



Ability is what you're capable of doing.  
Motivation determines what you do.  
Attitude determines how well you do it.

*Lou Holtz, American Motivational Speaker*



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## Annual Report 2010

### The Federated Employers' Mutual Assurance Company Limited

(Registration No. 1936/008971/06)

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*FEM provides insurance cover to the construction industry alongside the State's Compensation Fund, which is managed by the Compensation Commissioner. This insurance compensates employees or their dependants following an injury arising from occupational accidents and illness occasioned by industrial diseases.*



# THE REPORT OF THE CHAIRMAN AND MANAGING DIRECTOR

We are pleased to report on the activities and results of The Federated Employers' Mutual Assurance Company Limited for the period ending December 2010.

## Business

The Federated Employers' Mutual Assurance Company Limited ("the Company") provides insurance cover to the building and construction industry alongside the State's Compensation Fund, which is managed by the Compensation Commissioner. This insurance compensates employees or their dependants following injury arising from occupational accidents and illness occasioned by industrial diseases.

The Company operates as a mutual insurer. All policyholders are shareholders of the Company. Shareholders are not entitled to any dividends or distribution of the assets of the Company.

## Overall performance

Net insurance premium revenue totalled R466.7m for the year, which is an increase of R42.8m or 10% over the corresponding figure of R423.9m for 2009.

Realised investment gains and other Investment income for the year totalled R307.8m, which is an increase of R177.5m or 136% over the corresponding figure of R130.3m for 2009. The Company is transitioning to IFRS 1 and is therefore permitted to designate its financial assets at fair value through income at the date of transition. The Company has elected to designate its financial assets at fair value through income in accordance with IAS 39. Financial assets were previously classified as available-for-sale under SA GAAP. This is permitted by IAS 39 and is more relevant as it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. Unrealised losses on investments have been recognised in the statement of comprehensive income during the year totalled R45.0m, which is a decrease of R130.4 million or 153% over the corresponding gain of R85.4 million transferred to income in 2009.

The net claims expense (before pensions and reinsurance effects) decreased by R17.6m to R113.8m for the year. The major factor to the decrease is a reduction in the outstanding claims reserve of R25.2m.

The pensions expense increased by R45.4m to R116.1m for the year. The increase is due mainly to R56.2m, which resulted from an implementation of first tier margins. Pensions paid during the year increased by R8.1m to R43.5m. The annual pensions increase approved by the Compensation Commissioner, effective 1 April 2011, is 4.6% (1 April 2010: 5%).

The rebates expense increased by R93.3m to R97.7m for the year. The prior year rebate cost of R4.4m includes a decrease of R81.6m resulting from a decision made to change the methodology used to determine rebates paid. The current years rebate has been raised at 21% (2009: 21%) of premium income.

Operating efficiencies have been maintained and improved in some areas. Administration expenses, excluding BBBEE spend, totalled R45.9m for the year, which is an increase of R4.0m or 9.5% over the corresponding figure of R41.9m for 2009. BBBEE spend decreased from R4.0m to R0.7m for the year.

It is pleasing to report that the Company recorded an underwriting profit for the third year, whereas underwriting losses were recorded prior to the 2008 year. If you exclude:

- the R16.2m reduction in pensions liability in 2009
- the R81.6m reduction in the prior years rebates provision in 2009

then the underwriting profit for 2009 reduces from R166.9m to R69.1m compared to an underwriting profit for the year of R90.8m representing an increase of R21.7m or 31.4%. After the transfer of R4.5m from statutory contingency reserve (2009 transfer to statutory contingency reserve: R14.7m) the transfer to retained income amounted to R344.1m (2009: R416.5m).

## Significant developments

### *VAT and income tax*

In 1992 SARS agreed to deregister the Company for VAT purposes. Effective 1 January 2007, the binding nature of any decision issued by SARS prior to that date must be reconfirmed in writing by the Commissioner in order to remain effective after that date. As required, an application was made to confirm the previous deregistration ruling from VAT, which resulted in a number of queries being raised by SARS. After various meetings with senior officials at SARS, the matter was put on hold pending a decision on the Company's income tax exempt status as described below.

The Company was granted exemption from income taxation with effect from 1 January 2006. SARS subsequently indicated their intention of withdrawing their decision, because in their opinion the Company cannot be regarded as a fidelity or indemnity fund as contemplated in section 10(1)(d)(iii) of the Act under which the exemption was initially granted. This matter was taken up with SARS. After meetings with various senior officials at SARS, the matter was referred to National Treasury for a decision. After various meetings with senior officials at National Treasury, our application has been included in the national budget documentation. The following brief paragraph appeared in Annexure C to the budget review on page 189:

### *"Exemption for private employment compensation entities*

Compensation for death or personal injury suffered under contract of employment is largely regulated by the 1993 Compensation for Occupational Injuries and Diseases Act (COIDA). Most employees are covered by the government-controlled Compensation Fund. In addition, contributions and payouts by two privately-owned entities (both of which predate the Compensation Fund) are equally covered by COIDA. The provision of the same income and VAT exemptions as the Compensation Fund is being considered, as these entities are offering the same benefits."

## General

### *Premiums*

The Company continues to record growth in premiums written. Growth in the current year was 10% in comparison to 10% in the previous financial year.

### *Information and technology*

FEM's computer system continues to be enhanced to meet any new requirements and changes in the business environment. The system is considered to be of a high standard and enables the provision of efficient services to policyholders and their employees, especially with the introduction of electronic communication with policyholders.

### *Claims management*

Net claims incurred have increased by R24,2 million in comparison to 2009 which includes an increase in the transfer to the Pensioners reserve of R37.3 million. Medical claims paid of R43,5 million have increased by 6.8% in comparison to the prior year. Transfers to the claims reserve amounted to R5.7 million compared to a transfer of R30.9 million in the prior period. The continued engagement of professional claims managers to "case manage" selected claims has proved once again to be beneficial.

### *Employment equity*

The Company is committed to meeting the targets of its employment equity plan.

# THE REPORT OF THE CHAIRMAN AND MANAGING DIRECTOR

## *Broad based black economic empowerment ("BBBEE")*

The Company has developed a strategy to achieve substantial compliance with its BBBEE commitments in the medium to long term. The Company continues to fund the wheelchair project with Northcliff Rotary Club and the bursary project with the University of Johannesburg.

## Corporate governance

It is pleasing to report that the Company is substantially compliant with the requirements of King II, as disclosed on pages 11 to 16 of the annual report.

## *Solvency margin – international basis*

The international solvency margin is calculated as a percentage of net assets, per the financial statements, over net written premium. The solvency margin has increased from 254% to 303% as a result of a 31.6% increase in the net asset value in 2010.

## *Occupational health, safety and rehabilitation*

Financial assistance amounting to R6,6 million (2009: R5,3 million) was provided to the health and safety programmes of the various building industry associations. Statistics reflect a steady decrease in the number of workers injured proportionate to the number insured, with the accident frequency rate steadily decreasing each year. A run-off table of accident frequencies for the past 5 years is presented below. The Company's claims registered cycle is normally 2½ years, and therefore 2009 and 2010 are subject to change, but compared to prior years there is a clear indication of the decrease over time.

	Underwriting year				
Accident frequency rate: number of accidents over total insured employees	2006	2007	2008	2009	2010
Financial year end					
2006	3.67	-	-	-	-
2007	4.10	3.62	-	-	-
2008	4.13	4.05	3.35	-	-
2009	4.14	4.08	3.78	3.37	-
2010	4.15	4.10	3.85	3.55	3.24

It is also pleasing to note that the Company made a large number of health and safety awards to employers in recognition of their efforts to promote health and safety among their workers. During 2010, R77,6 million (2009: R60,6 million) was paid to policyholders in merit rebates.

## *Health and safety platinum award*

The night of 21 July 2010 was indeed a special occasion and cause for a double celebration for Stefanutti Stocks Building KZN, at a function attended by special guests, FEM Master Builders KZN, professionals, clients, subcontractors and staff. Managing Director, Howard Schwegmann proudly announced that their R540 million Liberty Life project in Umhlanga, had achieved 1,500,000 man-hours without a lost time injury. This included hours worked by all sub-contractors as well. The Company itself, Stefanutti Stocks Building KZN, also recently achieved 1,000,000 man-hours without a lost time injury. This is the first construction Company in KZN, and possibly in South Africa, to have achieved this safety milestone.

At the Master Builders South Africa National Awards 2010 Stefanutti Stocks Building KZN won two categories namely, *Contracts R5 million to R20 million* and *Contracts R500 million plus*. In addition to these accolades, they achieved a five star rating for the third year in succession and are only one of two construction companies in KZN to have achieved this milestone.

FEM is extremely pleased to have awarded Stefanutti Stocks Building KZN the first FEM Platinum Award for Health and Safety. To receive this prestigious award, Stefanutti Stocks Building KZN had to meet or exceed FEM's very stringent criteria and needed to satisfy FEM that Health and Safety is indeed a priority on their strategic agenda.



# THE REPORT OF THE CHAIRMAN AND MANAGING DIRECTOR

During an interview with Thelma Pugh and Ashwin Daya, Howard Schwegmann, Managing Director of Stefannutti Stocks Building KZN explained, "Safety is the first item on our agenda at Company management meetings where it is always stressed that safety is not to be compromised for cost. Management of Stefanutti Stocks Building takes responsibility for safety and leads by example. We as a Company recognise our responsibilities for the health and safety of our employees, clients, contractors and the public alike".

Howard Schwegmann also paid tribute to Dallas Pakkiri and Siven Naidoo, safety managers, who played a major role in the success of the health and safety program and who both made a significant contribution to the achievements

## Prospects

The Company is well positioned to face the future challenges and remains committed to the provision of an effective and efficient compensation service to all our stakeholders. To all of them we extend our very best wishes for the time that lies ahead.

## Thanks

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

Our sincere thanks must go to our fellow directors for their continued advice and wise counsel throughout the year.

Finally, we thank the executive committee and staff of the Company for their devoted and excellent service during the year.



N F Maas  
Chairman  
13 April 2011



T T PUGH  
Managing Director



# FEM HEALTH & SAFETY PLATINUM AWARD



From left to right: Grahame Carver (Director), Dallas Pakkiri (Safety Manager), Siven Naidoo (Safety Manager), Thelma Pugh (Managing Director - FEM) and Dave Codner (Director)

# THE BOARD OF DIRECTORS



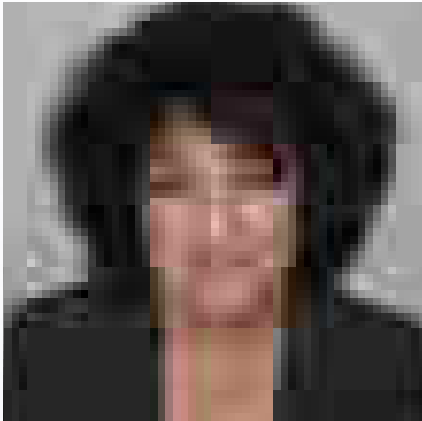
Front: Dr APH Jamine, NF Maas (Chairman), TT Pugh (Managing Director)

Centre: PL Siphayi, L Willis (Secretary)

Back: G Mc Intosh (Executive Director), Dr H Ngakane, H Walker, JR Barrow, A Daya (Executive Director), M Ilsley

Absent: CS Jiyane, GD Irons

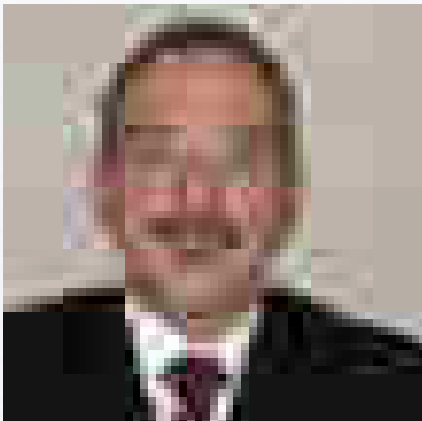
# EXECUTIVE TEAM



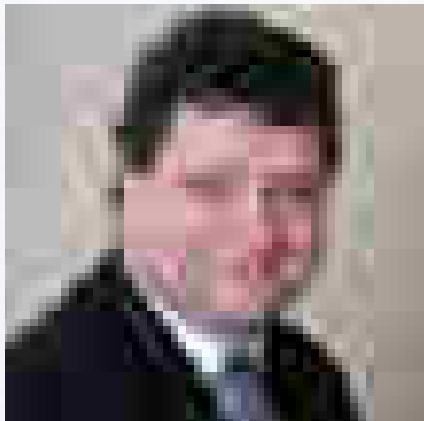
Thelma Pugh - Managing Director



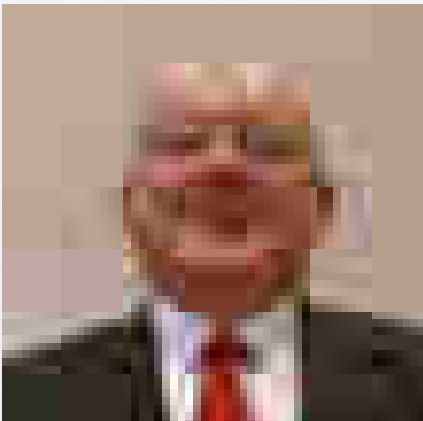
Ashwin Daya - Chief Financial Officer



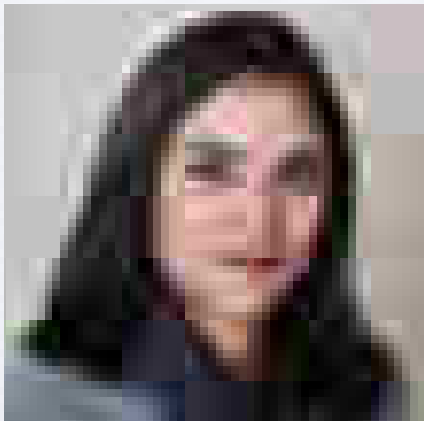
Rudolph van Deventer - Business Analyst



Gys Mc Intosh - Chief Information Officer



Rob Spreadbury - Chief Underwriting Officer



Ayesha Ismail - Chief Human Resources Officer

# CORPORATE GOVERNANCE STATEMENT

For the year ended 31 December 2010

The directors regard Corporate Governance as vitally important and are committed to applying principles necessary to ensure that good corporate governance is practised. These principles include discipline, independence, fairness, social responsibility and transparency. In this regard the directors endorse the code of corporate practice and conduct recommended in the King report. The Federated Employers' Mutual Assurance Company Limited ("the Company") complies substantially with the recommendations of King II.

By supporting these codes, the Company demonstrates its commitment to the highest standards of integrity and ethical conduct in dealings with all its stakeholders. Monitoring the Company's compliance with the King Code on Corporate Governance forms part of the audit committee charter.

## The board of directors

For the period under review, there were twelve directors (2009: *twelve*) on the board, nine (2009: *nine*) of whom are non-executive. The non-executive directors bring diversity and experience, insight and independent judgement on issues of strategy, performance, resources and standards of conduct. New appointments to the board are submitted to the board via the remuneration and nominations committee for approval, prior to appointment. The roles of the Chairman and the Managing Director do not vest in the same person, and the Chairmen of the various board committees are independent non-executive directors.

The Chairman and Managing Director provide leadership and guidance to the board, encourage proper deliberation on all matters requiring the board's attention and obtain 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 service contracts with the Company containing normal notice periods. Non-executive directors have no service contracts with the Company and in terms of the Company's articles of association, one third of the directors retire by rotation and are eligible for re-election each year at the Company's annual general meeting, and this year they are Messrs GD Irons, H Ngakane and CS Jiyane.

Director appointments made during a financial year are to be confirmed at the first annual general meeting following such appointment.

Executive and non-executive directors' emoluments are disclosed in note 27 and 28 to the annual financial statements.

The board of directors meet three times per year and have ultimate responsibility for strategic policy decisions, overall direction, control and performance. The board monitors management, ensuring that material matters are subject to board approval. The articles of association provide for material decisions taken between meetings to be confirmed by way of directors' resolutions.

The Board had, in line with King III's recommendations regarding the lengthy tenure of directors and their continuing independence, reviewed the appointment of Dr Jamine to the Board of FEM. Whilst he had been a director of the Company since 1990, the Board believed that Dr Jamine should continue as an independent, non-executive director of FEM. His experience and skills added immense value to the Board and the Company as a whole and there was no reason to believe that his independence was in any way compromised due to the length of his tenure as a director. The Board had expressed its sincere thanks to Dr Jamine for his contribution to FEM since 1990 and looked forward to his continued services.

### Attendance at meetings during the year

Board	March	August	November
<i>Non-executive Directors</i>			
NF Maas (Chairman)	✓	✓	✓
JR Barrow	✓	✓	✓
CS Jiyane	✓	✓	×
GD Irons	✓	✓	✓

# CORPORATE GOVERNANCE STATEMENT

For the year ended 31 December 2010

<i>Independent non-executive directors</i>	March	August	November
MG Ilsley	✓	✓	✓
APH Jamine	✓	✓	✓
H Ngakane	✓	✓	✓
PL Siphayi	✓	✓	✓
H Walker	✓	✓	✗

<i>Executive directors</i>	March	August	November
TT Pugh (Managing)	✓	✓	✓
A Daya	✓	✓	✓
G Mc Intosh	✓	✓	✓

✓ Attended

✗ Absent with apology

From a risk perspective, the responsibility of the Board is to oversee the quality, integrity and reliability of the Company's risk management function. The Board is also responsible for reviewing and assessing the integrity and quality of the control systems and ensures that risk policies and strategies are effectively managed.

