



2019

# Integrated Report

for the year ended 31 December 2019



FOR PROFESSIONALS  
SINCE 1941



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PPS provides its readers with the option of either viewing the integrated annual report in an interactive online format, which can be printed, or visiting the Group's dedicated integrated reporting site at [www.pps.co.za](http://www.pps.co.za).

For video content, including the interview with Chief Executive Officer, Izak Smit, please visit the dedicated integrated reporting site at [www.pps.co.za](http://www.pps.co.za).

Feedback from all stakeholders is most welcome. Please use the Contact Us tab on the PPS website should you wish to provide input for future reports.

PPS is an authorised Financial Services Provider/FSP 1044



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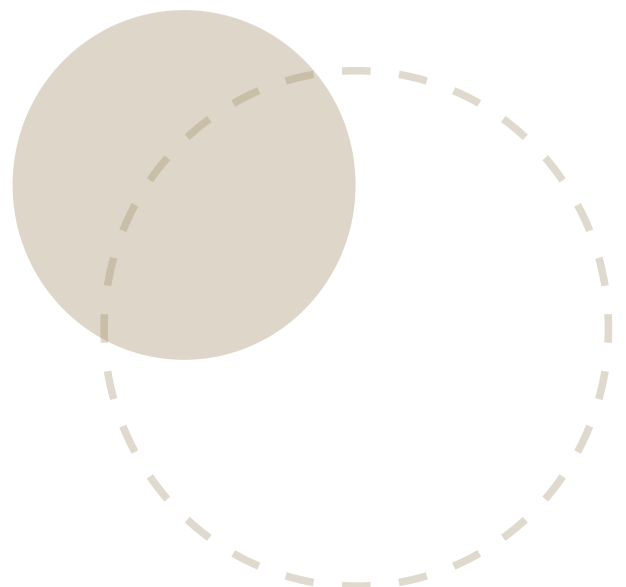
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## ABOUT OUR INTEGRATED REPORT

### SCOPE AND BOUNDARY

The Annual PPS Integrated Report for 2019 is a report on the performance of PPS Holdings Trust and its subsidiaries (the Group) for the 12 months ended 31 December 2019.

## INTRODUCTION

This report contains the Group's collective thinking about sustainability and the creation of long-term value. It aims to provide an appropriate and balanced view of PPS's financial and non-financial performance throughout its operations in both South Africa and Namibia, as well as to provide accessible information about strategy, operations, corporate governance, accountability and corporate social responsibility.

The information in this report was compiled with reference to local legislation and international best practice, including:

- ⦿ The Companies Act of South Africa (Act 71 of 2008), as amended (Companies Act);
- ⦿ The King Report on Corporate Governance for South Africa™ (2016) (King IV™);
- ⦿ The International Integrated Reporting Council's (IIRC) Framework; and
- ⦿ International Financial Reporting Standards (IFRS).

## DISCLOSURE AND ASSURANCE

The executive and management have aimed to achieve the highest standard of disclosure in this report, as well as to provide meaningful, accurate, transparent and balanced information to all stakeholders. The Board, together with its committees and management, was closely involved in finalising all disclosures and it assumes responsibility for the information contained therein.

The annual financial statements were prepared in accordance with the IFRS and were independently assured by PwC South Africa.

## BOARD RESPONSIBILITY

The PPS Integrated Annual Report 2019 was approved by the PPS Holdings Trust Board of Trustees (the Board) on 6 April 2020.

The Board acknowledges its responsibility for ensuring the accuracy of all information supplied and has applied its collective expertise to the preparation of the report. In its opinion, it addresses all material issues and presents a holistic view of the Group's performance for the period under review.

## FORWARD-LOOKING STATEMENTS

Some of the remarks contained in this report are forward-looking statements. They are not guarantees or predictions of future performance. As discussed in the body of the report, PPS faces risks and other factors beyond its control, which may impact on the performance of the Group in the current period.

# 04

## WHO WE ARE AND WHAT MAKES US DIFFERENT

“At PPS, we believe that professional thinking is a powerful force for wealth creation and socio-economic development. Our focus on professionals and an ethos of mutuality define our organisation. We are dedicated to providing a professional service to our graduate professional members and all profits are allocated on an annual basis to members with qualifying products.”

