INTERIM

REPORT

The Federated Employers' Mutual

Assurance Company (RF) Proprietary Limited

("FEM")

for the six months ended 30 June 2013

Non-executive directors
NF Maas (Chairman)
JR Barrow
MG Ilsley
CS Jiyane
APH Jammine
H Ngakane
PL Siphayi
H Walker
MA Letshele (appointed 1-Jul-2013)

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

Company secretary
EJ Willis

Head office and registered address
Building 2, 1st Floor
101 Central Street
Houghton
Johannesburg
2198

Private Bag 87109
Houghton
2041

Company registration number
1936/008971/07

www.fema.co.za

HIGHLIGHTS

- Gross premium income increased by 14.1% to R627,9 million
    - *Number of insured employees increased by 3.1% to 274 948*
- Premium rebates to policyholders increased by 15.3% to R134,8 million
- Gross claims and benefits decreased by 16.1% to R141,8 million
- Administration expenses increased to R30,5 million, representing 14.9% of gross earned premium (2012: 15.1%)
- Accident prevention expenses and grants increased by 10.9% to R9,2 million
- Underwriting profit before investment income of R24,5 million (2012: 36,7 million loss)
- Net investment income increased by 38.0% to R309,0 million
    - *Return on average investments of 15.1% per annum (2012: 14.5%)*
- Total comprehensive income for the period increased by 78.1% to R333,5 million.

ABOUT FEM

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

Owing to the mutual shareholding structure of the company, it is classified as a private company under the South African Companies Act. However, the provisions of the company's Memorandum of Incorporation make it subject to the same extended accountability provisions as are applicable to a public company.

FINANCIAL REVIEW

The review of the Company's financial performance for the six months ended 30 June 2013 is focused on the insurance result and key line items of the statements of comprehensive income, financial position and cash flows.

Financial results

Gross premium income increased by 14.1% to R627,9 million driven by a 3.1% increase in the number of insured employees and higher than inflation increases in wages. After adjusting for premium rebates to policyholders, unearned premium and premium ceded to reinsurers, the Company recorded a 21.8% increase in net earned premium, which totaled R201,2 million for the six months.

Gross claims and benefits payable to insured employees and their dependents totaled R141,8 million, representing a 16.1% reduction over the comparable six month period. This resulted from a large increase in the pension valuation in the previous period which was not repeated in the current six months.

Administration expenses remain well controlled, totaling R30,6 million for the six months and representing 14.9% of gross earned premium (2012: 15.1%).

Accident prevention expenses and grants increased 11% to R9,2 million as a result of the Company's funding of Health & Safety Officers.

The premium growth and improved underwriting performance contributed to the underwriting profit reported for the six months. Specifically, the Company recorded a net underwriting profit (before investment income) of R24,5 million at the half year compared to a loss of R36,7 million at the same point in the previous year.

Net investment income totalled R309,0 million (2012: R223,9 million) for the six months, representing a 15.1% (2012: 14.5%) annualised return on average financial assets.

The net bottom line profit for the period totalled R333,5 million (2012: R187,2 million). This is an excellent result considering that premium rebate liabilities are fully provided for in the half year results, which will benefit the performance reported in the second six months.

Financial position and cash flows

On the back of the strong financial results, the Company's total assets increased by R795,9 million or 20.7% during the period and totalled R4 641,4 million at 30 June 2013. This resulted from the annual premium receipts in the first half of the year and continued strong investment performance.

Insurance liabilities increased by R472,7 million to R1 898,6 million. This resulted primarily from the expected increases at the half year in unearned premium and premium rebate liabilities; these increases amounted to R288,1 million and R133,3 million respectively.

The Company remained strongly cash generative with R675,0 million (2012: R465.4 million) in cash generated from operating activities during the six month period.

Investments strategy and returns

The Company's investment strategy is managed by the Investment sub-committee of the board, acting on the advice of specialist investment consultants. An asset-liability modeling exercise is performed annually to determine the optimum % strategic asset allocation to authorized classes of investments and ranges are specified within which tactical asset allocation decisions can be taken 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 capitalized and has adequate liquid cash resources to meet its short and long term obligations.

The success of this strategy is borne out by the above inflation investment returns achieved for the six months ended 30 June 2013.

Protection of policyholders' interests

Shareholders approved a new Memorandum of Incorporation ("MOI") for the Company at a special general meeting held on 10 April 2013. In addition to complying with new Companies Act requirements, the MOI introduced unalterable provisions designed to protect policyholders' interests by entrenching the mutual status of the Company.