To assist the board in discharging its collective responsibility for corporate governance, several committees have been established, to which certain of the board's responsibilities have been delegated. Each committee of the board operates in terms of a formal charter and comprises non-executive directors only. The Chairman of the board and each committee are elected annually after the annual general meeting.

## Audit committee

The audit committee meets at least twice a year with management and the external and internal auditors. The external 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 audit committee, which operates in accordance with a formal charter authorised by the board, provides assistance to the board with regard to:

- ensuring compliance with applicable legislation and the requirements of regulatory authorities;
- compliance with the Company's code of ethics;
- matters relating to financial and internal control, accounting policies, reporting and disclosure;
- the scope, adequacy and effectiveness of the systems of internal control;
- review and approval of external and internal audit plans, findings, problems, reports and fees; and
- monitoring and review of all tax compliance activities.

From an audit perspective, the committee assists the board by performing an objective and independent review of the organisation's finance and accounting control procedures.

The audit committee performs its function through close liaison and communication with management, and the internal and external auditors. The audit committee addressed its responsibilities properly in terms of the charter during the 2010 financial year.

# CORPORATE GOVERNANCE STATEMENT

For the year ended 31 December 2010

## Attendance at meetings during the year

	March	August
MG Ilsley (Chairman)	✓	✓
JR Barrow	✓	✓
H Walker	✓	✓
PL Siphayi	✗	✓

✓ Attended

✗ Absent with apology

## Remuneration and nominations committee

The remuneration and nominations committee meets at least once a year. 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 and directors' fees. The committee may seek advice from independent professional advisors. The committee meets once a year unless otherwise required.

## Attendance at meetings during the year

	November
H Walker (Chairman)	✓
NF Maas	✓
APH Jamine	✓
CS Jiyane	✓

✓ Attended

## Investment committee

The committee meets at least four times per year. Various Asset Managers manage the investments. The Asset Managers manage the portfolio in terms of a mandate approved by the board. The asset consultants report to, and discuss the investment performance and future activities, with the investment committee four times per year.

The investment committee, which operates in accordance with a formal charter authorised by the board, provides assistance to the board. Their role is to:

- Examine, review and recommend investment policy, criteria and parameters.
- Examine, review and recommend potential new investments proposed by executive management, asset consultants and asset managers with due regard to the Company's strategic and financial objectives, the structural basis of integration and the operational and managerial demands occasioned by the investment.
- Monitor the performance of existing investments against investment criteria and pre investment assumptions.
- Examine and review recommendations by executive management, asset consultants and asset managers to dispose of investments.
- Monitor and make recommendations of the Company's financial facilities and financing structures.
- Pursuant to the above, make recommendations on the selection of merchant banks, asset consultants, asset managers and professional advisors.

# CORPORATE GOVERNANCE STATEMENT

For the year ended 31 December 2010

## Attendance at meetings during the year

	February	March	May	July	August	November
APH Jammie (Chairman)	✓	✓	✓	✓	✓	✓
MG Ilsley	✓	✓	✓	✓	✗	✓
NF Maas	✓	✓	✓	✓	✓	✓
H Ngakane	✓	✓	✗	✗	✓	✓
H Walker	✓	✓	✓	✓	✓	✓

✓ Attended

✗ Absent with apology

## Executive committee

The Managing Director, Mrs TT Pugh, chairs the executive committee, which comprises executive directors and senior executives.

The committee is responsible for implementing the strategies and policies determined by the board, managing the business affairs of the Company, prioritising the allocation of capital and technical human resources and establishing best management practices.

The committee is also responsible for management appointments and monitoring their performance.

The present committee comprises:

TT Pugh (Managing Director)  
A Daya (Chief Financial Officer)  
A Ismail (Chief Human Resources Officer)  
GM Mc Intosh (Chief Information Officer)  
R van Deventer (Business Analyst)  
RG Spreadbury (Chief Underwriting Officer)

## Risk management and internal control

The board of directors acknowledges that it is responsible for the total process of risk management, recognising enterprise-wide risks to which the Company is exposed and ensuring that the proper policies of control to mitigate risks, are put in place. Management is continuously developing and enhancing its risk and control procedures to improve the mechanisms for identifying and monitoring risks.

The directors recognise their responsibility for internal, financial and operating controls and the monitoring of their effectiveness, including communicating appropriate risk and control policies throughout the organisation. Ethical behaviour, compliance with legislation and sound accounting practice underpin the internal control process. The board is responsible for identifying, evaluating and managing significant risks on a regular basis.

The financial and operating controls are designed to provide assurance regarding the integrity and reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability of the Company's assets. However, no matter how well designed, these controls can be circumvented and therefore provide only reasonable and not absolute assurance with respect to the reliability of financial information and annual financial statement presentation.

The operating policies include a documented organisational structure and division of responsibility, established policies and procedures, including a Code of Ethics to foster a strong ethical climate, which are communicated throughout the Company. It also includes the careful selection, training and development of people.

The Managing Director and Chief Financial Officer are responsible for designing and maintaining the operation of the financial and operating controls and for their ongoing appropriateness. They consider that the systems are appropriately designed to provide reasonable, but not absolute, assurance that the assets are safeguarded against material loss or unauthorised use and that transactions are properly authorised and recorded.

Deloitte performs the internal audit function for the Company. Internal audit monitors the operations of underwriting, claims, pensions and all internal control and support areas. Their findings and recommendations are reported to management and to the audit committee. Corrective action is taken to address control deficiencies and other opportunities for improving the system as they are identified.



# CORPORATE GOVERNANCE STATEMENT

For the year ended 31 December 2010

## Annual financial statements

Management prepare the annual financial statements and other information presented in the annual report, which is approved by the board. The directors are responsible for ensuring that they are prepared in a manner that fairly presents the financial position and the results of the operations and cash flows of the Company for the reporting period.

The annual financial statements set out on pages 20 to 67 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They are based on appropriate accounting policies, which are consistently applied in all material aspects, except where otherwise stated, and are supported by reasonable and prudent judgements and estimates. Adequate accounting records have been maintained throughout the year under review.

The external auditors are responsible for carrying out an independent examination of the annual financial statements in accordance with International Standards on Auditing and for reporting whether they are fairly presented. The auditors' report is set out on page 19 of the annual financial statements.

The external auditors were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors, and committees of the board. Management believe that all representations made to the independent auditors during their audit are valid and appropriate.

## Going concern

The going concern basis has been adopted in preparing the annual financial statements. Based on forecasts and available cash resources, the directors have every reason to believe that the Company will have adequate resources to continue to meet its obligations for the foreseeable future. A business continuity and disaster recovery plan has been developed and documented.



# CORPORATE GOVERNANCE STATEMENT

For the year ended 31 December 2010

## Ethical standards

The Company has a Code of Ethics ("Code"), which has been fully endorsed by the board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism.

In summary, the Code requires that at all times the Company's personnel act with the utmost integrity and objectivity and in compliance with the letter and spirit of both the law and Company policies. Failure by employees to act in terms of the Code results in disciplinary action.

The Code is discussed with new employees as part of their induction training, and forms part of their employment contract.

A "whistle-blowing" facility exists for reporting of non-adherence to the Code of Ethics or ethics-related matters.

The directors believe that ethical standards are being met and fully support the ethics programme.

## External auditors' independence

PricewaterhouseCoopers Inc. ("PwC") and SizweNtsaluba VSP ("SNvsp") are the external auditors of the Company and have confirmed that they were independent of all services provided.

## Employment equity

An employment equity plan has been in operation for some time and is overseen by the managing director and a staff-elected employment equity committee. Accordingly, we have ensured that our employment policies, practices and working environment are non-discriminatory.

For the year under review 93% (2009: 66%) of our vacancies have been filled with candidates from designated groups against our target of 70%. Due to low staff turnover, the focus of accelerated development programmes has been protracted, but we have identified succession planning as crucial and staff from designated groups have been identified to be fast-tracked and developed in an endeavour to be placed in key positions in the organisation.



# STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

For the year ended 31 December 2010

The directors are responsible for the integrity and fair presentation of the financial statements of The Federated Employers' Mutual Assurance Company Limited ("the Company"), which are prepared by management. The financial statements presented on pages 20 to 67 have been prepared in accordance with International Financial Reporting Standards, and include amounts based on judgements and estimates made by management.

The directors consider that in preparing the financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all International Financial Reporting Standards, considered to be applicable, have been followed. The directors are satisfied that the information contained in the financial statements fairly presents the results of operations for the year and the financial position of the company at year-end. Management prepared all the other information included in the annual report and the directors are responsible for both its accuracy and its consistency with the financial statements.

The Company operates in a sound control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the business, are being controlled. There were no known material breakdowns in the systems of internal control during the year under review.

The going-concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the Company will not be a going concern in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the company.

The Company has adhered to the Code of Corporate Practices and Conduct.

The Company's external auditors, PricewaterhouseCoopers Inc. and SizweNtsaluba VSP, audited the financial statements, and their report is presented on page 19.

The financial statements were approved by the board of directors on 12 April 2011 and were signed on its behalf, by:



**N F Maas**  
Chairman



**T T PUGH**  
Managing Director



# CERTIFICATE BY COMPANY SECRETARY

For the year ended 31 December 2010

As Company Secretary, I hereby confirm, in terms of the Companies Act, 1973, that for the year ended 31 December 2010, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act, and that all such returns are true, correct and up to date.



E J WILLIS  
Secretary  
12 April 2011



# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE FEDERATED EMPLOYERS' MUTUAL ASSURANCE COMPANY LIMITED

We have audited the annual financial statements of The Federated Employers' Mutual Assurance Company Limited, which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 20-67.

## *Directors' Responsibility for the Financial Statements*

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Federated Employers' Mutual Assurance Company Limited as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.



**PricewaterhouseCoopers Inc.**  
Director: G Mtetwa  
Registered Auditor  
Johannesburg  
12 April 2011



**SizweNtsaluba VSP**  
Director: N Sigasa  
Registered Auditor  
Johannesburg  
12 April 2011

# DIRECTORS' REPORT

For the year ended 31 December 2010

The directors have pleasure in submitting their report, which forms part of the audited annual financial statements of the Company for the year ended 31 December 2010.

## Nature of business

The Company was established as a mutual insurer in 1936 and, on the introduction of the Workmen's Compensation Act, 1941, was granted a licence to transact workmen's compensation insurance for the building industry. Its business operations are essentially confined to the insurance of employers against their liabilities under the Compensation for Occupational Injuries and Diseases Act, 1993 and extend to any employer falling within Class V of the Commissioner's industrial classifications for the building and construction industry.

In terms of the articles of association of the Company, shareholding is restricted to policyholders.

## Operating and financial review

The Company continues to record growth in premium revenue, which can be attributed to the improved economy resulting in increased activity in the building and construction industry.

	Movement %	2010 R'000	2009 R'000
<b>Insurance results</b>			
Net premium revenue (Note 17)	10	466,700	423,855
Claims (excluding pensions) less reinsurance recoveries (Note 20)	(17)	(103,400)	(124,574)
New pensions awarded (funded by premiums) (Note 20)	57	(58,889)	(37,460)
Administration expenses	2	(46,624)	(45,912)
Grants	26	(6,648)	(5,257)
Accident prevention expenses	(11)	(5,434)	(6,107)
<b>Net result before pensions and rebates</b>	<b>20</b>	<b>245,705</b>	<b>204,545</b>
Pensions paid and net movement in pensions liability (excluding new awards above) (Note 20)	72	(57,225)	(33,245)
<b>Net result before rebates</b>	<b>10</b>	<b>188,480</b>	<b>171,300</b>
Rebates paid and provided – normal (Note 14.4)	2117	(97,704)	(4,407)
<b>Underwriting profit for the year</b>	<b>(46)</b>	<b>90,776</b>	<b>166,893</b>

The Company maintained an underwriting profit for the third year, whereas underwriting losses were recorded in prior years i.e. 2007 and prior. Operating efficiencies have been maintained and improved in some areas. The decrease in claims costs is mainly as a result of a decrease in the claims provision movement and an increase in reinsurance recoveries. The decrease in the underwriting profit for the year is mainly attributable to an increase in new pensions awarded and an increase in the transfer to the Pensioners liability. The current and prior years rebate provision has been raised at 21% of premium income.

Specifically:

- Net premium revenue increased by R42.8 million (10%)
- Claims costs decreased by R21.2 million (17%)
- New pensions awarded increased by R21.4 million (57%)
- Administration expenses increased by R0.7 million (2%)
- The provision for pensions liability net of new pensions awarded increased by R13.7 million
- Rebates paid and provided increased by R93.3 million

# DIRECTORS' REPORT

For the year ended 31 December 2010

Key statistics relating to the financial position and income for the year are set out below:

	Change %	2010 R'000	2009 R'000
<b>Financial position</b>			
<b>Total Assets including</b>	22	2,523,953	2,071,833
Financial assets at fair value through income	24	2,426,148	1,948,894
Cash and cash equivalents	(16)	36,559	43,411
<b>Total Liabilities including</b>	11	1,108,885	996,300
Outstanding claims	5	176,533	167,934
Capitalised value of pensions	13	628,769	556,176
Provision for rebates (non-current and current)	11	203,759	183,617
<b>Capital and reserves</b>	32	1,415,068	1,075,533
<b>Operating results</b>			
Net premium revenue	10	466,700	423,855
Investment income	69	173,227	98,577
Net realised gains / (losses) on financial assets	325	134,597	31,699
Net unrealised (losses) / gains on financial assets	(128)	(45,013)	139,451
Net insurance benefits and claims	59	(317,218)	(199,686)
Administration expenses	2	(46,624)	(45,912)
<b>Profit for the year</b>	(21)	339,536	431,134

Full details of the Company's financial results are set out in the financial statements and notes thereto-on pages 24 to 67.

## VAT and income tax

In 1992 SARS agreed to deregister the Company for VAT purposes. Effective 1 January 2007, the binding nature of any decision issued by SARS prior to that date must be reconfirmed in writing by the Commissioner in order to remain effective after that date. As required, an application was made to confirm the previous deregistration ruling from VAT, which resulted in a number of queries being raised by SARS. After various meetings with senior officials at SARS, the matter was put on hold pending a decision on the Company's income tax exempt status as described below.

The Company was granted exemption from income taxation with effect from 1 January 2006. SARS subsequently indicated their intention of withdrawing their decision, because in their opinion the Company cannot be regarded as a fidelity or indemnity fund as contemplated in section 10(1)(d)(iii) of the Act under which the exemption was initially granted. This matter was taken up with SARS. After meetings with various senior officials at SARS, the matter was referred to National Treasury for a decision. After various meetings with senior officials at National Treasury, our application has been included in the national budget documentation. The following brief paragraph appeared in Annexure C to the budget review on page 189:

### "Exemption for private employment compensation entities

Compensation for death or personal injury suffered under contract of employment is largely regulated by the 1993 Compensation for Occupational Injuries and Diseases Act (COIDA). Most employees are covered by the government-controlled Compensation Fund. In addition, contributions and payouts by two privately-owned entities (both of which predate the Compensation Fund) are equally covered by COIDA. The provision of the same income and VAT exemptions as the Compensation Fund is being considered, as these entities are offering the same benefits."

# DIRECTORS' REPORT

For the year ended 31 December 2010

## Post balance sheet events

The directors are not aware of any subsequent events that might have a material impact on the financial statements.

## Share capital

There were no changes in the authorised and issued capital of 500,000 shares of 2 cents each during the year under review.

