



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

**INTERIM REPORT  
30 JUNE 2017**

**Non-executive directors**

NF Maas (Chairman)  
H Walker (Lead Independent Director)  
JR Barrow  
FGM Cardoso  
JRT Headbush  
MG Ilsley  
CS Jiyane  
APH Jammie  
MA Letshele  
K Moodley  
H Ngakane

**Executive directors**

NF Manyonga (Chief Executive Officer)  
A Daya (Chief Financial Officer)  
GM McIntosh (Chief Information Officer)

**Company secretary**

EJ Willis

**Head office and registered address**

2<sup>nd</sup> floor  
Oxford & Glenhove  
114 Oxford Road  
Houghton Estate  
Johannesburg  
2196

Private Bag 87109  
Houghton  
2041

**Company registration number**

1936/008971/07

[www.fema.co.za](http://www.fema.co.za)

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

**(Registration No. 1936/008971/07)**

## **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 2017.

### **Basis of preparation and approval**

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. There have been material no post balance sheet events subsequent to 30 June 2017 up to the date of approval of this report. 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 29 August 2017.

### **Company profile**

The Company is a short term insurer registered in terms of the Short Term Insurance Act. More specifically, the Company operates as a mutual association licensed under the Compensation for Occupational Injuries and Diseases Act ("COID Act") to carry on the business of insurance of certain classes of employers within the construction industry against their liabilities to employees in terms of the COID Act.

Owing to the mutual shareholding structure of the Company, it is classified as a private company under the South African Companies Act. However, the provisions of the Company's Memorandum of Incorporation ("MOI") make it subject to the same extended accountability provisions as are applicable to a public company. In addition, the MOI contains unalterable provisions designed to protect policyholders' interests by entrenching the mutual status of the Company.

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

## **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 2017 and its overall financial position at 30 June 2017. Unless otherwise specifically indicated, all comparisons made are to the prior half year ended 30 June 2016.

## Highlights

- Gross premium income increased by 21% to R944 million; net earned premium increased by the same percentage to R347 million
- Gross claims and benefits increased by 5% to R189 million
- Administration expenses increased by R24 million to R68 million, mainly as a result of an increase in the Company's BBBEE socio economic development spend
- Accident prevention expenses and grants totalled R16 million
- Net investment income totalled R236 million, representing an annualised return on average investments of 7,5% (2016: 5,1%)
- Net profit increased by 47% to R312 million for the period.

## Financial results and cash flows

Gross premium income increased by 21% to R944 million on the back of a 26% increase in premiums raised on initial wage declarations for the current year. Net earned premium increased in line with gross premium income, totalling R347 million for the period.

Gross claims and benefits increased by R9 million (5%) to R189 million. Excluding the movement in the pension valuation charge, the Company experienced a substantial reduction in claims costs compared to the previous interim period.

Administration expenses increased by R24 million to R68 million, mainly as a result of an increase in the Company's BBBEE socio economic development spend.

Accident prevention expenses and grants designed to support health and safety initiatives in the construction industry totalled R16 million in line with the previous interim period.

Underwriting profits increased by R28 million to R76 million. After adding investment income, the Company achieved a healthy net profit for the interim period of R312 million (2016: R212 million).

The Company remains strongly cash generative with R558 million (2016: R517 million) in cash generated from operating activities during the six months.

## Financial position

Total assets increased by R878 million over the interim period (i.e. from 31 December 2016 to 30 June 2017). This increase significantly exceeds reported profits and is driven by the advance receipt of annual premiums in the first half of the financial year.

The Company's net asset value has increased from R2.7 billion at 31 December 2016 to R3.0 billion at 30 June 2017 and represents a very healthy capital position.

