 895 751)	-0.1%
Arrear Pension Liabilities			(1 538 251)	0.0%

5.8 A Consolidated Revenue Account of the assets held by the Fund is shown below:

ZW\$	31 December 2023
Fund at beginning of period	30 600 915 189
Investment income	286 458 666 934
Interest on deficit debt	-
Other Interest	24 103 600 516
Dividends	494 067 759
Rentals	8 111 058 613
Realised Gains	235 081 723 614
Unrealised Gains	16 843 722 941
Interest on payroll arrears	-
Exchange Gains	1 975 009 889
Revaluation Gain on operating assets	28 355 951
Miscellaneous income	734 370 596
Investment Expenses	(913 242 946)

Benefit payments	(9 185 871 243)
Pensions	(8737 053 606)
Lump sum awards on retirement and retrenchment	(448 362 875)
Lump sum awards on withdrawal	-
Lump sum awards on death	(454 762)
Operating expenses	(2 736 956 712)
Staff Costs	(1364 639 665)
Administration Expenses	(596 873 945)
Actuarial fees	(57 599 667)
Audit fees	(33 255 766)
Board expenses	(201 300 378)
IPEC levies	(111 770 819)
Bank Charges	(371 516 474)
Consultancy fees	-
Other Expenses	-
Fund at end of period	305 136 754 168

5.9 The fund earned a return of 1028% compared to the ZSE All Share Index growth of 877%. Hence the Fund's assets performed comparably better than the ZSE counters as a whole over the financial year under review.

5.10 The current asset allocation has 8% of the assets in the Employer debt which offers limited inflation protection while 89.8% of the assets are in real assets.

5.11 IPEC Circular 2 of 2022 sets the maximum investment with regard to each asset class as follows:

- Quoted equity Investments 60%
- Unquoted equity investments 15%
- Property investments 40%
- Prescribed Assets 40%
- Money market and Cash 20%
- Foreign Investments 15%
- Other investments 5%
- Bonds/Stocks+ Property investments 75%

- 5.12 IPEC issued out Circular 1 of 2019 which calls for pension funds to invest a minimum 20% in prescribed asset. Trustees ought to consider this piece of regulation in reviewing the Fund's asset mix.

Contributions and Expenses

- 5.13 The Fund converted to a non-contributory DC Fund with effect from 1 January 2020, and as such no contributions are payable into the Fund.
- 5.14 All expenses incurred by the Fund are to be met by the investment earnings generated from the Fund's assets. The operating expenses over the inter-valuation period were ZW\$ 2.7 billion. The expenses were 1.63% the average fund assets over the inter-valuation period.

6. VALUATION METHOD AND BASIS

Liability Valuation Method

- 6.1 We have relied on the 31 December 2022 closing accumulations to obtain the opening values for the Fund's membership as at 1 January 2023.
- 6.2 In cases of members who have already been paid during the year, the balance due to them has been determined by deducting the amount paid out - adjusted with final returns from the expected Fund Credit at year end, had the members not been paid out.
- 6.3 This method was also applied when determining the value of fund reserves that had been held over the course of the same period.
- 6.4 Deferred Pensioners and Pensions in Payment liabilities were determined as the discounted value of the expected future payments to the members allowing for investment returns and pensions increases detailed below, in addition to the mortality rates set out in **Appendix I**.

Valuation Basis

- 6.5 The table below summarizes the assumptions used for this exercise:

Assumption	31 December 2022	31 December 2023
Investment Return	7%	7%
Pension Increase Rate	1%	1%
Post-Retirement Mortality Rates	a(55) ULT	a(55) ULT
Assumed age difference (M – F)	3 years	3 years

- 6.6 It should be noted that it is the relative levels of the investment return and salary escalation rate to one another that are important, rather than the nominal values. The assumption regarding the relative levels of these two rates is our expectation of the long-term average.
- 6.7 The pensionable age as specified in the Fund Rules is 60 years. The Rules further specify a guarantee period of 5 years on pensions received and a spouse proportion of 50% of the main member's pre-commutation pension.
- 6.8 In the event of the Fund members having children dependents, we have assumed that children and orphans will be receiving benefits until the age of 23.

