



**The Federated Employers Mutual Assurance Company
(RF) Proprietary Limited**

INTERIM REPORT

30 JUNE 2021

Non-executive directors

NF Maas (Chairman)
H Walker (Lead Independent Director)
T Balfour
JR Barrow
MG Ilsley
K Imathiu
CS Jiyane
A Moiloa
H Ngakane

Head office and registered address

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114 Oxford Road
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Private Bag 87109
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Executive directors

NF Manyonga (Chief Executive Officer)
Y Bodiat (Chief Financial Officer)

Company registration number

1936/008971/07

Company secretary

EJ Willis

www.fem.co.za

INTRODUCTION

The Federated Employers Mutual Assurance Company (RF) Proprietary Limited (“the Company”) has pleasure in presenting its Interim Report for the six months ended 30 June 2021. The report covers the performance of the Company for the period 1 January 2021 to 30 June 2021. Management’s interpretation of materiality has been applied in determining the content and disclosure in this report.

Company profile

The Company was established as a mutual non-life insurer in 1936 by the construction industry to insure employers against their liabilities under the Workmen’s Compensation Act 59 of 1934. On the introduction of the Workmen’s Compensation Act 30 of 1941, FEM was granted a licence by the Minister of Labour to continue transacting workmen’s compensation insurance for the construction industry. The Company’s business operations are confined to the insurance of employers against their liabilities under the Compensation for Occupational Injuries and Diseases Act 130 of 1993 and extend to any employer falling within 0500 subclasses of the Commissioner’s industrial classifications for the construction industry.

The Company receives premiums from policyholders and adjudicates and pays statutory benefits to claimants in the event of work-related accidents or injuries. The benefits paid include medical expenses, temporary disability benefits, lump-sum disability benefits, funeral benefits and pension benefits payable to employees or their dependants.

In terms of its Memorandum of Incorporation (MOI), the Company operates as a mutual non-life insurer and shareholding is effectively restricted to policyholders. Shareholders are not entitled to any dividends or distribution of the assets of the Company, except for their share of the nominal amount of share capital upon dissolution. The mutual structure of the Company is entrenched in unalterable provisions in the MOI of the Company, hence the (RF) designation in the Company’s name.

The Company operates solely in the Republic of South Africa; however, a portion of its investment income is earned from foreign investments.

Targets

The primary objective of the Company is to assure policyholders and claimants of the ongoing sustainability of the Company. This includes appropriate funding of the Company’s long-term pension obligations in respect of disability and death benefits.

The Company prepares a rolling three-year strategy and business plan on an annual basis to monitor its long-term financial sustainability. Two key targets are to remain conservatively capitalised in excess of statutory capital requirements and to achieve at least a break-even underwriting result each year (after making provision for normal annual premium rebates to be paid to qualifying policyholders and before allowing for any investment income, finance costs and pension valuation gain or loss). Although the Company did not achieve its objective of a break-even underwriting result in the current period, it nevertheless reported an overall net profit for the period and remains conservatively capitalised with a net asset value of R4.2 billion and Solvency Capital Requirement (SCR) cover ratio of 1.64 as at 30 June 2021.

Basis of preparation

This interim report has been prepared in compliance with *IAS 34: Interim Financial Reporting* and has been presented using the same accounting policies applied for the latest annual financial statements.

FINANCIAL REVIEW

This review of the Company's financial performance is focused on the Company's underwriting and investment results and cash flows for the six months ended 30 June 2021 and its overall financial position at 30 June 2021. Unless otherwise specifically indicated, all comparisons made are to the prior half year ended 30 June 2020.

