



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

**INTERIM REPORT
30 JUNE 2022**

Non-executive directors

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

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Executive directors

NF Manyonga (Chief Executive Officer)
Y Bodiati (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 2022. The report covers the performance of the Company for the period 1 January 2022 to 30 June 2022. 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). During the period under review, the Company was able to achieve its objective of a break-even underwriting result . Even though it reported an overall net loss for the period, it remains conservatively capitalised with a net asset value of R4.1 billion and Solvency Capital Requirement (SCR) cover ratio of 1.70 as at 30 June 2022.

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 2022 and its overall financial position at 30 June 2022. Unless otherwise specifically indicated, all comparisons made are to the prior half year ended 30 June 2021.

Key performance indicators

- Gross premium income increased by 23% to R904 million
- Gross claims and benefits decreased by 9% to R136 million
- Operating expenses increased by 15% to R71 million
- Accident prevention and grant expenditure increased by 5% to R23 million
- Underwriting break-even achieved, after allowing for annual rebates to policyholders
- Net investment expense of R351 million, representing an effective annual return of negative 9.2% (2021: positive 14.1%)
- Overall net loss for the half year of R586 million (2021: R387 million profit)

Financial performance

Gross premium income increased by 23% to R904 million. This results from a combination of the significant challenges which faced the construction industry in recent years up until 2021, as well as the knock-on impact of the nationwide lockdown in 2020, where a large portion of the industry was unable to operate between March 2020 and July 2020. The impact of COVID-19 was seen in the prior 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 prior period. The current year positive premium income is representative of the construction industry expecting a positive year, strengthening from a low base of 2021.

Gross claims and benefit expenses decreased by 9% to R136 million, which was mainly attributable to a decrease in non-life claims reserves as a result of improved claims experience during the year.

Operating expenses increased by R9 million to R71 million for the half year.

The Company recorded an underwriting break-even, before investment income, social projects, and actuarial effects, which is aligned to the Company's long-term strategic objective to achieve a break-even underwriting result.

The Company recorded a net investment expense of R351 million, representing a negative 9.2% return on the average financial assets held during the period (2021: positive 14.1%). The investment returns for the year are representative of low and negative returns in both the local and global markets during the period.

After making full provision for actuarial effect, the Company incurred a net loss of R586 million for the half year ended 30 June 2022 (2021: R387 million profit).

FINANCIAL REVIEW

Cash flows

The Company remains cash generative, recording positive operational cash flows of R462 million for the half year. This is higher than the cash generated in the prior half year as a result of increased premium income during 2022.

Financial position

Total assets increased by R358 million over the interim period, totalling R8.6 billion at 30 June 2022. The Company's net asset value decreased in line with the net loss to R4.1 billion at 30 June 2022. This represents a healthy capital position aligned to the Company's long-term strategic objective to remain conservatively capitalised.

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 2022, the Company's Solvency Capital Requirement (SCR) cover ratio was calculated at 1.70x. This represents a healthy solvency position.

The accompanying interim financial statements for the six months ended 30 June 2022 were prepared under the supervision of the Chief Financial Officer, Mr Y Bodiat CA (SA).

Events after the reporting period

There have been no material events from 30 June 2022 up to the date of approval of this report.

Commitments and contingent liabilities

A special general meeting was held on 02 March 2021 where shareholders approved an amount of R100 million to be donated to government to assist with the national COVID-19 vaccine rollout. As at the 30 June 2022 and up to the date of this report, no funds have been disbursed as critical legal agreements relating to the disbursement of funds have not yet been signed, and as such the amount has not been expensed in the statement of comprehensive income.