**IZAK SMIT**

Group Chief Executive Officer



## THE PPS STORY

It is perhaps ironic that PPS was established during the course of a war because, in its nearly 80 years of existence, it has demonstrated steady growth and experienced little drama or chaos. This is a direct outcome of the vision and objectives of its founders. They were not motivated by the idea of generating extravagant wealth; their goals were more pragmatic. As a group of eight hard-working dentists, they appreciated the value of a hard day's work and wanted to protect their ability to earn an income from that work. This is what motivated them to establish PPS.

They did that by means of what has become an increasingly rare practice in financial institutions: mutuality or, to put it more plainly, the practice of people coming together to benefit from pooled resources. To this day, mutuality permeates every aspect of PPS's business, from the way in which it is structured to the design of new innovations.

To elaborate, PPS has no shareholders; it has members, 150 000 of whom now have products

of one or more of the businesses in the Group. As highly educated professionals, they form part of just over 1% of the South African population that holds postgraduate qualifications. Members who have one or more products from a range of qualifying products are eligible to earn a portion of the profits that PPS generates. The greater their contributions to these products, the more the profits they are likely to earn. These profits are accumulated annually in the unique PPS Profit-Share Account. This account grows with investment returns and further profit distributions allocated to members with qualifying products, and vests on retirement.

Since inception, PPS has steadily expanded its product range and has moved beyond its initial focus on sickness cover to include other financial products. Today, the Group is a fully fledged financial services provider registered in terms of the Financial Advisory and Intermediary Services (FAIS) Act (Act No. 37 of 2002) and has a client base that includes leading academics, captains of industry and prominent members of the various professional sectors.

## WHO WE ARE AND WHAT MAKES US DIFFERENT (CONTINUED)

The Group's mission and values perfectly enshrine what it aims to deliver to these clients:

### THE ETHOS OF MUTUALITY

Although it is an increasingly uncommon practice in financial services, mutuality defines PPS. It takes the Group back to the original roots of insurance and the true purpose of the insurance industry.

PPS is not listed on any stock exchange and its members who hold qualifying products can be compared to shareholders in other businesses. Those with one or more qualifying PPS insurance products benefit directly from the profits generated by the Group through allocations to their Profit-Share Accounts. Mutuality is at the core of PPS; it is in the Group's DNA, it permeates every aspect of its business and is fundamental to its success.

PPS invests profits and investment returns on behalf of its members, taking a long-term view of wealth creation. The resulting returns accumulate in their individual Profit-Share Accounts and vest free of tax upon retirement or at the time of death, *irrespective of claims*. This is a unique feature in the South African insurance sector, and without any rival.

After members retire from their professional careers after the age of 60 and, typically, when the cover from their PPS life insurance products is not required anymore, the profits they have accumulated in their PPS Profit-Share Accounts over the course of their membership become available to them through a vested PPS Profit-Share Account. Members are encouraged to keep these assets invested in order to generate further returns and to supplement their retirement incomes.

The benefits of mutuality are self-evident. There is no leakage of profits to shareholders, and members with qualifying products receive all of the Group's profits. Many long-standing members have in fact received more from PPS in Profit-Share than what they have paid in premiums. In a sense, one could say that PPS pays these members to enjoy product benefits. That is what the mutual model at PPS delivers for many of its long-standing members.

### OUR MISSION

The mission of PPS is to **enhance the financial security** of its professional members. In other words, its aim is to ensure that, from a financial perspective, members are able to live the lives they want to live.

