FEM

THE FEDERATED EMPLOYERS MUTUAL
ASSURANCE COMPANY (RF) PROPRIETARY LIMITED

Company Annual Financial Statements for the year ended 31 December 2019

Table of **Contents:**

Introduction:

The Federated Employers Mutual Assurance Company (RF) Proprietary Limited ("FEM" or "the Company") has pleasure in presenting its annual report for the 2019 financial year.

The report covers the performance of the Company for the period 1 January 2019 to 31 December 2019. The Company operates solely in the Republic of South Africa; however, a portion of its investment income is earned from foreign investments.

Management's interpretation of materiality has been applied in determining the content and disclosure in this report.

The Company's external auditors, KPMG Inc., have issued an unqualified opinion on these company financial statements for the year ended 31 December 2019.

COMPANY PROFILE

The Company was established as a mutual short-term 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 Class V 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 short-term 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.

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 on an annual basis to ensure 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 the pension valuation charge and any investment income earned by the Company). Although the Company did not achieve its objective of a break-even underwriting result in the current year, it nevertheless reported an overall net profit for the year and remains conservatively capitalised with a net asset value of R3.5 billion as at 31 December 2019.

Report of **the Chairman:**

for the year ended 31 December 2019

2019 turned out to be a very tough year for the construction industry and FEM felt the effect through lower premium income. Notwithstanding the difficult trading conditions of the policyholders, FEM's financial results were good, with the investment portfolio performing better than could be expected.

Interruptions on construction sites are further challenges that contractors had to deal with and delayed or no payments have caused the closure of many companies. As a result, many employees had to be laid off, but work carries on and where there is hope there is a way.

The FEM Education Foundation ("the Foundation") that was formed in 2016, is doing wonderful work in investing in the youth. Institutions like Make a Difference (MAD), Columba Leadership Foundation, Partners for Possibilities, Funda Wande and others, receive funds from the Foundation. The work being done by these entities is indeed commendable. The latest addition to the activities is investing in early childhood development.

All the Board committees are doing very good work and give very valuable input into the affairs of FEM.

During 2019 the systems at FEM were upgraded to allow policyholders to report accidents online in addition to the existing ability for them to submit their returns online as well. We trust that this will assist in streamlining doing business with FEM.

During the year Thando Headbush resigned from the Board and we thank him for his contribution while he was a member of the Board. The other Board members were all re-elected at the Annual General Meeting in August 2019 and the Board is operating very well.

The year ahead looks gloomy from a political and financial point of view, but we trust that government will be able to get South Africa on a growth path and get rid of all the corruption and unrest. The prospects for a quick economic recovery have been severely dented by the recent outbreak of the COVID-19 virus.

While it is too early to predict the extent of the economic damage caused by the measures necessary to contain the spread of the virus, the pandemic is widely expected to have far reaching socio-economic consequences. FEM is acutely aware of its heightened responsibilities to policyholders, beneficiaries, general staff and their families in these challenging times.

I would like to thank the directors and staff of FEM for their dedication and hard work. They are available to deal with all queries, small and large, and policyholders are encouraged to bring problems to their attention.

Nico Maas
Chairman
Johannesburg
24 April 2020

Report of the Chief Executive Officer:

for the year ended 31 December 2019

We are pleased to report on the activities and results of The Federated Employers Mutual Assurance Company (RF) Proprietary Limited ("FEM") for the year ended 31 December 2019.

This has been another challenging year for the South African construction industry. According to Statistics South Africa's Quarterly Employment Statistics report, the industry shed more than 36 000 jobs during the year. The industry continues to be crippled by a lack of economic growth, lack of infrastructure investments, increased competition and the challenge relating to construction site invasions.

For the first time in FEM's recent history the prevailing conditions within the construction industry resulted in a material reduction in gross premium income of 10.5% compared to 2018. Although some policyholders and industry statistics reflected an increase in tender activity towards the end of 2019, it is not clear at this point when the industry will start to recover.

Despite the reduction in premium income, FEM was able to pay out R289 million to policyholders in rebates. We hope that policyholders will use these rebates to invest in the health and safety of construction employees.

We continue to focus on improving our business processes to ensure efficient service delivery to our policyholders, injured employees and their dependants. The rewrite of our operating system commenced during the year. We are rewriting the system on an agile basis, releasing modules as they are completed. The first module should be completed early in 2020 and the overall system will be completed by 2021. During the year we also piloted our on-line claims registration platform with a select number of policyholders on a controlled basis. Feedback from the pilot is being integrated into improving the platform before we roll it out to all of our policyholders during 2020. As a business, we will continue to integrate technology as an enabler for improved service and scalability.

Our Pensioner Beneficiary Assistance Program provides ex-gratia assistance to COIDA beneficiaries and their dependants. The financial assistance provided in 2019 amounted to R15 million. R10.5 million was spent on providing 632 children of disabled employees and children receiving a pension from FEM with financial assistance for tuition, uniform, books and stationery. R4.5 million was spent on assisting severely disabled employees who are receiving a pension from FEM in order to improve their quality of life. The program continued to fund and source assistive devices for pensioners and funded the training of care givers. Some pensioners were moved into care centres. Funds were also utilised to provide housing for some of the pensioners, which will be delivered in 2020.

The Company provided financial assistance amounting to R16.9 million to the health and safety programmes of the various construction industry associations to assist with health and safety initiatives. A run-off table of accident frequencies (number of workers injured proportionate to the number insured) for the past five years is presented in the following table. Statistics reflect that the accident frequency has ranged between 2.3% and 2.6% over the past five years. The Company's claims registered cycle is normally 2½ years, and therefore the figures for the 2017, 2018 and 2019 years are subject to change.

	Underwriting year				
Financial year end	2015	2016	2017	2018	2019
2015	2.40	-	-	-	-
2016	2.54	2.45	-	-	-
2017	2.57	2.33	2.36	-	-
2018	2.58	2.36	2.38	2.31	-
2019	2.58	2.37	2.41	2.43	2.44

The industry should be working towards zero harm which is not yet a reality for many vulnerable employees. In an effort to increase awareness around the health and safety of construction employees, FEM's Safetember campaign for 2019 focussed on working at heights. The rationale for the focus is the high number of accidents that we still see related to falls from heights.

Report of
the Chief Executive Officer:

for the year ended 31 December 2019

We would like to acknowledge the 92 FEM Health and Safety Award recipients for 2019. These companies are leading the way in ensuring the health and safety of their employees. In particular, we would like to acknowledge our special awardees, who demonstrated a good and consistent safety record over a 10-year period up to 2017. The recipient of the coveted platinum award was Azcon Projects CC with the Gold award going to Shula Construction CC, Silver award to Beurden Construction CC and the Bronze award going to Kalode Construction (Pty) Ltd.

As a result of the recent outbreak of COVID-19 and resultant lockdown, all our employees have been working from home with effect from 27 March 2020 until the national lockdown is lifted. We are taking all appropriate measures to ensure, safely and securely, continuity of our operations and the provision of a good service to all our stakeholders and continue to be available electronically (via email, telephone and video conference) to engage with our stakeholders. We are trying to minimise the business disruption as much as possible as we navigate these unprecedented circumstances.

In order to assist our policyholders who will undoubtedly be impacted by the pandemic and the lockdown operationally and financially; we have taken the following steps:

- We have extended the deadline for submission of Return of Earnings by two months to the 31st of May 2020.
- We have also extended the deadline for payment of premiums in order to qualify for rebates by two months to the 31st of August 2020.

We have been liaising with our pensioners and other claimants to ensure that they are aware of the fact that we remain open during the lockdown and can assist them. We are also ensuring that those who require chronic medication continue to get their medication as pharmacies are an essential service and remain open during the lockdown. This includes the delivery of chronic medication by Scriptwise to pensioners.

THANKS

Ready co-operation and assistance continue to be received from the office of the Compensation Fund at all levels and we are particularly grateful to the Commissioner for this support.

Gratitude is also extended to the FEM Board and employees who are committed to ensuring that we deliver on our mandate of providing impactful workmen's compensation benefits and services.

Mrs N Manyonga
Chief Executive Officer
Johannesburg
24 April 2020

Corporate **Governance Report:**

for the year ended 31 December 2019

The directors are committed to applying good corporate governance. This includes applying discipline, independence, fairness, social responsibility and transparency. In this regard, the directors endorse the codes of corporate practice and conduct recommended in the King IV report.

BOARD OF DIRECTORS

At 31 December 2019, there were 10 directors (2018: 10 directors) on the Board, 8 (2018: 9) of whom are independent non-executives. The non-executive directors bring diversity, experience, insight and independent judgement on issues of strategy, performance, resources and standards of conduct. Proposed new appointments are recommended by the Remuneration and Nominations committee for approval by the Board. All such appointments are subject to shareholder approval at the next annual general meeting. The roles of Chairman and Chief Executive Officer do not vest in the same person, and the chairpersons of the Board and all Board committees are independent non-executive directors.

The Chairman provides leadership and guidance to the Board, encourages proper deliberation on all matters requiring the Board's attention and obtains optimum input from the other directors.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed. All directors are entitled to seek independent professional advice about the affairs of the Company at the Company's expense should this prove to be necessary.

Executive directors have employment contracts with the Company containing standard terms and normal notice periods. Non-executive directors have contracts stipulating their duties and responsibilities. These contracts provide for the removal of the director in appropriate circumstances.

In terms of the Company's MOI, one third of non-executive directors retire by rotation each year and are eligible for re-election at the Company's annual general meeting.

The Board meets at least three times per year and has ultimate responsibility for the Company's strategy, governance and oversight of key performance and risk areas. Specific functions are delegated to Board committees which act under written terms of reference.

Attendance at meetings during the year

BOARD	Apr	Aug	Sep	19 Nov	29 Nov
Non-executive directors					
NF Maas (Chairman)	√	√	√	√	√
H Walker (Lead independent director)	√	√	√	√	√
JR Barrow	√	√	x	√	√
JRT Headbush *	√	√	√	√	√
MG Ilsley	√	√	X	√	√
K Imathiu	√	√	X	√	√
CS Jiyane	√	x	√	√	x
MA Letshele	√	√	√	√	√
H Ngakane	√	√	√	√	√
Executive directors					
N Manyonga (CEO)	x	√	√	√	√
Y Bodiat (CFO) **	√	√	√	√	√

√ Attended
x Absent with apology
* Mr JRT Headbush resigned on 29 November 2019
** Mr Y Bodiat was appointed as the CFO on 01 February 2019 and an executive director on 24 April 2019

Audit committee

The Audit committee meets at least twice a year with management, the external auditors and internal auditors in attendance. The external auditors and internal auditors have unrestricted access to the committee and the committee has unrestricted access to the Company's management, employees, external and internal auditors and outside consultants.

The statutory report of the committee is presented as part of the accompanying annual financial statements.

Corporate
Governance Report

for the year ended 31 December 2019

Attendance at meetings during the year

	11 Apr	23 Apr**	Aug
MG Ilsley (Chairman)	√	√	√
JR Barrow	√	√	√
JRT Headbush *	√	√	√
K Imathiu	√	√	√
H Walker	√	√	√

√ Attended
x Absent with apology
* Mr JRT Headbush resigned on 29 November 2019
** Special meeting

Remuneration and Nominations committee

The Remuneration and Nominations committee advises the Board on remuneration policies, packages and other terms of employment for all directors and senior executives. Its specific terms of reference also include recommendations to the Board in matters relating, inter-alia, to staff remuneration policies, incentive schemes, executive incentives, nomination of new directors, recommendation on the composition of the various sub committees and directors' fees. The committee seeks advice from independent professional advisors at the Company's expense where appropriate. The committee meets at least twice a year.

Attendance at meetings during the year

	Apr	Nov
K Imathiu (Chairman) *	√	√
JR Barrow	√	√
CS Jiyane	x	√
NF Maas	√	√
H Walker **	√	√

√ Attended
x Absent with apology
* Ms K Imathiu was appointed as Chairman of the committee with effect from 24 April 2019
** Mr Walker was Committee Chairman until 23 April 2019 and remains a member of the committee

Investment committee

The Investment committee which includes executive members, meets at least four times a year and acts under a delegated authority within the parameters of a Board approved investment charter. The committee in turn appoints specialist investment consultants to assist in the exercise of its investment mandate from the Board.