## STATEMENT OF FINANCIAL POSITION ("SOFP")

at 30 June 2017

	Note	6 months to June		December
		2017 R'000	2016 R'000	2016 R'000
<b>ASSETS</b>				
Furniture, equipment and motor vehicles		5,927	6,224	6,899
Reinsurance assets		1,742	3,720	1,709
Financial assets at fair value through profit or loss	1	6,739,544	7,072,333	5,794,782
Other financial assets measured at amortised cost				
Insurance receivables		76,199	109,348	15,368
Other receivables		27,567	14,047	13,888
Cash and cash equivalents		61,498	221,700	201,770
<b>Total assets</b>		<b>6,912,477</b>	<b>7,427,372</b>	<b>6,034,416</b>
<b>EQUITY AND LIABILITIES</b>				
Ordinary share capital		10	10	10
Retained income	SOCE	3,027,805	4,020,700	2,742,926
<b>Total equity</b>		<b>3,027,815</b>	<b>4,020,710</b>	<b>2,742,936</b>
Insurance liabilities		2,476,285	2,367,789	1,983,474
Pension liabilities	2	1,574,268	1,558,794	1,546,935
Unpaid claim liabilities	3	323,603	315,415	308,378
Unearned premium liabilities		578,414	493,580	128,161
Premium rebate liabilities	4	628,242	954,848	486,002
Annual rebates		628,242	579,848	486,002
Special rebates	6	-	375,000	-
Financial liabilities measured at amortised cost				
Trade and other payables		780,135	84,025	822,004
<b>Total liabilities</b>		<b>3,884,662</b>	<b>3,406,662</b>	<b>3,291,480</b>
<b>Total equity and liabilities</b>		<b>6,912,477</b>	<b>7,427,372</b>	<b>6,034,416</b>

## STATEMENT OF COMPREHENSIVE INCOME ("SOCI")

for the six months ended 30 June 2017

	Note	6 months to June		December
		2017	2016	2016
		R'000	R'000	R'000
<b>Gross premium income</b>		<b>944,156</b>	<b>781,344</b>	<b>826,413</b>
Premiums raised on initial wage declarations for the current year		908,126	721,837	790,383
Premiums raised on final wage declarations for the previous year		36,030	59,507	36,030
Annual rebates to policyholders		(142,262)	(117,828)	(257,468)
Unearned premium		(450,254)	(373,672)	(8,252)
<b>Gross earned premium</b>		<b>351,640</b>	<b>289,844</b>	<b>560,693</b>
Insurance premium ceded to reinsurers		(4,517)	(2,194)	(10,853)
<b>Net earned premium</b>		<b>347,123</b>	<b>287,650</b>	<b>549,840</b>
<b>Gross claims and benefits</b>		<b>(188,827)</b>	<b>(180,205)</b>	<b>(282,780)</b>
Gross claims expense		(166,403)	(198,751)	(359,960)
Claims recoveries		6,122	18,145	44,673
Pension valuation charge	2	(28,546)	401	32,507
Claims recovered from reinsurers		2,094	721	5,140
<b>Net claims and benefits</b>		<b>(186,733)</b>	<b>(179,484)</b>	<b>(277,640)</b>
<b>Underwriting profit before operating expenses</b>		<b>160,390</b>	<b>108,166</b>	<b>272,200</b>
Administration expenses		(68,312)	(44,382)	(124,289)
Accident prevention expenses and grants		(15,901)	(16,099)	(22,486)
<b>Underwriting profit before investment income</b>		<b>76,177</b>	<b>47,685</b>	<b>125,425</b>
Net investment income	5	<b>236,305</b>	<b>164,193</b>	<b>218,394</b>
Investment income		247,949	176,257	246,384
Investment expenses		(11,644)	(12,064)	(27,990)
<b>Net profit for the period</b>		<b>312,482</b>	<b>211,878</b>	<b>343,819</b>
Special payments approved by shareholders		<b>(27,602)</b>	<b>(125,000)</b>	<b>(1,534,715)</b>
Special rebates paid to policyholders		-	-	(1,034,715)
(Provision)/Release of provision for special rebates		-	(125,000)	250,000
Establishment of FEM Education Foundation	6	(27,602)	-	(750,000)
Other comprehensive income		-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>284,880</b>	<b>86,878</b>	<b>(1,190,896)</b>