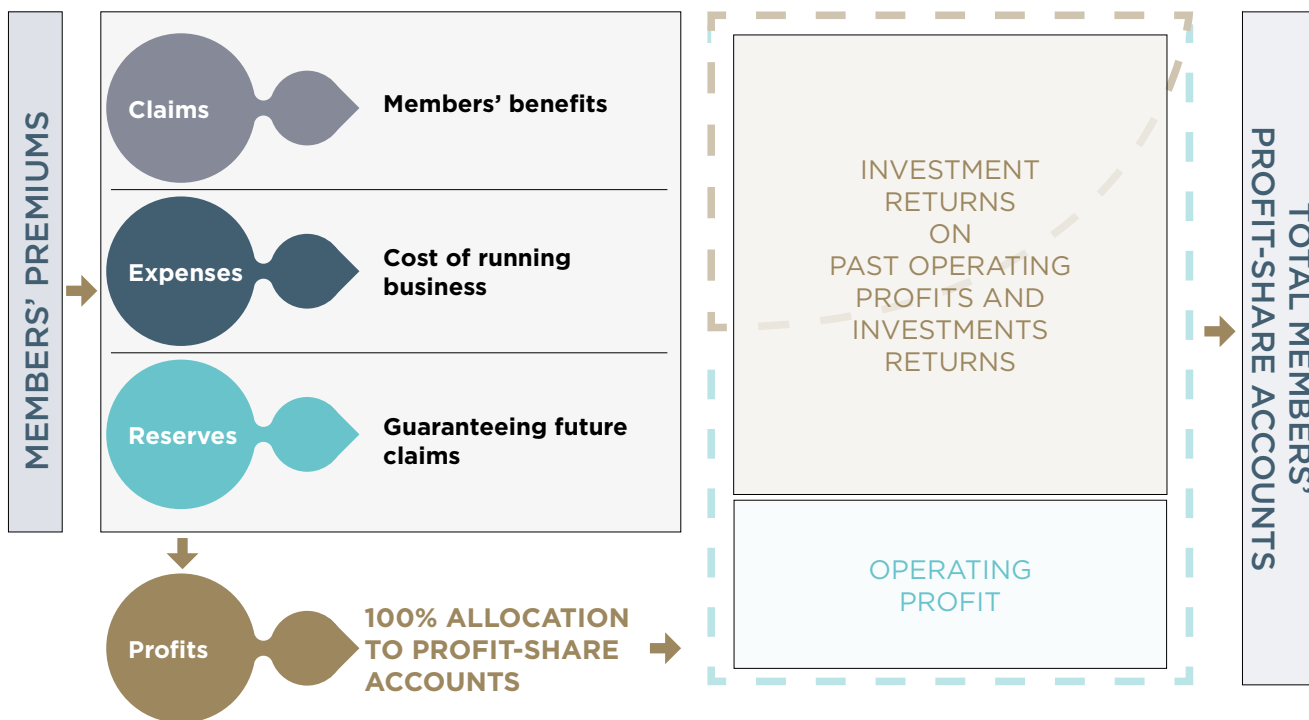
This is achieved by providing exceptional insurance benefits and a range of financial services that are specially designed for professionals. In this way, PPS assists its members to secure their current and future financial position by providing peace of mind throughout their professional careers and during their retirement years.

### OUR VALUES

At PPS, we believe that what we value internally will drive our behaviour externally. We therefore live by the following values:

- ⦿ We take **ownership**. Our people are empowered to deliver service excellence to our members and we encourage leadership in all areas of the business.
- ⦿ We are **curious**. We are not satisfied with the status quo and are driven by the goal of constantly improving the solutions we offer to our members. We are committed to innovation, giving staff the licence to experiment while recognising and responding to the unique, complex and changing needs of our members.
- ⦿ We **do the right thing**. We conduct our business with empathy, authenticity and caring, but also with the highest standards of ethics, fairness, governance and respect for all.





## PROFESSIONAL FOCUS

In addition to the ethos of mutuality, PPS is defined by its focus on graduate professionals.

Firstly, the Group is very discerning about granting membership and generally only professionals with postgraduate university degrees qualify. Furthermore, not only are PPS products, services and solutions specifically tailored to meet members' needs, but financial advisers who sell PPS products have to go through a strict selection and accreditation process in order to ensure that they are suitably qualified. PPS-accredited financial advisers have industry-specific knowledge that enables them to offer sound advice on the issues and challenges members face. Finally, but highly important, PPS's membership profile significantly reduces its business risk, ultimately enhancing returns to members.

Professionals generally display particular behavioural traits that are common to the professional ethos of their chosen fields. They typically embrace certain personal risk management principles such as an unwillingness to terminate insurance cover unnecessarily, and an urgency to return to work after a period of illness. This leads to lower lapses and claims, which supports profitability. It ultimately yields more profits to share between members. Our members value the common pool of resources and wish to preserve its value.

## MEETING THE FINANCIAL NEEDS OF PROFESSIONALS

Professionals have different needs that span the full spectrum of financial services. PPS meets these in a unique way, providing both advice and customised solutions, which draw on a comprehensive range of products and services.

