



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

**INTERIM REPORT  
30 JUNE 2016**

**Non-executive directors**

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

**Executive directors**

TT Pugh (Chief Executive Officer)  
A Daya (Chief Financial Officer)  
GM McIntosh (Chief Information Officer)

**Company secretary**

EJ Willis

**Head office and registered address**

Building 2, 1<sup>st</sup> Floor  
101 Central Street  
Houghton  
Johannesburg  
2198

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 2016.

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

### **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.

## **FINANCIAL REVIEW**

This review of the Company's financial performance for the six months ended 30 June 2016 is focused on the overall insurance results and key line items of the statements of financial position, comprehensive income and cash flows.

## **HIGHLIGHTS**

- Gross premium income increased by 6% to R781 million
- After providing R125 million for a special rebate to qualifying policyholders, Net earned premium remained flat at R163 million
- Gross claims and benefit expenses decreased by 34% to R180 million, resulting from a reduced pension valuation charge
- Administration expenses increased by 9% to R44 million
- Accident prevention expenses and grants increased by 17% to R16 million
- Typical of half year reporting periods, the Company recorded a net loss before investment income of R77 million (2015: R159 million loss)
- Net investment income totalled R164 million, representing an annualised return on average investments of 5,1% (2015: 9,8%)
- Overall, the Company recorded a bottom line profit of R87 million for the interim period

## **Financial results**

Gross premiums raised on initial wage declarations increased by 6% to R727 million. After adding premiums raised on final wage declarations for the previous year, gross premium income increased by 6% to R781 million.

In the current year, the provision raised for annual premium rebates to policyholders has been spread over the 12 months of the 2016 year, whereas this charge was fully accounted for in the interim results in previous years. This R118 million benefit to the half year results was fully offset by a R125 million charge to profits in respect of a proposed special rebate to qualifying policyholders.

After adjusting for unearned premium and reinsurance effects, Net earned premium remained flat at around R163 million.

Gross claims and benefit expenses decreased by 34% to R180 million. This decrease is wholly attributable to a reduced pension valuation charge for the current period. This reduced charge was driven by a refinement to the modelling of the discount rate applied to the pension liability at different durations, which released approximately R88 million to profits in the current period. Actual claims incurred for the benefit of injured workers and their dependents increased by 11% to R199 million.

Administration expenses of R44 million remain well controlled and within budget at the half year. This represents an annualised ratio of 11,4% (2015: 11,1%) of Gross premium income.

Accident prevention expenses and grants designed to support health and safety initiatives in the construction industry increased by 17% to R16 million.

Typical of half year reporting periods, the Company recorded a net loss before investment income of R77 million (2015: R159 million loss).

Net investment income totalled R164 million (2015: 297 million). This represents an annualised return on average investments of 5,1% (2015: 9,8%) and is reflective of prevailing investment market conditions during the interim period.

Notwithstanding the R133 million reduction in investment income, the Company achieved a bottom line profit of R87 million (2015: R138 million) for the interim period.

## **Financial position and cash flows**

Asset growth outstripped profit growth with the Company's total assets increasing by R797 million (or 12%) and totalling R7.4 billion at 30 June 2016. This is typical of half year performance owing to the receipt of premiums, annually in advance, in the first half of the financial year.

The Company remains strongly cash generative with R504 million (2015: R537 million) in cash generated from operating activities during the six months. This was the main driver of the R531 million increase in Financial assets which amounted to R7.1 billion at 30 June 2016.

Insurance liabilities increased by R670 million, totalling R3.3 billion at 30 June 2016; this increase is mainly attributable to the increase in the premium rebate liability (R243 million) and the increase in the unearned premium liability raised on annual premiums booked in the first half of the year (R374 million).

The Company's net asset value totalled R4.0 billion at 30 June 2016, representing a 2% growth in net assets for the six months ended 30 June 2016.

## STATEMENT OF FINANCIAL POSITION ("SOFP")

at 30 June 2016

	Note	6 months to June		December
		2016 R'000	2015 R'000	2015 R'000
<b>ASSETS</b>				
Furniture, equipment and motor vehicles		6 224	4 999	5 257
Reinsurance assets		3 720	5 009	4 307
Financial assets at fair value through profit or loss	1	7 072 333	6 460 761	6 541 709
Other financial assets measured at amortised cost				
Insurance receivables		109 348	62 901	10 881
Other receivables		14 047	2 929	9 772
Cash and cash equivalents		221 700	85 531	58 478
<b>Total assets</b>		<b>7 427 372</b>	<b>6 622 130</b>	<b>6 630 404</b>
<b>EQUITY AND LIABILITIES</b>				
Ordinary share capital		10	10	10
Retained income	SOCE	4 020 700	3 881 203	3 933 821
<b>Total equity</b>		<b>4 020 710</b>	<b>3 881 213</b>	<b>3 933 831</b>
Insurance liabilities		3 322 637	2 688 379	2 652 479
Pension liabilities	2	1 558 794	1 346 393	1 540 897
Unpaid claim liabilities	3	315 415	244 236	279 609
Unearned premium liability		493 580	457 647	119 908
Premium rebate liability	4	954 848	640 103	712 065
Financial liabilities measured at amortised cost				
Trade and other payables		84 025	52 538	44 094
<b>Total liabilities</b>		<b>3 406 662</b>	<b>2 740 917</b>	<b>2 696 573</b>
<b>Total equity and liabilities</b>		<b>7 427 372</b>	<b>6 622 130</b>	<b>6 630 404</b>