Change in name and Company registration number

Following the adoption of the new MOI, the Company's name has changed from The Federated Employers' Mutual Assurance Company Limited (registration number 1936/008971/06) to The Federated Employers' Mutual Assurance Company (RF) Proprietary Limited (registration number 1936/008971/07).

Board changes

The Company is required, in terms of the licensing conditions under the COID Act to make certain appointments to the board. Following due process, Mr MA Letshele was appointed to the board as a union representative with effect from 1 July 2013. The new MOI made provision for an increase in the size of the board in order to accommodate the additional appointments required by the licensing conditions, and the Company has accordingly formally invited the State Compensation Commissioner to appoint a representative to the board.

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.

Prospects

Notwithstanding the challenging conditions in the construction industry, the Company has again achieved excellent results and returns for policyholders while fulfilling its mandate to fund claims and benefits for injured workers and their dependents. No material changes are anticipated to be made to the Company's current strategy and operations.

Events after the reporting period

There have been no material changes in the affairs or financial position of the Company from 30 June 2013 up to the date of this report.

Preparation and presentation of interim report

The accompanying interim financial statements were prepared by the Company's Chief Financial Officer, Mr A Daya. These interim financial statements have not been audited or reviewed by the Company's external auditors.

On behalf of the board

Mr N Maas
Chairman

Mrs TT Pugh
Chief Executive Officer

20 September 2013

STATEMENT OF FINANCIAL POSITION ("SOFP")

as at 30 June 2013

		30 June		31 Dec
		2013	**2012**	**2012**
	Notes	**R'000**	**R'000**	**R'000**
ASSETS				
Furniture, equipment and motor vehicles		4 159	4 038	3 448
Reinsurance assets		7 132	9 368	9 379
Financial assets measured at fair value	4	4 411 024	3 380 956	3 776 813
Other financial assets at amortized cost				
Insurance receivables		125 341	91 441	28 527
Other receivables		15 125	14 001	7 317
Cash and cash equivalents		78 666	68 439	20 022
Total assets		4 641 447	3 568 243	3 845 506
EQUITY AND LIABILITIES				
Ordinary share capital		10	10	10
Retained income	SOCE	2 720 128	1 816 796	2 386 675
Total equity		2 720 138	1 816 806	2 386 685
Insurance liabilities		1 898 557	1 729 525	1 425 860
Pension liabilities	5	938 813	854 014	864 550
Unpaid claim liabilities	6	222 044	198 393	244 962
Unearned premium liability		377 257	346 605	89 196
Premium rebate liability	7	360 443	330 513	227 152
Other financial liabilities at amortized cost				
Trade and other payables		22 752	21 912	32 961
Total liabilities		1 921 309	1 751 437	1 458 821
Total equity and liabilities		4 641 447	3 568 243	3 845 506

STATEMENT OF COMPREHENSIVE INCOME ("SOCI")

for the six months ended 30 June 2013

		Six months to 30 June		Year end 31 Dec
		2013	2012	2012
	Notes	R'000	R'000	R'000
Gross premium income	8	627 853	550 121	561 795
Premium rebates to policyholders		(134 791)	(116 873)	(109 492)
Unearned premium		(288 059)	(265 198)	(7 790)
Gross earned premium		205 003	168 050	444 513
Insurance premium ceded to reinsurers		(3 824)	(2 895)	(6 268)
Net earned premium		201 179	165 155	438 245
Gross claims and benefits		(141 807)	(168 982)	(309 202)
Medical and pension claims	6	(98 464)	(95 358)	(224 317)
Net charge to pension valuation	5	(43 343)	(73 624)	(84 885)
Claims recoveries from reinsurers		4 829	729	1 726
Net claims and benefits		(136 978)	(168 253)	(307 476)
Underwriting profit before operating expenses		64 201	(3 098)	130 769
Administration expenses		(30 544)	(25 376)	(59 443)
Accident prevention expenses and grants		(9 199)	(8 263)	(14 760)
Underwriting profit before investment income		24 458	(36 737)	56 566
Net investment income	9	308 995	223 920	700 496
Investment income		313 007	227 193	707 508
Investment expenses		(4 012)	(3 273)	(7 012)
Net profit for the period	10	333 453	187 183	757 062
Other comprehensive income		-	-	-
Total comprehensive income for the period		333 453	187 183	757 062