### FINANCIAL PLANNING AND ADVICE

Research shows a strong correlation between financial security and sound planning and advice. Advice and planning services are always the first step for advisers before they suggest new solutions or changes to existing ones. Here too, PPS's ethos of mutuality plays a fundamental role, as it does in every other aspect of the business. In practice, this means foregoing a one-size-fits-all approach in favour of bespoke tailored solutions that meet each member's specific needs.

Personal financial planning encompasses many fields and includes areas such as risk insurance planning, business continuity planning, savings and investment planning, estate and legacy planning, tax planning, retirement planning, short-term catastrophe hedging and much more.

## WHO WE ARE AND WHAT MAKES US DIFFERENT (CONTINUED)

Our members access financial planning services in a number of ways. Most often, they rely on the Group's large network of independent and accredited advisers throughout South Africa to fulfil this function. Alternatively they can use the services of a PPS-employed financial adviser.

The relationship between adviser and client is an important and special one. Over time it often develops into a high-trust affiliation that allows for sharing and discussion of dreams and requirements. Good advisers ask the right questions, protect their clients from irrational or emotional decisions, and ensure that the necessary discipline is in place to adhere to a pre-agreed plan. A trusted financial adviser is a sounding board, a coach and a source of wisdom.

The needs of our professional members are often specialised and complex. Individual advisers are not able to specialise in all the areas that make up the vast spectrum of personal financial planning. To fill in any gaps, advisers – whether employed at PPS or independent – are able to tap into the resources available from the Group's Specialist Support Services (S<sup>3</sup>) unit. The S<sup>3</sup> team is a group of highly qualified and skilled individuals dedicated to assisting financial advisers and ultimately the members of PPS.

This team is not permitted to implement advice. That should happen through the member's adviser, who draws on input from S<sup>3</sup> when necessary. The S<sup>3</sup> consultants are not there to replace members' advisers. They are there for specialised structuring and interventions. The PPS promise is twofold: firstly, professional members engage with professionals in financial planning (professional to professional) and, secondly, the interaction is void of any sales pressure, as implementation is not permitted. This arrangement is unique in South Africa and is part of the Group's value proposition to members.

During 2019, PPS launched a new member and adviser platform called PRO-FiT. It is designed to complement the overall member experience with enhanced digital capabilities that provide for seamless engagement.

### SICKNESS COVER AND LIFE INSURANCE

Sickness cover and life insurance are the solutions most often associated with PPS and were the first to be developed and offered by its founders. Over the past eight decades, the Group has continuously refined its offerings, exploring the ramifications of potential scenarios and developing added-value features that provide additional peace of mind.

For example, the PPS Sickness and Permanent Incapacity Benefit is a bespoke product for professionals that is unparalleled in the South African environment. It is the leading and most competitive product of its kind. The sickness cover pays out if a member falls ill for a period of time and is unable to work.

PPS also offers life, lump sum disability, accidental death, critical illness and education products that are all intrinsically superior to similar products available in the market, as members who have them qualify to benefit from a built-in Profit-Share benefit.

Other differentiators include international cover without loading or exclusions. There is no limit to the number of claims, and automatic cover for potentially hazardous pursuits such as scuba diving or flying private airplanes. With its in-depth understanding of the graduate professional market, PPS has made allowance for the fact that many members enjoy energetic pursuits outside of their professions. Unlike many other products from competitors, members' Profit-Share Accounts are not reduced if they claim. PPS believes that so-called no-claim-benefits go against the grain of what insurance is all about.

### SAVINGS AND INVESTMENTS

Over the years, PPS members appreciated the way in which their profits had been invested and expressed a desire to be able to benefit from the Group's investment philosophy and business acumen.

In keeping with the belief that success is better shared, PPS has made savings and investment solutions available to members through PPS Investments. PPS Investments is an investment management services provider for graduate professionals and their families. PPS Investments offers the full spectrum of investment solutions that professionals require for financial security – including living and retirement annuity funds, personal pension funds, preservation funds and investment accounts – and across different risk-return fund solutions. Whether investing ultra-long-term for retirement, saving for a more specific short-term goal, or preserving existing savings, PPS Investments offers members tax-efficient savings and investment solutions for every stage of life.

A major differentiator, aligned with the principle of mutuality, is that members with qualifying risk products are also eligible to share in the investment administration and investment management profits.