Key performance indicators

- Gross premium income decreased by 5% to R735 million
- Gross claims and benefits increased by 30% to R149 million
- Operating expenses decreased by 6% to R82 million
- Accident prevention and grant expenditure maintained at R22 million
- Underwriting loss reported of R12 million (2020: R84 million profit)
- Net investment income of R485 million, representing an effective annual return of 14.1% (2020: 6.8%)
- R100 million contribution approved to assist with the national COVID-19 vaccine rollout
- Overall net profit for the half year of R287 million (2020: R356 million)

Financial performance

Gross premium income decreased by 5% to R735 million. This results from a combination of the significant challenges facing the construction industry in recent years, as well as the knock-on impact of the nationwide lockdown, where a large portion of the industry was unable to operate between March 2020 and July 2020. The impact of COVID-19 is beginning to be seen in the current year results, most notably in the R48 million reduction of initial premium estimates raised in the previous year that has been processed and impacts results in the current period.

Gross claims and benefit expenses increased by 30% to R149 million, which was mainly attributable to the increased business activity during the current period relative to the reduced business activity in the prior period, resulting from the nationwide lockdown in 2020.

Operating expenses decreased by R5 million to R82 million for the half year.

The Company recorded an underwriting loss, before investment income and actuarial effects, of R12 million for the half year. However, this improves to a R36 million profit if you adjust for the R48 million reduction of premium recognised in the current period which relates to estimates raised in the prior year.

The Company recorded net investment income of R485 million, representing a 14.1% return on the average financial assets held during the period (2020: 6.8%).

A special general meeting was held on 02 March 2021 where shareholders approved an amount of R100 million to be contributed to assist with the national COVID-19 vaccine rollout. As at the date of approval of this interim report, no funds have been disbursed, with the full amount disclosed within trade and other payables at 30 June 2021.

After making full provision for actuarial effects and special payments, the Company achieved a net profit of R287 million for the half year ended 30 June 2021 (2020: R356 million).

FINANCIAL REVIEW

Cash flows

The Company remains cash generative, recording positive operational cash flows of R368 million for the half year. This is much higher than the cash generated in the prior half year as a result of deferral granted on premium payments during 2020. This option for policyholders to settle premiums as per payments plans in 2020 is also reflected in the larger insurance receivables balance at the end of the prior period compared to the current period.

Financial position

Total assets increased by R908 million over the interim period, totalling R8.3 billion at 30 June 2021. The Company's net asset value increased in line with net profit to R4.2 billion at 30 June 2021. This represents a healthy capital position aligned to the Company's long-term strategic objectives.

The Company is required to hold sufficient capital to meet its regulatory solvency requirements in terms of the Insurance Act of 2017 and the Prudential Standards set out by the Prudential Authority. As at 30 June 2021, the Company's Solvency Capital Requirement (SCR) cover ratio was calculated at 1.64x. This represents a healthy solvency position.

The accompanying interim financial statements for the six months ended 30 June 2021 were prepared under the supervision of the Chief Financial Officer, Mr Y Bodiya CA (SA).

Events after the reporting period

There have been no material events from 30 June 2021 up to the date of approval of this report.

Approval

The interim report has not been subject to any audit or review by the Company's independent auditors. The interim report was approved for issuance by the Company's board of directors on 26 August 2021.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Note	6 months to June		December
		2021	2020	2020
		Rm	Rm	Rm
ASSETS				
Investment in subsidiary		81	0	73
Property and equipment		61	73	64
Computer software		30	12	24
Reinsurance assets		4	2	3
Financial assets invested through asset managers	1	7,192	6,737	6,877
Investments at fair value through profit or loss		7,148	6,709	6,828
Cash held in bank accounts operated by asset managers		44	28	49
Other financial assets at fair value through profit or loss	2	710	135	238
Other financial assets measured at amortised cost		182	572	73
Insurance receivables		88	475	26
Other receivables		33	31	36
Cash and cash equivalents	SOCF	61	66	11
Total assets		8,260	7,531	7,352
EQUITY AND LIABILITIES				
Stated capital		0	0	0
Retained profit	SOCE	4,201	3,888	3,914
Total equity		4,201	3,888	3,914
Insurance liabilities		3,901	3,582	3,373
Pension liabilities	3	1,939	1,763	1,893
Claims provisions	4	811	673	824
Unearned premium liabilities		524	485	137
Premium rebate liabilities	5	627	660	519
Financial liabilities measured at amortised cost				
Trade and other payables		158	62	65
Total liabilities		4,059	3,644	3,438
Total equity and liabilities		8,260	7,531	7,352