Attendance at meetings during the year

	Feb	Mar	May	Jul	Aug *	Sept	Nov
H Walker (Chairman)	√	√	√	√	√	√	√
Y Bodiat	#	√	√	√	√	√	√
MG Ilsley	√	√	√	√	√	x	√
K Imathiu	√	√	√	√	√	√	√
NF Maas	√	√	√	√	√	√	√
N Manyonga	x	x	√	√	√	√	√
H Ngakane	√	√	√	√	√	√	√

√ Attended
x Absent with apology
\# Mr Y Bodiat was appointed as the CFO on 01 February 2019 and an executive director on 24 April 2019
* Special meeting

Corporate
Governance Report

for the year ended 31 December 2019

Risk and Compliance committee

The Risk and Compliance committee includes executive members and is responsible for ensuring that the Company has implemented an effective policy and plan for the management of risk and for monitoring of actions taken in response to risks identified. The committee is also responsible for oversight of the compliance function. The committee may seek advice from independent professional advisors at the Company's expense and meets at least twice a year unless otherwise required.

Attendance at meetings during the year

	Mar	Jul	Nov
H Walker (Chairman)	√	√	√
Y Bodiat	#	√	√
MG Ilsley	√	√	√
CS Jiyane	√	√	X
MA Letshele	√	√	√
N Manyonga	X	√	√

√ Attended
x Absent with apology
Mr Y Bodiat was appointed as the CFO on 01 February 2019 and an executive director on 24 April 2019

Social and Ethics committee

The Social and Ethics committee has an independent role and is governed by a formal charter. It assists the Board in monitoring the Company's activities in terms of legislation, regulation and codes of best practice with regards to social and economic development; good corporate citizenship; the environment, health and public safety; consumer relationships; and labour and employment. The committee may seek advice from independent professional advisors at the Company's expense and meets at least twice a year unless otherwise required.

Attendance at meetings during the year

	Feb	May	Aug	Oct
H Ngakane (Chairman)	√	√	√	√
JR Barrow	√	√	√	√
Y Bodiat	#	√	√	√
A Ismail	√	√	√	√
MA Letshele	√	√	√	√
N Manyonga	x	√	√	√

√ Attended
x Absent with apology
In attendance, appointed as the CFO on 01 February 2019 and an executive director on 24 April 2019

Executive committee

The Executive committee is appointed by the Chief Executive Officer and as such is not a sub-committee of the Board. During the year under review, the committee was comprised as follows:

- N Manyonga (Chief Executive Officer)
- Y Bodiat (Chief Financial Officer, appointed 1 February 2019)
- A Ismail (Chief Human Resources Officer)
- GM McIntosh (Chief Information Officer)
- D Subbiah (Chief Risk Officer)
- R van Deventer (Chief Operations Officer)

Board of **Directors:**


NF Maas (Chairman)


NF Manyonga (Chief Executive Officer)


JR Barrow


Y Bodiat (Chief Financial Officer)
Appointed 24 April 2019


MG Ilsley


K Imathiu


CS Jiyane


MA Letshele


H Ngakane


H Walker


EJ Willis (Company Secretary)

Executive
Committee:

NF Manyonga
(Chief Executive Officer)

Y Bodiat: Appointed 1 February 2019
(Chief Financial Officer)

A Ismail
(Chief Human Resources Officer)

GM McIntosh
(Chief Information Officer)

D Subbiah
(Chief Risk Officer)

R van Deventer
(Chief Operations Officer)

> "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."

Directors' **Report:**

for the year ended 31 December 2019

General information

General information about The Federated Employers Mutual Assurance Company (RF) Proprietary Limited ("FEM" or "the Company") is provided in note 1 to the accompanying annual financial statements.

FEM's MOI includes unalterable provisions designed to protect the long-term interests of policyholders by entrenching the mutual status of the Company.

Investments strategy and returns

The Company's investment strategy is managed by the investment sub-committee of the Board, acting on the advice of independent investment consultants. An asset-liability modelling exercise is performed at least every 18 months to determine the optimum percentage allocation of investments to different asset classes after taking into account the liability profile of the Company. Ranges are then specified around these strategic asset allocations to facilitate tactical asset allocation decisions during the year. The objective is to enhance the Company's investment returns for the benefit of stakeholders, while ensuring that the Company remains adequately capitalised and has sufficient liquid cash resources to meet all of its obligations.

Financial commentary

Gross premium income for the year was recorded at R857 million, R100 million lower than the prior year. The decrease in gross premium income is mainly as a result of the market deterioration in the construction industry in recent years, the largest impact of which was seen in FEM's 2019 results.

Notwithstanding the reduction in business written, gross claims and benefits increased by R8 million year-on-year. This resulted primarily from changes in the actuarial calculation of incurred but not reported claims reserves, offset to some extent by increased recoveries from the Road Accident Fund.

Operating expenses increased by R10 million to R162 million for the year. This included R32 million of socio-economic and skills development spend for the year. Excluding this spend, management expenses were marginally above the targeted expenditure of 15% of gross premium income, this ratio having been adversely impacted by the higher than expected reduction in premium.

In addition to R27 million of accident prevention expenses and grants, the Board approved R15 million of spend for ex gratia pensioner benefits to fund the Pensioner Beneficiary Assistance Programme, reflecting the Company's commitment to contribute towards improving the social circumstances of pensioners and their children.

The combination of reduced premium income and strengthening of actuarial reserves resulted in a reported underwriting loss for the year of R86 million (2018: R44 million loss). This is stated before including any investment income.

The Company recorded net investment income of R652 million for the year, representing a 9.7% return on the average financial assets held during the year (2018: -2.0%). SA bonds and, in particular, foreign equity returns contributed to this most satisfactory return.

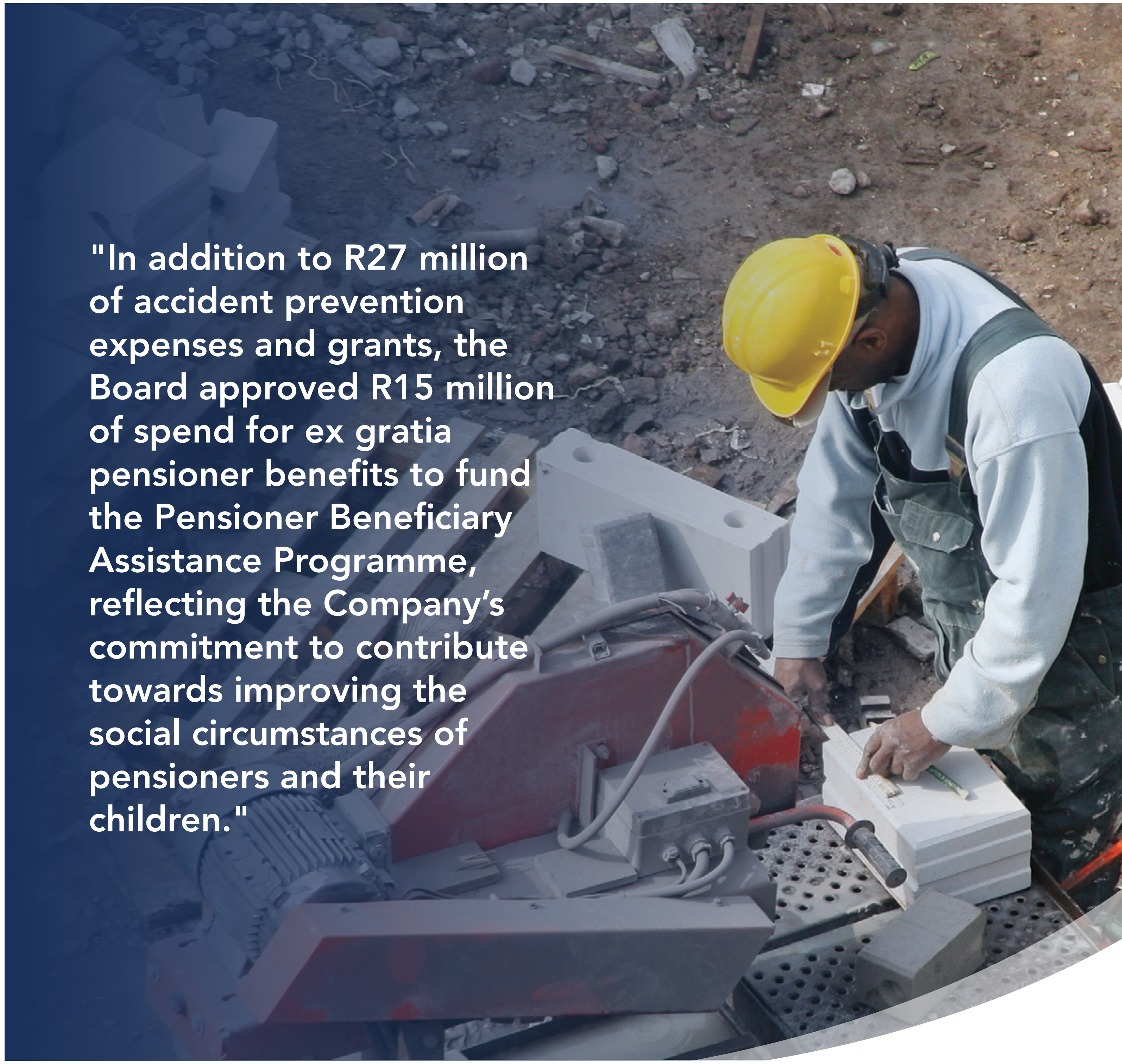
After adding net investment income and after allowing for the net pension valuation charge and special payments, the Company recorded an overall net profit for the year of R493 million (2018: R72 million loss).

Dividends

In accordance with clause 3.1.6 of the MOI, the Company may not make any form of distribution to its shareholders in their capacity as shareholders. Accordingly, all profits or assets of the Company are to be retained or applied to and paid as policyholder payments as determined by the Board in accordance with the relevant provisions of the MOI and policy terms and conditions.

Annual general meeting

At the annual general meeting held on 27 August 2019, a special resolution was passed whereby shareholders unanimously approved that the company acquire 160,050 of its shares, which represented 33.69% of the total shares issued at the time, from The Federated Employers Trust Proprietary Limited for no consideration. The transaction has not yet been finalised, as the company is awaiting regulatory approval from the Prudential Authority.



Directors' **Report:**

for the year ended 31 December 2019

Prospects

Recent years have been challenging for the construction industry, specifically apparent by the decline in the company's gross premium income in 2019. Credit downgrades by rating agencies during March and April 2020 is expected to have a negative impact on the industry and the economy. The COVID-19 pandemic and the resultant lock-down in the country are likely to have further negative effects. However, we are hopeful that the industry and economy will overcome these challenges and stabilise over time.

Statement of directors' responsibilities

The Board of directors of FEM is responsible for preparing this report and for the preparation and fair presentation of the accompanying Company financial statements for the year ended 31 December 2019 in accordance with International Financial Reporting Standards ("IFRS") and the South African Companies Act ("the Act"). In accordance with section 29(2) of the Act, the Board is responsible for ensuring that the annual financial statements are not false, misleading or incomplete in any material respect.

It should be noted that these financial statements have been prepared for the company only and do not include consolidated financial information. Under IFRS, the primary annual financial statements are the consolidated annual financial statements, which have been prepared separately and can be obtained from the Company's offices.

The independent auditors are responsible for reporting on whether the accompanying financial statements are fairly presented in accordance with IFRS.

Internal financial controls

The Board has considered and satisfied itself as to the adequacy of the Company's system of internal financial controls. This assessment is supported by the Audit committee.

Events after the reporting period

On 11 March 2020, COVID-19 was declared as a pandemic due to the rising rate and scale of infections observed. The impacts associated with this pandemic could negatively impact the financial position and performance of the Company in 2020. This is considered a material non-adjusting event.

There have been no other material events after 31 December 2019 up to the date of this report.

Going concern

The annual financial statements have been prepared on the basis that the Company will continue as a going concern for a period of at least 12 months from the date of approval of these annual financial statements. The Board has reviewed the capital adequacy of the Company and the operating budget for the forthcoming year, including consideration of the COVID-19 impact, and has satisfied itself as to the appropriateness of the going concern assumption. This assessment is supported by the Audit committee.

Approval of annual financial statements

The accompanying annual financial statements were approved by the Board and are signed on its behalf by:

Mr NF Maas
Chairman
Johannesburg
24 April 2020

Mrs N Manyonga
Chief Executive Officer
Johannesburg
24 April 2020

Certificate by the **Company Secretary:**

for the year ended 31 December 2019

I hereby confirm, in terms of the South African Companies Act (“the Act”), that for the year ended 31 December 2019, the Company has lodged with the Registrar of Companies all such returns as are required of the Company in terms of the Act and that all such returns are true, correct and up to date.

Mrs E J Willis
Secretary
Johannesburg
24 April 2020

Audit Committee’s **Report:**

for the year ended 31 December 2019

This report to shareholders is issued in relation to both the company and consolidated annual financial statements for the year ended 31 December 2019, which have been presented in separate financial statements. The report is issued in compliance with section 94(7)(f) of the South African Companies Act and has been approved by all members of the Audit Committee ("the committee").

The committee has adopted formal terms of reference that cover all of its statutory responsibilities under the Act and include additional responsibilities delegated to the committee by the Board. The committee considers that it has discharged all of its responsibilities under these terms of reference during the year.