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 25 August 2022.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	Note	<u>6 months to June</u>		<u>December</u>
		<u>2022</u>	<u>2021</u>	<u>2021</u>
		Rm	Rm	Rm
ASSETS				
Investment in subsidiary		42	81	42
Property and equipment		60	61	59
Computer software		37	30	34
Reinsurance assets		4	4	4
Financial assets invested through asset managers	1	7,231	7,192	7,615
Investments at fair value through profit or loss		7,202	7,148	7,593
Cash held in bank accounts operated by asset managers		29	44	22
Other financial assets at fair value through profit or loss	2	1,036	710	570
Other financial assets measured at amortised cost		208	182	66
Insurance receivables		127	88	14
Other receivables		44	33	36
Cash and cash equivalents	SOCF	37	61	16
Total assets		8,618	8,260	8,390
EQUITY AND LIABILITIES				
Stated capital		0	0	0
Retained profit	SOCE	4,144	4,301	4,730
Total equity		4,144	4,301	4,730
Insurance liabilities		4,405	3,901	3,597
Pension liabilities	3	2,309	1,939	2,131
Claims provisions	4	813	811	851
Unearned premium liabilities		577	524	133
Premium rebate liabilities	5	706	627	482
Financial liabilities measured at amortised cost				
Trade and other payables		69	58	63
Total liabilities		4,474	3,959	3,660
Total equity and liabilities		8,618	8,260	8,390

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2022

	Note	6 months to June		December
		2022	2021	2021
		Rm	Rm	Rm
Gross premium income		904	735	770
Premiums raised on initial wage declarations for the current year		865	783	821
Premiums raised on final wage declarations for the previous year		39	(48)	(51)
Unearned premium		(444)	(387)	4
Gross earned premium		460	348	774
Insurance premium ceded to reinsurers		(4)	(4)	(10)
Net earned premium		456	344	764
Gross claims and benefits		(136)	(149)	(383)
Gross claims expense	4	(136)	(150)	(384)
Claim recoveries from Road Accident Fund		0	1	1
Claims recovered from reinsurers		7	6	12
Net claims and benefits		(129)	(143)	(371)
Underwriting profit before operating expenses		327	201	393
Operating expenses		(71)	(62)	(134)
Impairment of insurance receivables		(9)	0	(7)
Accident prevention expenses and grants		(23)	(22)	(27)
Underwriting profit before annual rebates, investment income, actuarial effects and social payments		224	117	225
Annual rebates to policyholders		(224)	(109)	(225)
Underwriting result before investment income, actuarial effects and social payments		0	8	0
Social projects		(33)	(33)	(45)
Net investment (expense)/income	6	(351)	485	1,139
Investment (losses)/income		(339)	495	1,164
Investment expenses (where separately identifiable)		(12)	(10)	(25)
Unwind of discount rate on insurance liabilities		(82)	(88)	(157)
Finance costs - pension liabilities	3	(59)	(67)	(124)
Finance costs - claims provisions	4	(23)	(21)	(33)
Pension valuation (loss)/gain	3	(120)	15	(121)
Net (loss)/profit for the period		(586)	387	816
Other comprehensive income		0	0	0
(LOSS)/PROFIT AND OTHER COMPREHENSIVE INCOME		(586)	387	816

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2022

	Stated capital*	Retained profit	Total
	Rm	Rm	Rm
Balance at 1 January 2021	0	3,914	3,914
Loss and other comprehensive income for the period (SOCl)	0	387	387
Balance at 30 June 2021	0	4,301	4,301
Profit and other comprehensive income for the period (SOCl)	0	429	429
Closing balance at 31 December 2021	0	4,730	4,730
Profit and other comprehensive income for the period (SOCl)	0	(586)	(586)
Closing balance at 30 June 2022	0	4,144	4,144

** Stated capital totals R10 000 rounded to R0m*

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2022

	Notes	6 months to June		December
		2022	2021	2021
		Rm	Rm	Rm
CASH FLOWS FROM OPERATING ACTIVITIES				
Net profit for the year	SOCI	(586)	286	816
Adjustments for depreciation and other non-cash items:		366	(480)	(1,123)
Depreciation and amortisation		6	5	9
Impairment of insurance receivables		9	0	7
Reinvestment by asset managers of net investment expenses/(income)	6	351	(485)	(1,139)
Net movements in operating assets and liabilities		682	560	226
Cash generated from/(utilised in) operating activities		462	366	(81)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (investment)/disinvestment of financial assets		(433)	(300)	69
Investment in subsidiary		0	(8)	31
Purchases of equipment and computer software		(8)	(8)	(14)
Cash (utilised in)/generated from investing activities		(441)	(316)	86
Net increase in cash for the period		21	50	5
Cash and cash equivalents at beginning of period		16	11	11
Cash and cash equivalents at end of period	SOFP	37	61	16