### SHORT-TERM INSURANCE

Following on its success with sickness cover and life insurance – and driven by the desire expressed by some members to have all of their financial services products housed within the PPS community – the Group created PPS Short-Term Insurance to address members' motor vehicle, home and business insurance needs.

PPS Short-Term Insurance is unlike any other short-term insurance business. Firstly, since it only serves professionals, the solutions and unique added-value services it provides are exclusively tailored for the specific needs of the professional market

Secondly, the short-term insurance business, like the Group, operates according to the principles and ethos of mutuality. As in the life insurance environment, PPS Short-Term Insurance does not refer to policyholders as “clients” but rather as “members”. Since there are no outside shareholders, when profits are generated in future, they will be allocated to members with qualifying products. There is no leakage of dividends to outside shareholders.

It is not the job of claims staff to protect the interests of outside shareholders, because the Group does not have any. Rather, it is their job to secure fairness between members. Paying an invalid claim means money that could have been added to the general Profit-Share pool is incorrectly paid to a particular member, which is not fair.

PPS’s eligibility criteria for membership and the way in which it underwrites risks enables it to ensure that its risk pools remain healthy. This leads to lower claims and ultimately to lower premiums. It also means more profits to share between members; a virtuous cycle.

## HEALTH PROFESSIONS INDEMNITY

Designed for South African healthcare professionals registered with the Health Professions Council of South Africa, PPS Health Professions Indemnity offers innovative features that provide peace of mind for professionals engaged in practice. Launched in early 2019, this is an insurance product that was created in response to precipitous rises in professional indemnity costs and to protect members in time of need.

Developed in collaboration with a US partner that is highly experienced in medical malpractice litigation, it is specifically designed to provide the indemnity insurance needed by contemporary healthcare professionals and to help them to manage the risk profiles of their practices. Its most important benefit is that it enables them to focus on their practices, secure in the knowledge that they are covered by a brand they know and trust. Like all other PPS insurance products, PPS Health Professions Indemnity has an added mutuality benefit, which allows for members to share in the profits, when declared, generated by the Group.

## MEDICAL AID

As part of its portfolio of products and services, PPS members also have access to a closed medical aid scheme, Profmed, which offers medical and healthcare benefits to members and their families. Profmed was launched by PPS more than 50 years ago. Professionals appreciate access to an efficient scheme, that supports them, especially when they require major procedures, expensive treatments and extended recovery periods.

With five benefit options to choose from and an established rewards programme, Profmed demonstrates the PPS ethos of mutuality by offering a profit allocation to members who have qualifying products and are members of Profmed. It provides exceptional service that respects the time constraints under which professionals operate and is renowned for its timeous, hassle-free payouts. Members benefit from the scheme’s lower risk profile, which is due to the fact that all members are graduate professionals.

## WILLS AND ESTATES

A life well-lived is one that leaves behind a meaningful legacy. With its focus on long-term benefits and protection, PPS aims to protect a lifetime of accumulated wealth from being eroded due to poor planning. Informed by an intimate understanding of the provisions that need to be made for beneficiaries when a member passes on, the Group offers a range of fiduciary services that encompass estate planning, wills, trusts and estate administration.

At the centre of all estate planning is a valid will, which specifies exactly how a member’s estate is to be distributed. All persons over the age of 16 should have a will and it should be updated as necessary to accommodate important life stage events such as marriages, divorces, births and deaths.

Equally important is making provision for the administration of a member’s estate, which is undertaken in terms of the Estate Act. Deceased estate administration, which is another of the fiduciary services provided by PPS, is a process that needs to be handled with empathy, efficiency and professionalism in the shortest possible time after a member’s death.

# 10

“We expect all our staff to be leaders, irrespective of job title. We strive to create a performance-driven and inclusive culture where people feel empowered, where they can take ownership and are purpose-led.”

MASENYANE MOLEFE  
HR Executive

## OUR HUMAN CAPITAL PHILOSOPHY

The PPS human capital strategy is underpinned by a strong employee value proposition (EVP), with the aim of attracting, developing and retaining excellent employees who are capable of delivering on the Group’s member value proposition (MVP). This is based on the belief that the way PPS treats its people will ultimately define the way they treat PPS members.

The PPS employee value proposition articulates PPS’s imperative of creating a professional working environment, where staff are serving professionals. PPS is acutely aware of the competitive nature of the labour market in financial services, and that talented individuals have a myriad of sought-after brands to choose from. The balance of power has shifted from corporates to individuals over the last generation, with people being the big differentiator in this industry. Hence, to attract and retain the best people, PPS must offer a differentiated EVP, making this a great place to work.

