



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

**INTERIM REPORT**

**30 JUNE 2019**

**Non-executive directors**

NF Maas (Chairman)  
H Walker (Lead Independent Director)  
JR Barrow  
JRT Headbush  
MG Ilsley  
K Imathiu  
CS Jiyane  
MA Letshele  
H Ngakane

**Executive directors**

NF Manyonga (Chief Executive Officer)  
Y Bodiati (Chief Financial 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.fem.co.za](http://www.fem.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 2019.

### **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, with the following classification changes being made:

#### **a. Statement of Cash Flows line items:**

The following changes have been made to the classification of certain cash flow items resulting in changes to comparative cash flow information:

- Investment income accrued to FEM Education Foundation has been included in the calculation of "Reinvestment by assets managers of net investment income", whereas this was previously included in the calculation of "Net investment in financial assets measured at fair value".
- Individual components of investment income previously shown in separate adjusting line items have been consolidated into a single adjusting line item in the cash flow statement.

These changes in classification of cash flow line items had no effect on any line items in the SOFP or SOCI and, accordingly, it has not been necessary to present a third balance sheet as would otherwise be required by the IAS 8 standard on presentation of financial statements.

#### **b. Statement of Comprehensive Income line items**

During the 2018 financial year, it was decided to improve disclosure relating to the unwinding of the discount rate on the pension liability by showing this as part of finance costs and not as part of the pension valuation charge. Both current and prior year figures have been updated to reflect this change in classification on the face of the profit and loss account. The change had no net impact on reported results and did not have any effect on the presentation of the Company's financial position or cash flows and, accordingly, it has not been necessary to present a third balance sheet as would otherwise be required by the IAS 8 standard on presentation of financial statements.

#### **c. Statement of Financial Position line items**

The following changes have been made to the classification of certain balance sheets items resulting in changes to comparative information:

- Cash held in bank accounts operated by asset managers is now disclosed separately as a component of financial assets invested through asset managers; and
- Financial assets managed by the company itself are disclosed separately to financial assets invested through asset managers.

These changes in classification of balance sheet line items had no effect on the Company's reported results or cash flows and, accordingly, it has not been necessary to present a third balance sheet as would otherwise be required by the IAS 8 standard on presentation of financial statements.

## **Post balance sheet events**

There have been no material post balance sheet events subsequent to 30 June 2019 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 27 August 2019.

## **COMPANY PROFILE**

The Company is a short-term insurer, and more specifically, 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 2019 and its overall financial position at 30 June 2019. Unless otherwise specifically indicated, all comparisons made are to the prior half year ended 30 June 2018.

### **Highlights**

- Gross premium income decreased by 9% to R834 million
- Accident prevention and grant expenditure of R21 million, consistent with the prior year
- Underwriting loss before investment income of R94 million, mainly attributable to revenue pressure and pension valuation charge of R75 million
- Net investment income of R453 million, driving net profit for the half year of R293 million (2018: R148 million)

## **Financial results and cash flows**

Gross premium income decreased by 9% to R834 million mainly as a result of the significant challenges currently facing the construction industry, with many businesses either downsizing or closing down.

Net claims and benefit expenses increased by 75% to R281 million, which was mainly attributable to a pension valuation charge of R75 million compared to R32 million release in the previous half year. This resulted largely from changes in the economic assumptions applied in the actuarial valuation of the pension liabilities.

Operating expenses increased by R13 million to R83 million for the half year.

Net investment income increased from a loss of R11m during the previous financial year to a profit of R453 million. This represents an annualized return on average assets of 14.4%.

The Company remains strongly cash generative, recording positive operational cash flows of R483 million (2018: R212 million) for the half year.

## **Financial position**

Total assets increased by R974 million over the interim period, totalling R7.2 billion at 30 June 2019.

The Company's net asset value increased in line with net profit growth to R3.3 billion at 30 June 2019. This represents a healthy capital position aligned to long term strategic objectives.

The accompanying interim financial statements for the six months ended 30 June 2019 were prepared under the supervision of the Chief Financial Officer, Mr Y Bodiya CA(SA).

## STATEMENT OF FINANCIAL POSITION ("SOFP")

as at 30 June 2019

		<u>6 months to June</u>		<u>December</u>
		<u>2019</u>	<u>2018</u>	<u>2018</u>
	Note	Rm	Rm	Rm
<b>ASSETS</b>				
Property, equipment and motor vehicles		69	72	71
Reinsurance assets		4	13	6
Financial assets invested through asset managers	1	6 158	5 401	5 736
Investments at fair value through profit or loss		6 132	5 372	5 647
Cash held in bank accounts operated by asset managers		26	29	89
Other financial assets at fair value through profit or loss	2	736	1 152	262
Other financial assets measured at amortised cost				
Insurance receivables		117	148	34
Other receivables		30	42	72
Cash and cash equivalents		64	107	23
<b>Total assets</b>		<b>7 178</b>	<b>6 935</b>	<b>6 204</b>
<b>EQUITY AND LIABILITIES</b>				
Ordinary share capital		0	0	0
Retained income	SOCE	3 331	3 257	3 038
<b>Total equity</b>		<b>3 331</b>	<b>3 257</b>	<b>3 038</b>
Insurance liabilities		3 800	3 555	3 104
Pension liabilities	3	1 901	1 717	1 760
Claims provisions	4	639	589	618
Unearned premium liabilities		552	567	143
Premium rebate liabilities	5	708	682	583
Financial liabilities measured at amortised cost				
Trade and other payables		47	124	62
<b>Total liabilities</b>		<b>3 847</b>	<b>3 679</b>	<b>3 166</b>
<b>Total equity and liabilities</b>		<b>7 178</b>	<b>6 935</b>	<b>6 204</b>