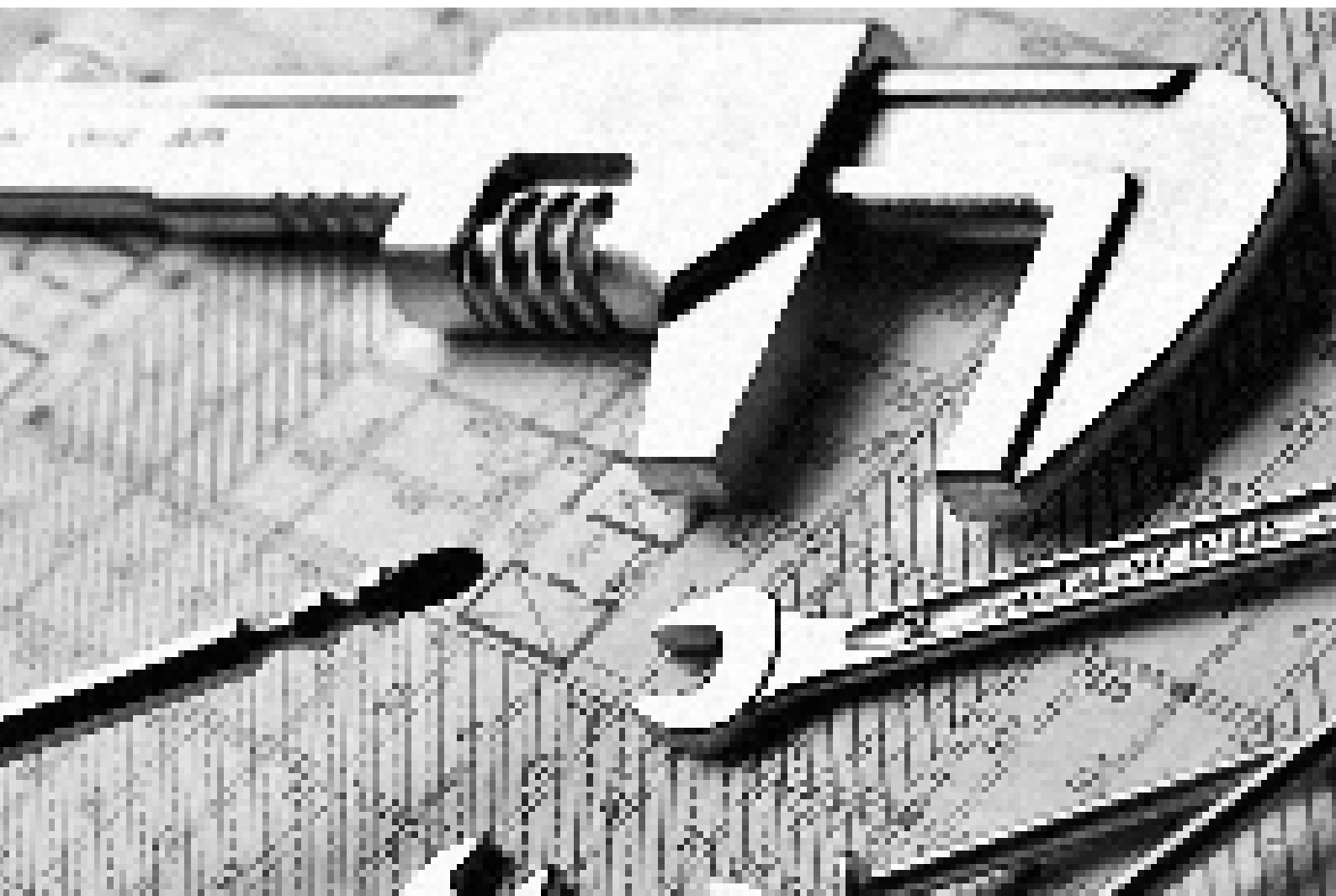
The shares of the Company are owned by the policyholders, except for "floating capital" which is held in trust by The Federated Employers' Trust Limited to allow for ease of entrance and exit of policyholders.

## Dividends

In terms of clause 26.1 of the Company's articles of association, shareholders are not entitled to any dividends or the distribution of assets of the Company, either during the life of the Company or upon its liquidation.

## Directors' interests in contracts

No material contracts in which the directors have an interest were entered into in the current year other than the transactions detailed in Note 25.2 to the financial statements.





# DIRECTORS' REPORT

For the year ended 31 December 2010

## Directors

Directors' remuneration and fees are set out in Note 27 and 28 to the financial statements.

The following were directors of the Company during the financial year:

NF Maas (Chairman)	Chairman
TT Pugh	Managing Director
JR Barrow	Non-executive
A Daya	Executive Director
MG IIsley	Independent non-executive
GD Irons	Non-executive
G Mc Intosh	Executive Director
APH Jamine	Independent non-executive
CS Jiyane	Non-executive
Dr H Ngakane	Independent non-executive
PL Siphayi	Independent non-executive
H Walker	Independent non-executive

In accordance with the articles of association of the Company, Messrs PL Siphayi, MG IIsley, GD Irons, and CS Jiyane will retire from office at the forthcoming annual general meeting and are eligible for re-election.

Director appointments made during a financial year are to be confirmed at the first annual general meeting following such appointment.

The audit committee comprises MG IIsley (Chairman), JR Barrow, PL Siphayi and H Walker.

The investment committee comprises Mr APH Jamine (Chairman), H Walker, NF Maas, MG IIsley and H Ngakane.

The remuneration and nominations committee comprises H Walker (Chairman), CS Jiyane, NF Maas and APH Jamine.

## Secretary

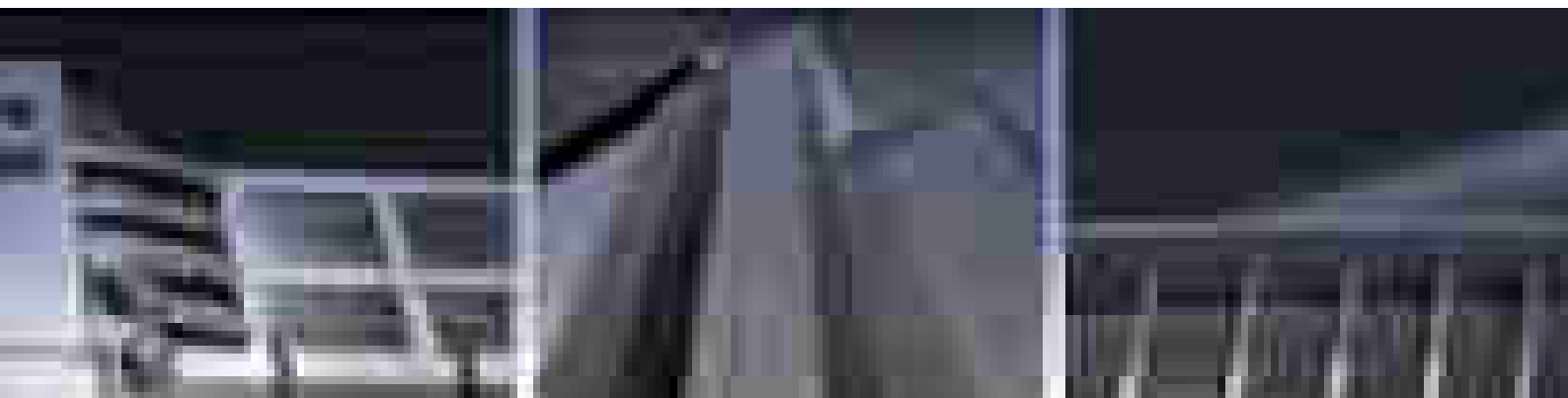
The secretary of the Company is Ms EJ Willis.

**Business Address:**  
3 Atherstone Bower  
77 King Edward Road  
Lombardy East  
2090

**Postal Address:**  
P O Box 2005  
Edenvale  
1610

## Auditors

PricewaterhouseCoopers Inc. and SizweNtsaluba VSP will continue in office in accordance with Section 270(2) of the Companies Act in South Africa.



# STATEMENT OF FINANCIAL POSITION

as at 31 December 2010

	Note	2010 R'000	2009 R'000	2008 R'000
<b>ASSETS</b>				
Furniture, equipment and motor vehicles	5	3,801	3,974	3,717
Financial assets designated at fair value through income	6.1	2,426,148	1,948,894	1,587,413
Insurance receivables	8	25,618	40,723	51,113
Other receivables	9	15,292	18,533	19,625
Taxation receivable		6,300	6,300	6,300
Reinsurance assets	7	10,235	9,998	9,700
Cash and cash equivalents		36,559	43,411	69,448
<b>Total assets</b>		<b>2,523,953</b>	<b>2,071,833</b>	<b>1,747,316</b>
<b>EQUITY AND LIABILITIES</b>				
Ordinary share capital	11	10	10	10
Other reserves	12.1	37,281	41,807	27,142
Retained earnings		1,377,777	1,033,716	671,281
<b>Total equity</b>		<b>1,415,068</b>	<b>1,075,533</b>	<b>698,433</b>
<b>Liabilities</b>				
Insurance liabilities	14	1,086,741	980,179	963,866
Employee benefit liability	16	1,346	1,385	1,143
Trade and other payables	15	20,798	14,736	83,874
<b>Total liabilities</b>		<b>1,108,885</b>	<b>996,300</b>	<b>1,048,883</b>
<b>Total equity and liabilities</b>		<b>2,523,953</b>	<b>2,071,833</b>	<b>1,747,316</b>



# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	2010 R'000	2009 R'000
Insurance premium revenue	17	472,404	428,722
Insurance premium ceded to reinsurers	17	(5,704)	(4,867)
<b>Net insurance premium revenue</b>		<b>466,700</b>	<b>423,855</b>
Investment income	18	80,383	98,577
Net realised gains / (losses) on financial assets	19	227,441	31,699
Net unrealised (losses) / gains on financial assets	19	(45,013)	85,416
<b>Net income</b>		<b>729,511</b>	<b>639,547</b>
Insurance benefits			
- claims	20	113,813	131,402
- pensions	20	116,114	70,705
- recovered from reinsurers	20	(10,413)	(6,828)
- rebates paid and provided	14.4	97,704	4,407
<b>Net insurance benefits and claims</b>		<b>317,218</b>	<b>199,686</b>
Administration expenses	21	45,914	41,943
BBBEE expenses	21	710	3,969
Asset management expenses		14,051	5,486
Accident prevention expenses and grants		12,082	11,364
<b>Expenses</b>		<b>389,975</b>	<b>262,448</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>339,536</b>	<b>377,099</b>



# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital	Retained income	Statutory contingency reserve	Investment revaluation reserve	TOTAL
	R'000	R'000	R'000	R'000	R'000
<b>Balance at 1 January 2009</b>	<b>10</b>	<b>620,420</b>	<b>27,143</b>	<b>50,860</b>	<b>698,433</b>
Adoption of IFRS	-	50,860	-	(50,860)	-
Profit for the year	-	377,099	-	-	377,099
Transfer from contingency reserve	-	(14,664)	14,664	-	-
<b>Balance at 31 December 2009</b>	<b>10</b>	<b>1,033,715</b>	<b>41,807</b>	<b>-</b>	<b>1,075,532</b>
<b>Balance at 1 January 2010</b>	<b>10</b>	<b>1,033,715</b>	<b>41,807</b>	<b>-</b>	<b>1,075,532</b>
Profit for the year	-	339,536	-	-	339,536
Transfer to contingency reserve	-	4,526	(4,526)	-	-
<b>Balance at 31 December 2010</b>	<b>10</b>	<b>1,377,777</b>	<b>37,281</b>	<b>-</b>	<b>1,415,068</b>

# STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Note	2010 R'000	2009 R'000
<b><i>Cash flows from operating activities</i></b>			
Cash generated by operations	22.1	289,674	220,129
<b>Net cash generated by operating activities</b>		<b>289,674</b>	<b>220,129</b>
<b><i>Cash flows from investing activities</i></b>			
Purchases: financial assets		(3,335,701)	(1,048,515)
Proceeds on disposals: financial assets		3,040,873	804,150
Purchase of furniture, equipment and motor vehicles	5	(1,751)	(1,959)
Proceeds from sale of furniture, equipment and motor vehicles		53	158
<b>Net cash (utilised in) / generated from investing activities</b>		<b>(296,526)</b>	<b>(246,166)</b>
<b>Net (decrease) / increase in cash and cash equivalents for the year</b>		<b>(6,852)</b>	<b>(26,037)</b>
Cash and cash equivalents at beginning of year		43,411	69,448
<b>Cash and cash equivalents at end of year</b>		<b>36,559</b>	<b>43,411</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 1. General information

The Company is a public Company, incorporated and domiciled in South Africa and is licensed as a Short-term insurer by the Financial Services Board.

## 2. Summary of significant accounting policies

The following are the principal accounting policies of the Company, which have been applied on a basis consistent with the previous year, unless otherwise stated.

### 2.1. Basis of presentation

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards, as issued by the International Accounting Standards Board ('IFRS') and the Companies Act, 1973 in South Africa.

IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), has been applied in preparing these financial statements. These are the Company's first financial statements prepared in accordance with IFRS.

The policies set out below have been consistently applied to all the years presented, except those set out below relating to Financial Instruments.

The financial statements of the Company until 31 December 2009 had been prepared in accordance with Generally Accepted Accounting Principles in South Africa ('SA GAAP').

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through income, financial assets and financial liabilities, including derivative instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies of the Company. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Company's financial statements, are disclosed in Note 3.

### Transition to IFRS

IFRS 1 requires full retrospective application of IFRS. However, the standard allows for exceptions and exemptions from full retrospective application of IFRS. The Company has not elected to apply any of the optional exemptions from full retrospective application of IFRS as they are not applicable.

### Reconciliation between IFRS and SA GAAP

The Company first adopted IFRS in 2010, and for this purpose the 2009 annual financial statements were restated. The last financial statements in accordance with previous GAAP were for the year ended 31 December 2009.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## Reconciliation of equity at 1 January 2009 (date of transition to IFRS) – R'000

	Note	Previous SA GAAP	Effect of transition to IFRSs	IFRS
<b>ASSETS</b>				
<b>Non current assets</b>				
Furniture, equipment and motor vehicles		3,717	-	3,717
Financial assets		1,587,413	-	1,587,413
<b>Current assets</b>				
Insurance receivables		51,113	-	51,113
Other receivables		19,625	-	19,625
Taxation receivable		6,300	-	6,300
Reinsurance contracts		9,700	-	9,700
Cash and cash equivalents		69,448	-	69,448
<b>TOTAL ASSETS</b>		<b>1,747,316</b>	<b>-</b>	<b>1,747,316</b>
<b>EQUITY AND LIABILITIES</b>				
Ordinary share capital		10	-	10
Other reserves	Note 1	78,002	(50,860)	27,142
Retained earnings	Note 1	620,421	50,860	671,281
<b>Total equity</b>		<b>698,433</b>	<b>-</b>	<b>698,433</b>
<b>Liabilities</b>				
Insurance liabilities		963,866	-	963,866
Provisions and other liabilities		1,143	-	1,143
Trade and other payables		83,874	-	83,874
<b>Total liabilities</b>		<b>1,048,883</b>	<b>-</b>	<b>1,048,883</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,747,316</b>	<b>-</b>	<b>1,747,316</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## Reconciliation of equity at 31 December 2009 – R'000

	Note	Previous SA GAAP	Effect of transition to IFRSs	IFRS
<b>ASSETS</b>				
<b>Non current assets</b>				
Furniture, equipment and motor vehicles		3,974	-	3,974
Financial assets		1,948,894	-	1,948,894
<b>Current assets</b>				
Insurance receivables		40,723	-	40,723
Other receivables		18,533	-	18,533
Taxation receivable		6,300	-	6,300
Reinsurance contracts		9,998	-	9,998
Cash and cash equivalents		43,411	-	43,411
<b>TOTAL ASSETS</b>		<b>2,071,833</b>	<b>-</b>	<b>2,071,833</b>
<b>EQUITY AND LIABILITIES</b>				
Ordinary share capital		10	-	10
Other reserves	<i>Note 1</i>	178,083	(136,276)	41,807
Retained earnings	<i>Note 1</i>	897,440	136,276	1,033,716
<b>Total equity</b>		<b>1,075,533</b>	<b>-</b>	<b>1,075,533</b>
<b>Liabilities</b>				
Insurance liabilities		980,179	-	980,179
Provisions and other liabilities		1,385	-	1,385
Trade and other payables		14,736	-	14,736
<b>Total liabilities</b>		<b>996,300</b>	<b>-</b>	<b>996,300</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,071,833</b>	<b>-</b>	<b>2,071,833</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## Reconciliation of total comprehensive income for 2009 – R'000

	Note	Previous SA GAAP	Effect of transition to IFRSs	IFRS
Insurance premium revenue		428,722	-	428,722
Insurance premium ceded to reinsurers		(4,867)	-	(4,867)
<b>Net insurance premium revenue</b>		<b>423,855</b>	<b>-</b>	<b>423,855</b>
Investment income		98,577	-	98,577
Net realised gains / (losses) on financial assets		31,699	-	31,699
Net unrealised (losses)/gains on the financial assets	Note 1	-	85,416	85,416
<b>Net income</b>		<b>554,131</b>	<b>-</b>	<b>639,547</b>
Insurance benefits				
- claims		131,402	-	131,402
- pensions		70,705	-	70,705
- recovered from reinsurers		(6,828)	-	(6,828)
- rebates paid and provided		4,407	-	4,407
<b>Net insurance benefits and claims</b>		<b>199,686</b>	<b>-</b>	<b>199,686</b>
Administration expenses		41,943	-	41,943
BBBEE expenses		3,969	-	3,969
Asset management expenses		5,486	-	5,486
Accident prevention expenses and grants		11,364	-	11,364
<b>Expenses</b>		<b>262,448</b>	<b>-</b>	<b>262,448</b>
<b>Profit for the year</b>		<b>291,683</b>	<b>-</b>	<b>377,099</b>
Other Comprehensive income:				
Unrealised gains on financial assets		85,416	(85,416)	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>377,099</b>	<b>-</b>	<b>377,099</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## Note 1

Financial assets at fair value through profit or loss were classified as available for sale in accordance with the previous GAAP, where the movement in the fair value was taken through equity. Fair value changes have now been included in 'Net unrealised (losses)/gains on the financial assets', in the Statement of Comprehensive Income.