Compliance with IPEC Currency Conversion Guidelines

- 6.9 We have conducted this valuation in line with the IPEC Guideline on Currency Reforms dated 31 May 2021 which details the treatment and distribution of revaluation gains.
- 6.10 We have ensured that the distribution of investment earnings which represents the revaluation gains in terms of the IPEC guideline is equitable and fair to all members of the Fund. This was done by declaring the overall earned fund returns to members' Fund Credits and all the DC liabilities.
- 6.11 Deferred pensioners, pensions in payment and suspended pensioner were awarded pension increase that can be afforded from the earned returns allowing for the cost of funding per the valuation assumptions.

Fair and Equitable Treatment of Pension Fund Members

- 6.12 A primary objective of the guideline as stated in Clause 6.1.1 is *“to ensure fair and equitable treatment of insurance policyholders and pension fund participants by insurance companies and pension funds following the 2019 currency reforms.”*
- 6.13 Clause 10.1.1 further states the general principle that *‘the adjustment in policyholder and pension funds participant values must result in a fair transition from contracts and pension benefits denominated in USD or any of the other currencies that were legal tender under the multi-currency regime, to contracts and pension benefits denominated in ZWL.’*
- 6.14 Clause 28.4.1 requires Trustees to enact a resolution that says that *“they have applied their minds based on the Guideline issued by IPEC and to the best of their knowledge, the distribution of revaluation profits is fair, transparent, equitable and in line with the reasonable expectations of the policyholders or pension fund participants.”*

7. LIABILITIES

Paid-up Members' Account

7.1 In terms of the rules of DC scheme this is an account for the accrual of Paid-Up Members' Fund Credits.

7.2 The account shall be:

- Credited with:
 - Conversion values of Paid-up members at Conversion Date;
 - Interest allocated based on the investment earnings of the Fund, at the advice of the Actuary and subject to Trustees approval; and
 - Any other adjustments which may be recommended by the Actuary and subject to Trustees approval.
- Debited with:
 - Payments to paid up members on exiting from the fund or retiring; and
 - Any other adjustments which may be recommended by the Actuary and subject to Trustees approval.

7.3 The Fund earned investment returns of 1028% over the year to 31 December 2023. We have therefore credited all individual members' Fund Credit with an Interest of 1028% An Interest declaration equal to the actual returns earned represents the Paid-up members' full entitlement to the investment earnings (i.e. revaluation gains per IPEC).

Category 1 Pensioners' Account

7.4 In terms of the draft rules of the DC scheme, this is the account within the Fund where assets backing liabilities for members who retired before the Conversion Date including deferred pensioners are credited and their pension payments are debited. The account shall be:

- Credited with:
 - Deferred pensioners' and Pensions in payments' liabilities at Conversion Date;
 - Investment earnings on the assets backing the Category I pensioners' liabilities, at the advice of the Actuary and subject to Trustees approval; and

- Any other adjustments which may be recommended by the Actuary and subject to Trustees approval.
- Debited with:
 - Monthly pensions paid to pensioners;
 - Lump sum commutations of pensions; and
 - Any other adjustments which may be recommended by the Actuary and subject to Trustees approval.

7.5 Based on the valuation assumptions which were used for the conversion valuation of the Fund, the Fund can afford to award a total pension increase of 964.75% for the year ending 31 December 2023.

7.6 We note that prior to the completion of this valuation, the Fund had awarded pension increases of 6.10%; 5.42%; 4.25%; 15%, and 30.66% in respect of Fund performance over the 2023 calendar year. We propose an additional pension increase of 203.85% to fully distribute all revaluation gains attributable to pensioners as at 31 December 2023.

7.7 We are aware that the Fund awarded US\$ denominated bonuses to its pensioners, according to the pensioner categories.

7.8 The Fund's pensioners received quarterly US\$ lump-sums equivalent to their monthly pension (excluding lump-sum) and round up to the nearest multiple of USD 10, subject to the following minimum thresholds:

- USD 30 for principal pensioners,
- USD 20 for spouse beneficiaries,
- USD 10 for child beneficiaries.

7.9 We recommended that these lump sum bonuses be considered as advance payment of pension increases and be deducted from the arrear pension top-ups, arising from the back dated pension increase due.