The committee comprises the following independent directors:

- MG Ilsley (Chairman)
- JR Barrow
- JRT Headbush – resigned on 29 November 2019
- K Imathiu
- H Walker

The Chief Executive Officer, Chief Financial Officer, Heads of Control Functions and representatives of external audit were standing invitees at all meetings.

The committee held three scheduled meetings during the year. At these meetings, the committee received and considered reports from the external auditors, heads of actuarial and internal audit control functions and from management
.

The committee, inter alia:

- reviewed and approved the external audit plan for the year ended 31 December 2019, approved the engagement terms and proposed external audit fees, satisfied itself regarding the independence of the external auditor and considered the findings reported following the conclusion of the external audit;
- reviewed and approved the internal audit work plan, approved the proposed internal audit fees and considered the findings of internal audit reports, including internal audit’s assessment of the control systems;
- received summary risk management reports and considered the financial reporting consequences for the interim financial reporting results and annual financial statements issued by the Group;
- assessed the appropriateness of the going-concern assumption underlying the preparation of the company and consolidated annual financial statements;
- assessed the adequacy of the finance function; and
- reviewed the company interim financial report and the separate company and consolidated annual financial statements and reported thereon to the Board.

Audit Committee's **Report:**

for the year ended 31 December 2019

After consideration of all of the findings reported by internal audit covering those areas included in their annual work plan, explanations given by management and discussions with the external auditors on the results of their audit, the committee concluded that:

- nothing has come to its attention, that would indicate that there was a material breakdown in the systems of internal financial controls during the year; and
- the internal financial controls form a reasonable basis for the preparation of reliable financial statements.

After consideration of a written assessment prepared by management to support the going-concern assumption underlying the preparation of the annual financial statements, including consideration of the COVID-19 impacts, the committee concluded that both FEM and the FEM Education Foundation NPC are adequately capitalised and should remain going concerns for the foreseeable future.

The committee has satisfied itself that the Chief Financial Officer has appropriate expertise and experience and has satisfied itself of the appropriateness of the expertise, resources and experience of the finance function as a whole.

The committee has nominated, for election at the forthcoming annual general meeting, KPMG Inc. as the independent auditors and Mr Derek Vice as the responsible person for performing the functions of auditor, for the 2020 year.

The committee recommended approval by the Board of the separate company and consolidated annual financial statements for the year ended 31 December 2019.

On behalf of the Audit committee:

Mr MG Ilsley
Chairman of the committee
Johannesburg
24 April 2020

Independent
Auditor's Report:

for the year ended 31 December 2019

Independent Auditor's Report

To the shareholders of The Federated Employers Mutual Assurance Company (RF) Proprietary Limited

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of The Federated Employers Mutual Assurance Company (RF) Proprietary Limited (the company) set out on pages 36 to 90, which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of The Federated Employers Mutual Assurance Company (RF) Proprietary Limited as at 31 December 2019, and its separate financial performance and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "The Federated Employers Mutual Assurance Company (RF) Proprietary Limited Company Annual Financial Statements for the year ended 31 December 2019" which includes the Directors' report as required by the Companies Act of South Africa. The other information does not include the separate financial statements and our auditor's report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the separate financial statements

The directors are responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent **Auditor's Report:**

for the year ended 31 December 2019

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of The Federated Employers Mutual Assurance Company (RF) Proprietary Limited for 2 years.
KPMG Inc.

Per D Vice
Chartered Accountant (SA)
Registered Auditor
Director
1 May 2020

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

The accompanying annual financial statements were prepared under the supervision of the Chief Financial Officer, Yusuf Bodiat, CA (SA) and have been audited in compliance with Section 30 of the South African Companies Act 71 of 2008.

Statement of **Financial Position (SOFP):**

as at 31 December 2019

	Notes	2019 Rm	2018 Rm
ASSETS			
Property and equipment	8	75	71
Computer software	9	5	0
Reinsurance assets	10	4	6
Financial assets invested through asset managers	11	6 390	5 736
Investments at fair value through profit or loss		6 361	5 647
Cash held in bank accounts operated by asset managers		29	89
Other financial assets at fair value through profit or loss	11	294	262
Other financial assets measured at amortised cost		72	129
Insurance receivables	12	0	34
Other receivables	13	39	72
Cash and cash equivalents	SOCF	33	23
Total assets		**6 840**	**6 204**
EQUITY AND LIABILITIES			
Stated capital	14	0	0
Retained profit	SOCE	3 531	3 038
Total equity		3 531	3 038
Insurance liabilities		3 238	3 104
Pension liabilities	15	1 876	1 760
Claims provisions	16	677	618
Unearned premium liabilities	17	141	143
Premium rebate liabilities	18	544	583
Financial liabilities measured at amortised cost			
Trade and other payables	19	71	62
Total liabilities		3 309	3 166
Total equity and liabilities		**6 840**	**6 204**

Statement of **Comprehensive Income (SOCI):**

for the year ended 31 December 2019

	Notes	2019 Rm	2018 Rm
Gross premium income		**857**	**957**
Premiums raised on initial wage declarations for the current year		837	888
Premiums raised on final wage declarations for the previous year		20	69
Annual rebates to policyholders	18	(250)	(331)
Unearned premium	17	2	4
Gross earned premium		**609**	**630**
Insurance premium ceded to reinsurers		(10)	(23)
Net earned premium		**599**	**607**
Gross claims and benefits		**(503)**	**(495)**
Gross claims expense	16	(528)	(503)
Claim recoveries from Road Accident Fund		25	8
Claims recovered from reinsurers		33	31
Net claims and benefits		**(470)**	**(464)**
Underwriting profit before operating expenses		**129**	**143**
Operating expenses	20	(162)	(152)
Impairment of insurance receivables		(26)	(8)
Accident prevention expenses and grants		(27)	(27)
Underwriting profit before investment income and pension valuation charge		**(86)**	**(44)**
Net investment income/(expenses)	21	**652**	**(11)**
Investment income		674	5
Investment expenses (where separately identifiable)		(22)	(16)
Net pension valuation charge	15	**(58)**	**(7)**
Finance costs		(125)	(111)
Pension valuation charge		67	104
Net profit/(loss) for the year before special payments		**508**	**(62)**
Special payments		(15)	(10)
Pensioner beneficiary assistance program		(15)	(10)
Net profit/(loss) for the year	SOCE	**493**	**(72)**
Other comprehensive income		0	0
PROFIT/(LOSS) AND OTHER COMPREHENSIVE INCOME		**493**	**(72)**

Statement of
Changes in Equity (SOCE):

for the year ended 31 December 2019

	Stated capital* Rm	Retained profit Rm	Total Rm
Balance at 1 January 2018	0	3 110	3 110
Loss and other comprehensive income for the 2018 year (SOCI)	0	(72)	(72)
Closing balance at 31 December 2018	0	3 038	3 038
Profit and other comprehensive income for the 2019 year (SOCI)	0	493	493
Closing balance at 31 December 2019	**0**	**3 531**	**3 531**

** Stated capital totals R10 000 rounded to R0m*

Statement of
Cash Flows (SOCF):

for the year ended 31 December 2019

	Notes	2019 Rm	2018 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) for the year	SOCI	493	(72)
Adjustments for depreciation and other non-cash items:		32	12
Depreciation	20	6	4
Impairment of insurance receivables		26	8
Reinvestment by asset managers of net investment (income)/expenses	21	(652)	11
Net movements in operating assets and liabilities	22	177	61
Cash generated from operations		**50**	**12**
Net payments to FEM Education Foundation		0	(281)
Cash generated from / (utilised in) operating activities		**50**	**(269)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (investment)/disinvestment of financial assets		(34)	252
Purchases of equipment and computer software		(6)	(3)
Cash (utilised) / generated from investing activities		**(40)**	**249**
Net increase / (decrease) in cash for the year		10	(20)
Cash and cash equivalents at beginning of year		23	43
Cash and cash equivalents at year end	SOFP	**33**	**23**

Notes to the **Financial Statements:**

for the year ended 31 December 2019

1. GENERAL INFORMATION ABOUT FEM

The Federated Employers Mutual Assurance Company (RF) Proprietary Limited ("FEM" or "the Company") is a licensed short-term insurer and also operates as a mutual association licensed under the South African Compensation for Occupational Injuries and Diseases Act No. 130 of 1993 to carry on the business of insurance of certain classes of employers within the construction industry against their liabilities to employees in terms of this 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 MOI make it subject to the same extended accountability provisions as are applicable to a public company.

Each ordinary share in the issued capital of the Company ranks pari passu with each other ordinary share in all respects and entitles its holder to exercise one vote on any matter to be decided by shareholders for their share of the nominal amount of share capital of the Company. A share does not entitle its holder to any form of distribution from the Company save for their share of the nominal amount of share capital upon winding-up or dissolution of the Company.

No transfer of shares in the Company, whether fully paid up or not, shall be effected or purported to be effected without the approval of the Board and shares in the Company shall only be capable of being held by or transferred to policyholders in terms of the MOI of The Federated Employers Trust Proprietary Limited ("FET"). Only policyholders and FET may acquire and continue to hold shares in the Company. Immediately upon ceasing to be a policyholder for any reason whatsoever, such former policyholder shall be obliged, without further notice, to transfer all shares held by them in the Company to FET. The Company Secretary is authorised, without further notice, to sign all documents on behalf of such former policyholder to effect the transfer. Following the adoption of the latest MOI, new policyholders shall only be entitled to acquire 1 ordinary share in the Company.

The accompanying financial statements have been prepared for the Company only and do not include consolidated financial information. The primary annual financial statements are the consolidated annual financial statements, which have been prepared separately and can be obtained from the Company's offices.

Address:
The Company's registered address and head office is situated at:
2nd Floor, Oxford & Glenhove
114 Oxford Road
Houghton Estate
2198

Notes to the **Financial Statements:**

for the year ended 31 December 2019

2. BASIS OF PREPARATION

The Company's financial statements are prepared on the historical cost basis except for financial instruments that are subsequently measured at fair value or amortised cost (as explained in the accounting policy notes below) and property which is measured at revalued amount.

Fair value is defined in the relevant note to the financial statements that provides information on the application of the fair value measurement hierarchy to the Company.

3. APPLICATION OF NEW AND REVISED IFRSs

IFRS 16 – Leases

The new IFRS 16 standard on leases came into effect for financial years commencing 1 January 2019. This has resulted in the recognition of right-of-use assets and corresponding lease liabilities of R9 million upon adoption of this new standard on 1 January 2019. As the Company does not have any finance leases and only a small number of operating leases under IAS 17, it has opted to apply the Modified Retrospective Approach as part of the transition to IFRS 16. The comparative information has not been restated and continue to be reported under IAS 17 and IFRIC 4. The cumulative effect of initial application is considered immaterial, and as such the impact of initial application has not been recognised in retained earnings. The Company applied IFRS 16 to all contracts that were previously identified as leases, therefore the definition of a lease under IFRS 16 has only been applied to contracts entered into or changed on or after 1 January 2019.

Previously, the Company classified its leases as operating leases under IAS 17. On transition, lease liabilities are measured as the present value of the remaining lease payments, discounted using either the annual escalation rate implicit within the lease, or an average inflation rate. Right of use assets are measured at an amount equal to the lease liability. When measuring lease liabilities, the Company discounted lease payments

There have been no other new or revised IFRSs that became effective for the current financial year, which had a material impact on the presentation of these financial statements.

4. NEW AND REVISED IFRSs NOT YET EFFECTIVE

The Company intends to continue to apply the temporary exemption provided to insurance companies in respect of the accounting standard on financial instruments, IFRS 9, which became effective for financial years commencing 1 January 2018. This exemption is expected to continue to apply until 1 January 2023 and the adoption of the new IFRS 17 standard on insurance accounting. This optional temporary exemption from applying IFRS 9 relates to entities whose predominant activity is issuing contracts within the scope of IFRS 4.

The Company is in the process of assessing the expected impacts of IFRS 17 on the Company's results and financial position.

There are no other new or revised accounting standards that have been issued but are not yet effective that are expected to have a material impact on the presentation of the Company's financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRS. Details of the Company's significant accounting policies, which are consistent with those applied in the previous financial year, are provided in Annexure 1 to these financial statements.

6. CHANGE IN CLASSIFICATION:

6.1. Statement of Comprehensive Income line items

The pension valuation charge line item has been moved to below the underwriting results to provide a clean measurement of this measure in relation to the Company's stated objective of achieving a breakeven result.

Expenses relating to investment consultant fees were previously included within management expenses. This expense has been moved to within investment expenses, to provide a clearer result of investment related fees.

The changes above 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. Consequently, it has not been necessary to present a third balance sheet as would otherwise be required by IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.

7. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the
Financial Statements:

for the year ended 31 December 2019

7.1. Critical judgments in applying accounting policies

The following are the critical judgments, apart from judgments involving estimations (dealt with in "Key sources of estimation uncertainty" below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Ultimate liability for premium rebates to policyholders

The insurance contracts issued by the Company when read in conjunction with the Company's MOI provide for a discretionary participation feature, which entitles the policyholder to receive premium rebates:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount and timing is to be determined at the sole and absolute discretion of the Board of directors of the Company in accordance with the provisions of the MOI.

The Company's MOI provides that the Board shall in its sole and absolute discretion determine the specific measurement criteria and period of measurement to be applied to determine the requirements for policyholders to participate in premium rebates (including, without limitation, the quantum and timing thereof) and the basis of allocation of the aggregate quantum of premium rebates among and between the participating policyholders. Such determination shall be made by the Board on each occasion that premium rebates are to be paid and may vary from time to time.

The MOI further provides that, in exercising its discretion, the Board shall consider the relative contributions of policyholders to the underwriting profits of the Company, as determined by the premium income and claims expenses recorded in the Company's accounts during the period of measurement determined by the Board, and the need to incentivise improved health and safety practices.

The decisions of the Board regarding premium rebate payments are final and binding on each policyholder.

Premium rebates are generally paid in the last quarter of the year following the completion of the relevant underwriting year ending in February. Dependent upon the Company's future operating results and external developments impacting on the Company during the intervening periods, the ultimate amounts paid in respect of the current and previous underwriting years may differ from the carrying amount of the premium rebate liabilities at 31 December 2019 of R544 million (2018: R583 million).

Cash and cash equivalents

Call and current account balances held through the respective investment portfolios managed by asset managers are included as part of financial assets invested through asset managers. It is the entity's intention to maintain these cash balances for investment purposes and not for the purposes of meeting short-term liquidity or operational purposes. As a result, these balances have been disclosed as financial assets invested through asset managers to reflect the long-term nature and application of these balances.

7.2. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Ultimate liability for claims made under insurance contracts

The estimation of the ultimate liabilities arising from claims made under insurance contracts is the Company's most critical source of estimation uncertainty. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims (net of any reinsurance recoveries).

Pension liabilities are determined as the sum of the discounted present value of the expected future pension payments and directly related future administration expenses. This determination is based on assumptions as to: morbidity (in respect of the period of temporary disability payments); longevity (in respect of the period of monthly pension payments); future pension increases; pension administration expenses; and the discount rate applied. A margin for adverse deviations is included in the assumptions. The methodology employed in the valuation can be described as a prospective valuation method. The prospective reserve was calculated by projecting all the expected future cashflows on each pension and discounting them at the appropriate valuation interest rate (commonly referred to as a discounted cashflow basis – Gross Premium Valuation method). The ultimate cost of settling current pension obligations may differ from the aggregate liability recorded at 31 December 2019 of R1 876 billion (2018: R1 760 billion).

Liabilities for outstanding claims which have been reported but have not yet been paid are based on best estimates for individual cases reported to the Company (based on: medical assessments; current medical treatment costs; recent experience on settlements of similar cases; and the applicable statutory compensation amounts). The ultimate cost of reported claims may vary as a result of future developments or better information becoming available about the current circumstances.

Provision is also made for claims that have occurred as at the end of the financial year, which have not yet been reported (Incurred but not reported – "IBNR") to the Company. As described in the relevant accounting policy note, the provision for IBNR claims is determined using a stochastic approach that combines the Chain-Ladder and Bornhuetter-Ferguson methods. As this method uses historical claims development information, it assumes that the historical claims development pattern will occur again in future as well as considering an assumed inflation rate and an assumed ultimate loss ratio.

There are reasons why this may not be the case. Such reasons include:

- change in processes that affect the development/recording of claims paid and incurred;
- economic, legal, political and social trends; and
- random fluctuations, including the impact of large losses.

Accordingly, the ultimate cost of settling claims may differ from the aggregate claims provisions recorded at 31 December 2019 of R677 million (2018: R618 million).

Ultimate pipeline premium adjustment for current underwriting year

Under the statutory insurance policies underwritten by the Company, policyholders are required to estimate their premium based on their expected payroll. If the actual payroll is less than or in excess of the estimate, an adjustment is made at the end of the underwriting year. This net adjustment is referred to as pipeline premium.

The Company does not accrue for pipeline premium owing to the difficulty of making reliable estimates and the relative immateriality of year on year movements. Ultimate premium receipts for each underwriting year are therefore expected to differ from amounts initially reported in the financial statements.

Adjustment to premiums

Due to the nature of the business, where estimated premiums are recorded initially, thereafter finalised, an estimation of premiums is made on initial wage assessments, as disclosed in the Statement of Comprehensive Income.

Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. This applies to unlisted equity investments (i.e. pooled unlisted equity securities) and is equally relevant to valuations of unquoted corporate bonds and illiquid quoted corporate bonds (these bonds are included in the Corporate Debt Securities with Derivative Overlay in Note 11) where reliance is of necessity placed on the application of internal valuation models by the Company's mandated investment managers or by their outsourced third-party valuators. While investment mandates generally provide some form of independent assurance on the application of these internal valuations, this does not provide direct assurance as to the reliability of internal valuations of these financial assets. Changes in credit risk, liquidity discount and volatility factors, or the incorrect application of internal models, could affect the reported fair value of unquoted corporate bonds and illiquid quoted corporate bonds held by the Company and valued at R715 million at 31 December 2019 (2018: R610 million). Similar, these changes could affect the reported fair value of the pooled unlisted equity securities held by the Company and valued at R232 million at 31 December 2019 (2018: R223 million).

8. PROPERTY AND EQUIPMENT

	FEM property Rm	Motor vehicles and office equipment Rm	Right of use assets Rm	Total Rm
Cost or revaluation				
Balance at 1 January 2018	57	23	0	80
Additions	0	3	0	3
Disposals	0	(3)	0	(3)
Balance at 31 December 2018	57	23	0	80
Additions	0	1	0	1
Recognition of asset upon application of IFRS 16	0	0	9	9
Disposals	0	0	0	0
Balance at 31 December 2019	57	24	9	90
Accumulated depreciation				
Balance at 1 January 2018	0	(7)	0	(7)
Depreciation charge	0	(4)	0	(4)
Disposals	0	2	0	2
Balance at 31 December 2018	0	(9)	0	(9)
Depreciation charge	0	(4)	(2)	(6)
Disposals	0	0	0	0
Balance at 31 December 2019	0	(13)	(2)	(15)
Net carrying amount				
2018	57	14	0	71
2019	57	11	7	75

Notes to the **Financial Statements:**

for the year ended 31 December 2019

All items of property, office equipment, motor vehicles and right-of-use assets are considered non-current.
The carrying value of the revalued assets under the cost model would have been:

	2019 Rm	2018 Rm
Property	54	55

As the property has not been independently valued yet, the valuation of the property at year end has been determined with reference to its fair market value based on current market information.

Following the adoption of IFRS 16, the Company has presented the right of use asset related to the lease liability as a separate category within Property and Equipment.

9. COMPUTER SOFTWARE

	Computer software Rm	Total Rm
Cost or revaluation		
Balance at 31 December 2018	0	0
Additions	5	5
Disposals	0	0
Balance at 31 December 2019	5	5
Accumulated depreciation		
Balance at 31 December 2018	0	0
Depreciation charge	0	0
Disposals	0	0
Balance at 31 December 2019	0	0
Net carrying amount		
2018	0	0
2019	5	5

All items of computer software are considered non-current.

10. REINSURANCE ASSETS

	2019 Rm	2018 Rm
Reinsurance share of insurance liabilities	4	6

Reinsurance assets consist of the reinsurers' share of claim provisions. The reinsurers' share of settled claims is included in other receivables.

The Company has reviewed the amounts expected to become receivable from reinsurers and determined that no impairment is necessary.

Notes to the **Financial Statements:**

for the year ended 31 December 2019

11. FINANCIAL ASSETS INVESTED THROUGH ASSETS MANAGERS AND OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 Rm	2018 Rm
Financial assets invested through asset managers		
Investments designated at fair value through profit or loss		
Local financial assets	**3 370**	**3 132**
Listed equity securities	811	751
Listed debt securities: fixed-interest rate	697	169
Listed debt securities: inflation linked	1 618	1 547
Money market funds	244	665
Foreign financial assets	**2 257**	**1 894**
Listed equity securities	2 023	1 687
Derivative foreign exchange contract	2	(16)
Pooled unlisted equity securities	232	223
Corporate debt securities with derivative overlay*	**715**	**610**
Local assets	537	424
Foreign assets	178	186
Accrued investment income	**19**	**11**
Total investments designated at fair value through profit or loss	**6 361**	**5 647**
Cash held in bank accounts operated by asset managers	29	89
Total financial assets invested through asset managers	**6 390**	**5 736**
Other financial assets at fair value through profit or loss		
Enterprise development fund	9	9
Supplier development fund	13	13
Money market funds	272	240
Total other financial assets at fair value through profit or loss	**294**	**262**

* *The Company has invested through investment-linked insurance policies into illiquid, unlisted and listed local corporate bonds with maturity dates of up to seven 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 the JSE SWIX40 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.

A maturity analysis of the Company's financial assets is provided in Annexure 3 to the financial statements.

The Company's financial assets are exposed to various financial risks. Details of these risks and results of sensitivity testing of the key risks are provided in Note 27 to the financial statements.

The Company's application of the fair value hierarchy to the measurement of its financial assets is shown in Note 28 to the financial statements. Cash held in the bank accounts operated by asset managers is measured at amortised cost.

12. INSURANCE RECEIVABLES

	2019 Rm	2018 Rm
Premiums receivable		
Due from policyholders	43	60
Allowance for impairment	(43)	(26)
	0	34

A maturity analysis of insurance receivables is provided in the Annexure 3 to the financial statements.

The Company has reviewed the recoverability of insurance receivables and is satisfied as to the allowance for impairment.

13. OTHER RECEIVABLES

	2019 Rm	2018 Rm
Amounts due from reinsurers	34	24
Prepayments	3	1
Outstanding investment settlements	1	46
Other receivables	1	1
	39	**72**

A maturity analysis of other receivables is provided in Annexure 3 to the financial statements.

The Company has reviewed the recoverability of other receivables at year end and determined that no allowance for impairment is necessary.

Notes to the
Financial Statements:

for the year ended 31 December 2019

14. STATED CAPITAL

	2019 Rm	2018 Rm
Stated capital	0	0

The Company's authorised and issued stated capital has reduced during the year to 475,050 (2018: 500,000), consisting of ordinary shares of no par value, totalling R10 000 (rounded to R0 million).

15. PENSION LIABILITIES

	2019 Rm	2018 Rm
Pension liabilities	1 876	1 760

The movement in pension liabilities is analysed as follows:

	2019 Rm	2018 Rm
Opening balance	1 760	1 698
Release of risk margin	(114)	(157)
Opening best estimate liability	1 646	1 541
Best estimate charge to profit or loss	50	49
Finance costs (unwind of discount rate)	125	111
Change in economic assumptions and modelling	(57)	(61)
Actual versus expected experience and other adjustments	(18)	(1)
New pensions awarded	195	181
Pensions and expenses paid	(137)	(125)
Closing best estimate liability	1 754	1 646
Reinstatement of risk margin	122	114
Closing balance	1 876	1 760

Reconciliation of pension valuation charge to profit or loss:

	2019 Rm	2018 Rm
Best estimate charge to profit or loss	50	49
Movement in risk margin	8	(42)
Pension valuation charge as previously reported	58	7
Less: Finance costs (unwind of discount rate)	(125)	(111)
Pension valuation charge for the year	(67)	(104)

The principal assumptions used to determine the discounted present value of pension liabilities, and the results of sensitivity testing of these assumptions, are detailed in the Note 26 to the financial statements.

16. CLAIMS PROVISIONS

	2019 Rm	2018 Rm
Claims provisions remaining for accident year at 31 December 2019		
Unpaid reported claims	231	271
IBNR provision	374	291
Claims handling expenses	72	56
	677	618
The movement in claims provisions is analysed as follows:		
Opening balance	618	568
Gross claims expense for the year	528	503
Claims paid	(274)	(272)
Pensions awarded	(195)	(181)
Closing balance	677	618

The claims development table presented below is based on the actual date of the event that caused the claim (accident year basis) and is designed to assess the sufficiency of claims provisions raised in the initial accident year. No account is taken of the time value of money and therefore shortfalls should be expected over extended periods of assessment.