### Explanation of material adjustments to the statement of cash flows for 2009:

There are no material differences between the statement of cash flows presented in accordance with IFRS and the statement of cash flows presented in accordance with previous GAAP.

### New and revised IFRS applied with no material effect on the financial statements

The following new and revised IFRS have also been adopted in these financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

#### *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*

The amendments provide two exemptions when adopting IFRS for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease. These amendments have no impact on the Company.

#### *Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendments to IAS39 has not had any material impact on amounts reported in the financial statements.

#### *Improvements to IFRS issued in 2009*

The application of Improvements to IFRS issued in 2009 has not had any material effect on amounts reported in the financial statements.

### New and revised IFRS in issue but not yet effective

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective and will not have any material impact in the future:

Amendments to IFRS 7	<i>Disclosures – Transfers of Financial Assets<sup>2</sup></i>
IFRS 9 (as amended in 2010)	<i>Financial Instruments<sup>3</sup></i>
IAS 24 (revised in 2009)	<i>Related Party Disclosures<sup>4</sup></i>
Amendments to IAS 32	<i>Classification of Rights Issues<sup>5</sup></i>
Amendments to IFRIC 14	<i>Prepayments of a Minimum Funding Requirement<sup>4</sup></i>
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments<sup>1</sup></i>

<sup>1</sup>Effective for annual periods beginning on or after 1 July 2010.

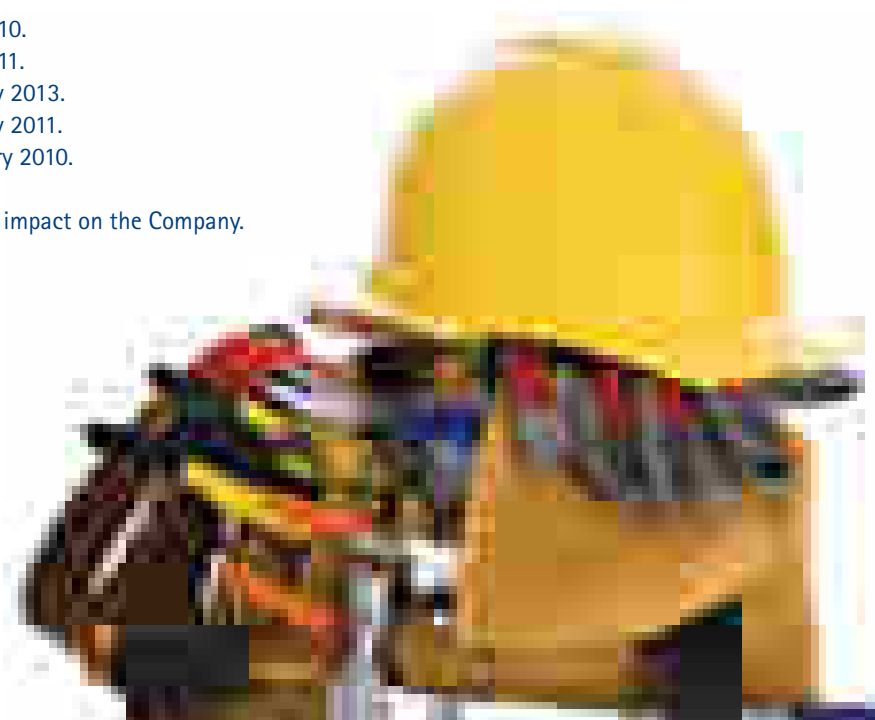
<sup>2</sup>Effective for annual periods beginning on or after 1 July 2011.

<sup>3</sup>Effective for annual periods beginning on or after 1 January 2013.

<sup>4</sup>Effective for annual periods beginning on or after 1 January 2011.

<sup>5</sup>Effective for annual periods beginning on or after 1 February 2010.

The above amendments are not expected to have a material impact on the Company.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 2.2. Furniture, equipment and motor vehicles

Furniture, equipment and motor vehicles are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives as follows:

· Furniture and fittings	5 – 10 years
· Motor vehicles	4 – 5 years
· Computer equipment	3 years

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted as appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of furniture, equipment and motor vehicles are determined by comparing proceeds with carrying amounts, and are included in the income statement.

## 2.3. Financial assets

The Company's financial assets can be split into three categories – investments, reinsurance assets and other receivables.

### *Investments*

Investments are classified as financial asset designated at fair value through income.

#### *Financial assets at fair value through income*

##### *Classification*

Financial assets at fair value through income are derivative and non-derivative financial assets that are not classified in any of the other categories, and comprise equity and debt securities. Financial assets at fair value through income are intended to be held for an indefinite period of time, but may be sold in response to liquidity or other needs.

##### *Recognition and measurement*

These investments are initially recognised at fair value, transaction costs are expensed in the statement of comprehensive income, and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognised in profit or loss.

##### *Derecognition*

Investments are derecognised when the rights to receive cashflows from investments have ceased or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

##### *Fair value hierarchy*

The Company classifies its assets at each balance sheet date on a three-tier hierarchy for fair value measurement disclosures.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and are normally obtainable from multiple sources.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### *Reinsurance assets*

Receivables arising from reinsurance contracts are accounted for as described in note 2.7 and are reviewed for impairment as part of the impairment review of other receivables.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## ***Impairment of other non-financial assets***

Assets that have an indefinite useful life – for example, land – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

## ***Other receivables***

Other receivables are carried at cost, which approximates fair value.

Receivables arising from insurance contracts, including but not limited to policyholder balances and pipeline premiums, are classified in this category, but disclosed separately on the balance sheet as "Insurance assets", and are designated at fair value with changes in fair value recorded in profit or loss.

## ***Impairment***

The Company assesses, at each balance sheet date, whether there is objective evidence that a receivable or group of receivables is impaired. Such receivables are impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the assets ("loss event") and that loss event(s) has an impact on the estimated future cashflows of the asset, that can be reliably estimated. Objective evidence that such an asset(s) is impaired includes observable data that comes to the attention of the Company.

The assets may be impaired individually or assessed as a group of assets. If there is objective evidence that an impairment loss has been incurred, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The carrying amount is reduced through an allowance account and the loss is recognised in profit or loss.

## **2.4. Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

## **2.5. Short term investments and Cash and cash equivalents**

Cash and cash equivalents: includes cash in hand and deposits held at call with banks, which includes petty cash, operational bank account, investment settlement bank account and other short-term investments which are highly liquid investments with original maturity of three months or less, that comprise local and foreign denominated currency money market unit trusts, as well as cash held in foreign currencies.

## **2.6 Foreign currency translation**

### ***a) Functional and presentation currency***

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Rands, which is the Company's functional and presentation currency.

### ***b) Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Translation differences on financial assets and liabilities at fair-value through profit or loss, are reported as part of their fair-value gain or loss.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 2.7 Financial liabilities

Financial liabilities issued by the company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. Financial liabilities are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

Financial liabilities comprise capitalised value of pensions, reinsurance premium due, trade and other payables and provisions for rebates.

Financial liabilities are accounted for as stated in note 2.7

## 2.8 Insurance contracts

The Company issues insurance policies in respect of benefits payable to workmen injured on duty, in terms of the Compensation for Injuries and Diseases Act ("COID Act") and operates under licence to the Compensation Commissioner. These benefits include, but are not limited to, medical costs, temporary loss of income, permanent disablement, sundry costs and pensions, as defined in the COID Act.

### *Recognition and measurement*

#### *Premiums*

Premium income (estimated premiums and pipeline premiums) is recognised in the financial period that the risk incepts. The statutory period of insurance cover is from 01 March to 28 February i.e. annual business. Premium income is shown net of allowances for impairments and write offs.

#### *a) Estimated premiums*

Policyholders project their employees' wages for the insurance period and, based on COIDA rates, an estimated premium for that period is determined. At the end of the period of insurance, the policyholder reports actual wages, which will determine the actual premium. The variance between the estimated premium and actual premium is referred to as "adjustment to estimates".

#### *b) Pipeline premiums*

This refers to the above-mentioned "adjustment to estimates" i.e. premium which has been "earned" in the current financial period, but will only be declared by the policyholders in the next financial period. In the subsequent financial period, when the actual premium adjustment is ascertained, the pipeline premium accrual is reversed.

Pipeline premiums have been calculated as a percentage of current years estimated premium, currently 5% (2009: 10%). The percentage used is based on prior year's history and economic factors, specifically relating to the construction industry including the current shortage of skills and materials.

Unearned premiums are carried forward and are those proportions of the written premiums that relate to risks that have not expired at the end of the financial year. The proportions unearned are calculated on the 1/365<sup>th</sup> basis.

### *Claims and benefits*

The Company has two main categories of claims and benefits, as detailed below:

#### *a) Capitalised Value of Pensions*

The Capitalised Value of Pensions ("CVP") liability is the present value of future liabilities for existing claims payments and administration expenses, net of any investment income that may be earned. The liability is based on assumptions as to future pension increases, mortality and morbidity, management expenses and investment income, which are reviewed for reasonableness by management on an annual basis.

This liability is recalculated at each balance sheet date, using the assumptions above. Independent actuarial valuations of the CVP are carried out annually and adjusted for any changes in the assumptions. Adjustments to the liability are charged to income as incurred.

#### *b) Claims*

Claims and loss adjustment expenses are charged to income as incurred, based on the estimated liability for compensation. They include all costs incurred and arise from events that have occurred up to the balance sheet date, even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims.

Liabilities for unpaid claims are calculated based on an estimated average cost per claim for each underwriting year. The incurred but not reported claims ("IBNR") are based on estimated unreported claims. The average cost per claim is based on the actual claims paid and awards made, and estimated outstanding costs (based on the latest and most reliable information available), and the number of claims registered.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## *Liability adequacy test in respect of claims and benefits*

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities. In performing these tests, current best estimates of future cashflows and administration expenses, as well as investment income, are used. Any deficiency is immediately charged to income.

## *Reinsurance*

The contract entered into by the Company with reinsurers under which the Company is compensated for losses meets the insurance classification requirements in this note, and are classified as reinsurance contracts held.

*Reinsurance recoveries* are the benefits to which the Company is entitled under its reinsurance contract in respect of claims and benefits incurred. The amounts recoverable are dependent on the expected claims and benefits, as described above, and are calculated in accordance with the terms and conditions of the reinsurance agreement.

*Reinsurance assets* are the unsettled amounts due and payable by the reinsurers in respect of reinsurance recoveries to which the Company is entitled under its reinsurance contract. These assets consist of short-term balances due from reinsurers, which are classified as other receivables, and longer-term receivables, which are classified as reinsurance assets.

*Reinsurance premium (Premium revenue ceded)* are the premiums payable in respect of the reinsurance contract, including the anticipated liability in respect of pipeline premiums and are recognised as an expense when incurred. In certain cases retrospective reinsurance premiums are paid (reinstatement premiums), which are charged to income as incurred.

*Reinsurance liabilities* are premiums outstanding in respect of the reinsurance contract.

The Company assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the asset to its recoverable amount and recognises that impairment in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired, and accounts for the impairment loss using the same process adopted for other receivables. These processes are described in Note 2.3.

## *Rebates*

Rebates are paid to policyholders with low claims experiences, specifically to recognise and reward health and safety.

Rebates are paid 2½ years after the inception of an underwriting period. The amount paid is based primarily on the policyholder's claims experience in respect of that underwriting year, and calculated as a percentage of premium paid.

In each underwriting year a provision for rebates, to be paid in 2½ years, is made. The provision is calculated at 21% (2009: 21%) of premium income, and any shortfall / excess in the provision is charged / released to income in the year of payment.

## *Receivables and payables related to insurance contracts*

Receivables and payables are recognised when due. These include amounts due to and from policyholders, including, but not limited to, premiums, refunds and rebates. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the receivable to its recoverable amount and recognises that impairment in the income statement.

## **2.9 Income tax**

Flowing from the income tax exemption granted by the South African Revenue Service, during the 2006 financial year, no income tax has been accounted for in the current financial year, in respect of the operating activities of the current financial year. Refer to the Directors' Report for additional commentary regarding the tax exempt status of the Company.

## **2.10 Employee benefits**

### *Retirement obligations*

The Company operates a defined contribution provident fund. Under a defined contribution plan the Company pays contributions to a privately administered provident fund on a mandatory, contractual basis. The contributions are recognised as an employee benefit expense when they are due.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 2.11 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

## 2.12 Revenue recognition

### a) *Investment income*

Investment income on financial assets: debt securities is recognised using the effective interest rate method, which is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset. The calculation includes all fees, transaction costs and premiums or discounts on the instrument. The amount is charged / credited to income as part of interest income on debt securities.

Investment income on money market instruments (cash and cash equivalents and short term investments) is recognised in the income statement as earned i.e. the accrual basis.

### b) *Dividend income*

Dividend income for financial assets at fair value through income is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

## 2.13 Leases

### *Operating leases*

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

## 2.14 Statutory contingency reserve

In terms of the reserving requirements of the Short-term Insurance Act of 1998, the Company is required to hold 10% of gross premiums received less approved reinsurance less rebates as a statutory contingency reserve. The required reserve is reviewed annually and adjusted as appropriate. The utilisation of this reserve, in the event of a catastrophe, is subject to the approval of the Registrar of Short-Term Insurance.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 3. Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### a) *The ultimate liability arising from claims made under insurance contracts:*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. 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. These uncertainties will also have a direct impact on the reinsurance assets:

- Liabilities for unpaid claims are calculated based on an estimated average cost per claim for each underwriting year (see note 2.7). Due to the nature of the claims (injuries and long tail), uncertainty exists regarding the future costs.
- Liabilities in respect of incurred but unreported claims ("IBNR"), are based on the average claims cost as detailed above and the estimated, unreported number of claims for the current and previous two years. The unreported claims are calculated based on history and may differ from the actual number of claims reported.
- The capitalised value of pensions ("CVP") liability is the present value of future liabilities for existing claims payments and administration expenses, net of any investment income that may be earned (see note 2.7). The liability is based on assumptions as to future pension increases, mortality and morbidity, management expenses and investment income, which are reviewed by management on an annual basis for reasonableness, and results in uncertainty regarding the future liabilities.
  - o Future pension increases are assumed to be at the current CPI (Consumer Price Index);
  - o Mortality and morbidity are based on the most recent South African life expectancy tables, including an adjustment in respect of the impact of AIDS / HIV and the level of disablement in respect of employees;
  - o Future management expenses are based on the forthcoming year's budget, and are determined as an average cost per pensioner. Future increases in respect of management expenses are assumed at CPI +1%;
  - o Future investment income is based on the effective interest yield of nominated Government bonds (currently the R157 and inflation-linked bonds, being the R189 and R197) as at the financial year-end.

A sensitivity analysis in respect of a change in the net discount factor and the impact of HIV / AIDS, is presented in note 14.2.

### b) *The ultimate liability arising in respect of rebates:*

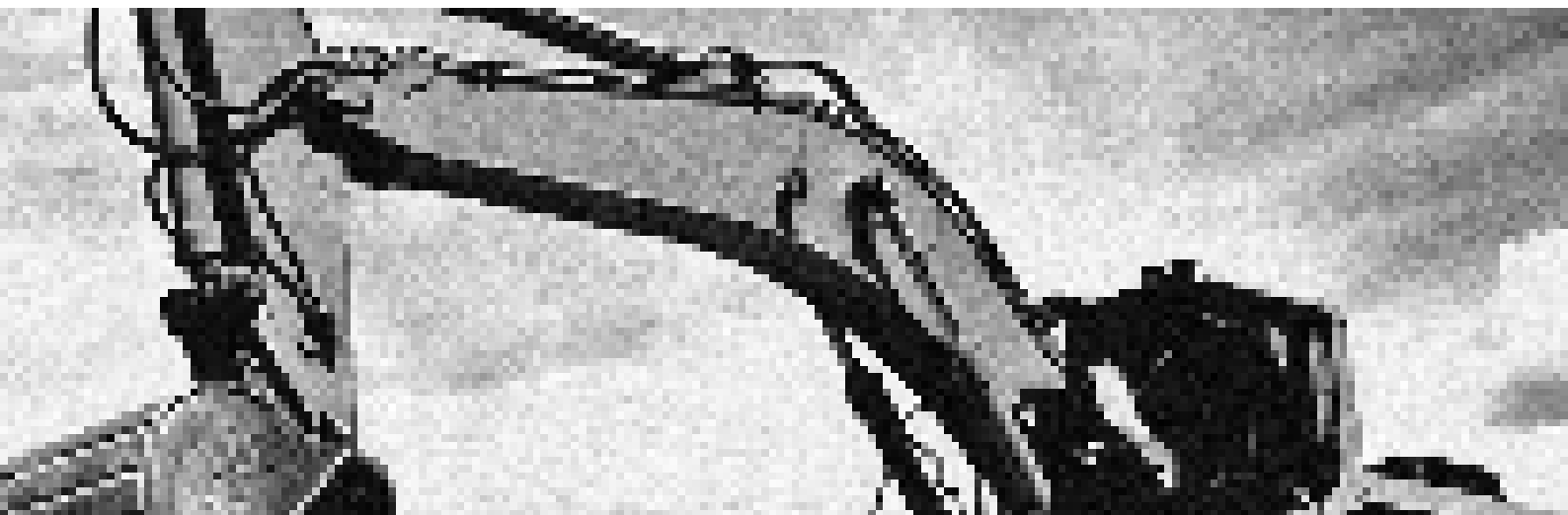
Rebates are provided for in the year in which premium is written (see note 2.7). The rebate provision is based on a percentage of premium income. The percentage used is based on management intention in that financial year, but the ultimate payment of rebates may differ from the original provision. The amount payable is at the discretion of the Board.