## STATEMENT OF COMPREHENSIVE INCOME ("SOCI")

for the six months ended 30 June 2016

	Note	6 months to June		December
		2016 R'000	2015 R'000	2015 R'000
<b>Gross premium income</b>		<b>781 344</b>	<b>739 717</b>	<b>784 918</b>
Premiums raised on initial wage declarations for the current year		727 424	685 721	725 411
Premiums raised on final wage declarations for the previous year		53 920	53 996	59 507
Premium rebates to policyholders		<b>(242 828)</b>	<b>(222 175)</b>	<b>(519 690)</b>
Annual rebates		(117 828)	(222 175)	(269 690)
Special rebates		(125 000)	-	(250 000)
Unearned premium		(373 672)	(350 429)	(12 690)
<b>Gross earned premium</b>		<b>164 844</b>	<b>167 113</b>	<b>252 538</b>
Insurance premium ceded to reinsurers		(2 194)	(3 675)	(12 805)
<b>Net earned premium</b>		<b>162 650</b>	<b>163 438</b>	<b>239 733</b>
<b>Gross claims and benefits</b>		<b>(180 205)</b>	<b>(271 153)</b>	<b>(626 583)</b>
Gross claims expense		(198 751)	(178 664)	(327 865)
Claims recoveries		18 145	9 457	28 059
Pension valuation release / (charge) to income		401	(101 946)	(326 777)
Claims recovered from reinsurers		721	3 537	9 904
<b>Net claims and benefits</b>		<b>(179 484)</b>	<b>(267 616)</b>	<b>(616 679)</b>
<b>Underwriting loss before operating expenses</b>		<b>(16 834)</b>	<b>(104 178)</b>	<b>(376 946)</b>
Administration expenses		(44 382)	(40 882)	(100 631)
Accident prevention expenses and grants		(16 099)	(13 814)	(20 456)
<b>Net loss before investment income</b>		<b>(77 315)</b>	<b>(158 874)</b>	<b>(498 033)</b>
Net investment income	5	<b>164 193</b>	<b>296 500</b>	<b>688 278</b>
Investment income		176 257	303 812	707 025
Investment expenses		(12 064)	(7 312)	(18 747)
<b>Net profit for the period</b>		<b>86 878</b>	<b>137 626</b>	<b>190 245</b>
Other comprehensive income		-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>86 878</b>	<b>137 626</b>	<b>190 245</b>

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

for the six months ended 30 June 2016

	Stated capital	Retained income	TOTAL
	R'000	R'000	R'000
<b>Opening balance at 1 January 2015</b>	<b>10</b>	<b>3 743 577</b>	<b>3 743 587</b>
Total comprehensive income for the year	-	190 245	190 245
<b>Closing balance at 31 December 2015</b>	<b>10</b>	<b>3 933 822</b>	<b>3 933 832</b>
Total comprehensive income for the period	-	<b>86 878</b>	<b>86 878</b>
<b>Closing balance at 30 June 2016</b>	<b>10</b>	<b>4 020 700</b>	<b>4 020 710</b>

## STATEMENT OF CASH FLOWS ("SOCF")

for the six months ended 30 June 2016

	<u>6 months to June</u>		<u>December</u>
	<u>2016</u>	<u>2015</u>	<u>2015</u>
	<u>R'000</u>	<u>R'000</u>	<u>R'000</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit for the period	<b>86 878</b>	137 626	190 245
Adjustments for depreciation and other operating activities:	<b>(75 111)</b>	(212 924)	(494 859)
Depreciation	1 352	1 212	2 415
Impairment of insurance receivables	1 111	975	4 405
Net foreign currency loss / (gain) on financial assets	23 771	(21 807)	(159 534)
Net valuation gain on financial assets measured at fair value	(101 345)	(193 200)	(341 943)
Net profit on disposal of furniture, equipment and motor vehicles	-	(104)	(202)
Net movements in operating assets and liabilities	604 156	715 489	689 270
Interest and dividend income on financial assets measured at fair value	(112 025)	(102 742)	(205 548)
<b>Cash generated from operating activities</b>	<b>503 898</b>	<b>537 449</b>	<b>179 108</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net cash invested in financial assets measured at fair value	(450 382)	(585 511)	(355 667)
Interest and dividend income on financial assets measured at fair value	112 025	102 742	205 548
Purchases of furniture, equipment and motor vehicles	(2 319)	(1 136)	(2 694)
Proceeds on disposals of furniture, equipment and motor vehicles	-	113	309
<b>Cash applied to investing activities</b>	<b>(340 676)</b>	<b>(483 792)</b>	<b>(152 504)</b>
Net increase in cash for the period	163 222	53 657	26 604
Cash and cash equivalents at beginning of year	58 478	31 874	31 874
<b>Cash and cash equivalents at the end of the period</b>	<b>221 700</b>	<b>85 531</b>	<b>58 478</b>