8. RESERVE ACCOUNT

- 8.1 This is the account created for the purposes of accounting for any reserves and provisions set up at, at the advice of the Actuary, as discussed below.
- 8.2 We recommend that, the Fund Management trace and pay the members whose benefits have been provided for in the Reserves or explicitly as provisions. We have increased their benefits at Conversion date with interest equal to the Fund's earned returns of 1028%

ESC Residual Dividend Distribution Amount Reserve (ESC Reserve)

- 8.3 This reserve was calculated as the accumulated value of residual dividend distributions for the ESC Staff Pension Fund. We have been informed that these dividends came through after the ESC Fund had been wound up and that the ZESA Staff Pension Fund provided a conduit to enable their payment.

AVC Reserve

- 8.4 This is the equivalent ZWL amount of the accumulated Additional Voluntary contributions, at Conversion date, for members who made AVCs into the Fund in the past.

Commuted Pensions

- 8.5 This reserve caters for the liability of Members who had commuted pensions before December 2008 but did not cash in their cheques up to the time of carrying out this valuation.

Unclaimed Benefits Reserve

- 8.6 This reserve caters for the liability of Members who have outstanding benefits, remaining unclaimed within the Fund.

Data Reserve

- 8.7 At the DB to DC conversion, we recommended the creation of a Data Reserve equal to 2% of the liabilities at the Conversion date, as a way of mitigating the risk of possible errors in the valuation data.

9. FINANCIAL POSITION AS AT 31 DECEMBER 2023

Financial Position

9.1 The Fund's financial position as at 31 December 2023 in respect of liabilities accrued over the valuation period, assessed by reference to the method and assumptions described in Section 6, and allowing for the declared Interest and pension increases can be summarized as follows:

Category	31 December 2022		31 December 2023	
	Before Interest (ZW\$)	After Interest (ZW\$)	Before Interest (ZW\$)	After Interest (ZW\$)
Net Assets	32 042 182 527	32 042 182 527	305 136 754 168	305 136 754 168
Total Liability (b= c + d + e)	14 256 339 625	30 556 833 771	62 998 051 589	302 131 238 216
Accrued Actuarial Liabilities (c)	13 480 243 097	27 405 346 870	59 846 564 688	266 582 236 754
Frozen Actives	2 586 752 928	10 504 000 051	10 281 606 766	115 977 272 108
Deferred Pensioners	202 691 651	314 477 898	1 141 056 867	3 467 143 649
Pensions in Payment	10 443 777 692	16 203 613 914	48 423 901 055	147 137 820 997
Suspended Pensioners	247 020 826	383 255 007	-	-
Outstanding Payments (d)	514 047 034	2 087 385 314	2 087 385 314	23 545 858 155
Pending Exits Actives	27 829 261	113 005 984	113 005 984	1 274 715 721
Pending Exits Pensioners	14 005 187	56 870 712	56 870 712	641 505 764
Commutated Pensions	2 455 358	9 970 445	9 970 445	112 467 345
Deferred Pension ER Only	12 613 659	51 220 150	51 220 150	577 767 016
Unexpired Pensions	83 379 144	338 576 801	338 576 801	3 819 170 940
Arrear pension benefits	221 086 147	897 762 162	897 762 162	10 126 822 487
Outstanding Benefits Payments			-	-
Claims O/S	46 462 629	188 670 302	188 670 302	2 128 214 723
Additional voluntary contributions	15 881 087	64 488 160	64 488 160	727 431 134
Unclaimed Benefits	24 473 422	99 378 963	99 378 963	1 121 001 929
ESC	65 861 141	267 441 635	267 441 635	3 016 761 096
Reserves (e)	262 049 494	1 064 101 588	1 064 101 588	12 003 143 307
Exits Revaluation Gains Reserve	87 172 711	353 981 299	353 981 299	3 992 934 795
Data Reserve	174 876 783	710 120 289	710 120 289	8 010 208 512
Surplus (f = a- b)	17 785 842 902	1 485 348 756	242 138 702 579	3 005 515 952
Funding level (j = a/b)	224.8%	104.9%	484.4%	101.0%

9.2 The table above shows that the value of the Fund's liabilities and reserves grew to ZW\$ 304.14 billion, after allocating the earned returns of 1028% and an additional pension increase of 203.85%, as at the review date. Fund assets were valued at ZW\$ 290.27 billion at the same date.