The percentage used is reviewed annually and adjustments to previous provisions are made as necessary.

### c) *Pipeline premium and all related financial liabilities:*

Pipeline premium has been calculated as a percentage of estimated premium (see note 2.7). The percentage used is based on management's judgement, using history and other industry information available, but the ultimate premium received in respect of pipeline premiums may differ from the original provision. All related liabilities, reinsurance, unearned premium liability and rebates are subject to the same uncertainty.

Differences between the actual premium adjustment and pipeline premium are accounted for in the following financial period, once reported by policyholders. The percentage used is reviewed annually.





# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## Sensitivity analysis

Below is the impact on profit for the year if the 5% currently provided is actually 2.5 or 7.5%. The impact on profit is calculated from a base of 15% which was the previous financial years pipeline premium percentage used.

	2010 R'000
The impact on profit for the year at 5% as provided	(10,597)
The impact on profit for the year at 2.5%	(17,593)
The impact on profit for the year at 7.5%	(3,600)

The 5% utilised in the pipeline premium calculation resulted in a negative impact to net profit of R10,597 million. Net profit would have decreased by R17,593 million if 2.5% was used and decreased by R3,600 million if 7.5% was used in the pipeline premium calculation.

## 4. Management of risk

### 4.1. Insurance risk

The Company issues insurance policies in respect of benefits payable to workmen injured on duty, in terms of the Compensation for Injuries and Diseases Act ("COID Act") and operates under licence to the Compensation Commissioner. These benefits include, but are not limited to, medical costs, temporary loss of income, permanent disablement, sundry costs and pensions, as defined in the COID Act.

*Medical costs* include all medical expenditure (e.g. hospitalisation, consultations and medication) incurred as a result of an injury on duty.

*Temporary loss of income* refers to payments made in respect of the loss of wages as a result of being off work.

*Permanent disablement* is a lump sum payout to workmen as a result of a defined permanent injury / disability, which is not severe enough to prevent the individual from working again, but rather compensation for the minor injury / disablement.

*Sundry costs* relate to all other expenditure, as defined in the COID Act, which are incurred as a result of the work injury.

*Disability pensions* are paid to employees who are disabled as a result of the work-related injury or disease, and are paid until the pensioner dies.

*Pensions* are paid to the dependant(s) (widows and children) of employee's who have died as a result of a work-related injury or disease. The pensions paid to widows are paid until the widow dies, and pensions to children are paid until the child turns 18.

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

Where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the premiums charged. This could occur because of the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number of claims and benefits will vary from year to year from the estimates using established statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and the type of industry covered.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## *Workmen's Compensation Insurance*

The Company only covers one type of insurance risk, namely workmen's compensation, for the construction industry throughout South Africa. The Company has unlimited exposure in respect of claims and benefits, which vary depending on the severity and nature of the accident and injury. The premium rates are determined by the Compensation Commissioner ("CC"), which are reviewed and recalculated on an annual basis. Class V has various "sub-classes" / industry classifications, each with their own rate. To date the rates determined by the CC have been adequate to cover the cost of claims and pensions awarded by the Company.

## *Risks*

The most significant risk to the Company at present is the lack of skills in the construction industry, coupled with the high level of construction activity within South Africa, exposing the Company to an increase in the number of accidents, and therefore injuries, on duty.

In respect of costs incurred in the rehabilitation of the injured worker, the Company is also exposed to the effect of HIV / AIDS in respect of recovery periods – the longer the period of recovery the higher the costs incurred, or due to the inability to recover fully, a pension may be awarded; this risk may be alleviated by the introduction of antiretroviral drugs and AIDS / HIV awareness campaigns.

The risk of fraudulent claims and or pensions is mitigated by good systems of internal controls and segregation of duties within the claims departments. All claims reported and registered are matched / linked to in-force policies and good communication with the policyholders (employers of injured workmen) exists. A pension can only be created if a claim has been registered, and thereafter we are exposed to fraud in respect of:

- o *Identity fraud* e.g. a pensioner dies (and the family does not inform the Company) and an individual obtains a false identity document ("ID") and presents themselves as this pensioner. This risk is reduced by comparing ID documents on file to the fictitious pensioner's ID.
- o *Unreported deaths* e.g. an individual dies and the family does not inform the Company and therefore the Company continues paying the monthly pension. This risk exists for a maximum period of 12 months as annual life certificate confirmations are requested, together with a copy of their ID. If the necessary documentation is not received by 30 June each year, the pension is suspended.

The Company is bound by the rates and benefits of the Compensation Commissioner, in conjunction with the provisions of COIDA. The risk of rates and benefits being mismatched is low and the Company has a good working relationship with the Compensation Office.

## *Management of risks*

Rates are reviewed annually based on costs incurred and accidents registered relative to the premium income generated.

The Company is on a drive to promote health and safety in the construction industry and, where required, assists policyholders to improve their safety via site visits, training, sponsorships etc. FEM also recognises excellent safety records via its rebate programme (see note 2.7)

## *Sources of uncertainty in the estimation of future claim payments*

Claims are payable on a claims-occurrence basis and therefore the Company is liable for all insured events that occurred during the period of insurance, even if the loss is only discovered after the end of the contract term. Accidents are generally reported within the year incurred (88%), and by the end of the following year, 99% of accidents have been reported. Claims payments however, take longer with between only 50% and 60% of costs being paid in the year of the accident, and up to 90% being paid by the end of the following year. As a result, the estimation of outstanding costs is based on the best available information and knowledge at each year-end. Given the uncertainty as a result of the factors above, it is likely that the final outcome will be different from the original liabilities (outstanding estimates and IBNR) raised. The pensions liability is also exposed to assumptions made at the end of each year. A sensitivity analysis of these assumptions is provided in the pension liability note 14.2. (See note 3 regarding areas of judgement).



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## Claims and benefits

Claims and benefits, including the number of accidents per region, are tabled below:

	Claims Costs R'000	Pensions awarded R'000	Accidents registered
<b>2010</b>			
Johannesburg	56,884	31,716	5,300
Cape Town	29,675	15,522	3,034
Durban	18,655	11,651	1,524
Pretoria	-	-	-
<b>Total</b>	<b>105,214</b>	<b>58,889</b>	<b>9,858</b>
<b>2009</b>			
Johannesburg	54,777	20,153	5,355
Cape Town	29,674	8,355	3,310
Durban	14,072	8,847	1,614
Pretoria	(32)	105	-
<b>Total</b>	<b>98,491</b>	<b>37,460</b>	<b>10,279</b>

## 4.2. Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The key financial risk is that the proceeds from its financial assets are not sufficient to cover the obligations arising from its insurance contracts. The main components are interest rate risk, equity price risk and credit risk.

### 4.2.1. Interest-rate risk

The Company holds 32% (2009: 42%) of its financial assets in debt securities (Government Bonds and Public Utility Bonds) and the remainder of investments are invested in equities, collective investment schemes, credit opportunities, money market and unit trusts. The return on these instruments, and market value of debt securities are affected by fluctuations in interest rates.

Excluding the movement in the pensions liability and rebates provision, which is discretionary, the Company currently covers all insurance claims and benefits from operational cash, and therefore is not dependent on investment income to sustain the insurance operations.

The pensions liability is actuarially valued on an annual basis, which is impacted by the future anticipated interest return – see note 14.2.

### 4.2.2. Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas of exposure are:

- reinsurers' share of insurance liabilities,
- amounts due from reinsurers' in respect of claims payments already made, and
- amounts due from policyholders.

## Reinsurers

The credit worthiness of reinsurers is considered on an annual basis by reviewing their financial strength before finalising any contract. The Company's reinsurance liabilities are covered by four diverse reinsurers.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## Sensitivity analysis on market value

Impact on financial assets if:		
- Emerging markets down by 30%	(10%)	(11%)
- Rand depreciates by 20%	5%	3%
- Alsi down by 10% and rates down by 2%	4%	1%
- Alsi down by 10%	(3%)	(4%)
- SA rates down 2%	7%	5%

South African rand value impact on financial assets if:		
- Emerging markets down by 30%	(238,707)	(227,939)
- Rand depreciates by 20%	114,505	58,175
- Alsi down by 10% and rates down by 2%	98,378	28,331
- Alsi down by 10%	(60,951)	(73,331)
- SA rates down 2%	159,329	98,662

### 4.2.3. Liquidity risk

The Company is exposed to daily calls on its available cash resources, mainly from short term claims. Liquidity risk is the risk that cash resources are not available to pay claims when due. The Company ensures that adequate levels of cash are available immediately without incurring penalties.

	0-1 year	2-5 years	> 5 years	Total
<b>2010</b>				
Trade and other payables	20,798	-	-	20,798
Capitalised value of pensions	628,769	-	-	628,769
Provision for rebates: non-current	-	109,385	-	109,385
Provision for rebates: current	94,374	-	-	94,374
Reinsurance premium due	282	-	-	282
	<b>744,223</b>	<b>109,385</b>	-	<b>853,608</b>

	0-1 year	2-5 years	> 5 years	Total
<b>2009</b>				
Trade and other payables	14,736	-	-	14,736
Capitalised value of pensions	556,176	-	-	556,176
Provision for rebates: non-current	-	102,754	-	102,754
Provision for rebates: current	80,863	-	-	80,863
Reinsurance premium due	484	-	-	484
	<b>652,259</b>	<b>102,754</b>	-	<b>755,013</b>

### 4.2.4. Equity price risk

This is the risk that the Company will not realise the value of its equity securities, which may impact the Company's ability to meet liabilities. In terms of the Company's licence from the Compensation Commissioner, a minimum value of investments, to cover all insurance liabilities, must be invested in low-risk / no-risk instruments, and therefore all equity securities are considered "surplus assets".

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	Furniture and fittings	Office equipment	Computer equipment	Motor vehicles	Total
	R'000	R'000	R'000	R'000	R'000
<b>5. FURNITURE, EQUIPMENT AND MOTOR VEHICLES</b>					
<i>Year ended 31 December 2010</i>					
Opening cost	1,630	790	3,739	4,469	10,628
Opening accumulated depreciation	(1,277)	(514)	(2,219)	(2,644)	(6,654)
Opening net book amount	353	276	1,520	1,825	3,974
Additions	80	21	346	1,304	1,751
Disposals	(16)	-	(6)	(20)	(42)
Depreciation charge	(96)	(91)	(736)	(959)	(1,882)
Closing net book amount	321	206	1,124	2,150	3,801
<i>At 31 December 2010</i>					
Cost	1,694	810	2,567	4,847	9,918
Accumulated depreciation	(1,373)	(604)	(1,443)	(2,697)	(6,117)
Net book amount	321	206	1,124	2,150	3,801
<i>Year ended 31 December 2009</i>					
Opening cost	1,457	761	2,236	4,487	8,941
Opening accumulated depreciation	(1,157)	(417)	(1,809)	(1,841)	(5,224)
Opening net book amount	300	344	427	2,646	3,717
Additions	174	28	1,588	170	1,960
Disposals	-	-	-	(116)	(116)
Depreciation charge	(121)	(96)	(495)	(875)	(1,587)
Closing net book amount	353	276	1,520	1,825	3,974
<i>At 31 December 2009</i>					
Cost	1,630	790	3,739	4,469	10,628
Accumulated depreciation	(1,277)	(514)	(2,219)	(2,644)	(6,654)
Net book amount	353	276	1,520	1,825	3,974

Depreciation expenses of R1,9m (2009: R1,6m) have been charged to management expenses (Note 21).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>6. FINANCIAL ASSETS</b>		
<i>6.1 Designated at fair value through income</i>		
Local:		
- Listed equity securities	342,970	357,992
- Investment link insurance policies	364,977	453,521
- Listed debt securities: fixed interest rate	146,672	820,783
- Listed debt securities: inflation link	561,746	-
- Listed unit trust investments	40,566	-
- Credit opportunities	331,235	-
	1,788,166	1,632,296
Foreign:		
- Listed unit trust investments	312,095	-
- Listed equity securities	63,420	-
- Credit opportunities	198,402	-
	573,917	-
Money market investments		
- Local	64,055	-
- Foreign	10	316,598
	64,065	316,598
Non Current	2,362,083	1,632,296
Current	64,065	316,598
<b>Total financial assets</b>	<b>2,426,148</b>	<b>1,948,894</b>
<i>6.2 Movement in financial assets designated at fair value through income</i>		
At the beginning of year	1,948,894	1,587,413
Additions	3,335,701	1,048,515
Disposals	(2,838,518)	(795,711)
Income accrued	67,652	34,321
Foreign exchange differences	(42,568)	(11,060)
Net unrealised (loss) / gain	(45,013)	85,416
<b>At 31 December</b>	<b>2,426,148</b>	<b>1,948,894</b>

A requirement of the Company's licence is to hold assets which comply with the requirements of Regulation 34 of the regulations made under section 76 of the Insurance Act 1943, (as amended and substituted from time to time), regulating the composition of the assets to be held in respect of insurance business, to cover specified insurance liabilities of the Company - minimum required assets. This minimum requirement is R1 198,3 million (2009: R1 107,4 million) and qualifying assets totalled R1 458,7 million (2008: R1 487,4 million).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>6.3 Credit quality of financial assets</b>		
<b>Debt securities</b>		
Fixed interest rate		
BBB+ Government Guarantee ( <i>Negative, guaranteed by SA government</i> )	145,378	785,783
AAA ( <i>Stable, highest quality</i> )	1,294	-
AA- ( <i>Stable, upper medium</i> )	-	35,000
	<b>146,672</b>	<b>820,783</b>
Inflation link		
BBB+ Government Guarantee ( <i>Negative, guaranteed by SA government</i> )	561,746	-
	<b>708,418</b>	<b>820,783</b>
<b>Other financial assets</b>		
Investment link insurance policies BBB ( <i>Long term stable</i> )	364,977	453,521
Equity securities BBB ( <i>Long term stable</i> )	40,566	-
Foreign debt securities BBB ( <i>Long term stable</i> )	30,274	-
Local money market BBB ( <i>Long term stable</i> )	64,055	-
Foreign unit trust BBB ( <i>Long term stable</i> )	-	165,630
Foreign equity fund BBB ( <i>Long term stable</i> )	-	150,968
	<b>499,872</b>	<b>770,119</b>
Non-rated financial assets	1,217,858	357,992
	<b>1,717,730</b>	<b>1,128,111</b>
<b>Total financial assets at fair value through income</b>	<b>2,426,148</b>	<b>1,948,894</b>
<b>Trade and other receivables</b>		
Counterparties without external rating:		
Existing customers with no defaults in the past		
Insurance receivables	25,618	40,723
Reinsurance assets	10,235	9,998
Counterparties with external rating: other receivables		
BBB+ Government Guarantee ( <i>Negative, guaranteed by SA government</i> )	4,628	13,643
AAA ( <i>Stable, highest quality</i> )	7	106
AA- ( <i>Stable, upper medium</i> )	-	706
	<b>4,635</b>	<b>14,455</b>
Counterparties without external rating:		
Existing customers with no defaults in the past		
	10,657	4,078
	<b>15,292</b>	<b>18,533</b>
<b>Total trade and other receivables</b>	<b>51,145</b>	<b>69,254</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>6.3 Credit quality of financial assets continued...</b>		
<b>Cash and cash equivalents</b>		
AA (Stable, high quality)	17,330	10,989
BBB (Long term stable)	17,113	32,413
BBB+ (Medium stable positive)	2,107	-
Cash on hand	9	9
	<b>36,559</b>	<b>43,411</b>
<b>6.4 Financial assets designated at fair value through income are denominated in the following currencies:</b>		
- Equity securities - ZAR	748,513	811,513
- Equity securities - USD	375,515	108,303
- Money market investments - ZAR	64,055	-
- Money market investments - USD	10	182,572
- Money market investments - Euro	-	25,714
- Money market investments - GBP	-	9
- Credit Opportunities - ZAR	331,235	-
- Credit Opportunities - USD	198,402	-
- Debt securities - fixed interest rates	146,672	820,783
- Debt securities - inflation link	561,746	-
	<b>2,426,148</b>	<b>1,948,894</b>
South African rand	1,852,221	1,632,296
US dollar	573,927	290,875
UK pound	-	9
Euro	-	25,714
	<b>2,426,148</b>	<b>1,948,894</b>





# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 6.5 Maturity analysis

	Year ended 31 December 2010				Year ended 31 December 2009			
	0-1 year	2-5 years	>5 years	Total	0-1 year	2-5 years	>5 years	Total
<b>Local:</b>								
- Listed equity securities	-	342,970	-	342,970	-	357,992	-	357,992
- Investment link insurance policies	-	364,977	-	364,977	-	453,521	-	453,521
- Listed debt securities: fixed interest rate	-	146,672	-	146,672	-	820,783	-	820,783
- Listed debt securities: inflation link	-	561,746	-	561,746	-	-	-	-
- Listed unit trust investments	-	40,556	-	40,556	-	-	-	-
- Credit opportunities	-	-	331,235	331,235	-	-	-	-
	-	1,456,921	331,235	1,788,156	-	1,632,296	-	1,632,296
<b>Foreign:</b>								
- Listed unit trust investments	-	312,095	-	312,095	-	-	-	-
- Listed equity securities	-	63,420	-	63,420	-	-	-	-
- Credit opportunities	-	198,402	-	198,402	-	-	-	-
	-	573,917	-	573,917	-	-	-	-
<b>Money market investments</b>								
- Local	64,055	-	-	64,055	-	-	-	-
- Foreign	10	-	-	10	316,598	-	-	316,598
	64,065	-	-	64,065	316,598	-	-	316,598
<b>Total financial assets</b>	<b>64,065</b>	<b>2,030,838</b>	<b>331,235</b>	<b>2,426,138</b>	<b>316,598</b>	<b>1,632,296</b>	<b>-</b>	<b>1,948,894</b>

## 6.6 Fair value hierarchy

### Level 1

- Listed foreign
- Listed local

### Level 2

- Unlisted foreign
- Unlisted local
- Money market instruments

	2010 R'000	2009 R'000
- Listed foreign	345,241	-
- Listed local	1,091,954	1,178,775
- Unlisted foreign	228,676	316,598
- Unlisted local	696,212	453,521
- Money market instruments	64,055	-
	<b>2,426,138</b>	<b>1,948,894</b>

# NOTES TO THE FINANCIAL STATEMENTS

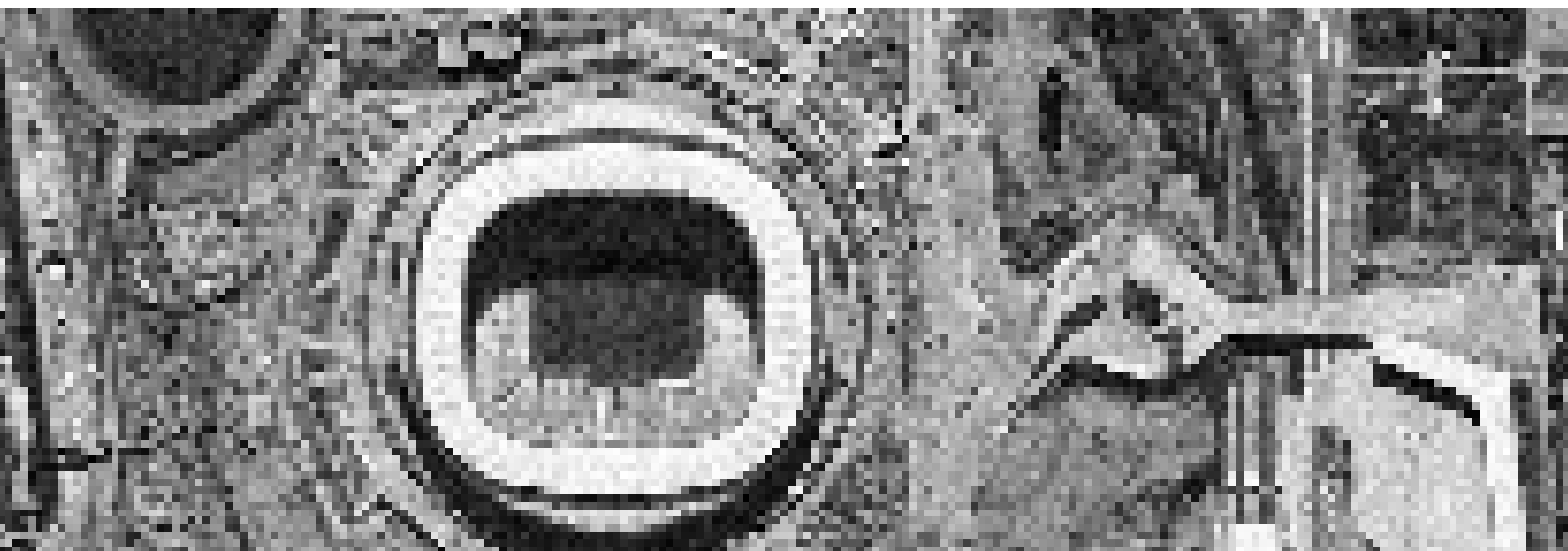
For the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>7. REINSURANCE CONTRACTS</b>		
Reinsurers' share of insurance liabilities	10,235	9,998
0 to 1 year	2,259	64
2 to 5 years	3,433	6,701
> 5 years	4,543	3,233
	<b>10,235</b>	<b>9,998</b>

Amounts due from reinsurers in respect of claims already paid by the company, are included in other receivables.

<b>8. INSURANCE RECEIVABLES</b>		
Pipeline premium accrued	22,718	39,905
Due from policyholders	6,918	5,194
Less provision for impairment of amounts due from policyholders	(4,018)	(4,376)
	<b>25,618</b>	<b>40,723</b>
0 to 1 year	2,900	818
2 to 5 years	22,718	39,905
	<b>25,618</b>	<b>40,723</b>

There is little concentration of credit risk with respect to the amounts due from policyholders, as the company has a number of nationally dispersed policy holders. The Company has written off R3,50 million (2009: R0,28 million) for the impairment of amounts due from policyholders, which has been set off against estimated premium income (Note 17). All doubtful debts have been fully provided for at year end.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>9. OTHER RECEIVABLES</b>		
Accrued investment income - financial assets	4,635	14,455
Reinsurance receivables	9,621	3,306
Prepayments	148	157
Related parties	66	242
Other	822	373
	<b>15,292</b>	<b>18,533</b>
0 to 1 year	5,671	15,227
2 to 5 years	6,357	1,061
> 5 years	3,264	2,245
	<b>15,292</b>	<b>18,533</b>

There is no concentration of credit risk with respect to the other receivables, as the amounts due are from various sources (Government, private sector, reinsurers).

## 10. Financial instruments by category

*Year ended 31 December 2010*

<i>Assets as per statement of financial position</i>	Fair value through income	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets and liabilities	Total
Financial assets at fair value through income	2,426,148	-	-	-	2,426,148
Cash and cash equivalents	36,559	-	-	-	36,559
Furniture, equipment and motor vehicles	-	-	-	3,801	3,801
Insurance receivables	-	-	-	25,618	25,618
Other receivables	-	15,292	-	-	15,292
Taxation receivables	-	6,300	-	-	6,300
Reinsurance assets	-	-	-	10,235	10,235
<b>Total</b>	<b>2,462,707</b>	<b>21,592</b>	<b>-</b>	<b>39,654</b>	<b>2,523,953</b>

*Liabilities per statement of financial position*

Insurance liabilities					
- Outstanding claims	-	-	-	176,533	176,533
- Capitalised value of pensions	628,769	-	-	-	628,769
- Unearned premium reserves	-	-	-	77,398	77,398
- Provision for rebates-non current	-	-	109,385	-	109,385
- Provision for rebates-current	-	-	94,374	-	94,374
- Reinsurance premium due	-	-	282	-	282
Employee benefit liabilities	-	-	-	1,346	1,346
Trade and other payables	-	-	20,798	-	20,798
<b>Total</b>	<b>628,769</b>	<b>-</b>	<b>224,839</b>	<b>255,277</b>	<b>1,108,885</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 10. Financial instruments by category (continued)

Year ended 31 December 2009

### Assets as per statement of financial position

Financial assets at fair value through income	1,948,894	-	-	-	1,948,894
Cash and cash equivalents	43,411	-	-	-	43,411
Furniture, equipment and motor vehicles	-	-	-	3,974	3,974
Insurance receivables	-	-	-	40,723	40,723
Other receivables	-	18,533	-	-	18,533
Taxation receivables	-	6,300	-	-	6,300
Reinsurance assets	-	-	-	9,998	9,998
	<u>1,992,305</u>	<u>24,833</u>	<u>-</u>	<u>54,695</u>	<u>2,071,833</u>

### Liabilities per statement of financial position

Insurance liabilities					
- Outstanding claims	-	-	-	167,934	167,934
- Capitalised value of pensions	556,176	-	-	-	556,176
- Unearned premium reserves	-	-	-	71,968	71,968
- Provision for rebates-non current	-	-	102,754	-	102,754
- Provision for rebates-current	-	-	80,863	-	80,863
- Reinsurance premium due	-	-	484	-	484
Employee benefit liabilities	-	-	-	1,385	1,385
Trade and other payables	-	-	14,736	-	14,736
<b>Total</b>	<u>556,176</u>	<u>-</u>	<u>198,837</u>	<u>241,287</u>	<u>996,300</u>

### Fair value of financial instruments

The Company's financial instruments mainly consists of financial assets designated at fair value through income, loans and receivables and financial liabilities. The methods for recognition and measurement of financial instruments are disclosed in the Company's accounting policies. The fair values have been calculated and measured consistently with the methods described in the accounting policies.

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the financial statements. The table does not include fair values of non financial assets and non financial liabilities.

	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets designated at fair value through income				
Investments		<b>2,426,148</b>		1,948,894
Loans and receivables				
Cash and cash equivalents	<b>36,559</b>	<b>36,559</b>	43,411	43,411
Trade receivables	<b>57,445</b>	<b>57,445</b>	75,554	75,554
<b>Total financial assets</b>	<u><b>94,004</b></u>	<u><b>2,520,152</b></u>	<u>118,965</u>	<u>2,067,859</u>
Financial liabilities				
Trade payables	<b>20,798</b>	<b>20,798</b>	14,736	14,736
Insurance liabilities	<b>1,086,741</b>	<b>1,086,741</b>	980,179	980,179
<b>Total financial liabilities</b>	<u><b>1,107,539</b></u>	<u><b>1,107,539</b></u>	<u>994,915</u>	<u>994,915</u>

Financial assets and financial liabilities for which fair value approximates fair value.

Management considers the carrying amount of financial assets and financial liabilities that are liquid or have a short term maturity (less than 12 months) to approximate their fair value.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	2010	2009
	R'000	R'000
<b>11. SHARE CAPITAL</b>		
Authorised and issued 500,000 ordinary shares of 2 cents each (2009: 500,000 ordinary shares of 2 cents each)	<u>10</u>	<u>10</u>

There has been no movement in the authorised and issued share capital of the company for the year.

## 12. OTHER RESERVES

	2010 R'000	2009 R'000
<b><i>Statutory contingency reserve</i></b>		
Opening balance	41,807	27,143
Movement	(4,526)	14,664
<b>Closing balance</b>	<u>37,281</u>	<u>41,807</u>
<b>Total other reserves</b>	<u>37,281</u>	<u>41,807</u>

Total other reserves comprise the following balances

In terms of the reserving requirements of the Short-term Insurance Act of 1998, FEM is required to hold 10% of gross premiums received less approved reinsurance less rebates as a statutory contingency reserve.

## 13. INCOME TAX

No current income tax has been accounted for as the company was exempted from income tax during the 2006 year. Refer to the Directors' Report for additional commentary regarding the tax exempt status of the Company.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>14. INSURANCE LIABILITIES AND REINSURANCE ASSETS</b>		
<i>Gross</i>		
Outstanding claims	176,533	167,934
Capitalised value of pensions	628,769	556,176
Unearned premiums	77,398	71,968
Provision for rebates - non-current	109,385	102,754
Provision for rebates - current	94,374	80,863
Reinsurance premiums due	282	484
<b>Total insurance liabilities - gross</b>	<b>1,086,741</b>	<b>980,179</b>
<i>Recoverable from reinsurers</i>		
Outstanding claims recoveries	(10,235)	(9,998)
<b>Total net insurance liabilities</b>	<b>1,076,506</b>	<b>970,181</b>
<b>14.1 Outstanding and unexpired claims</b>		
Outstanding claims - reported claims	156,368	150,707
Incurred but not reported ("IBNR")	20,165	17,227
	<b>176,533</b>	<b>167,934</b>

The risks associated with the number of accidents registered and the future claims to be paid are difficult to predict and the liability therefore contains an element of uncertainty. The outstanding claims estimate is based on the average cost of a claim for each underwriting year, less claims paid and pension awards made to date. The average cost per claim is recalculated at each year end to ensure that the estimate is updated and correctly reflects the future anticipated costs. The IBNR liability is based on historical trends which best reflect the future claims to be registered in respect of past underwriting periods.

## Claims development (Outstanding claims, accidents registered and average claims costs)

The development of gross outstanding claims for the last five years is shown below:

Accident / underwriting year	prior to 2007	2007	2008	2009	2010
Estimate of ultimate claims costs (including IBNR)					
- at end of underwriting year	106,947	120,594	129,043	147,692	144,584
- one year later	106,312	115,580	126,096	120,473	-
- two years later	111,154	121,440	114,621	-	-
- three years later	114,517	102,300	-	-	-
- four years later	113,344	-	-	-	-
Current estimate of cumulative claims	113,344	102,300	114,621	120,473	144,584
Cumulative payments and pension awards to date	(87,419)	(90,103)	(95,364)	(91,762)	(54,141)
Liability recognised in balance sheet	<b>25,925</b>	<b>12,197</b>	<b>19,257</b>	<b>28,711</b>	<b>90,443</b>
<b>Total liability recognised in the balance sheet</b>					<b>176,533</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 14.1 Outstanding and unexpired claims (continued...)

The development of accidents registered for the last five years is shown below:

Accident / underwriting year	2006	2007	2008	2009	2010
- at end of underwriting year	7,998	9,245	9,450	9,313	8,537
- one year later	8,923	10,342	10,676	10,249	-
- two years later	8,996	10,417	10,854	-	-
- three years later	9,027	10,471	-	-	-
- four years later	9,046	-	-	-	-

The development of average cost of claims for the last five years is shown below:

Accident / underwriting year	prior to 2007	2007	2008	2009	2010
	R	R	R	R	R
- at end of underwriting year	12,669	11,381	11,035	13,169	15,311
- one year later	11,794	10,954	11,586	13,490	-
- two years later	12,315	11,631	11,907	-	-
- three years later	12,687	12,225	-	-	-
- four years later	12,813	-	-	-	-

(including costs of claims registered before 2003)

## Movement in outstanding claims and IBNR

2010	Gross	Reinsurance	Net
<b>Claims and benefits</b>			
Notified claims	150,707	(9,998)	140,709
Incurred but not reported	17,227	-	17,227
<b>Total at beginning of year</b>	<b>167,934</b>	<b>(9,998)</b>	<b>157,936</b>
Cash paid for settled claims	(105,214)	4,220	(100,994)
Pensions awarded	(58,889)		(58,889)
Increase in liabilities	172,702	(4,457)	168,245
- arising from current year claims	144,584	(2,259)	142,325
- arising from prior year claims	28,118	(2,198)	25,920
<b>Total at end of year</b>	<b>176,533</b>	<b>(10,235)</b>	<b>166,298</b>
Notified claims	156,368	(10,235)	146,133
Incurred but not reported	20,165	-	20,165
<b>Total at end of year</b>	<b>176,533</b>	<b>(10,235)</b>	<b>166,298</b>
<b>Movement for the year</b>	<b>8,599</b>	<b>(237)</b>	<b>8,362</b>

Note 20

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

<i>2009</i>	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>
<b>Claims and benefits</b>			
Notified claims	119,828	(9,700)	110,128
Incurred but not reported	15,195	-	15,195
<b>Total at beginning of year</b>	<b>135,023</b>	<b>(9,700)</b>	<b>125,323</b>
Cash paid for settled claims	(98,491)	4,292	(94,199)
Pensions awarded	(37,460)		(37,460)
Increase in liabilities	168,862	(4,590)	164,272
- arising from current year claims	147,692	(64)	147,628
- arising from prior year claims	21,170	(4,526)	16,644
<b>Total at end of year</b>	<b>167,934</b>	<b>(9,998)</b>	<b>157,936</b>
Notified claims	150,707	(9,998)	140,709
Incurred but not reported	17,227	-	17,227
<b>Total at end of year</b>	<b>167,934</b>	<b>(9,998)</b>	<b>157,936</b>
<b>Movement for the year</b>	<b>32,911</b>	<b>(298)</b>	<b>32,613</b>

Note 20





# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

		2010 R'000	2009 R'000
<b>14.2 Capitalised Value of Pensions</b>			
Opening balance		556,176	520,877
Transfer from income statement	Note 20	72,593	35,299
Closing balance		<b>628,769</b>	<b>556,176</b>

Independent actuarial valuations of the capitalised value of pensions liability are ordinarily carried out every year. The most recent valuations were done at 31 December 2010 and 31 December 2009.