## STATEMENT OF CHANGES IN EQUITY ("SOCE")

for the six months ended 30 June 2017

	Stated capital	Retained income	TOTAL
	R'000	R'000	R'000
<b>Opening balance at 1 January 2016</b>	<b>10</b>	<b>3,933,821</b>	<b>3,933,831</b>
Total comprehensive income for the period	-	86,878	86,878
<b>Closing balance at 30 June 2016</b>	<b>10</b>	<b>4,020,699</b>	<b>4,020,709</b>
Total comprehensive income for the period	-	(1,277,774)	(1,277,774)
<b>Closing balance at 31 December 2016</b>	<b>10</b>	<b>2,742,925</b>	<b>2,742,935</b>
Total comprehensive income for the period	-	284,880	284,880
<b>Closing balance at 30 June 2017</b>	<b>10</b>	<b>3,027,805</b>	<b>3,027,815</b>

## STATEMENT OF CASH FLOWS ("SOCF")

for the six months ended 30 June 2017

	<b>6 months to June</b>		<b>December</b>
	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit for the period	<b>284,880</b>	<b>211,878</b>	<b>343,819</b>
Adjustments for depreciation and other non-cash items:	<b>(133,921)</b>	<b>(61,769)</b>	<b>(103,515)</b>
Depreciation	1,370	1,352	2,843
Impairment of insurance receivables	4,175	1,111	(1,254)
Net foreign currency (gain) / loss on financial assets	(55,204)	23,771	52,215
Net valuation gain on financial assets measured at fair value	(85,126)	(88,003)	(157,320)
Net loss on disposal of furniture, equipment and motor vehicles	864	-	1
Net movements in operating assets and liabilities	486,996	479,156	87,687
Reinvestment of interest and dividend income	(107,619)	(112,025)	(141,279)
Cash generated from operations	530,336	517,240	186,712
Special rebates paid to policyholders	-	-	(1,034,715)
<b>Cash generated / (utilised) from operating activities</b>	<b>530,336</b>	<b>517,240</b>	<b>(848,003)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net (investment) / disinvestment in financial assets measured at fair value	(669,346)	(351,699)	995,782
Purchases of furniture, equipment and motor vehicles	(1,262)	(2,319)	(4,499)
Proceeds on disposals of furniture, equipment and motor vehicles	-	-	12
<b>Cash applied to investing activities</b>	<b>(670,608)</b>	<b>(354,018)</b>	<b>991,295</b>
Net (decrease) / increase in cash for the period	(140,272)	163,222	143,292
Cash and cash equivalents at beginning of period	201,770	58,478	58,478
<b>Cash and cash equivalents at end of the period</b>	<b>61,498</b>	<b>221,700</b>	<b>201,770</b>

## Notes to the statement of financial position

	<u>6 months to June</u>		<u>December</u>
	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>R'000</u>	<u>R'000</u>	<u>R'000</u>
<b>1. Financial assets at fair value through profit or loss</b>			
Local:			
- Listed equity securities	1,527,105	1,878,914	1,495,725
- Listed debt securities: fixed interest rate	278,192	290,481	266,906
- Listed debt securities: inflation linked	1,254,824	1,452,983	1,262,184
- Corporate debt securities with derivative overlay (note 1)	372,399	320,317	334,093
- Derivative equity contracts	-	(8,892)	10,599
- Money market investments	1,423,826	1,053,051	808,249
	<u>4,856,346</u>	<u>4,986,854</u>	<u>4,177,756</u>
Foreign:			
- Listed equity securities	1,492,873	1,674,153	1,289,412
- Corporate debt securities with derivative overlay (note 1)	162,196	147,983	159,398
- Derivative foreign exchange contracts	(3,447)	23,986	2,781
- USD cash	61,299	70,169	5,601
- Pooled unlisted equity securities	140,959	140,818	131,039
	<u>1,853,880</u>	<u>2,057,109</u>	<u>1,588,231</u>
Accrued income	9,273	9,605	9,407
<b>Assets under management</b>	<u>6,719,499</u>	<u>7,053,568</u>	<u>5,775,394</u>
Enterprise development fund	20,045	18,765	19,388
<b>Total financial assets at fair value through profit or loss</b>	<u>6,739,544</u>	<u>7,072,333</u>	<u>5,794,782</u>

### Note 1

The Company has invested through investment-linked insurance policies into illiquid, unlisted and listed local and foreign corporate bonds with maturity dates of up to eight years. As part of the so-called "credit opportunities/alpha transport" product structure:

- interest rate duration and currency risks on the bonds are immunised through interest rate swaps into short term rates and currency swaps into Rands; and
- the Company purchases equity forward contracts for the same nominal value as the aggregate value of the corporate bonds.