## Notes to the statement of financial position

	6 months to June		December
	2016	2015	2015
	R'000	R'000	R'000
<b>1. Financial assets at fair value through profit or loss</b>			
Local:			
- Listed equity securities	1 878 914	1 550 009	1 581 365
- Balanced fund portfolios	18 765	17 672	18 160
- Listed debt securities: fixed interest rate	290 481	208 899	192 736
- Listed debt securities: inflation linked	1 452 983	1 334 648	1 353 001
- Corporate debt securities with derivative overlay (note 1)	320 317	269 945	275 834
- Derivative equity contract	(8 892)	368	(12 969)
- Money market investments	1 053 051	939 051	644 663
	<b>5 005 619</b>	<b>4 320 592</b>	<b>4 052 790</b>
Foreign:			
- Listed equity securities	1 674 153	1 411 365	2 162 983
- Corporate debt securities with derivative overlay (note 1)	147 983	499 299	153 146
- Derivative foreign exchange contracts	23 986	30	(56 610)
- USD cash plus MSCI all country equity forward contract	70 169	25 705	80 392
- Listed corporate debt securities with derivative overlay	-	105 378	-
- Unitised equity securities	140 818	91 214	142 070
	<b>2 057 109</b>	<b>2 132 991</b>	<b>2 481 981</b>
Accrued income	9 605	7 178	6 938
	<b>7 072 333</b>	<b>6 460 761</b>	<b>6 541 709</b>

### 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 2½ 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

	<b>6 months to June</b>		<b>December</b>
	<b>2016</b>	<b>2015</b>	<b>2015</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>2. Pension liability</b>			
Opening balance	1 540 897	1 219 974	1 219 974
Movement for the period	17 897	126 419	320 923
Pensions paid during the year	(41 063)	(39 999)	(81 818)
New pension awards (transferred from unpaid claims liabilities)	59 361	64 472	143 229
Net valuation (release)/charge to profit or loss	(401)	101 946	259 512
Closing balance	<u>1 558 794</u>	<u>1 346 393</u>	<u>1 540 897</u>
<b>3. Unpaid claims liabilities</b>			
Unpaid reported claims per subsystem	194 880	161 656	174 994
Other unpaid claims liabilities	120 535	82 580	104 615
Claims handling expenses	41 754	30 053	34 117
Unreleased pensions	811	711	777
Adjustment to Commissioner's valuation on unawarded pensions	30 812	17 236	26 514
Incurred but not reported claims	47 158	34 580	43 207
Total unpaid claims liabilities	<u>315 415</u>	<u>244 236</u>	<u>279 609</u>
<b>4. Premium rebate liability</b>			
<b>Premium rebate liability relating to:</b>			
Underwriting year ended February 2015 (2015: February 2014)	<b>225 268</b>	192 628	225 268
Underwriting year ended February 2016 (2015: February 2015)	<b>236 797</b>	225 268	236 797
Underwriting year ended February 2017 (2015: February 2016)	<b>117 783</b>	222 207	-
Special rebate	<b>375 000</b>	-	250 000
Total premium rebate liability	<u><b>954 848</b></u>	<u>640 103</u>	<u>712 065</u>
<i>Analysis of movement in premium rebate liability:</i>			
Opening balance	<b>712 065</b>	417 896	417 896
Premium rebate charge for the period	<b>242 783</b>	222 207	519 690
Current year – Allowance for annual premium rebates	<b>117 783</b>	222 207	236 797
Current year – Allowance for special rebates	<b>125 000</b>	-	250 000
Prior years - Actual versus provided premium rebate payments	-	-	32 893
Premium rebates paid	-	-	(225 521)
Closing balance	<u><b>954 848</b></u>	<u>640 103</u>	<u>712 065</u>

## Notes to the statement of comprehensive income

	<u>6 months to June</u>		<u>December</u>
	<u>2016</u>	<u>2015</u>	<u>2015</u>
	<u>R'000</u>	<u>R'000</u>	<u>R'000</u>
<b>5. Net investment income</b>			
Investment income	<b>176 257</b>	303 812	707 025
Interest income	<b>81 589</b>	67 901	153 066
Dividend income	<b>30 436</b>	34 841	52 482
Net foreign currency (loss) / gain on financial assets	<b>(23 771)</b>	21 807	159 534
Net valuation gain on financial assets measured at fair value	<b>88 003</b>	179 263	341 943
Investment expenses	<b>(12 064)</b>	(7 312)	(18 747)
Asset management and reporting fees	<b>(10 159)</b>	(7 312)	(17 000)
Performance fees	<b>(1 905)</b>	-	(1 747)
<b>Total net investment income</b>	<b>164 193</b>	296 500	688 278

The net gain on financial assets at fair value through profit or loss incorporates any interest and dividends earned on the 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 gain on financial assets at fair value through profit or loss. Where investment expenses are explicitly disclosed by asset managers, these are included in the investment expense line item.

## 6. Income tax

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