The principal actuarial assumptions utilised in the calculation of the liability are as follows:

#### *Pensions liability assumptions*

Investment return	8.00%	9.00%
Annual pensions increases	6.00%	6.00%
Net discount rate	2.00%	3.00%

#### *Expense assumptions*

Administration cost per pensioner	R 1,484	R 1,419
Investment return	8.00%	9.00%
Inflation	6.50%	7.00%

#### **Assumptions used**

##### *Mortality and morbidity*

HIV infection and AIDS mortality have been modelled by Quindiem (Pty) Ltd using a proprietary HIV and AIDS demographic and financial model qAIDS. The rates of new HIV infections on which modelling is based are drawn from models provided by the Actuarial Society of South Africa (ASSA). The most recently released model, ASSA2003 is being used.

##### Economic assumptions

The discount factors in respect of investment income, future pension increases and management expense inflation have all been revised in line with the change in the economic environment, and are explained individually below:

##### *Investment income:*

Investment income returns have decreased to 8.00% (2009: 9.00%), with reference to the yields at valuation date on the South African Government R208 and Government CPI bond R197.

##### *Pension increases:*

We have assumed that future pension increases will target inflation of 5.50% plus 0.50%. We have therefore assumed a pension escalation of 6.00%.

##### *Expense increases:*

Expense inflation for 2011 onwards is assumed to be 6.50% per annum, which maintains the 1% margin above the general inflation assumption.

##### *Impact of HIV / AIDS*

The actuaries have explicitly modelled HIV infection and AIDS mortality using Quindiem's internal HIV and AIDS demographic and financial model, qAIDS. The rates of new HIV infection on which modelling is based are drawn from models provided by the Actuarial Society of South Africa.

The HIV and AIDS risk of FEM pensioners has been based on a calibrated percentage of the South African national rates of HIV infection by age and sex from the ASSA 2003 AIDS and Demographic model, with some allowance for access to antiretroviral therapy.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>14.2 Capitalised value of pensions (continued)</b>		
<i>Experience adjustments in respect of independent external actuarial valuation (Performed as at 31 December 2009, and 2008)</i>		
Opening balance (Valuation 2008 and 2007)	556,176	520,877
Unwinding of discount rate and expected benefit payments and expenses	799	(503)
Less release from higher than expected terminations	(78,264)	(21,950)
Plus addition from higher than expected pension increases	-	7,310
Less release from lower than expected expense increases	(866)	-
Plus addition from higher than expected expense increases	-	1,576
Plus revisions to membership data	(5,042)	12,488
Update membership for new pensioners	53,591	38,141
Change in termination and expense basis	8,817	-
First tier margins	56,204	-
Change in discount rate and economic assumptions	24,394	(1,763)
Change in expectation for pension increases	30,804	-
Explicit contingency margin	(28,975)	-
Catchup Increase to 85% of CPI purchasing power	11,131	-
<b>Closing balance (Valuation 2010 and 2009)</b>	<b>628,769</b>	<b>556,176</b>

## Sensitivity analysis

There are two critical assumptions made in the valuation of the pensions liability, namely the net discount factor and the impact of HIV / AIDS and Terminations, and a sensitivity analysis of this is summarised below:

	R'000	%
<i>Net discount factor</i>		
0.5% increase or decrease in the net discount factor would impact the pension liability as follows:		
Current liability	628,769	
0.5% increase in net discount rate	595,531	
<i>Impact on the liability</i>	(33,238)	(5.3)
0.5% decrease in net discount rate	665,491	
<i>Impact on the liability</i>	36,722	5.8

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 14.2 Capitalised value of pensions (continued)

### Impact of Mortality

The liability with greater or lower AIDS risk incidence and access to antiretroviral treatment ("ART") would impact the pension liability as follows:

Current liability	628,769	
No HIV and AIDS Scenario	688,167	
Impact on the liability	59,398	9.4%
Higher Mortality (10% Increase in AIDS and Base Mortality)	605,386	
Impact on the liability	(23,383)	(3.7%)
Lower Mortality (10% Decrease in AIDS and Base Mortality)	654,604	
Impact on the liability	25,835	4.1%

### Liquidity

Claims and benefits are currently funded by operational cash i.e. premium receipts plus investment income, less expenses paid. The Company is not exposed to a high level of liquidity risk as it very rarely pays lump sum benefits to individuals (Commutations need to be approved by the Compensation Commissioner), and only incurs monthly pension payments and normal short-term claims. The cash and cash equivalents and short term investments are adequate to cover all short-term claims at year end.

All insurance liabilities (Note 14), excluding the rebates provision, are covered by bonds (see note 6). Every 6-12 months the duration and future cashflows of the bonds are compared to the duration and future cashflows of the existing pensioners. The last comparison was performed in December 2010 as part of the year end valuation and, prior to that, in December 2009. No material mismatches were highlighted.

	2010 R'000	2009 R'000
<b>14.3 Movement in unearned premium provision</b>		
<b>Unearned premium provision</b>		
At beginning of year	71,968	65,966
Movement during the period (See note 17 Premium income)	5,430	6,002
- Increase in the period	77,398	71,969
- Release during the period	(71,968)	(65,967)
<b>Total at end of year</b>	<b>77,398</b>	<b>71,968</b>

As the reinsurance contract runs from 01 January to 31 December, there is no unearned premium asset in respect of reinsurance.



# NOTES TO THE FINANCIAL STATEMENTS

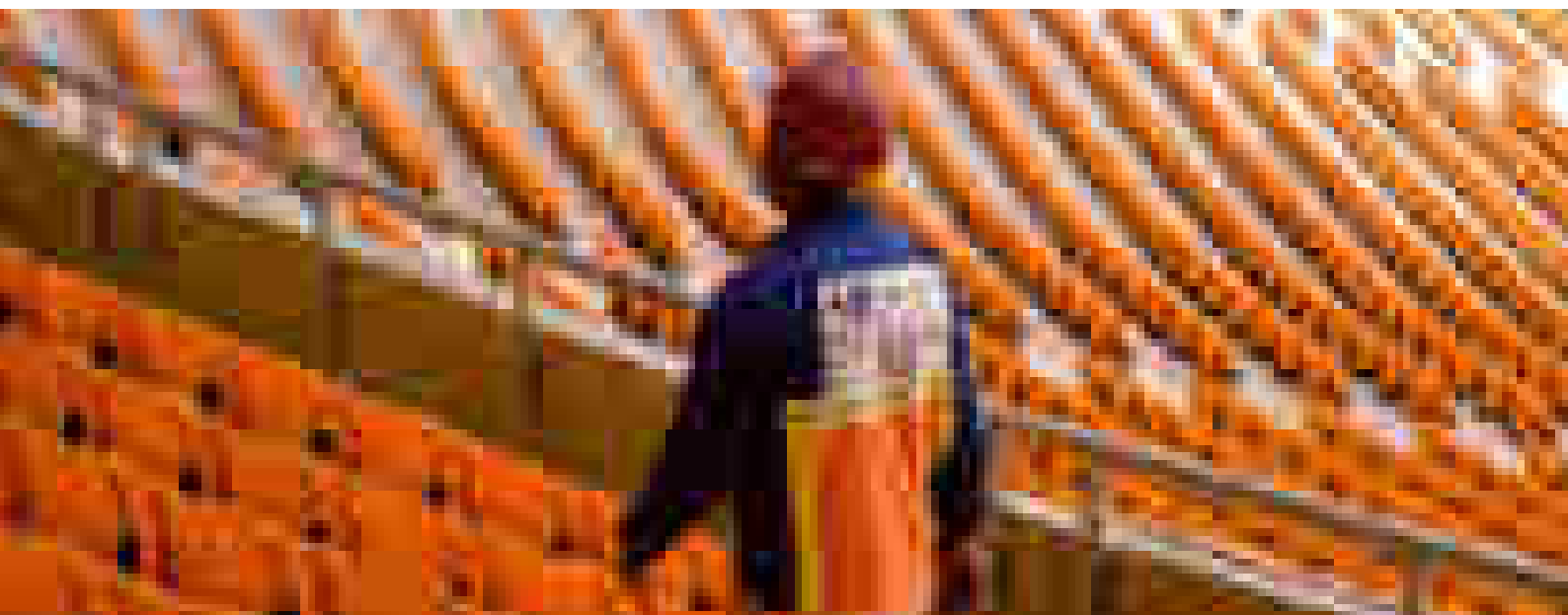
For the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>14.4 Provision for rebates</b>		
Opening balance - non-current	94,374	127,070
Transfer to current	(94,374)	(127,070)
Charge to income statement	104,614	94,374
<b>Closing balance - non-current</b>	<b>104,614</b>	<b>94,374</b>
Opening balance - non-current pipeline premium	8,380	16,734
(Decrease) / increase in provision	(3,609)	(8,354)
<b>Closing balance - non-current pipeline premium</b>	<b>4,771</b>	<b>8,380</b>
Opening balance - current	80,863	96,056
Transfer from non-current	94,374	127,070
Rebates paid	(77,562)	(60,650)
Reversal to income	(3,301)	(81,727)
Prior years reversals paid	-	114
	<b>94,374</b>	<b>80,863</b>
<b>Total charge for rebates paid and provided</b>	<b>97,704</b>	<b>4,407</b>
<b>14.5 Reinsurance liabilities</b>		
Minimum deposit premium	563	563
Pipeline premium	(281)	(79)
<b>Reinsurance premiums due</b>	<b>282</b>	<b>484</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	Note	2010 R'000	2009 R'000
<b>15. ACCOUNTS PAYABLE</b>			
Investec Asset Managers		4,223	474
Staff incentives		8,141	6,043
Accident fund administration		4,724	4,287
SARS (PAYE)		344	430
Outstanding cheques		81	130
Outstanding investment settlements		11	54
Operating lease adjustment		284	628
Consulting fees		131	269
Deloitte & Touche internal audit		267	30
Other		2,592	2,391
		<b>20,798</b>	<b>14,736</b>
0 to 1 year		16,876	12,122
2 to 3 year		3,922	2,614
		<b>20,798</b>	<b>14,736</b>
<b>16. EMPLOYEE BENEFIT LIABILITY</b>			
Opening balance		1,385	1,143
Leave pay utilised during the year		(383)	(207)
Charge to income statement - leave pay		344	449
Closing balance		<b>1,346</b>	<b>1,385</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	Note	2010 R'000	2009 R'000
<b>17. NET INSURANCE PREMIUM REVENUE</b>			
<i>Premium income</i>	2.7	477,834	434,724
Estimated premium, net of allowances and write offs		451,350	395,361
Pipeline premium - current year		22,718	39,905
Adjustment to estimates - prior year		3,766	(542)
<i>Change in unearned premium provision</i>	2.7	(5,430)	(6,002)
Estimated premium		(8,208)	(7,749)
Pipeline premium		2,778	1,747
<b>Insurance premium revenue</b>		<b>472,404</b>	<b>428,722</b>
Estimated premium ceded		(5,906)	(5,124)
Pipeline premium ceded		202	257
<b>Insurance premium revenue ceded</b>	2.7	<b>(5,704)</b>	<b>(4,867)</b>
<b>Net insurance premium revenue</b>		<b>466,700</b>	<b>423,855</b>

The reinsurance cover for 2010 and 2009 was purchased with an inception date of 1 January, and there is therefore no unearned reinsurance asset at year-end.

## 18. INVESTMENT INCOME

Financial assets designated at fair value through income			
- interest income		56,433	56,355
- dividend income		38,734	31,050
- money market unit trusts		11,925	15,638
- investment bank account		3,796	4,220
- operational bank account		747	840
- foreign interest received		95	2,790
- foreign exchange (losses) / gains		(31,347)	(12,316)
<b>Investment income</b>		<b>80,383</b>	<b>98,577</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>19. NET GAINS ON FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH INCOME</b>		
Realised gains on financial assets		
- equity securities	83,908	89,240
- debt securities	60,180	4,987
- Investment link insurance policies	92,844	-
Realised losses on financial assets		
- equity securities	(6,553)	(54,890)
- debt securities	(2,938)	(7,638)
	<b>227,441</b>	<b>31,699</b>
Unrealised gains / (losses) on financial assets		
- equity securities	(16,094)	49,466
- debt securities	20,833	(44,752)
- investment link insurance policies	(80,336)	80,702
- foreign investment	13,808	-
- credit opportunities	16,776	-
	<b>(45,013)</b>	<b>85,416</b>
<b>Net gains / (loss) on financial assets</b>	<b>182,428</b>	<b>117,115</b>

## 20. INSURANCE CLAIMS AND BENEFITS

<i>Gross claims</i>		113,813	131,402
Claims paid		105,214	98,491
Movement in claims liabilities	Note 14.1	8,599	32,911
<i>Gross pensions</i>		116,114	70,705
Pensions paid		43,522	35,405
Movement in pensions liability	Note 14.2	72,592	35,300
<i>Reinsurance</i>		(10,413)	(6,828)
Claims paid recovered from reinsurers		(4,220)	(4,292)
Movement in reinsurance assets	Note 14.1	(237)	(298)
Movement in reinsurance receivables		(5,956)	(2,238)
<b>Net claims and benefits</b>		<b>219,514</b>	<b>195,279</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 20. INSURANCE CLAIMS AND BENEFITS (CONTINUED...)

2010	Gross	Reinsurance	Net
Claims			
Current year claims paid	53,333	-	53,333
Prior year claims paid	51,881	(4,220)	47,661
<b>Total</b>	<b>105,214</b>	<b>(4,220)</b>	<b>100,994</b>
Pensions			
Current year pensions awarded	17,416	-	17,416
Prior year pensions awarded	41,473	-	41,473
<b>Total</b>	<b>58,889</b>	<b>-</b>	<b>58,889</b>
2009	Gross	Reinsurance	Net
Claims			
Current year claims paid	49,329	-	49,329
Prior year claims paid	49,162	(4,292)	44,870
<b>Total</b>	<b>98,491</b>	<b>(4,292)</b>	<b>94,199</b>
Pensions			
Current year pensions awarded	10,990	-	10,990
Prior year pensions awarded	26,470	-	26,470
<b>Total</b>	<b>37,460</b>	<b>-</b>	<b>37,460</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

		2010 R'000	2009 R'000
<b>21. ADMINISTRATION EXPENSES</b>			
Depreciation	Note 5	1,882	1,587
Staff costs	Note 21.1	22,820	21,871
Directors' fees and remuneration	Note 27 & 28	6,757	6,268
Auditors' remuneration	Note 21.2	1,232	830
Operating lease rentals		3,292	3,232
(Profit) / loss on furniture, equipment and motor vehicle disposals		(10)	(43)
BBBEE - Socio economic development		242	1,732
BBBEE - Enterprise development		-	2,000
Claims recovery legal fees		707	639
Professional and other fees		1,943	1,096
Other expenses		7,759	6,700
		<b>46,624</b>	<b>45,912</b>
Administration expenses		45,914	41,943
BBBEE expenses		710	3,969
		<b>46,624</b>	<b>45,912</b>
<b>21.1 Staff costs</b>			
Basic salaries		16,553	14,518
Pensions		2,110	2,014
Medical aid		1,150	1,034
Training & recruitment		750	403
Motor vehicles		878	912
Incentives		1,215	2,888
Temporary staff		164	102
		<b>22,820</b>	<b>21,871</b>
Average number of employees		72	70
<b>21.2 Auditors' remuneration</b>			
Auditors' remuneration			
Audit fees (current year)		975	763
Audit fees (prior year)		257	67
		<b>1,232</b>	<b>830</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>22. NOTES TO THE STATEMENT OF CASH FLOWS</b>		
<i>22.1 Cash generated from / (used in) operations</i>		
Profit for the year	339,536	377,099
Adjustments for		
- depreciation (Note 5)	1,882	1,587
- (profit) / loss on disposal of furniture, equipment and motor vehicles (Note 21)	(10)	(43)
- net realised gains on disposal of financial assets	(227,441)	(31,699)
- fair value movement through income	45,013	(85,416)
Impairment (gains) / loss		
- insurance assets	(358)	3,736
<b>Changes in operating assets and liabilities</b>		
Net increase / (decrease) in insurance liabilities	106,562	16,313
Net (increase) / decrease in reinsurance assets	(237)	(298)
Net decrease / (increase) in insurance assets	15,463	6,654
Net decrease / (increase) in loans & receivables	3,241	1,092
Net increase / (decrease) in other payables	6,062	(69,138)
Net (decrease) / increase in employee benefits liability	(39)	242
	<b>289,674</b>	<b>220,129</b>
<i>22.2 Tax paid</i>		
Opening balance	6,300	6,300
Income statement charge	-	-
Deferred tax	-	-
Closing balance	(6,300)	(6,300)
Tax paid	-	-
<b>23. RETIREMENT BENEFITS</b>		
<i>Provident fund</i>		
The retirement benefit fund, Econorisk Umbrella Provident Fund, is a defined contribution fund administered by Hollard Administration Services and is governed by the Pensions Fund Act of 1956. The fund covers all qualifying employees.		

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

2010  
R'000

2009  
R'000

## 24. OPERATING LEASE COMMITMENTS

The Company leases all four regional offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The Company also leases various computer and other equipment under cancellable lease agreements. The Company is generally required to give between 3 and 6 months notice for the termination of these agreements.

The lease expenditure charged to the income statement during the year is disclosed in note 21.