As in many organisations, PPS was characterised by a hierarchical structure for most of its existence. However, the nature of the market and the challenges faced by business have changed and prompted a general move towards creating nimble structures that are more responsive and adaptive. PPS has consciously developed a more collaborative environment with wider management spans, and is driven by the principles of accountability, creativity and being empowered.

## OUR VALUES AND CULTURE

PPS management and staff meet regularly to discuss the Group’s target culture; a culture that supports the PPS strategic objectives and *brand leadership* vision. The PPS Group culture is aligned to three elements: **Results-driven** (achieving, goal-orientated), **Learning** (open-minded, exploring, curious) and **Caring** (warm, sincere, rational). The PPS Group values underpin this target culture and are framed around three elements:

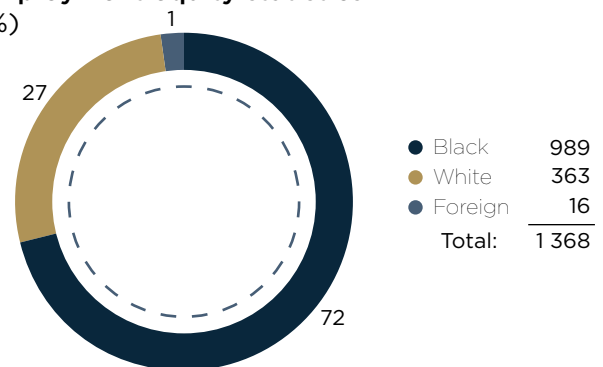
- ⦿ We take **extreme ownership**. *We own it!* We accept accountability for our decisions and actions without blame-shifting. We empower people throughout the business, which builds trust, encourages collaboration and leads to more effective and

efficient execution. This value supports a results-orientated culture.

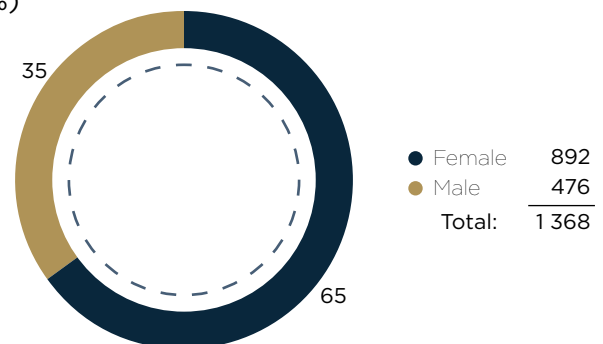
- ⦿ We are **curious**. *We question it!* We accept that we need to constantly question ourselves and everything we do to facilitate ongoing improvement. This value is about excellence because at PPS, average is not good enough. It is also about encouraging and promoting innovation, a licence to play and an environment in which to experiment. This value supports our focus on sustaining a learning culture and it is here that the PPS Academy plays such a significant role.
- ⦿ We **do the right thing**. *We do it right!* There are two aspects to this. Firstly, it is about empathy, authenticity and caring, which supports our ethos of mutuality. Secondly, it is about good ethics and governance, which are values that support a caring culture.

## OUR PEOPLE

Employment equity statistics (%)

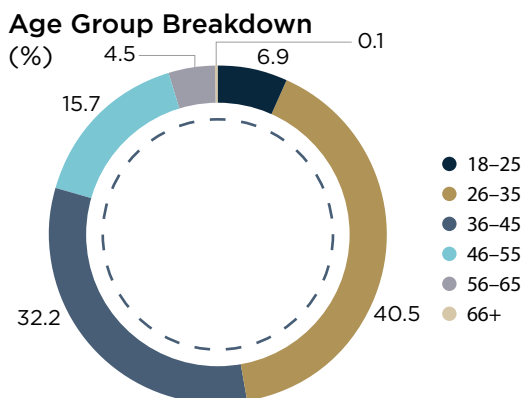


Gender breakdown (%)



## HUMAN CAPITAL (CONTINUED)

PPS is owned by its members, and therefore its employee profile is evolving naturally to reflect the demographics of South Africa's professional population. The majority of staff members are black and female.