9.3 The Fund therefore had a surplus of ZW\$ 3.01 billion. This translates to a funding level of 101.0%.

Analysis of Surplus

- 9.4 At the previous valuation the Fund had a surplus of ZW\$ 1.49 billion and was 104.9% funded. At the current valuation, the Fund has a surplus of ZW\$ 242.14 billion before implementation of our recommendations, which is equivalent to a funding level of 484.4%.
- 9.5 The table below sets out an analysis of the change in the financial position from 31 December 2022 to 31 December 2023.

Analysis of Surplus	
Description	ZW\$
Surplus at beginning of period	1 485 348 756
Net Investment returns	283 721 710 222
Cost of interim pension increases	(40 451 187 685)
Interest on surplus	103 974 413
Miscellaneous	(2 721 143 127)
Surplus at end of period	242 138 702 579

Merger with the Zimbabwe Electricity Industry Pension Fund

- 9.6 The ZESA Staff Pension Fund (“ZESA PF”) was on course to merge with the Zimbabwe Electricity Industry Pension Fund (“ZEIPF”) over the course of 2023. However, this was not approved by the Regulator, due to the former’s conversion deficit and the prejudice likely to be suffered by the ZEIPF members. ZESA PF had a conversion deficit amounting to ZW\$ 6.77 billion as at 31 December 2022.
- 9.7 We were informed by the administrators that this development has resulted in discussions to reverting back to defined benefit structure. We are available to assist the Fund in this regard.

Development of the Zimbabwean 2023 Mortality Tables

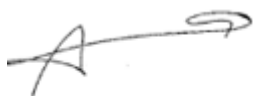
- 9.8 The Insurance and Pensions Commission (IPEC) initiated the development of the new Zimbabwean 2023 mortality tables after receiving support from the Ministry of Finance and Economic Development.
- 9.9 We have considered the financial impact of adopting these tables for our determination of the pensioner liabilities. The adoption of these tables resulted in an increase of ZW\$ 10.2 billion in the value of the pensioner liabilities, from ZW\$ 49.56 billion using the current basis given in Section 6 of this report.

10. CONCLUSIONS AND RECOMMENDATIONS

- 10.1 The value of the Fund's accrued liabilities at 31 December 2023, allowing for distribution of revaluation gains is ZW\$ 266.58 billion, whereas the value of Fund assets amounted to ZW\$ 305.14 billion. The valuation, therefore, disclosed a surplus of ZW\$ 3.01 billion.
- 10.2 The accrued funding level, that is, the ratio of the Fund's assets to that of its accrued liabilities, is 101.0% compared to 104.9% as at 31 December 2022.
- 10.3 We certify that the Fund was in a sound financial position as at 31 December 2023 in terms of Section 37(4) of the Pension and Provident Scheme Regulations 1991.
- 10.4 We recommend that:
- The Trustees award interest of 1028,0 % to Paid-up Members' Fund Credits and Reserve Account balances;
 - The Trustees award an additional pension increase of 203.85% to all pensioners at 31 December 2023 and still in the Fund;
 - The Fund management pay top up benefits, if any, to members who exited and were underpaid during the year to 31 December 2023; and
 - The Trustees take the necessary steps to bring the Fund to ensure compliance with the Asset allocation per IPEC Circular 2 of 2023.

11. ACTUARY CERTIFICATIONS

- 11.1 We certify that the Fund was in a sound financial position at 31 December 2023 with a funding level of 101.0%.
- 11.2 We certify that, as required in terms of Section 10 of the Guideline, the approach we have adopted in the allocation of revaluation gains does not result in the generational transfer of wealth between different members.
- 11.3 We certify that we have not created reserves which may result in the generational transfer of wealth over time.
- 11.4 We have distributed revaluation gains by declaring a final interest equal to the actual returns earned on the Fund's assets and declaring pension increases equal to those which can be afforded from the earned returns allowing for funding assumptions. We certify that the approach to the distribution of revaluation is fair and equitable to all the members of the Fund, including those who exited in the inter-valuation period.
- 11.5 We certify that the approach to the determination and distribution of revaluation gains ensures that the Employer does not benefit from the distribution of revaluation gains.
- 11.6 We will provide schedules of individual members' fund credits on adoption of this valuation report.
- 11.7 The other required certifications from the Revaluation Actuary, per IPEC Guideline on currency conversion, have been set out in **Appendix V**.