Claims cost incurred by accident year - 2019	2015 Rm	2016 Rm	2017 Rm	2018 Rm	2019 Rm
Claims paid for initial accident year during accident year	103	111	100	160	158
Claims provisions for initial accident year at end of year					
- Unpaid reported claims	107	103	149	153	155
- IBNR claims provision	55	58	69	67	132
Initial claims cost incurred by accident year (a)	265	272	318	380	445
Claims paid across all years	306	300	303	286	158
- 2015	103	0	0	0	0
- 2016	85	112	0	0	0
- 2017	41	89	100	0	0
- 2018	43	56	153	159	0
- 2019	34	43	50	127	158
Claims provisions remaining for accident year at 31 December 2019					
- Unpaid reported claims	5	10	22	39	155
- IBNR claims provision	46	61	68	67	132
Latest estimate of claims cost incurred by accident year (b)	357	371	393	392	445
Surplus/(Deficit) (a)-(b)	(92)	(99)	(75)	(12)	0

Notes to the
Financial Statements:

for the year ended 31 December 2019

Claims cost incurred by accident year - 2018	2013 Rm	2014 Rm	2015 Rm	2016 Rm	2017 Rm	2018 Rm
Claims paid for initial accident year during accident year	66	74	103	111	100	160
Claims provisions for initial accident year at end of year						
Claims provisions remaining for accident year at 31 December 2018						
- Unpaid reported claims	95	89	107	103	149	153
- IBNR claims provision	44	53	55	58	69	67
Initial claims cost incurred by accident year (a)	205	216	265	272	318	380
Claims paid across all years	243	246	272	256	253	160
- 2013	66	0	0	0	0	0
- 2014	90	74	0	0	0	0
- 2015	35	97	103	0	0	0
- 2016	18	38	85	111	0	0
- 2017	12	22	40	89	100	0
- 2018	22	15	44	56	153	160
Claims provisions remaining for accident year at 31 December 2018						
- Unpaid reported claims	8	7	14	28	61	153
- IBNR claims provision	23	26	46	61	68	67
Latest estimate of claims cost incurred by accident year (b)	274	279	332	345	382	380
Surplus/(Deficit) (a)-(b)	(69)	(63)	(67)	(73)	(64)	0

Liability adequacy test

At the end of each reporting period, the Company considers the need for liability adequacy tests to be performed to assess the adequacy of insurance liabilities in respect of the current portfolio of unexpired risks. There was no need to perform liability adequacy tests at the end of the current or preceding financial year owing to the favorable gross claims ratios (before premium rebates) recorded in respect of these financial years.

17. UNEARNED PREMIUM LIABILITIES

	2019 Rm	2018 Rm
Unearned premium liabilities	141	143

The movement in the unearned premium liabilities is analysed as follows:

	2019 Rm	2018 Rm
Opening balance	143	147
Net charge to gross premium income	(2)	(4)
Release of opening balance	(143)	(147)
Unearned portion of current year premiums	141	143
Closing balance	141	143

A maturity analysis of unearned premium liabilities is provided in Annexure 3 to the financial statements.

	2019 Rm	2018 Rm
Premium rebate liabilities relating to:		
Underwriting year commencing February 2019 (2018: February 2018)	257	287
Underwriting year commencing February 2018 (2018: February 2017)	287	296
Total premium rebate liabilities	**544**	**583**
The movement in premium rebate liabilities is analysed as follows:		
Opening balance	583	545
Premium rebate charge for the year	250	331
Current year	257	287
Adjustment for previous year	(7)	44
Annual premium rebates paid	(289)	(293)
Closing balance	544	583

A maturity analysis of premium rebate liabilities is provided in Annexure 3 to the financial statements.

19. TRADE AND OTHER PAYABLES

	2019 Rm	2018 Rm
Audit fees	2	2
Accrued leave liability	3	2
Asset management fees	1	1
Consulting and other professional fees	4	5
Pensioner beneficiary assistance program	3	0
Lease liability	7	0
Outstanding investment settlements	10	22
Reinsurance premium and claim recoveries due	1	1
Staff incentives payable	12	8
Uninsured employers contribution to State Compensation Fund	9	10
Unreleased pensions liability	4	3
Other current payables	15	8
Total trade and other payables	**71**	**62**

Following the adoption of IFRS 16, the Company has presented the right of use asset related to the lease liability as a separate category within Property and Equipment.

A maturity analysis of trade and other payables is provided in Annexure 3 to the financial statements.

Notes to the
Financial Statements:

for the year ended 31 December 2019

20. OPERATING EXPENSES

	2019 Rm	2018 Rm
Socio economic and skills development disbursements	32	31
Depreciation	6	4
Directors' remuneration	12	15
Employee costs (average number of employees:125 (2018: 119 employees)	64	60
Total cost of employment	62	56
Training and recruitment costs	2	3
Temporary staff	0	1
External audit fees	2	2
Professional and other fees	15	9
Premises rentals	0	2
Other expenses	31	29
Total administration expenses	**162**	**152**

21. NET INVESTMENT INCOME / (EXPENSES)

	2019 Rm	2018 Rm
Investment income	674	5
Interest income	192	172
Dividend income	31	47
Net foreign currency (loss)/gain on financial assets measured at fair value	(51)	261
Net valuation gains/(losses) on financial assets measured at fair value	502	(479)
Less: Investment income accrued to FEM Education Foundation	0	4
Investment expenses	(22)	(16)
Asset management and consulting fees	(16)	(12)
Performance fees	(6)	(4)
Total net investment income/(expenses) for the year	**652**	**(11)**

The net valuation gains or losses on financial assets measured at fair value through profit or loss incorporates interest and dividends earned within pooled financial asset portfolios.

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/(loss) on financial assets measured at fair value through profit or loss. Where fees are explicitly disclosed by asset managers, these are included in the relevant investment expense line item.

22. NET MOVEMENTS IN OPERATING ASSETS AND LIABILITIES

	2019 Rm	2018 Rm
Insurance receivables (excluding allowance for impairment)	7	(32)
Other receivables	33	(54)
Reinsurance assets	2	14
Insurance liabilities	134	147
Trade and other payables	1	(14)
Total net movements in operating assets and liabilities	**177**	**61**

23. RELATED PARTY DISCLOSURES

23.1 Related parties

The following entities are related parties of the Company:

- The Federated Employers Trust Proprietary Limited ("FET") owns 52.5% (2018: 51.5%) of the issued shares of the Company. FET exists to facilitate the transfer of shares to new policyholders and the repurchase of shares from exiting policyholders.
- The Federated Employers Trust ("the Trust"), an inter-vivos trust, owns 100% (2018: 100%) of the issued shares of FET. The sole purpose of the Trust is to hold the share capital of FET and the sole beneficiaries of the Trust are the policyholders of the Company. In terms of the Trust Deed, the Company must pay all reasonable expenditure incurred by the Trust.
- FEM Education Foundation NPC ("The Foundation") was incorporated by FEM in December 2016 as a non-profit company. It focuses on making an impact on education and leadership in South Africa. The Foundation's activities include providing holistic funding to scholars from disadvantaged areas until they attain their first tertiary qualification and partnering with entities that are focused on improving the public schooling system in South Africa on a sustainable basis. This entity is considered a subsidiary of FEM.
- The registered addresses of FET, the Trust and FEMEF are the same as FEM's registered address, included within Note 1.
- Policyholders are shareholders and thus are considered related parties. A list of shareholders is available on request at the Company's registered office.

Notes to the
Financial Statements:
for the year ended 31 December 2019

23.2 Related party transactions

Transactions with related parties and amounts due from/(to) related parties are as follows:

- The Company paid FET an administration fee of R365k (2018: R343k). The net amount due from FET at 31 December 2019 is R52k (2018: R61k).
- In 2019, the amount paid by the Company on behalf of the Trust amounted to R24k (2018: R29k), which relates to the annual external audit fee.

Certain non-executive directors are employed by construction companies which hold policies issued by the Company.

Premiums

Non-executive director	Related policyholder	2019 R000	2018 R000
Mr JR Barrow	Barrow Construction (Pty) Ltd	1 065	851
Mr NF Maas & Mr JR Barrow	Gauteng Piling (Pty) Ltd	61	243
Mr FGM Cardoso*	Tiber Bonvec Construction (Pty) Ltd	0	903
		1 126	1 997

Rebates

Non-executive director	Related policyholder	2019 R000	2018 R000
Mr JR Barrow	Barrow Construction (Pty) Ltd	291	365
Mr NF Maas & Mr JR Barrow	Gauteng Piling (Pty) Ltd	0	0
Mr FGM Cardoso*	Tiber Bonvec Construction (Pty) Ltd	0	249
		291	614

Claims paid

Non-executive director	Related policyholder	2019 R000	2018 R000
Mr JR Barrow	Barrow Construction (Pty) Ltd	149	149
Mr NF Maas & Mr JR Barrow	Gauteng Piling (Pty) Ltd	121	121
Mr FGM Cardoso*	Tiber Bonvec Construction (Pty) Ltd	133	133
		403	403

Outstanding claims

Non-executive director	Related policyholder	2019 R000	2018 R000
Mr JR Barrow	Barrow Construction (Pty) Ltd	4	140
Mr NF Maas & Mr JR Barrow	Gauteng Piling (Pty) Ltd	300	77
Mr FGM Cardoso*	Tiber Bonvec Construction (Pty) Ltd	0	167
		304	384

* Mr FGM Cardoso resigned as a director on 15 May 2018.

23.3 Directors' remuneration

	2019 R000	2018 R000
Non-executive directors' fees:		
Mr NF Maas (Chairman)	700	605
Mr H Walker (Lead independent director)	1 126	978
Mr JR Barrow	541	544
Mr FGM Cardoso	0	67
Mr JRT Headbush	324	294
Mr MG Ilsley	777	655
Ms K Imathiu	636	361
Dr APH Jammine	0	423
Mr CS Jiyane	315	381
Mr MA Letshele	405	349
Miss K Moodley	0	283
Dr H Ngakane	525	487
Total non-executive directors' fees	**5 349**	**5 427**

Notes to the **Financial Statements:**

for the year ended 31 December 2019

	2019 R000	2018 R000
Executive directors' remuneration:		
Mrs N Manyonga		
Total cost of employment	2 749	2 593
Provident fund	320	294
Short term incentive	2 131	2 133
Medium term incentive	0	0
	5 200	5 020
Mr A Daya - resigned 30 September 2018		
Total cost of employment, excluding motor vehicles	0	1 425
Provident fund	0	123
Motor vehicle expenses	0	173
Short term incentive	0	496
Medium term incentive	0	631
	0	2 848
Mr Y Bodiat - appointed as CFO on 01 February 2019		
Total cost of employment	1 641	0
Provident fund	191	0
	1 832	0
Mr GM McIntosh – resigned as an Executive Director on 28 August 2018		
Total cost of employment, excluding motor vehicles	0	959
Provident fund	0	109
Motor vehicle expenses	0	109
Short term incentive	0	410
Medium term incentive	0	231
	0	1 818
Total executive directors' remuneration	**7 032**	**9 686**
Total directors' remuneration (included in Operating expenses note)	**12 381**	**15 113**

Directors earn remuneration for services performed for FEM. No fees are earned for services rendered to any related party entities.

23.4 Executive committee remuneration (excluding executive directors)

	2019 R000	2018 R000
Total cost of employment, excluding motor vehicles	6 634	5 100
Motor vehicle expenses	302	213
Short term incentive	1 792	1 744
Medium term incentive	773	959
	9 501	8 016

24. EVENTS AFTER THE REPORTING PERIOD

On 11 March 2020, COVID-19 was declared as a pandemic due to the rising rate and scale of infections observed. The impacts associated with this pandemic could negatively impact the financial position and performance of the Company in 2020. This is considered a material non-adjusting event.

There have been no other material events after 31 December 2019 up to the date of this report.

25. CAPITAL MANAGEMENT

The principal capital management objective is to enhance the Company's investment returns for the benefit of stakeholders, while ensuring that the Company remains adequately capitalised and has adequate liquid cash resources to meet all of its obligations. An asset-liability modelling exercise is performed at least every 18 months to determine the optimum percentage allocation of investments to different asset classes after taking into account the liability profile of the Company. Ranges are then specified around these strategic asset allocations to facilitate tactical asset allocation decisions within these ranges. The implementation of the Company's investment strategy is managed by the Investment committee of the Board acting on the advice of independent investment consultants.

The Company is prohibited from making any borrowings and, therefore, no leverage is incorporated in the capital structure.

The Company is subject to externally imposed capital requirements under the Insurance Act. The requirements were met throughout the year. These requirements are monitored by the Board through various Board subcommittees.

26. INSURANCE RISK

The Company is exposed to various insurance risks as explained below. There have been no significant changes from the previous year in the exposure to insurance risk or policies, procedures and methods used to measure the risk.

The Company accepts insurance risk through statutory insurance contracts issued to certain classes of employers within the construction industry under the Compensation for Occupational Injuries and Diseases Act No. 130 of 1993 ("the COID Act"). These classes of employers must procure the insurance covers provided under the COID Act either from the Company or the State Compensation Fund. The Company issues no other types of insurance contracts.