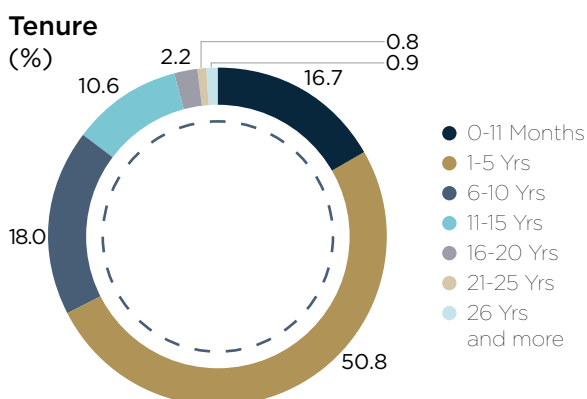


### AGE GROUP BREAKDOWN

The PPS group is a young and vibrant organisation, with 47.4% of the total staff complement being 35 and younger. This demographic means that the organisation benefits from fresh thinking and innovative ways of solving problems.

### TENURE OF PPS GROUP STAFF

In line with the youthful staff profile, two-thirds of staff members have been with the organisation for five years or less. A considerable number of staff members



nevertheless have much longer tenure, balancing youth and innovation with skills, experience and rich institutional knowledge. PPS values employees who have been with the company for the long-term. Their loyalty and experience contributes to the company's steady performance through both the good times and the tough times.

### STAFF BY BUSINESS AREA

PPS Staff per business area	2019	2019 (%)
PPS Health Administration	287	21%
Group Support Functions	243	18%
Financial Advisory	221	16%
Life Insurance Operations	216	16%
Life Broker Services	191	14%
PPS Investments	139	10%
Short-Term Insurance	67	5%
FS4P	4	0.3%
<b>Total</b>	<b>1 368</b>	<b>100.3%</b>

### PPS TRAINING ACADEMY

PPS continues to invest heavily in the development of its people. Two new strategic learning initiatives were rolled out in 2019:

**Leading the PPS Way** was launched successfully as a five-day programme designed for managers who are making the transition from leading self to leading others. Attending this programme provides PPS leaders with the tools and strategies necessary to build collaborative and results-driven teams.

The new **Group Induction** Programme was also introduced in 2019. PPS has created a fully immersive, content-rich experience for new employees, which runs over five days. The experience begins with the new employees meeting the PPS Executive Leadership team, prior to them being immersed into all aspects of the organisation. This new programme has received outstanding feedback from line managers and new employees alike.

The year 2019 had an additional focus on youth development.