Tinashe Mashoko FASSA FIA
Revaluation Actuary
Quantum Consultants & Actuaries

26 March 2024

APPENDIX I: ACTUARIAL ASSUMPTIONS

The valuation has been conducted on the basis of the following assumptions:

1. **Valuation Rate of Interest**

It was assumed that the Fund's investments would yield 7% per annum in the period before and after each member's retirement.

2. **Pensions Increases**

It was assumed that pension in payment and in deferment would increase in future on account of inflation, at an average long-term compound rate of 1% per annum.

3. **Post-retirement discount rate**

The real post retirement discount being the difference between the investment return and pension increase assumptions is 6%. The same rate was used for the last valuation.

4. **Mortality**

Post-retirement

We have assumed that the mortality for members retiring under the Fund will be in accordance with the a(55) Ultimate table.

5. **Spouse's Pension**

It was assumed that all the deferred pensioners would be married at retirement with the husband 3 years older than the wife is.

6. **Administration Expenses**

Administration expenses are borne by the Fund. These will be funded from investment earnings of the Fund.

APPENDIX II: SUMMARY OF FUND RULES

Normal Retirement Age 60 years

Contributions The Fund is paid up and therefore non-contributory

Conversion Date 31 December 2019

Conversion Value The amount at the conversion date, of the member's opening Fund Credit in the DC arrangement, in lieu of the accrued Defined benefits per the old rules, as determined by the Actuary.

Deferred Pensioner A member who withdrew from the service of the Employer before retirement age and leave the pension benefits within the Fund till retirement age

Fund Credit Conversion value plus interest awarded after the conversion date.

Interest The return awarded annually to the various Fund accounts and Paid up members' Fund Credits.

Paid-Up Member A member actively employed by the Employer, who is not contributing to the Fund but have a Fund Credit in the Fund.

Paid-up Members Account An account for the Paid-Up Members or Fund Credit.

Reserve Account The account created for the purposes of accounting for any reserves and provisions set up at, at the advice of the Actuary

Normal Retirement The Fund Credit is payable.

The benefit for members retiring within 5 years after conversion date will be the greater of the Fund credit and the value as calculated by the Actuary, of the pension calculated in terms of the Old Rules.

Early Retirement A member who has attained age 55 may retire early. The Fund Credit is payable.

	<p>The benefit for members retiring within 5 years after conversion date will be the greater of the Fund credit and the value as calculated by the Actuary, of the pension calculated in terms of the Old Rules.</p>
Late Retirement	<p>A member who has attained age 65 may retire late with the Employer's consent. The Fund Credit is payable.</p> <p>The benefit for members retiring within 5 years after conversion date will be the greater of the Fund credit and the value as calculated by the Actuary, of the pension calculated in terms of the Old Rules.</p>
Resignation or dismissal	<p>The Employee Fund Credit is payable to the member while the Employer Fund Credit maybe preserved in the Fund or Transferred to another Fund.</p>
Death In Service	<p>The Fund Credit is payable in terms of the rules of the Fund.</p> <p>On the death of a Deferred pensioner before retirement, death benefits in terms of the old rules are payable.</p>
Death After Retirement	<p>Benefits in respect of Category 1 Pensioners shall be in terms of the Old Rules. Those for Category 2 Pensioners shall be per the member's selection at retirement.</p>

APPENDIX III: DATA CHECKS

The data checks that were performed at the valuation date are outlined below:

1. We checked all the data for consistency with that used for the conversion valuation.
2. For each pensioner in the data received we checked for consistency of dates of birth, gender and monthly pensions. We then performed the following reasonability checks:
 - Dates are valid;
 - Dates are in logical order, and consistent;
 - Ages fall within reasonable ranges; and
 - Pensions in payment lie within reasonable range and are consistent with the increases granted during the inter-valuation period.
 - We found that some pensioners had pensions lower as at the current valuation date than what they were being paid as at the previous valuation date. We have recommended that this be investigated.
 - We found that some pensioners' pension increases were more than that per the increases awarded to all pensioners. We have been advised that this was due to continued adjustments for the 2012 Collective Bargaining Adjustments.
3. We have used the deferred pensioners' data from the previous valuation. We however adjusted the data for pension increases which were granted.
4. Following our data checks, we raised the following queries with the Fund's administrators. These were resolved to our satisfaction.