## STATEMENT OF COMPREHENSIVE INCOME ("SOCI")

for the period ended 30 June 2019

	Note	6 months to June		December
		2019	2018	2018
		R'000	R'000	R'000
<b>Gross premium income</b>		833	915	957
Premiums raised on initial wage declarations for the current year		812	858	888
Premiums raised on final wage declarations for the previous year		21	57	69
Annual rebates to policyholders		(125)	(137)	(331)
Unearned premium		(409)	(420)	4
<b>Gross earned premium</b>		<b>299</b>	<b>358</b>	<b>630</b>
Insurance premium ceded to reinsurers		(5)	(4)	(23)
<b>Net earned premium</b>		<b>294</b>	<b>354</b>	<b>607</b>
<b>Gross claims and benefits</b>		(292)	(174)	(391)
Gross claims expense		(233)	(211)	(503)
Claim recoveries from Road Accident Fund		16	5	8
Pension valuation (loss)/gain		(75)	32	104
Claims recovered from reinsurers		13	13	31
<b>Net claims and benefits</b>		<b>(279)</b>	<b>(161)</b>	<b>(360)</b>
<b>Underwriting profit before operating expenses</b>		<b>16</b>	<b>194</b>	<b>247</b>
Operating expenses		(83)	(70)	(152)
Impairment of insurance receivables		(5)	(5)	(8)
Accident prevention expenses and grants		(21)	(21)	(27)
<b>Underwriting (loss)/profit</b>		<b>(94)</b>	<b>98</b>	<b>60</b>
Net investment income/(loss)	6	<b>453</b>	<b>111</b>	<b>(11)</b>
Investment income		464	122	5
Investment expenses		(11)	(11)	(16)
Finance costs		(58)	(55)	(111)
<b>Net profit/(loss) for the period before special payments</b>		<b>302</b>	<b>154</b>	<b>(62)</b>
Special payments				
Pensioner beneficiary assistance program		(9)	(6)	(10)
<b>Net profit/(loss) for the period</b>		<b>293</b>	<b>148</b>	<b>(72)</b>
Other comprehensive income		-	-	-
<b>Profit/(loss) and other comprehensive income for the period</b>		<b>293</b>	<b>148</b>	<b>(72)</b>

**STATEMENT OF CHANGES IN EQUITY ("SOCE")  
for the six months ended 30 June 2019**

	Stated capital*	Retained profit	Total
	Rm	Rm	Rm
<b>Balance at 1 January 2018</b>	0	3 110	3 110
Profit and other comprehensive income for the period (SOCl)	-	147	147
<b>Balance at 30 June 2018</b>	-	3 257	3 257
Loss and other comprehensive income for the period (SOCl)		(219)	(219)
<b>Closing balance at 31 December 2018</b>	0	3 038	3 038
Profit and other comprehensive income for the period (SOCl)	-	293	293
<b>Closing balance at 30 June 2019</b>	0	3 331	3 331

*\* Stated capital totals R10 000 rounded to R0m*

**STATEMENT OF CASH FLOWS ("SOCF")**  
**for the six months ended 30 June 2019**

	Note	6 months to June		December
		2019	2018	2018
		Rm	Rm	Rm
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net profit/(loss) for the period	SOCI	293	147	(72)
Adjustments for depreciation and other non-cash items		(0)	7	12
Reinvestment by asset managers of net investment income	6	(453)	(111)	11
Net movement in operating assets and liabilities		644	169	61
<b>Cash generated from operations</b>		<b>485</b>	<b>212</b>	<b>12</b>
Net payments to FEM Education Foundation		-	-	(281)
<b>Cash generated/(utilised) from operating activities</b>		<b>485</b>	<b>212</b>	<b>(269)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net investment in financial assets		(443)	(146)	252
Net purchases of property, equipment and motor vehicles		(1)	(2)	(3)
<b>Cash (utilised)/generated in investing activities</b>		<b>(444)</b>	<b>(148)</b>	<b>249</b>
Net increase/(decrease) in cash for the period		41	64	(20)
Cash and cash equivalents at beginning of period		23	43	43
<b>Cash and cash equivalents at end of period</b>	SOFP	<b>64</b>	<b>107</b>	<b>23</b>