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 JUNE 2021

	Note	6 months to June		December
		2021	2020	2020
		Rm	Rm	Rm
Gross premium income		735	773	870
Premiums raised on initial wage declarations for the current year		783	725	841
Premiums raised on final wage declarations for the previous year		(48)	48	29
Annual rebates to policyholders		(109)	(120)	(243)
Unearned premium		(387)	(344)	4
Gross earned premium		239	309	631
Insurance premium ceded to reinsurers		(4)	(6)	(17)
Net earned premium		235	303	614
Gross claims and benefits		(149)	(115)	(476)
Gross claims expense	4	(150)	(121)	(484)
Claim recoveries from Road Accident Fund		1	6	8
Claims recovered from reinsurers		6	5	16
Net claims and benefits		(143)	(110)	(460)
Underwriting profit before operating expenses		92	193	154
Operating expenses		(82)	(87)	(163)
Impairment of subsidiary		0	0	(6)
Impairment of insurance receivables		0	0	(31)
Impairment of property		0	0	(7)
Accident prevention expenses and grants		(22)	(22)	(27)
Underwriting (loss)/profit before investment income and actuarial effects		(12)	84	(80)
Net investment income	6	485	221	552
Investment income		495	233	575
Investment expenses (where separately identifiable)		(10)	(12)	(23)
Unwind of discount rate on insurance liabilities		(88)	(82)	(156)
Finance costs - pension liabilities	3	(67)	(58)	(119)
Finance costs - claims provisions	4	(21)	(24)	(37)
Pension valuation gain	3	15	156	95
Net profit for the period before special payments		400	379	411
Special payments		(113)	(22)	(28)
Pensioner beneficiary assistance program		(13)	(9)	(16)
COVID-19 special projects		(100)	(13)	(12)
Net profit for the period		287	357	383
Other comprehensive income		0	0	0
PROFIT AND OTHER COMPREHENSIVE INCOME		287	357	383

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2021

	Stated capital*	Retained profit	Total
	Rm	Rm	Rm
Balance at 1 January 2020	0	3,531	3,531
Profit and other comprehensive income for the period (SOCl)	0	357	357
Balance at 30 June 2020	0	3,888	3,888
Profit and other comprehensive income for the period (SOCl)	0	26	26
Closing balance at 31 December 2020	0	3,914	3,914
Profit and other comprehensive income for the period (SOCl)	0	287	287
Closing balance at 30 June 2021	0	4,201	4,201

* Stated capital totals R10 000 rounded to R0m

STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2021

		<u>6 months to June</u>		<u>December</u>
	<u>Notes</u>	<u>2021</u>	<u>2020</u>	<u>2020</u>
		<u>Rm</u>	<u>Rm</u>	<u>Rm</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Net profit for the period	SOCI	287	357	383
Adjustments for depreciation and other non-cash items:		5	3	54
Depreciation and amortisation		5	3	10
Impairment of subsidiary		0	0	6
Impairment of insurance receivables		0	0	31
Impairment of property		0	0	7
Reinvestment by asset managers of net investment income	6	(485)	(221)	(552)
Net movements in operating assets and liabilities		561	(129)	76
Cash generated from/(utilised in) operating activities		368	10	(39)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (investment)/disinvestment of financial assets		(302)	33	121
Investment in subsidiary		(8)	0	(79)
Purchases of equipment and computer software		(8)	(10)	(25)
Cash (utilised in)/generated from investing activities		(318)	23	17
Net increase/(decrease) in cash for the period		50	33	(22)
Cash and cash equivalents at beginning of period		11	33	33
Cash and cash equivalents at end of period	SOFP	61	66	11