The following compensation is payable in respect of employees injured on duty in terms of the COID Act:

- *Temporary disablement*

  Periodic payments at 75% of the employee's monthly earnings at the time of the accident, subject to a maximum payment of R28 658 (2018: R26 934) per month for up to 24 months.

- *Permanent disablement*

  If the degree of disablement is 30% or less, compensation takes the form of a lump sum based on 15 times the employee's monthly earnings at the time of the accident, subject to minimum and maximum payments of R80 250 (2018: R75 420) and R320 985 (2018: R301 680) respectively. Where disablement is less than 30%, the lump sum is calculated proportionately.

  If the degree of permanent disablement is 31% or more, compensation takes the form of a monthly pension. The monthly pension for 100% permanent disablement is calculated at 75% of the employee's monthly earnings, subject to minimum and maximum monthly pensions of R4 012 (2018: R3 771) and R28 658 (2018: R26 934) respectively. Where the degree of permanent disablement is less than 100%, the pension is calculated proportionately.

- *Compensation on death*

  Compensation to the surviving spouse consists of both a lump sum equal to twice the monthly pension applicable for 100% permanent disablement and a monthly pension equal to 40% of the pension applicable for 100% permanent disablement. This pension continues on remarriage and only ceases upon death of the surviving spouse.

  Compensation to each child under 18 years of age takes the form of a monthly pension equal to 20% of the pension applicable for 100% permanent disablement, provided that the total pension payable to the surviving spouse and children does not exceed the amount of the pension applicable for 100% permanent disablement. This pension ceases upon death, marriage or the attainment of 18 years of age, but continues after the child reaches 18 years of age if the child is physically or mentally handicapped (for such a period as can reasonably be expected that the deceased employee would have maintained the child). The pension also continues after 18 years of age if the child is busy with secondary or tertiary education (for such period as can reasonably be expected that the deceased employee would have contributed to the child's maintenance).

  Compensation to the family for funeral costs to a maximum of R18 251 (2018: R18 251) or the actual amount, whichever is the lesser.

- *Medical and transportation expenses*

  All reasonable medical expenses incurred by or on behalf of the employee and the reasonable expenses incurred for the conveyance of the injured employee to a hospital, doctor or to their residence.

The Company is exposed to a pricing risk to the extent that premiums are insufficient to meet the related future compensation costs. Premium rates are set by the State Compensation Commissioner but may be loaded by the Company in the event of adverse claims experience in respect of individual policyholders. The Company applies loadings to policyholders' rates each year based on a sliding scale above a threshold claims to premiums ratio, currently 65%. There was no premium deficiency in the current or previous financial years.

Underwriting risk is further mitigated by the Company's reinsurance programme under which the Company is compensated above deductible amounts up to specified limits for large individual or cumulative losses on insurance contracts issued by the Company. The Company has reduced the quantum of reinsurance protection over time owing to the increased capacity to take risk onto the Company's own balance sheet. Accordingly, the impact of reinsurance is immaterial in the ordinary course of events and is excluded from the sensitivity and claims development analyses shown in this section.

The risks associated with the statutory insurance contracts issued by the Company are complex and subject to a number of variables which complicate quantitative sensitivity analysis. This is addressed separately for claims made under insurance contracts and subsequent pension liabilities under appropriate headings below.

Exposure to concentration risk with individual reinsurers arise due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The creditworthiness of reinsurers is considered annually by reviewing their financial strength prior to finalisation of any new or renegotiated treaty, included within Annexure 2. The Company's largest reinsurance counterparty is Arch Re. This exposure is monitored on a regular basis for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for the Company will arise.

Exposure to concentration risk of policyholders arise due to the nature of FEM's licence being restricted to entities within the construction industry. This is mitigated by virtue of the large policyholder base across the country. In addition, reinsurance catastrophe cover is in place to mitigate large claims relating to the same event, which is within the same geographic location.

Claims made under insurance contracts

The Company applies various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, frequency of claims occurrence, expected loss ratios and claims development over past financial periods.

Results of sensitivity testing based on expected loss ratios are as follows, shown gross of reinsurance and impact on profit or loss and equity:

	2019 Rm	2018 Rm
Sensitivity:		
5% increase in loss ratio	(41)	(46)
5% decrease in loss ratio	44	50

Pension liabilities

Pension liabilities are determined as the sum of the discounted present value of the expected future monthly payments arising from previous pension awards and directly related future administration expenses. This determination is based on assumptions as to: morbidity (in respect of the period of temporary disability payments); longevity (in respect of the period of monthly pension payments); future pension increases; pension administration expenses; and the discount rate applied. The discount rate is determined with reference to investment yields, specifically yields on South African government bonds which approximate the weighted average duration of the pensioner portfolio. A margin for adverse deviations is included in the assumptions.

The principal assumptions used to determine the Company's pension liabilities are as follows:

	2019	2018
Mortality/morbidity (impacting period of disability pay)**	80% of SA85/90 & 65% of AW1	80% of SA85/90 & 65% of AW1
Longevity (impacting period of pension payments)**	80% of SA85/95 & 65% of AW1	80% of SA85/90 & 65% of AW1
Implied average inflationary pension increase*	8.52% (CPI + 1.0%)	7.83% (CPI + 0.8%)
Pension administration costs per pensioner per annum	R4 315	R4 107
Implied average discount rate*	10.85%	9.87%

* *Liabilities have been discounted using the real yield curve provided by the Prudential Authority. Using the real yield curve implicitly assumes that pension inflation will be equal to the difference between the real and nominal bond curves.*

** *SA85/90 & AW1 are mortality and aids tables respectively to allow for the probability of pensioners passing away, which are standard industry tables released by the Actuarial Society of South Africa, with the proportion used based on FEM's experience.*

Results of sensitivity testing of the principal assumptions used to determine the Company's pension liabilities are as follows, shown as an impact on profit or loss and equity:

Principal assumptions	Impact	2019	2018
10% increase in mortality	Shorter period of current disability payments	47	16
10% decrease in mortality i.e. a 10% increase in longevity	Longer period of future pension payments	(52)	(46)
10% increase in direct pension administration expenses	Increased expected future costs	(17)	(14)
1% once-off upliftment to monthly pensions	Increased future pension costs	(16)	(17)
0.5% absolute decrease in net discount rate*	Increased present value of liability	(102)	(105)

* *Implied average discount rate less annual pension increase rate*

27. FINANCIAL RISK

The Company's financial instruments are exposed to various financial risks as explained below. There have been no significant changes from the previous year in the exposure to financial risk or policies, procedures and methods used to measure the risk.

27.1 Credit risk

Credit risk is the risk of financial loss to the Company if a debtor (including a counter party to a financial instrument) fails to make payments of interest and the principal value when due. The Company is exposed to this risk through its bond and money market funds. Reinsutance assets do not present a material credit risk to the Company owing to the limited reinsurance covers in place. Furthermore, there is no material exposure to credit risk from premium debtors owing to the statutory nature of the insurance covers and the very limited concentration risk.

The Company's investment policy puts limits on local and foreign bond and money market funds, including portfolio com position and issuer type limits. The performance of the bond and money market fund portfolios are monitored by the Investment committee of the Board.

An analysis of the credit quality of financial and insurance assets is provided in Annexure 2 to these financial statements.

27.2 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk; interest rate risk; and equity risk. These are addressed under separate headings below.

Currency risk

Currency risk relates to investments issued by foreign entities when adverse changes in foreign currency exchange rates occur. The Company holds equities, bonds and related derivative financial instruments issued by foreign entities domiciled in developed and emerging markets. Exposure to bonds issued in non-US Dollar currencies is eliminated by derivative currency swaps, but there is a risk that these swaps may not be completely effective. The Company's foreign investments are limited by South African foreign exchange control regulations to 30% international and 10% in Africa (excluding South Africa) of total investments, but, at the discretion of the South African Reserve Bank, may increase beyond this percentage as a result of foreign investment gains relative to local investment gains. Foreign currency investments are monitored by the Investment committee of the Board and holdings are adjusted when outside of asset allocation range limits.

Foreign currency denominated investments included in financial assets measured at fair value are as follows:

	2019 Rm	2018 Rm
Listed equity securities	2 023	1 687
Corporate debt securities with derivative overlay	178	186
Derivative foreign exchange contract	2	(16)
USD cash	5	0
Pooled unlisted equity securities	232	223
	2 440	2 080

Results of sensitivity testing of financial asset values based on foreign exchange movements (before the impact of derivatives) are as follows, shown as impact on profit or loss equity:

	2019 Rm	2018 Rm
Sensitivity:		
10% appreciation in the Rand versus the US dollar	(226)	(189)

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Company is exposed to this risk through its interest-bearing investments, which inclue government and corporate bonds and money market funds. Capital expsure to interest rate movements in yields on foreign fixed interest bonds and money market funds is eliminated through derivative interest rate swaps, but there is a risk that these swaps may not be completely effective.

Results of sensitivity testing of the financial asset value based on interest rate movements are as follows, shown as impact on profit or loss and equity:

	2019 Rm	2018 Rm
Sensitivity:		
1% increase in SA interest rates:	(16)	(15)

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity investments, which include derivative equity forward contracts.

The Company is subject to externally imposed capital requirements under the Insurance Act and is subject also to prescribed investment requirements under the Compensation for Occupational Disease and Injuries Act No. 130 of 1993. The percentage allocation of investments to equities is determined by an asset-liability modelling exercise, which is conducted at least every 18 months, after taking into account the liability profile of the Company. Equities are monitored by the Investment committee of the Board and holdings are adjusted when the investments are outside of the asset allocation range.

Results of sensitivity testing based on changes in equity market valuations are as follows, shown as impact on profit or loss and equity:

	2019 Rm	2018 Rm
Sensitivity:		
5% reduction in equity indices	(142)	(122)

27.3 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they become due. TheCompany mitigates this risk by monitoring cash activities and expected outflows. The Company does not have material liabilities that can be called unexpectedly on demand. The Company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments, premium rebates and operational expenditure are currently funded by annual premium receipts. Consequently, the principal risk is that investment returns are inadequate to fund long term pension obligations. This risk is considered to be low at the present time based on the Company's investment strategy and high level of capital surplus retained by the Company.

The contractual maturity profile of the Company's financial and insurance assets and liabilities is provided in Annexure 3 to these financial statements.

28. FAIR VALUE MEASUREMENT

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same - to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). Fair value excludes transaction costs which would be incurred to sell the asset or transfer the liability e.g. sales commission.

When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on the basis explained above, except for leasing transactions that are within the scope of IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as the value in use in IAS 36 Impairment of Assets and the estimation of insurance liabilities and related reinsurance assets under IFRS 4 Insurance Contracts. Key areas of estimation uncertainty affecting insurance liabilities are explained in note 7.2 and information concerning insurance risks, including results of sensitivity testing of key insurance risks is provided in Note 26 to the financial statements.

For financial reporting purposes, fair value measurements of financial assets are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the measurement in its entirety, which are described as follows:

- Level 1 *inputs* are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 *inputs* are, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly, by using various valuation techniques; and
- Level 3 *inputs* are unobservable inputs for the asset or liability. The pooled unlisted equity securities is a fund of funds that consists of other underlying funds. The underlying funds are valued by independent asset managers and these valuations comply with International Private Equity and Venture Capital Valuation ("IPEV") guidelines.

Application of the fair value hierarchy to the Company's financial assets is shown in Annexure 4 to these financial statements.

29. GOING CONCERN

The annual financial statements have been prepared on the basis that the Company will continue as a going concern for a period of at least 12 months from the date of approval of these annual financial statements. The Board has reviewed the capital adequacy of the Company and the operating budget for the forthcoming year, including consideration of the COVID-19 impact, and has satisfied itself as to the appropriateness of the going concern assumption. This assessment is supported by the Audit committee.

Annexure 1: **Significant Accounting Policies**

for the year ended 31 December 2019

1. BASIS OF PREPARATION

The Company's financial statements are prepared on the historical cost basis except for financial instruments that are subsequently measured at fair value or amortised cost as explained in the accounting policy notes below, and property which is measured at revalued amount.

All monetary information and figures presented in the financial statements are stated in R'millions, unless otherwise stated.

Fair value is defined in the relevant note to the financial statements that provides information on the application of the fair value measurement hierarchy to the Company.

2. FINANCIAL INSTRUMENTS

Insurance assets and liabilities, other than insurance receivables and payables, are not accounted for as financial instruments and are subject to separate, specific accounting policy notes.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments. Receivables and payables are recognised when due.