*The future aggregate minimum lease payments under non-cancellable operating leases are as follows:*

Not later than 1 year	1,760	3,642
Later than 1 year and not later than 5 years	753	2,513
	<u>2,513</u>	<u>6,155</u>

## 25. RELATED PARTIES

### 25.1 Associated parties

#### *The Federated Employers' Trust Limited ("FET")*

The Federated Employers' Trust Limited ("FET") owns 42.6% (2009: 36.5%) of the issued share capital of the Company. FET was created to facilitate the movement in shares issued or redeemed in respect of new and cancelled policyholders respectively.

#### *Federated Employers' Trust ("The Trust")*

The Trust, an inter-vivos trust, owns 100% of FET, and was created to house the share capital of FET. The beneficiaries of The Trust are the policyholders of the Company. In terms of the Trust Deeds, all reasonable expenditure incurred by the trust must be paid by the Company.

In 2010 the amount paid to The Trust in respect of administration costs amounted to R20k (2009: R15k) which is included in management expenses (Note 21).

#### *Associated party transactions*

##### *The Federated Employers' Trust Limited ("FET")*

In 2010 FET charged the Company an administration fee of R43k (2009: R48k) for services rendered.

The net amount due by FET at 31 December 2010 is R66k (2009: R242k).

### 25.2 Related party transactions

#### *Operating lease rentals*

The Company leases its Houghton offices from Barrow Properties (Pty) Ltd, which is a related party (See note 27). Operating lease costs paid for the year were R3,02 million (2009: R2,75 million). There were no amounts due to the related party at year end.

# NOTES TO THE FINANCIAL STATEMENTS

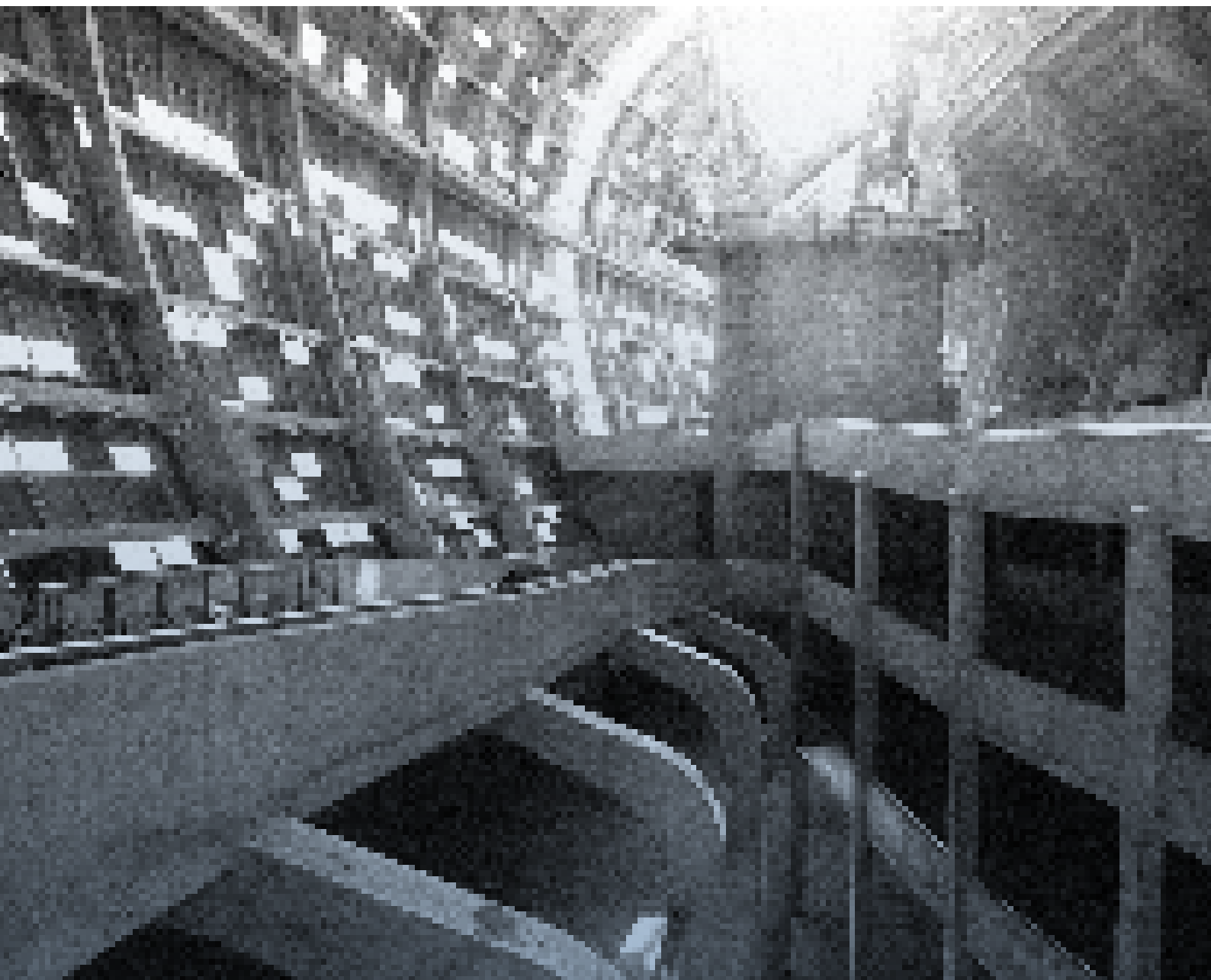
For the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>25. RELATED PARTIES (CONTINUED)</b>		
<i>25.2 Related party transactions (continued)</i>		
<i>Premium income</i>		
<p>Certain non-executive directors have insurance policies with the Company in respect of their construction companies. The premium charged is at arms length, being at the same rates as would be applicable to all other policyholders. No amounts were due to the Company at year end. The following is a list of premium income received in respect of these related parties:</p>		
<i>Director</i>	<i>Company name</i>	
Mr JR Barrow	Barrow Construction (Pty) Ltd	399
Mr GD Irons	Irons Construction (Pty) Ltd	474
Mr CS Jiyane	Grinaker LTA Building (Pty) Ltd	6,241
Mr NF Maas	Gauteng Piling (Pty) Ltd & Free State Piling (Pty) Ltd	139
		389
		1,787
		6,375
		106
<i>Total premium income</i>		7,253
		8,657
<i>Rebates paid</i>		
<p>Certain non-executive directors that have insurance policies with the Company in respect of their construction companies have received merit rebates. The basis of qualifying for merit rebates are the same as would be applicable to other policyholders. The following is a list of merit rebates paid in respect of these related parties:</p>		
<i>Director</i>	<i>Company name</i>	
Mr JR Barrow	Barrow Construction (Pty) Ltd	145
Mr CS Jiyane	Grinaker LTA Building (Pty) Ltd	902
Mr NF Maas	Gauteng & Free State Piling (Pty) Ltd	18
		78
		822
		50
<i>Total</i>		1,065
		950
<b>26. EXECUTIVE COMMITTEE COMPENSATION EXCLUDING EXECUTIVE DIRECTORS</b>		
Total cost of employment, excluding vehicle expenses	1,922	1,795
Vehicle expenses	300	292
Incentives	340	334
<i>Total earnings (Included in staff costs - note 21.1)</i>	2,562	2,421

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>27. EXECUTIVE DIRECTORS' REMUNERATION</b>		
	<b>4,750</b>	<b>4,695</b>
Total cost of employment, excluding vehicle expenses	3,463	3,181
Vehicle expenses	337	317
Incentives	950	1,197
<i>Total earnings (excluded in staff costs - note 21.1)</i>	<b>4,750</b>	<b>4,695</b>
<b>28. NON-EXECUTIVE DIRECTORS' FEES</b>	<b>2,007</b>	<b>1,573</b>



# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of The Federated Employers' Mutual Assurance Company Limited will be held in the Boardroom, Building 2, 101 Central Street, Houghton, Johannesburg on Tuesday, 13 September 2011, commencing at 08h00 for the following purposes:

1. To receive, consider and adopt the audited annual financial statements of the Company for the year ended 31 December 2010, including the Directors' Report and the report of the auditors thereon.
2. To re-elect directors in accordance with the Company's Memorandum of Incorporation.

In terms of the Company's Memorandum of Incorporation the following non-executive directors retire by rotation, but being eligible hereby offer themselves for re-election:

- 2.1 Mr MG Ilsley
- 2.2 Ms PL Siphayi
- 2.3 Mr GD Irons
- 2.4 Mr CS Jiyane

3. To elect the following non-executive directors to the Audit Committee from the conclusion of the AGM at which this resolution is passed until the conclusion of the next AGM of the Company, in terms of Section 94(2) of the Companies Act No 71 of 2008, as amended ("the Act"):

- 3.1 Mr MG Ilsley
- 3.2 Mr JR Barrow
- 3.3 Ms PL Siphayi
- 3.4 Mr H Walker

## **Explanatory note to resolution no 3**

In terms of the Act, the Audit Committee is no longer a committee of the board but a committee elected by shareholders at each AGM. Furthermore, in terms of the Act, at least one third of the members of the Company's Audit Committee at any particular time must have academic qualifications or experience in economics, law, corporate governance, accounting, commerce, industry, public affairs or human resource management.

4. To appoint PricewaterhouseCoopers Inc, and SizweNtsaluba VSP, Chartered Accountants, as joint independent auditors, on recommendation of the Audit Committee, and PricewaterhouseCoopers Inc and SizweNtsaluba VSP, as designated auditors, having met the requirements of Section 90(2) of the Act.
5. To approve the remuneration of the directors for the year ended 31 December 2010, as disclosed in the financial statements on page 67.
6. To consider, and if deemed fit, to pass the following resolution as an ordinary resolution:

## **Ordinary Resolution Number 1 – Unissued shares to be placed under the control of the directors**

That, subject to the provisions of the Act, the authorised but unissued ordinary shares in the capital of the Company be and are hereby placed under the control and authority of the directors of the Company and that the directors be and are hereby authorised and empowered to allot and issue, at their discretion, all or any of such ordinary shares for such purposes as they may determine, such authority being approved until the next AGM.

# NOTICE OF ANNUAL GENERAL MEETING

## 7. SPECIAL RESOLUTION NO. 1 – Approval of Directors Remuneration

To consider and, if deemed fit, to pass with or without modification the following special resolution:

"That the fees payable to non-executive directors for the financial year ending 31 December 2011, as set out below, be approved:"

Name	Rand per annum
NF Maas	R340, 087
JR Barrow	R175, 601
MG Ilsley	R316, 140
GD Irons	R99, 786
APH Jammie	R300, 862
CS Jiyane	R146, 910
H Ngakane	R202, 428
PL Siphayi	R175, 601
H Walker	R339, 669

The reason for this special resolution is to obtain shareholder approval for the remuneration of each of the non-executive directors of the Company in accordance with Section 66(9) of the Act.

## 8. SPECIAL RESOLUTION NO. 2 – Financial Assistance

To consider and, if deemed fit, to pass with or without modification the following special resolution:

"That the directors of the Company be and are hereby authorised to provide financial assistance by way of guarantees and suretyships as may be required in the ordinary course of business, that they in their absolute discretion deem fit and subject to all relevant statutory and regulatory requirements being met, such authority to remain in place until rescinded by way of a special resolution passed at a duly constituted general meeting of the Company."

The reason for this special resolution is to approve the authority of directors to provide financial assistance as contemplated in Section 45(2) of the Act.

## 9. Ordinary Resolution Number 2 – Authority to execute requisite documentation

That any director of the Company, or the Company Secretary where appropriate, be and is hereby authorised to do all such things and to sign all such documents issued by the company and required to give effect to ordinary resolution number 1 and special resolutions numbers 1 and 2.

## 10. To transact such other business that may be transacted at an annual general meeting.

### VOTING AND PROXIES

A member entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies to attend and vote in his/her stead, subject to the general instructions attached to this notice. Any proxy so appointed need not be a member of the Company. Proxy forms must be received at the offices of the Company at least 48 hours, excluding Saturdays, Sundays and public holidays, before the appointed time of the meeting.

For the convenience of registered members of the company, a form of proxy is enclosed herewith.

By order of the board

E J Willis  
Company Secretary  
12 April 2011

**Registered office**  
Building 2  
101 Central Street  
Houghton

**Postal address**  
Private Bag 87109  
Houghton  
2041

## THE FEDERATED EMPLOYERS' MUTUAL ASSURANCE COMPANY LIMITED

Registration Number: 1936/008971/06

For use at the annual general meeting of the company to be held on Tuesday, 13 September 2011 at 08h00.

I/We, the undersigned, hereby appoint:

1. .... or failing him/her
2. .... or failing him/her
3. the chairman of the meeting  
as my/our proxy to act for me/us at the annual general meeting of the company to be held on 13 September 2011, or at any adjournment or postponement thereof, and to vote for me/us as follows:

Item	Number of shares		
	For	Against	Abstain
1.1 Adoption of Annual Financial Statements			
2.1 MG Ilsley			
2.2 PL Siphayi			
2.3 GD Irons			
2.4 CS Jiyane			
3.1 MG Ilsley			
3.2 JR Barrow			
3.3 PL Siphayi			
3.4 H Walker			
4. Appointment of Auditors			
5. Approval of past remuneration for directors'			
6. Unissued shares under control of directors			
7. Directors Remuneration (forward)			
8. Financial Assistance			
9. Authority to execute requisite documentation			

(see note 2)

.....  
Signature

.....  
Date

.....  
Full name and address

### Notes:

1. A member entitled to attend and vote at the meeting may appoint a proxy, or proxies, to attend, speak and vote on his/her behalf. A proxy need not be a member of the company.
2. A member's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that member in the appropriate box provided. Failure to comply with the above will be deemed to authorise the Chairman and the Annual General Meeting, if the Chairman is the authorised proxy, to vote in favour of the ordinary resolutions of the Annual General Meeting, or any other proxy to vote or to abstain from voting at the Annual General Meeting as he deems fit.
3. Unless already recorded by the company, a power of attorney under which the proxy form is signed must accompany the proxy form. A proxy form or other documents appointing a representative of a body corporate in terms of Section 188 (l) of the Companies Act must be signed by a duly authorised officer and be accompanied by a certified copy of the relevant instrument of authority.
4. A member who has appointed a proxy may personally attend the meeting and vote to the exclusion of any such proxy or proxies.
5. Proxy forms must reach either of the under mentioned addresses not less than forty-eight hours before the appointed time of the meeting:

### FEM

1st Floor, Building no. 2                      Private Bags 87109  
101 Central Street                      or                      Houghton  
Houghton, 2198                                      2041





## REGIONAL OFFICES

### Head office

1<sup>st</sup> Floor, Building no. 2,  
101 Central Street  
Houghton, 2198  
Private Bag 87109, Houghton, 2041

Managing Director: Mrs T T Pugh

Telephone: (011) 359-4300  
Facsimile: (011) 359-4302

### Johannesburg

Ground Floor, Building no. 2,  
101 Central Street  
Houghton, 2198  
Private Bag 87109, Houghton, 2041

Branch Manager: H Enoch  
National Claims Manager: Mrs J Mahlangu

Telephone: (011) 359-4300  
Facsimile: (011) 359-4336 (claims)  
(011) 359-4337 (underwriting)

### Cape town

8<sup>th</sup> Floor, 80 Strand Street  
Cape Town, 8001  
P O Box 2555, Cape Town, 8000

Branch Manager: R A Saunders  
Claims Manager: Mrs Y Bassier

Telephone: (021) 418-3210  
Facsimile: (021) 425-1544

### Durban

Musgrave Office Tower  
Office 901, 115 Musgrave Road  
Berea, Durban, 4001  
P O Box 50045, Musgrave Road, 4062

Branch Manager: S Munnoo  
Claims Manager: Ms D L Fynn

Telephone: (031) 277-0660  
Facsimile: (031) 202-9750

## VISION

To be the **"preferred" provider** of COID  
To be the **"employer of choice"**  
To create a **healthier and safer environment**  
To provide **excellent service** to all stakeholders  
To foster a **high performance and ethical culture**

## MISSION

We exist to pay **claims** and **focus** on employees  
We take the **administrative** burden  
We **pay quicker and negotiate** with service providers  
We champion **IOD** and **"the process works well"**

**To achieve this, we focus on:**

- Personalised service
- National service delivery
  - Empathy
- Going beyond the call of duty
- Championing health and safety
- Balancing performance and attitude
  - Efficiency

## VALUE

### Self Worth

Belief in one-self

### Support

Encourage and guide everyone in achieving personal and company goals

### Effective Communication to enhance performance

Take responsibility for:

Ensuring the message is correctly conveyed  
Ensuring you have understood the message correctly

### Motivation

Create an environment of motivation

### Respect

Empathy, consideration and understanding

### Responsibility

Take ownership, question and investigate

## CODE OF CONDUCT

We will conduct our individual responsibilities in accordance with our culture, which is a culture of total ethics and everything that encompasses ethical behaviour.

Our behaviour will conform to that of integrity, honesty, morality, honour, and principled behaviour.

This code of conduct forms part of our culture and the principles governing our ethics must be practiced and adhered to by each representative of FEM