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 30 JUNE 2022

	<u>6 months to June</u>		<u>December</u>
	2022	2021	2021
	Rm	Rm	Rm
1. Financial assets invested through asset managers			
Investments designated at fair value through profit or loss			
Local financial assets	3,973	3,809	3,922
Listed equity securities	1,179	838	942
Listed debt securities: fixed interest rate	920	843	1,119
Listed debt securities: inflation linked	1,698	1,530	1,682
Money market funds	176	598	179
Foreign financial assets	2,385	2,542	2,846
Listed equity securities	2,162	2,268	2,608
Derivative foreign exchange contracts	(15)	40	(11)
Pooled unlisted equity securities	238	234	249
Corporate debt securities with derivative overlay	819	774	801
Local assets	582	550	545
Foreign assets	237	224	256
Accrued investment income	25	22	24
Total investments designated at fair value through profit or loss	7,202	7,147	7,593
Cash held in bank accounts operated by asset managers	29	44	22
Total financial assets invested through asset managers	7,231	7,192	7,615
2. Other financial assets at fair value through profit or loss			
Enterprise development fund	8	8	8
Supplier development fund	28	28	28
Money market funds	1,000	674	534
Total other financial assets at fair value through profit or loss	1,036	710	570

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 30 JUNE 2022

	6 months to June		December
	2022	2021	2021
	Rm	Rm	Rm

3. Pension liabilities

Pension liabilities	2,309	1,941	2,131
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The movement in pension liabilities is analysed as follows:

Opening balance	2,131	1,893	1,893
Release of risk margin	(135)	(143)	(107)
Opening best estimate liability	1,996	1,750	1,786
Best estimate charge to profit or loss	171	74	217
Finance costs (unwind of discount rate)	59	42	124
Change in economic assumptions and modelling	150	75	220
Actual versus expected experience and other adjustments	(38)	(43)	(127)
New pensions awarded	69	73	130
Pensions and expenses paid	(70)	(68)	(137)
Closing best estimate liability	2,166	1,829	1,996
Reinstatement of risk margin	143	112	135
Closing balance	2,309	1,941	2,131

Reconciliation of pension valuation charge to profit or loss:

Best estimate charge to profit or loss	171	74	217
Movement in risk margin	8	(31)	28
Subtotal	179	43	245
Less: Finance costs (separately disclosed)	(59)	(42)	(124)
Net pension valuation loss for the period	120	1	121

	6 months to June		December
	2022	2021	2021
	Rm	Rm	Rm

4. Claims provisions

Unpaid reported claims	319	325	297
IBNR provision	369	377	421
Claims handling expenses	125	109	133
	813	811	851

The movement in claims provisions is analysed as follows:

Opening balance	851	824	824
Gross claims expense for the year	136	150	384
Finance costs (Unwind of discount rate)	(23)	(21)	33
Claims paid	(82)	(80)	(260)
Pensions awarded	(69)	(62)	(130)
Closing balance	813	811	851

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 30 JUNE 2022

	<u>6 months to June</u>		<u>December</u>
	2022	2021	2021
	Rm	Rm	Rm
5. Premium rebate liabilities			
Premium rebate liabilities relating to:			
Underwriting year commencing March 2022	224	109	0
Underwriting year commencing March 2021	220	261	220
Underwriting year commencing March 2020	262	257	262
Total premium rebate liabilities	706	627	482

	<u>6 months to June</u>		<u>Dec</u>
	2022	2021	2021
	Rm	Rm	Rm
6. Net investment income			
Investment income	(339)	495	1,165
Interest income	123	95	207
Dividend income	25	13	32
Net foreign currency gain/(loss) on financial assets	26	(30)	120
Net valuation gains on financial assets measured at fair value	(513)	417	806
Investment expenses	(12)	(10)	(25)
Asset management and consulting fees	(11)	(10)	(22)
Performance fees	(1)	0	(3)
Total net investment income for the year	(351)	485	1,140

7. Income tax

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