Classification

All financial assets, other than cash and receivables, are classified as financial assets at fair value through profit or loss and are subsequently measured at fair value. This includes debt instruments irrevocably designated as measured at fair value through profit or loss at initial recognition. Investment instruments are managed and reported on a fair value basis, in accordance with the entity's Investment Policy to necessitate the monitoring of asset manager performance against market and industry benchmarks.

Cash and receivables are classified as loans and receivables and are subsequently measured at amortised cost. Short-term receivables are measured without discounting.

The Company is prohibited under its MOI from issuing any debt instruments. Consequently, financial liabilities are limited to payables and derivative financial liabilities.

Payables are classified as other financial liabilities and are subsequently measured at amortised cost. Short-term payables are measured without discounting.

The Company may enter into a variety of derivative financial instruments to manage the exposure of its investments to equity, interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps. Derivative assets and liabilities are classified as financial assets or liabilities at fair value through profit or loss and are subsequently measured at fair value through profit or loss.

Initial measurement

At initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The transaction price is assumed to reasonably approximate this initial measurement value unless there is clear evidence to the contrary.

Subsequent measurement

Gains or losses arising on the subsequent re-measurement of financial assets and financial liabilities measured at fair value through profit or loss are recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on financial assets and is included in the "Net valuation gain on financial assets measured at fair value" item within investment income in the statement of profit or loss and other comprehensive income.

Interest income arising on the subsequent re-measurement of financial assets and financial liabilities measured at amortised cost is recognised through profit or loss over time by applying the effective interest method, except for short-term receivables and payables when the effect of discounting is immaterial.

Financial assets measured at amortised cost are assessed for indicators of impairment at the end of each reporting period and are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows to be derived from the asset have been affected.

Offsetting

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3. IMPAIRMENT OF FINANCIAL ASSETS

Scope of impairment

The Company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset.

Objective evidence of impairment

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation and default delinquency in payments are considered indicators that receivables are impaired.

Assessment of objective evidence of impairment

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. The recoverable amount of an asset is the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Collective assessment

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

Recognition of impairment losses

An impairment loss is recognised immediately in profit or loss.

Reversal of impairment losses

A reversal of a previously recognised impairment loss is recognised immediately in profit or loss.

4. DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Company derecognises an asset:

- when the contractual rights to the cash flows from the asset expire; or
- where there is a transfer of contractual rights to receive cash flows on the asset in a transaction in which substantially all the risks and rewards of ownership of the assets are transferred; or
- where the Company retains the contractual right to the cash flows from these assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all of the risk and benefits associated with the asset.

Where the Company retains substantially all the risks and rewards of ownership of the financial asset, the Company continues to recognise the asset.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

5. IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risk specific to the asset.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

The company assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

6. EQUITY INSTRUMENTS ISSUED TO POLICYHOLDERS

All policyholders of the Company must be shareholders in terms of the Company's MOI. To facilitate this, each new policyholder is issued with one share. On cancellation of the policy, the share is returned to the pool.

Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs, and are subject to specific restrictive conditions stipulated in the Company's MOI. These restrictive conditions are designed to entrench the mutual shareholding structure of the Company and protect the long-term interests of policyholders. Inter alia, the Company may not change the terms of the existing ordinary shares in issue (other than to convert the par value shares to shares of no par value) and may only issue new shares if such shares are of the same class and have the same preferences, rights, limitations and other terms as the existing ordinary shares in issue.

7. INSURANCE CONTRACTS ISSUED

Insurance assets and insurance liabilities are recognised when the Company becomes party to the contractual provisions of insurance contracts issued to policyholders.

Classification

The Company issues statutory insurance contracts under the South African Compensation for Occupational Injury and Diseases Act, 1993 as amended ("the COID Act") to certain classes of employers within the construction industry against their liabilities to employees in terms of the COID Act. These contracts, which transfer significant insurance risk, provide various forms of compensation to the employees of policyholders in the event of injury on duty or occupational disease. Details of the various forms of compensation are provided in note 26.

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

The benefits and obligations arising from insurance contracts issued by the Company consist of premiums due and receivable from policyholders, compensation due and payable to claimants and longer-term expected payables in respect of: unpaid or incurred but not reported claims; pension claims; and premium rebates.

Premium receivables are classified as financial assets and are measured at the transaction price. Short term receivables are measured without discounting.

Longer-term expected payables are classified as insurance liabilities and are measured in accordance with IFRS 4, "Insurance Contracts" as explained below.

Discretionary participation features

The insurance contracts issued by the Company when read in conjunction with the Company's MOI provide for a discretionary participation feature, which entitles the policyholder to receive merit rebates of premiums (also referred to as "premium rebates"):

- that are likely to be a significant portion of the total contractual benefits;
- whose amount and timing is to be determined at the sole and absolute discretion of the Board of directors of the Company in accordance with the provisions of the MOI and policy terms and conditions.

Relevant details of this discretionary participation feature and critical judgments to be made by the directors to determine the related liability for premium rebates to policyholders at each financial period end are provided in note 7.1.

Recognition and measurement

Premiums are recognised as revenue (earned premiums) proportionally over the annual period of coverage ending in February each year. The portion of premium received that relates to unexpired risks at the balance sheet date is calculated on the 1/365ths basis and reported as the unearned premium liability. Premiums are not subject to any commissions, taxes or duties.

Premiums are raised based on the rates applicable to the projected wage returns submitted by employers at the commencement of each underwriting year (declared wage returns) and are adjusted when actual wages are reported by the employer at the conclusion of the underwriting year (actual wage returns).

Claims and directly related expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to injured workers, surviving spouses and minor children. These include all direct claims settlement costs that arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Company.

The ultimate cost of reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Therefore, case estimates are reviewed regularly and updated when new information becomes available.

There is also considerable uncertainty concerning the eventual outcome of claims that have occurred but had not yet been reported to the insurer by the reporting date. The provision for such "incurred but not reported" (IBNR) claims is determined using a stochastic approach that combines the Chain-Ladder and Bornhuetter-Ferguson methods. Run-off triangles are used to model the development of claims from occurrence to payment to determine the ultimate claims that will be paid or awarded as pensions. The ultimate claims cost is then discounted to present value using the risk-free yield curve. Outstanding reported claims and paid claims are deducted from this present value amount to determine the residual IBNR claims liability. These movements are disclosed in the Gross Claims Expense line item in the Statement of Comprehensive Income.

The best estimate represents the expected value of the insurance liabilities, principally the mean in a range of possible outcomes in the development of unreported claims and the future development of notified claims.

The risk margin is determined statistically using actuarial techniques such that a level of prudence is added to cater for any insufficiencies in the provision.

The Company makes provision for future claims handling costs which are included in the outstanding claims provisions.

Pension liabilities are determined as the sum of the discounted present value of the expected future pension payments and directly related future pension administration expenses. This determination is based on assumptions as to future pension increases, mortality, morbidity and pension administration costs. The expected future pension payments are discounted using the risk-free yield curve. A margin for adverse deviations is included in the assumptions. The pension valuation charge is disclosed separately on the face of the statement of comprehensive income and is excluded from the underwriting result.

Claims recoveries

Claims recoveries from the Road Accident Fund are accounted for as the recoveries are received.

8. REINSURANCE CONTRACTS HELD

The Company enters into reinsurance contracts with reinsurers under which the Company is compensated for large individual or cumulative losses on insurance contracts issued by the Company. These contracts transfer significant insurance risk to the reinsurer and, accordingly, are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its reinsurance contracts consist of current receivables due from reinsurers (in respect of the reinsurers' share of settled claims receivable by the Company) and longer term expected receivables from reinsurers not yet due for payment to the Company (in respect of the reinsurers' expected share of unpaid and incurred but not reported claims). Receivables are classified as subsequently measured at amortised cost, whereas expected receivables are classified as reinsurance assets and measured consistently with the related insurance liabilities in accordance with the terms of each reinsurance contract.

Premiums payable for reinsurance contracts are recognised when due and are measured at the transaction price. Short-term payables are measured without discounting.

The aggregate amounts receivable and expected to be receivable from individual reinsurers are assessed for recoverability on an annual basis. If there is objective evidence that the aggregate amount recoverable is impaired, the Company reduces the carrying amount thereof to its recoverable amount and recognises that impairment loss through profit or loss. The Company gathers the objective evidence that a balance is impaired using the same process adopted for financial assets held at amortised cost.

Reinsurance contracts under which the transfer of insurance risk to the Company from the investment manager is not significant are classified as financial assets invested through asset managers.

9. PROPERTY AND EQUIPMENT

Property and equipment that qualify for recognition as an asset are initially measured at cost. Following initial recognition:

- Equipment and motor vehicles are carried at cost less any accumulated depreciation and any accumulated impairment losses.
- Property is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are conducted by an independent valuator at least every three years.

Depreciation is not provided in instances where the residual value is equal to or exceeds the carrying value.

If a property's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same property previously recognised in profit or loss.

If a property's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall first be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that property. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

Depreciation is calculated using the straight-line method to reduce the carrying amount of depreciable assets to their residual values over their estimated useful lives. The estimated useful lives of major categories of depreciable assets are as follows:

• Computer equipment	3 years
• Furniture & fittings	5 – 10 years
• Motor vehicles	4 – 5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised through profit or loss.

10.COMPUTER SOFTWARE

Computer software that qualify for recognition as an asset is initially recognized at cost. Costs incurred on major projects are capitalised until all the activities necessary to prepare assets for their intended use are substantially complete. Following initial recognition, an intangible asset is measured at cost less accumulated amortisation and impairment. An intangible asset with a finite useful life is amortised on the straight-line basis over its expected useful life. Costs relating to research are expensed while costs related to the development of the software is capitalised in line with the requirements of IAS 38.

Research costs are expensed up until the commercial and technical feasibility of the software is determined, thereafter these costs are capitalised as development.

General computer software is amortised over 3 – 5 years. The estimated useful lives and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. When an intangible asset is disposed of, the gain or loss on disposal is recognised in profit or loss.

11.PROVISIONS

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that the Company will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

12. LEASES

Leases are recognised as per the requirements of IFRS 16, whereby a right of use asset and corresponding liability is recognised. When measuring lease liabilities, the Company discounted lease payments using either the annual escalation rate implicit within the lease, or an average inflation rate. The right of use asset is depreciated over the period of the lease.

13. ACCIDENT PREVENTION AND GRANTS

Accident prevention expenses and grants are recognised once costs are incurred. These payments reflect the Company's continued commitment to contribute to improved health and safety practices in the construction industry.

14.SPECIAL PAYMENTS

Special payments are made to pensioners as part of the pensioner beneficiary assistance program and are recognised once costs are incurred. It provides ex-gratia assistance to COIDA beneficiaries and their dependants.

15. SHORT-TERM EMPLOYEE COSTS

Short-term employee costs are recognised as an expense when employees have rendered service entitling them to the respective benefits.

16. RETIREMENT BENEFIT EXPENSES AND OTHER EMPLOYEE BENEFITS

The retirement benefit fund, Sanlam Umbrella Provident Fund is a defined contribution fund administered by Sanlam Employee Benefits Administration Services and is governed by the South African Pension Fund Act of 1956. The fund covers all qualifying employees.

Payments to the fund as well as other employee benefits are recognised as an expense when employees have rendered service entitling them to the contributions.

17.PENSION VALUATION CHARGE

The pension valuation charge (including the finance cost component) is disclosed below the underwriting results to provide a clean measurement of this measure in relation to the Company's stated objective of achieving a breakeven result.

18.INCOME TAX AND VALUE ADDED TAX

The Company is exempt from income tax in accordance with section 10(1)(t)(xvi)(cc) of the South African Income Tax Act. The Company is also specifically excluded from Value Added Tax as the services are not deemed to be carrying on of an enterprise.

19.FOREIGN CURRENCIES

Transactions in currencies other than Rands (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the closing spot rate at the reporting date. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

20.SEGMENT REPORTING

The Company offers a single statutory insurance product and is managed within a single geographical segment, namely the Republic of South Africa. Consequently, there are no distinguishable operating segments and no segment reporting is provided in the financial statements.