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 30 JUNE 2021

	<u>6 months to June</u>		<u>December</u>
	2021	2020	2020
	Rm	Rm	Rm
1. Financial assets invested through asset managers			
Investments designated at fair value through profit or loss			
Local financial assets	3,809	3,355	3,706
Listed equity securities	838	694	751
Listed debt securities: fixed interest rate	843	781	963
Listed debt securities: inflation linked	1,530	1,682	1,359
Money market funds	598	198	633
Foreign financial assets	2,543	2,629	2,358
Listed equity securities	2,268	2,379	2,091
Derivative foreign exchange contract	40	(2)	38
Pooled unlisted equity securities	235	252	229
Corporate debt securities with derivative overlay	774	709	740
Local assets	550	481	542
Foreign assets	224	228	198
Accrued investment income	22	16	24
Total investments at fair value through profit or loss	7,148	6,709	6,828
Cash held in bank accounts operated by asset managers	44	28	49
Total financial assets invested through asset managers	7,192	6,738	6,877
2. Other financial assets at fair value through profit or loss			
Enterprise development fund	8	9	9
Supplier development fund	28	12	12
Money market funds	674	114	217
Total other financial assets at fair value through profit or loss	710	135	238

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 30 JUNE 2021

	<u>6 months to June</u>		<u>December</u>
	<u>2021</u>	<u>2020</u>	<u>2020</u>
	<u>Rm</u>	<u>Rm</u>	<u>Rm</u>
3. Pension liabilities			
Pension liabilities	1,939	1,763	1,893

The movement in pension liabilities is analysed as follows:

Opening balance	1,893	1,876	1,876
Release of risk margin	(107)	(122)	(122)
Opening best estimate liability	1,786	1,754	1,754
Best estimate charge to profit or loss	48	(81)	39
Finance costs (unwind of discount rate)	67	58	119
Change in economic assumptions and modelling	74	(130)	(59)
Actual versus expected experience and other adjustments	(93)	(9)	(21)
New pensions awarded	62	56	122
Pensions and expenses paid	(68)	(71)	(129)
Closing best estimate liability	1,828	1,658	1,786
Reinstatement of risk margin	111	105	107
Closing balance	1,939	1,763	1,893

Reconciliation of pension valuation charge to profit or loss:

Best estimate charge to profit or loss	48	(81)	39
Movement in risk margin	4	(17)	(15)
Subtotal	52	(98)	24
Less: Finance costs (separately disclosed)	(67)	(58)	(119)
Pension valuation gain for the period	(15)	(156)	(95)

4. Claims provisions

Unpaid reported claims	325	191	288
IBNR provision	377	402	421
Claims handling expenses	109	80	115
	811	673	824

The movement in claims provisions is analysed as follows:

Opening balance	824	677	677
Gross claims expense for the year	150	121	484
Finance costs (Unwind of discount rate)	(21)	(24)	37
Claims paid	(80)	(45)	(252)
Pensions awarded	(62)	(56)	(122)
Closing balance	811	673	824

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 30 JUNE 2021

	<u>6 months to June</u>		<u>December</u>
	<u>2021</u>	<u>2020</u>	<u>2020</u>
	<u>Rm</u>	<u>Rm</u>	<u>Rm</u>
5. Premium rebate liabilities			
Premium rebate liabilities relating to:			
Underwriting year commencing March 2021	109	116	0
Underwriting year commencing March 2020	261	257	262
Underwriting year commencing March 2019	257	287	257
Total premium rebate liabilities	627	660	519

6. Net investment income

Investment income	495	233	575
Interest income	95	74	168
Dividend income	13	29	33
Net foreign currency (loss)/gain on financial assets	(30)	524	128
Net valuation gains on financial assets measured at fair value	417	(394)	246
Investment expenses	(10)	(12)	(23)
Asset management and consulting fees	(10)	(11)	(22)
Performance fees	0	(1)	(1)
Total net investment income for the year	485	221	552

7. Income tax

The Company is exempt from income tax in accordance with section 10 (1)(t)(xvi)(cc) of the Income Tax Act.