APPENDIX IV: FUND RISKS

Types Of Risk	Description	Mitigation
Regulatory Risk	✓ The prospect of undesirable consequences and penalties stemming from the Scheme's inability to fulfil all relevant regulatory requirements. This includes the likelihood of sustaining losses arising out of litigation.	✓ The Scheme's Investment policy will need to be reviewed, as its current asset mix is in violation of IPEC regulations.
Investment Risk	✓ Risk of the fall in the price of equities, bonds, and property due to movements in economic market factors.	✓ This risk can be mitigated by diversifying the investment portfolio across product types and economic sectors.
Valuation Risk	✓ Risk that assets in the merged fund are overvalued and are worth less than its carrying value when it is sold or matures	✓ Risk is reduced by engaging asset valuation experts, to ensure transparency and consistency in the asset valuation process.
Credit Risk	✓ Risk of loss emanating from the failure of third parties such as, sponsoring employers and other debtors to pay their dues to the scheme.	✓ The risk is minimized by taking appropriate action to collect all monies due to the Scheme, i.e. Legal action, the use of Debt collectors etc.

APPENDIX V: IPEC CERTIFICATIONS

DATA CERTIFICATION BY THE REVALUATION ACTUARY

I, the undersigned, hereby certify that the data used to determine and distribute Revaluation Gains which arose in the 2023 financial year, for the ZESA Staff Pension Fund is sufficient, based upon information and belief formed after reasonable inquiry. I also confirm that I have done the following before distribution of the Revaluation Gains;

- a. Checked and certified the adequacy/sufficiency of data as at 31 December 2023
- b. Reconciled the membership as at 31 December 2022.

Name of the Revaluation Actuary: Tinashe Mashoko

Name of Actuary's Professional Principal Regulator: Actuarial Society of South Africa.

Signature:



Date: 26 March 2024

CERTIFICATION OF THE ASSET AND LIABILITY CALCULATION METHODS AND ASSUMPTIONS BY THE REVALUATION ACTUARY

I, the undersigned, hereby certify that all the calculations for the purposes of determining and distributing Revaluation Gains for the ZESA Staff Pension Fund as at 31 December 2023 were done in accordance with the “Guideline for the Insurance and Pensions Industry on Adjusting Insurance and Pension Values in Response to Currency Reforms”. I also confirm that I have done the following before distribution of the Revaluation Gains;

- a. Checked the values of assets and accuracy of liabilities as at 31 December 2022 and as at 31 December 2023.
- b. Reconciled the assets and liabilities by categories of pension membership between 31 December 2022 and 31 December 2023.
- c. Ensured equity in the distribution of revaluation gains between pension liabilities and between old and newer members.

Name of the Revaluation Actuary:

Tinashe Mashoko

Name of Actuary’s Professional Principal Regulator: Actuarial Society of South Africa.

Signature:



Date: 26 March 2024

**CERTIFICATION OF THE SOLVENCY POSITION BY THE REVALUATION ACTUARY:
PENSION AND PROVIDENT FUNDS**

I, the undersigned, hereby certify that the ZESA Staff Pension Fund is solvent on an ongoing basis as at 31 December 2023 as shown in the table below. This is after adjusting fund member values based on calculations in terms of the “Guideline for the Insurance and Pensions Industry on Adjusting Insurance and Pension Values in Response to Currency Reforms”.

Measurement Date:	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
	ZW\$	ZW\$	ZW\$	ZW\$
Total Assets	4 431 759 004	8 317 647 615	32 042 182 527	305 136 754 168
Actuarial Liabilities	4 466 085 694	8 013 027 024	30 556 833 771	302 131 238 216
Surplus/ (Deficit)	(34 326 689)	304 620 592	1 485 348 756	3 005 515 952
Funding Level	99.2%	103.8%	104.9%	101.0%

Name of the Revaluation Actuary: Tinashe Mashoko

Name of Actuary’s Professional Principal Regulator: Actuarial Society of South Africa.

Signature: 

Date: 26 March 2024