Annexure 2: **Credit Quality Of Insurance & Financial Assets**

for the year ended 31 December 2019

The following tables provide an analysis of the credit quality of financial assets and insurance assets at 31 December 2019:

	A rated or higher* Rm	Below A rated* Rm	Unrated Rm	Total Rm
Financial assets invested through asset managers				
Investments designated at fair value through profit or loss				
Local financial assets	**2 443**	**3**	**924**	**3 370**
Listed equity securities	0	0	811	811
Listed debt securities: fixed interest rate	597	3	97	697
Listed debt securities: inflation linked	1 618	0	0	1 618
Money market funds	228	0	16	244
Foreign financial assets	**0**	**0**	**2 257**	**2 257**
Listed equity securities	0	0	2 023	2 023
Derivative foreign exchange contract	0	0	2	2
Pooled unlisted equity securities	0	0	232	232
Corporate debt securities with derivative overlay	**525**	**0**	**190**	**715**
Local assets	394	0	143	537
Foreign assets	131	0	47	178
Accrued investment income	**17**	**0**	**2**	**19**
Total investments at fair value through profit or loss	**2 985**	**3**	**3 373**	**6 361**
Cash held in bank accounts operated by asset managers	29	0	0	29
Total financial assets invested through asset managers	**3 014**	**3**	**3 373**	**6 390**
Other financial assets at fair value through profit or loss				
Enterprise development fund	0	0	9	9
Supplier development fund	0	0	13	13
Money market funds	266	0	6	272
Total other financial assets at fair value through profit or loss	**266**	**0**	**28**	**294**
Reinsurance assets	4	0	0	4
Other financial assets measured at amortised cost				
Insurance receivables	0	0	0	0
Other receivables	16	0	23	39
Cash and cash equivalents	33	0	0	33
Total financial and insurance assets	**3 333**	**3**	**3 424**	**6 760**

* *Source: Standard & Poor or equivalent ratings*

Annexure 2: **Credit Quality Of Insurance & Financial Assets**

for the year ended 31 December 2019

The following tables provide an analysis of the credit quality of financial and insurance assets at 31December 2018:

	A rated or higher* Rm	Below A rated* Rm	Unrated Rm	Total Rm
Financial assets invested through asset managers				
Investments designated at fair value through profit or loss				
Local financial assets	**2 247**	**18**	**867**	**3 132**
Listed equity securities	0	0	751	751
Listed debt securities: fixed interest rate	75	13	811	169
Listed debt securities: inflation linked	1 542	5	0	1 547
Money market funds	630	0	35	665
Foreign financial assets	**0**	**35**	**1 859**	**1 894**
Listed equity securities	0	35	1 652	1 687
Derivative foreign exchange contract	0	0	(16)	(16)
Pooled unlisted equity securities	0	0	223	223
Corporate debt securities with derivative overlay	**166**	**75**	**369**	**610**
Local assets	0	55	369	424
Foreign assets	166	20	0	186
Accrued investment income	**8**	**1**	**2**	**11**
Total investments at fair value through profit or loss	**2 421**	**129**	**3 097**	**5 647**
Cash held in bank accounts operated by asset managers	89	0	0	89
Total financial assets invested through asset managers	**2 510**	**129**	**3 097**	**5 736**
Other financial assets at fair value through profit or loss				
Enterprise development fund	0	0	9	9
Supplier development fund	0	0	13	13
Money market funds	240	0	0	240
Total other financial assets at fair value through profit or loss	**240**	**0**	**22**	**262**
Reinsurance assets	6	0	0	6
Other financial assets measured at amortised cost				
Insurance receivables	0	0	34	34
Other receivables	12	3	57	72
Cash and cash equivalents	23	0	0	23
Total financial and insurance assets	**2 791**	**132**	**3 210**	**6 133**

* *Source: Standard & Poor or equivalent ratings*

Annexure 3: **Maturity Analysis of Financial & Insurance Assets & Liabilities**

for the year ended 31 December 2019

The contractual maturity profile of the Company's financial and insurance assets and liabilities at 31December 2019 is as follows:

	< 1 year Rm	1 – 5 years Rm	>5 years Rm	Total Rm
Financial assets invested through asset managers				
Investments designated at fair value through profit or loss				
Local financial assets	**1 159**	**960**	**1 251**	**3 370**
Listed equity securities	811	0	0	811
Listed debt securities: fixed interest rate	104	398	195	697
Listed debt securities: inflation linked	0	562	1 056	1 618
Money market funds	244	0	0	244
Foreign financial assets	**2 025**	**0**	**232**	**2 257**
Listed equity securities	2 023	0	0	2 023
Derivative foreign exchange contract	2	0	0	2
Pooled unlisted equity securities	0	0	232	232
Corporate debt securities with derivative overlay	**0**	**0**	**715**	**715**
Local assets	0	0	537	537
Foreign assets	0	0	178	178
Accrued investment income	**19**	**0**	**0**	**19**
Total investments at fair value through profit or loss	**3 203**	**960**	**2 198**	**6 361**
Cash held in bank accounts operated by asset managers	29	0	0	29
Total financial assets invested through asset managers	**3 232**	**960**	**2 198**	**6 390**
Other financial assets at fair value through profit or loss				
Enterprise development fund	5	4	0	9
Supplier development fund	0	2	11	13
Money market funds	42	209	21	272
Total other financial assets at fair value through profit or loss	**47**	**215**	**32**	**294**
Reinsurance assets	4	0	0	4
Other financial assets measured at amortised cost				
Insurance receivables	0	0	0	0
Other receivables	39	0	0	39
Cash and cash equivalents	33	0	0	33
Total financial and insurance assets	**3 355**	**1 175**	**2 230**	**6 760**
Financial liabilities measured at amortised cost				
Trade and other payables	71	0	0	71
Insurance liabilities	**1 233**	**839**	**1 165**	**3 237**
Pension liabilities	128	582	1 165	1 875
Claims provisions	677	0	0	677
Unearned premium liabilities	141	0	0	141
Premium rebate liabilities	287	257	0	544
Total financial and insurance liabilities	**1 304**	**839**	**1 165**	**3 308**
Net financial and insurance assets/(liabilities)	**2 051**	**336**	**1 065**	**3 452**

Annexure 3: **Maturity Analysis of Financial & Insurance Assets & Liabilities**

for the year ended 31 December 2019

The contractual maturity profile of the Company's financial and insurance assets and liabilities at 31 December 2018 is as follows:

	< 1 year Rm	1 – 5 years Rm	>5 years Rm	Total Rm
Financial assets invested through asset managers				
Investments designated at fair value through profit or loss				
Local financial assets	**1 433**	**67**	**1 632**	**3 132**
Listed equity securities	751	0	0	751
Listed debt securities: fixed interest rate	17	67	85	169
Listed debt securities: inflation linked	0	0	1 547	1 547
Money market funds	665	0	0	665
Foreign financial assets	**1 671**	**0**	**223**	**1 894**
Listed equity securities	1 687	0	0	1 687
Derivative foreign exchange contract	(16)	0	0	(16)
Pooled unlisted equity securities	0	0	223	223
Corporate debt securities with derivative overlay	**0**	**0**	**610**	**610**
Local assets	0	0	424	424
Foreign assets	0	0	186	186
Accrued investment income	**11**	**0**	**0**	**11**
Total investments at fair value through profit or loss	**3 115**	**67**	**2 465**	**5 647**
Cash held in bank accounts operated by asset managers	89	0	0	89
Total financial assets invested through asset managers	**3 204**	**67**	**2 465**	**5 736**
Other financial assets at fair value through profit or loss				
Enterprise development fund	5	4	0	9
Supplier development fund	0	2	11	13
Money market funds	240	0	0	240
Total other financial assets at fair value through profit or loss	**245**	**6**	**11**	**262**
Reinsurance assets	6	0	0	6
Other financial assets measured at amortised cost				
Insurance receivables	34	0	0	34
Other receivables	72	0	0	72
Cash and cash equivalents	23	0	0	23
Total financial and insurance assets	**3 584**	**73**	**2 476**	**6 133**
Financial liabilities measured at amortised cost				
Trade and other payables	62	0	0	62
Insurance liabilities	**1 174**	**831**	**1 099**	**3 104**
Pension liabilities	118	543	1 099	1 760
Claims provisions	618	0	0	618
Unearned premium liabilities	143	0	0	143
Premium rebate liabilities	295	288	0	583
Total financial and insurance liabilities	**1 236**	**831**	**1 099**	**3 166**
Net financial and insurance assets/(liabilities)	**2 348**	**(758)**	**1 377**	**2 967**

Annexure 4: **Application of Fair Value Hierarchy to Financial Assets & Liabilities**

for the year ended 31 December 2019

Application of the fair value hierarchy to the Company's financial assets and liabilities at 31 December 2019 is as follows:

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets invested through asset managers				
Investments designated at fair value through profit or loss				
Local financial assets	**3 126**	**244**	**0**	**3 370**
Listed equity securities	811	0	0	811
Listed debt securities: fixed interest rate	697	0	0	697
Listed debt securities: inflation linked	1 618	0	0	1 618
Money market funds	0	244	0	244
Foreign financial assets	**2 023**	**2**	**232**	**2 257**
Listed equity securities	2 023	0	0	2 023
Derivative foreign exchange contract	0	2	0	2
Pooled unlisted equity securities	0	0	232	232
Corporate debt securities with derivative overlay	**0**	**715**	**0**	**715**
Local assets	0	537	0	537
Foreign assets	0	178	0	178
Accrued investment income	**19**	**0**	**0**	**19**
Total investments at fair value through profit or loss	**5 168**	**961**	**232**	**6 361**
Cash held in bank accounts operated by asset managers	0	29	0	29
Total financial assets invested through asset managers	**5 168**	**990**	**232**	**6 390**
Other financial assets at fair value through profit or loss				
Enterprise development fund	0	9	0	9
Supplier development fund	0	13	0	13
Money market funds	0	272	0	272
Total other financial assets at fair value through profit or loss	**0**	**294**	**0**	**294**
Other financial assets measured at amortised cost				
Insurance receivables	0	0	0	0
Other receivables	0	39	0	39
Cash and cash equivalents	33	0	0	33
Total financial assets	**5 201**	**1 323**	**232**	**6 756**
Financial liabilities measured at amortised cost				
Trade and other payables	0	71	0	71
Total financial liabilities	**0**	**71**	**0**	**71**
Net financial assets/(liabilities)	**5 201**	**1 252**	**232**	**6 685**

Annexure 4: **Application of Fair Value Hierarchy to Financial Assets & Liabilities**

for the year ended 31 December 2019

Application of the fair value hierarchy to the Company's financial assets and liabilities at 31 December 2018 is as follows:

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets invested through asset managers				
Investments designated at fair value through profit or loss				
Local financial assets	**2 467**	**665**	**-**	**3 132**
Listed equity securities	751	-	-	751
Listed debt securities: fixed interest rate	169	-	-	169
Listed debt securities: inflation linked	1 547	-	-	1 547
Money market funds	-	665	-	665
Foreign financial assets	**1 687**	**(16)**	**223**	**1 894**
Listed equity securities	1 687	-	-	1 687
Derivative foreign exchange contract	-	(16)	-	(16)
Pooled unlisted equity securities	-	-	223	223
Corporate debt securities with derivative overlay	**-**	**610**	**-**	**610**
Local assets	-	424	-	424
Foreign assets	-	186	-	186
Accrued investment income	**11**	**-**	**-**	**11**
Total investments at fair value through profit or loss	**4 165**	**1 259**	**223**	**5 647**
Cash held in bank accounts operated by asset managers	-	89	-	89
Total financial assets invested through asset managers	**4 165**	**1 348**	**223**	**5 736**
Other financial assets at fair value through profit or loss				
Enterprise development fund	-	9	-	9
Supplier development fund	-	13	-	13
Money market funds	-	240	-	240
Total other financial assets at fair value through profit or loss	**-**	**262**	**-**	**262**
Other financial assets measured at amortised cost				
Insurance receivables	-	34	-	34
Other receivables	-	72	-	72
Cash and cash equivalents	23	-	-	23
Total financial assets	**4 188**	**1 716**	**223**	**6 127**
Financial liabilities measured at amortised cost				
Trade and other payables	-	62	-	62
Total financial liabilities	**-**	**62**	**-**	**62**
Net financial assets/(liabilities)	**4 188**	**1 654**	**223**	**6 065**

Notes:

Notes:

HEAD OFFICE

T +27 11 359 4300
F +27 11 359 4302
Physical Address: 2nd Floor, Building 2, 114 Oxford Road, Cnr Glenhove and Oxford Roads, Rosebank
Postal Address: Private Bag 87109, Houghton, 2041

KWAZULU-NATAL

T +27 31 277 0660
F +27 31 202 9750
Physical Address: 2 Ncondo Place, Umhlanga Ridge, 4320
Postal Address: PO Box 1157, Umhlanga Ridge, Durban, 4320

INLAND

T +27 11 359 4300
F +27 11 359 4336
Physical Address: 2nd Floor, Building 2, 114 Oxford Road, Cnr Glenhove and Oxford Roads, Rosebank
Postal Address: Private Bag 87109, Houghton, 2041

WESTERN CAPE

T +27 21 443 2200
F +27 21 425 1544
Physical Address: The Towers, 12th Floor, 2 Hereengracht,
Cnr Hertzog Boulevard, Foreshore,Cape Town
Postal Address: PO Box 2555, Cape Town, 8000

www.fem.co.za

Company registration number 1936/008971/07

These Financial statements have been audited in compliance with Section 30 of the South African Companies Act 71 of 2008.