STATEMENT OF CHANGES IN EQUITY ("SOCE")

for the six months ended 30 June 2013

	Six months to 30 June		Year end 31 Dec
	2013	2012	2012
	R'000	R'000	R'000
Ordinary share capital			
Opening balance	10	10	10
Movement during period	-	-	-
Closing balance	10	10	10
Statutory contingency reserve			
Opening balance	-	38 719	38 719
Transfer to retained income	-	(38 719)	(38 719)
Closing balance	-	-	-
Retained income			
Opening balance	2 386 675	1 590 894	1 590 894
Transfer from statutory contingency reserve	-	38 719	38 719
Total comprehensive income for the period	333 453	187 183	757 062
Closing balance	2 720 128	1 816 796	2 386 675
Total equity			
Opening balance	2 386 685	1 629 623	1 629 623
Transfer (to)/from statutory contingency reserve	-	-	-
Total comprehensive income for the period	333 453	187 183	757 062
Closing balance	2 720 138	1 816 806	2 386 685

STATEMENT OF CASH FLOWS ("SOCF")

for the six months ended 30 June 2013

	Six months to 30 June		Year end 31 Dec
	2013	**2012**	**2012**
	R'000	**R'000**	**R'000**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period	333 453	187 183	757 062
Adjustments for depreciation and other non-cash items	(14 500)	(113 647)	(343 685)
Net movements in operating assets and liabilities	356 087	391 854	166 121
Cash generated from operating activities	675 040	465 390	579 498
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash invested in financial assets measured at fair value	(614 889)	(415 582)	(577 900)
Purchases of furniture, equipment and motor vehicles	(1 507)	(1 537)	(1 744)
Disposals of furniture, equipment and motor vehicles	-	85	85
Cash applied to investing activities	(616 396)	(417 034)	(579 559)
NET CHANGE IN CASH BALANCES			
Net increase/(decrease) in cash for the period	58 644	48 356	(61)
Cash and cash equivalents at beginning of period	20 022	20 083	20 083
Cash and cash equivalents at end of period	78 666	68 439	20 022

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Basis of presentation and accounting policies

These interim financial statements for the six months ended 30 June 2013 have been prepared in accordance with IAS 34 – Interim Financial Reporting. The interim financial statements do not include all of the information required by IFRS for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with IFRS.

New and revised International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") that became effective for the current financial year have had no material impact on the presentation of these interim financial statements and no retrospective adjustments were required to the financial position or results as previously reported.

The Company has made the following reclassifications and re-ordering of items to improve the presentation of the interim financial statements:

- Accrued investment income previously included in other receivables is now included in financial assets measured at fair value in the SOFP.
- Amounts due to reinsurers and accrued leave previously shown separately is now included in trade and other payables in the SOFP.
- The order of items in the SOCI has been changed and increased disclosures of items have been made on the face of the SOCI to improve the relevance and presentation thereof.

The reclassifications and re-ordering of items explained above are readily apparent and had no material impact on the Company's financial position and results as previously reported. Consequently, the changes do not require any further detailed disclosures or the presentation of a third balance sheet for the 2011 financial year.

The accounting policies adopted in the preparation of these interim financial statements are consistent with those of the previous financial year.

2. Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities (in particular, estimates of insurance liabilities). Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2012.

3. Capital and risk 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 capitalized and has adequate liquid cash resources to meet all of its short and long term obligations.

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

The Company's insurance activities expose it to insurance risk and to a much lesser extent reinsurance risk. Insurance risk includes pricing risk, reserving risk and accumulation risk. The risks associated with the statutory insurance contracts issued by the Company under the COID Act are complex and varied. There was no premium deficiency in the current period or previous financial year; however there remains significant reserving risk in relation to long-tail pension liabilities in relation to future pension increases, longevity of the lives covered and changes in the discount rate applied.

The Company has substantial investments held to fund its capital reserving requirements and insurance liabilities, including long-tail pension liabilities. Investment activities expose the Company to a variety of financial risks: market risk (including price, interest rate, foreign currency and derivatives risk), credit risk and liquidity risk.

These interim financial statements do not include all risk management information and disclosure required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2012.

4. Financial assets measured at fair value

	Six months to 30 June		Year end 31 Dec
	2013	2012	2012
	R'000	R'000	R'000
Local:			
- Listed equity securities	654 078	490 017	611 566
- Derivative equity forward contract	2 528	-	-
- Balance fund portfolios	398 484	341 188	431 978
- Listed debt securities: fixed interest rate	178 346	160 061	175 790
- Listed debt securities: inflation linked	756 398	670 675	765 861
- Unlisted corporate debt securities with derivative overlay [1]	404 627	348 419	386 799
- Money market securities	542 531	434 911	238 655
	2 936 992	2 445 271	2 610 649
Foreign:			
- Lised equity securities	732 052	684 576	575 431
- Unlisted corporate debt securities with derivative overlay [2]	294 131	224 466	251 926
- Derivative foreign exchange forward contract liability	(6 397)	-	-
- USD cash	-	21 726	-
- USD cash plus MSCI all country equity forward contract	475 024	-	333 943
- Derivative equity forward contract liability	(26 117)	-	-
	1 468 693	930 768	1 161 300
Accrued income	5 339	4 917	4 864
	4 411 024	3 380 956	3 776 813