Thus the Company effectively receives a local equity market return (based on an approximation of the JSE SWIX Total Return Index) plus the credit and liquidity spread on the bonds. Note that the corresponding capital amount invested is exposed to both equity pricing risk on the relevant market indices and credit default risk on the separate corporate bonds.



## Notes to the statement of financial position

	<u>6 months to June</u>		<u>December</u>
	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>2. Pension liabilities</b>			
Opening balance	1,546,935	1,540,897	1,540,897
Movement for the period:	27,333	17,897	6,038
Pensions paid during the period	(47,026)	(41,063)	(84,411)
New pension awards (transferred from unpaid claims liabilities)	45,813	59,361	122,956
Net valuation charge / (release) to profit or loss	28,546	(401)	(32,507)
Closing balance	<u>1,574,268</u>	<u>1,558,794</u>	<u>1,546,935</u>
<b>3. Unpaid claim liabilities</b>			
Unpaid reported claims per subsystem	209,408	194,880	192,024
Other unpaid claim liabilities	114,195	120,535	116,354
Claims handling expenses	44,891	41,754	44,891
Unreleased pensions	821	811	772
Adjustment to Commissioner's valuation on unawarded pensions	23,310	30,812	24,368
Incurred but not reported claims	45,173	47,158	46,323
Total unpaid claim liabilities	<u>323,603</u>	<u>315,415</u>	<u>308,378</u>
<b>4. Premium rebate liabilities</b>			
Annual premium rebate liabilities relating to:			
Underwriting year ended February 2015	-	225,268	-
Underwriting year ended February 2016	<b>236,797</b>	236,797	236,797
Underwriting year ended February 2017	<b>249,205</b>	117,783	249,205
Underwriting year ended February 2018	<b>142,240</b>	-	-
Special rebate to policyholders	-	375,000	-
Total premium rebate liabilities	<u><b>628,242</b></u>	<u>954,848</u>	<u>486,002</u>

## Notes to the statement of comprehensive income

	2017	2016	December
	R'000	R'000	2016
			R'000
<b>5. Net investment income</b>			
Investment income	<b>247,949</b>	176,257	246,384
Interest income	<b>77,491</b>	81,589	90,696
Dividend income	<b>30,128</b>	30,436	50,583
Net foreign currency gain / (loss) on financial assets	<b>55,204</b>	(23,771)	(52,215)
Net valuation gain on financial assets measured at fair value	<b>85,126</b>	88,003	157,320
Investment expenses	<b>(11,644)</b>	(12,064)	(27,990)
Asset management and reporting fees	<b>(11,308)</b>	(10,159)	(19,699)
Performance fees	<b>(336)</b>	(1,905)	(8,291)
<b>Total net investment income</b>	<b>236,305</b>	164,193	218,394

The net valuation gain on financial assets measured at fair value incorporates any interest and dividends earned on pooled funds.

Certain of the Company's mandated asset managers offset their investment fees and transactional costs in unit pricing and, consequently, these expenses are incorporated in the net valuation gain on financial assets measured at fair value. Where investment expenses are explicitly disclosed by asset managers, these are included in the investment expense line item.

## 6. Trade and other payables

Trade and other payables include the following balances in respect of the amount payable to the newly established FEM Education Foundation NPC:

Opening balance	<b>746,392</b>	-	-
Movement for the period:			
Special payment approved by shareholders to establish the education foundation	-	-	750,000
Beneficiary payments made	<b>(35,000)</b>	-	(3,608)
Asset consulting and legal fees incurred	<b>(381)</b>	-	-
Accrued investment income from 1 January 2017	<b>27,602</b>	-	-
<b>Closing balance</b>	<b>738,613</b>	-	746,392

As previously reported, on 19 October 2016 the Company's shareholders approved the payment of R750 million to an educational fund to be established as a corporate social investment initiative by the Company and, by association, its policyholders and the wider construction industry.

The transfer of the approved funds to the newly established FEM Education Foundation NPC has been deferred to the second half of the 2017 financial year and it has been agreed that the funds shall accrue investment return with effect from 1 January 2017 up to the date of actual transfer of the funds.

## 7. Income tax

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