## Notes to the interim financial statements

	<u>6 months to June</u>	<u>December</u>	
	2019	2018	2018
	Rm	Rm	Rm
<b>1. Financial assets invested through asset managers</b>			
<b>Local financial assets</b>	<b>3 800</b>	<b>3 513</b>	<b>3 556</b>
Listed equity securities	824	1 395	751
Listed debt securities: fixed interest rate	624	279	169
Listed debt securities: inflation linked	1 592	1 125	1 547
Corporate debt securities with derivative overlay	460	445	424
Money market funds	300	269	665
<b>Foreign financial assets</b>	<b>2 314</b>	<b>1 848</b>	<b>2 080</b>
Listed equity securities	1 840	1 546	1 687
Corporate debt securities with derivative overlay	185	119	186
Derivative foreign exchange contract	1	(17)	(16)
USD cash	62	13	0
Pooled unlisted equity securities	226	187	223
<b>Accrued investment income</b>	<b>18</b>	<b>11</b>	<b>11</b>
<b>Total investments at fair value through profit or loss</b>	<b>6 132</b>	<b>5 372</b>	<b>5 647</b>
<b>Cash held in bank accounts operated by asset managers</b>	<b>26</b>	<b>29</b>	<b>89</b>
<b>Total financial assets invested through asset managers</b>	<b>6 158</b>	<b>5 401</b>	<b>5 736</b>
<b>2. Other financial assets at fair value through profit or loss</b>			
Enterprise development fund	9	21	9
Supplier development fund	13	-	13
Money market funds	714	1 131	240
<b>Total other financial assets at fair value through profit or loss</b>	<b>736</b>	<b>1 152</b>	<b>262</b>

## Notes to the interim financial statements

	<u>6 months to June</u>		<u>December</u>
	<u>2019</u>	<u>2018</u>	<u>2018</u>
	<u>Rm</u>	<u>Rm</u>	<u>Rm</u>

### 3. Pension liabilities

Pension liabilities	1 901	1 717	1 760
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*The movement in pension liabilities is analysed as follows:*

Opening balance	<b>1 760</b>	1 698	1 698
Release of risk margin	<b>(113)</b>	(157)	(157)
Opening best estimate liability	<b>1 647</b>	1 541	1 541
Best estimate charge to profit or loss	<b>120</b>	37	49
Finance costs (unwind of discount rate)	58	55	111
Change in economic assumptions	13	(93)	(61)
Actual versus expected experience and other adjustments	49	75	(1)
New pensions awarded	70	50	181
Pensions paid	(64)	(54)	(125)
Closing best estimate liability	<b>1 773</b>	1 574	1 646
Reinstatement of risk margin	128	143	114
Closing balance	<b>1 901</b>	1 717	1 760

*Reconciliation of pension valuation charge to profit or loss:*

Best estimate charge to profit or loss	120	37	49
Movement in risk margin	13	(14)	(42)
Pension valuation charge as previously reported	133	23	7
Less: Finance costs (unwind of discount rate)	(58)	(55)	(111)
Pension valuation charge for the period	75	(32)	(104)

### 4. Claims Provisions

Unpaid reported claims	<b>249</b>	254	271
IBNR Provision	<b>324</b>	265	291
Claims handling expenses	<b>66</b>	70	56
	<b>639</b>	589	618

*The movement in claims provisions is analysed as follows:*

Opening balance	<b>618</b>	568	568
Gross claims and benefits expense for the year	<b>233</b>	211	503
Claims paid	<b>(142)</b>	(140)	(272)
Pensions awarded	<b>(70)</b>	(50)	(181)
Closing balance	<b>639</b>	589	618

## Notes to the interim financial statements

	<u>6 months to June</u>		<u>December</u>
	<b>2019</b>	<b>2018</b>	<b>2018</b>
	<b>Rm</b>	<b>Rm</b>	<b>Rm</b>
<b>5. Premium rebate liabilities</b>			
Annual premium rebate liabilities relating to:			
Underwriting year ended February 2016	-	249	-
Underwriting year ended February 2017	<b>296</b>	296	296
Underwriting year ended February 2018	<b>287</b>	137	287
Underwriting year ended February 2019	<b>125</b>	-	-
Total premium rebate liabilities	<b>708</b>	682	583
<b>6. Net investment income</b>			
Investment income	<b>464</b>	<b>121</b>	<b>5</b>
Interest income	87	98	172
Dividend income	23	28	47
Net foreign currency gain on financial assets measured at fair value	(18)	37	261
Net valuation gains on financial assets measured at fair value	372	(38)	(479)
Less: Investment income accrued to FEM Education Foundation	0	(4)	4
Investment expenses	<b>(11)</b>	<b>(11)</b>	<b>(16)</b>
Asset management fees	(6)	(7)	(12)
Performance fees	(5)	(4)	(4)
	<b>453</b>	<b>111</b>	<b>(11)</b>
<b>7. Income tax</b>			

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