Note 1

The Company has invested through investment-linked insurance policies into unlisted (and listed, but illiquid) local corporate bonds with maturity dates of up to 5 years. As part of the so-called "credit opportunities/alpha transport" product structure:

- interest rate duration risk on the bonds is immunized through interest rate swaps into short term rates;
- the Company purchases equity forward contracts for the same nominal value as the aggregate value of the corporate bonds.

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

Note 2

The Company has invested through a protected cell structure into listed foreign corporate bonds and money market investments. As part of the so-called "credit opportunities/alpha transport" product structure:

- interest rate duration risk and non-USD currency risk on the bonds is immunized through interest rate swaps into short term rates and foreign currency swaps into USD respectively;
- the Company purchases equity forward contracts for the same nominal value as the aggregate value of the corporate bonds and money market investments.

Thus the Company effectively receives an equity market return (based on the MSCI Country Index) plus the credit spread on the bonds. Note that the corresponding capital amount invested is exposed to both equity pricing risk on the forward equity contract and credit default risk on the separate corporate bonds and money market securities.

5. Pension liabilities

	30 June		31 Dec
	2013	2012	2012
	R'000	R'000	R'000
Opening balance	864 550	772 314	772 314
Movement for the period	74 263	81 700	92 236
Pensions paid during the year	(32 997)	(28 218)	(58 462)
New pension awards (transferred from unpaid claim liabilities)	63 917	36 294	65 813
Net valuation charge to profit or loss	43 343	73 624	84 885
Closing balance	938 813	854 014	864 550

6. Unpaid claim liabilities

	30 June		31 Dec
	2013	2012	2012
	R'000	R'000	R'000
Unpaid reported claims	197 887	177 664	226 280
Incurred but not reported claims	24 157	20 729	18 682
Total unpaid claim liabilities	222 044	198 393	244 962
Analysis of movement in unpaid claim liabilities:			
Opening balance	244 962	195 864	195 864
Movement for the period			
Claims paid	(57 465)	(56 535)	(109 406)
Pension awards transferred to pension liabilities	(63 917)	(36 294)	(65 813)
Claims expense charged to profit or loss	98 464	95 358	224 317
Total unpaid claim liabilities	222 044	198 393	244 962

7. Premium rebate liability

	30 June		31 Dec
	2013	2012	2012
	R'000	R'000	R'000
Premium rebate liability relating to:			
Underwriting year ended February 2012 (2012: February 2011)	105 539	104 614	105 539
Underwriting year ended February 2013 (2012: February 2012)	116 203	105 539	116 203
Underwriting year ending February 2014 (2012: February 2013)	128 786	114 838	-
Premium rebate on pipeline premium	9 915	5 522	5 410
Total premium rebate liability	360 443	330 513	227 152
Analysis of movement in premium rebate liability:			
Opening balance	227 152	213 664	213 664
Premium rebates paid	-	-	(96 003)
Current period – Allowance for premium rebates	128 786	114 838	116 203
Prior periods - Actual versus expected premium rebate payments	-	-	(8 611)
Movement in pipeline premium rebate	4 505	2 011	1 899
Closing balance	360 443	330 513	227 152

8. Gross premium income

	Six months to 30 June		31 Dec
	2013	2012	2012
	R'000	R'000	R'000
	606 401	549 025	552 749
Initial premiums raised on declared wage returns	546 963	510 782	514 320
Prior period adjustment to estimates	59 438	38 243	38 429
	21 452	1 096	9 046
Pipeline premium accrual for the current period	47 216	17 814	25 764
Reversal of pipeline premium accrual raised in the previous period	(25 764)	(16 718)	(16 718)
Gross premium income	627 853	550 121	561 795

9. Net investment income

	30 June		31 Dec
	2013	2012	2012
	R'000	R'000	R'000
Investment income	313 007	227 193	707 508
Interest income on cash and cash equivalents	44 733	38 592	83 344
Dividend income	19 360	16 600	21 710
Net foreign currency gain	124 688	7 722	19 489
Net realised gains	97 994	51 968	237 399
Net valuation gains	26 232	112 311	345 566
Investment expenses	(4 012)	(3 273)	(7 012)
Net investment income	308 995	223 920	700 496

10. Income tax

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