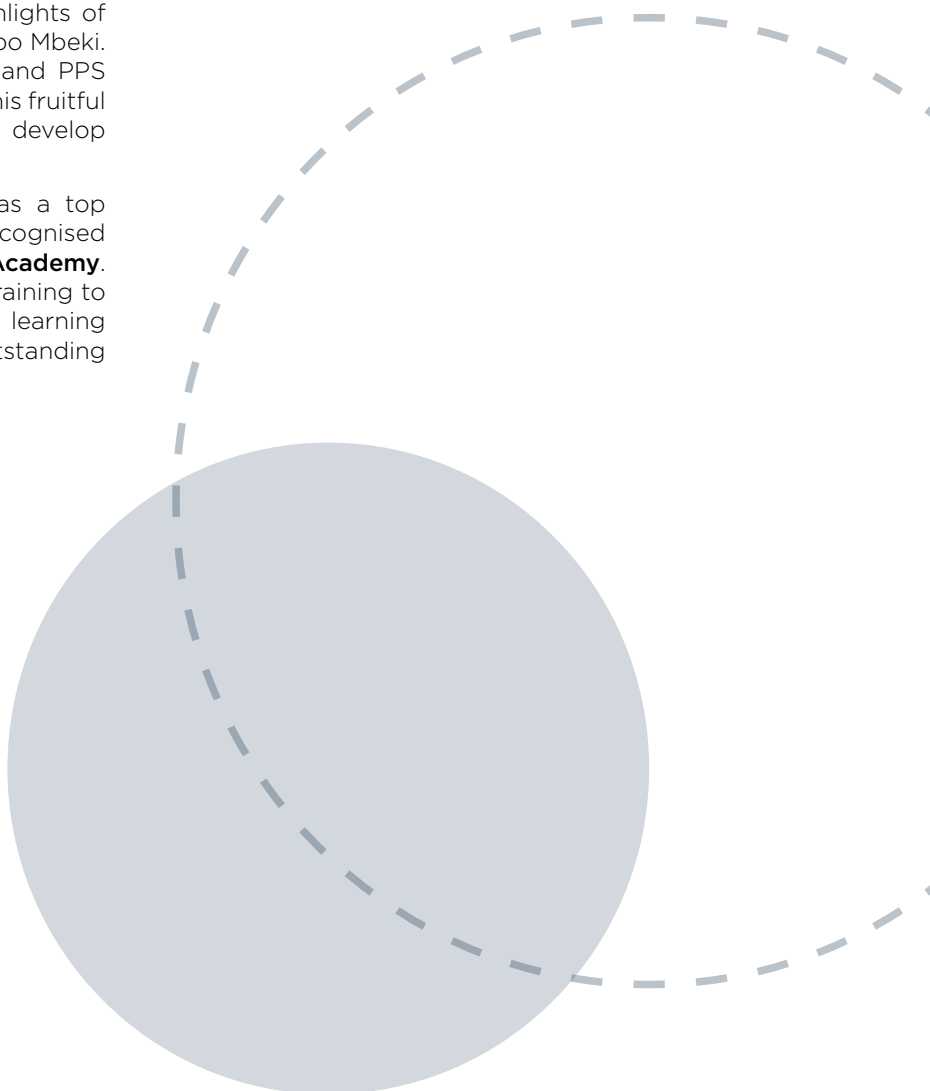
The annual **Graduate Internship** Development Programme (GIDP) carefully selects graduates in need of work experience and pairs them with PPS departments or subsidiaries that are in need of additional capacity and have the enthusiasm to train and develop young people. There were 25 graduate interns in the 2019 year, most of whom have been absorbed permanently into the business. During their internship year, these graduates also received ongoing training through the PPS Training Academy. The GIDP

is testament to PPS's commitment to contributing positively to the development of South Africa's young professionals.

The PPS **Young Leadership** Forum, a 12-month programme for a select group of employees under the age of 35, was also launched in 2019. The forum is the brainchild of a previous cohort of the GIDP and provides training and development for future business leaders. Eleven PPS employees were selected to participate in the inaugural programme and they engage in solving a range of different business challenges.

As part of the PPS Training Academy offering, both the GIDP and the Young Leadership Forum participants attended leadership training programmes through the Thabo Mbeki **African Leadership Institute** (TMALI) in partnership with the University of South Africa (UNISA). This initiative culminated in one of the highlights of 2019: a visit to PPS by former president Thabo Mbeki. In his address to the young professionals and PPS staff members, he expressed the hope that this fruitful partnership would continue to grow and develop South African leaders in the future.

As testimony to the academy's position as a top training organisation in the world, PPS was recognised in 2019 as a **Top 125 Global Corporate Academy**. Judging criteria included the alignment of training to business strategy, the impact evaluation of learning interventions and the deployment of outstanding initiatives.



# PPS GROUP EXECUTIVE COMMITTEE



## Seated:

### Mr Q J Augustine

B Sc, PG Dip (Actuarial Science), FIA  
Executive: Member Value Proposition

### Mr W Bosman

B Compt (Hons), CA(SA)  
Chief Executive: PPS Short-Term Insurance

### Mr I J Smit

B Com (Hons), FASSA  
Chief Executive Officer

### Ms M D Molefe

B Com, MBA  
Executive: Human Resources

### Mrs A N Seboni

B Com  
Executive: Group Brand Marketing and Communications

## Standing:

### Mrs T Boesch

B Com (Hons), CA(SA)  
Chief Financial Officer

### Mr J A Thomas

B Com (Hons) (Actuarial Science), FASSA  
Executive: Actuarial Services

### Mrs S Bassudev

B Pharm  
Chief Executive: PPS Healthcare Administrators





**Mr W J Mouton**

B Proc  
Executive: Life Broker Services

**Mr M Mtshali**

B Com, MBA,  
Executive: Advisory Services and Enablement

**Mr N J Battersby**

B Sc Eng (Mech), B Com (Hons), CFP, MBA, AMP  
(Harvard)  
Chief Operating Officer



**Mr V E Barnard**

B Com  
Group Company Secretary



**Mrs K Govender**

GIBS Executive Leadership  
Programme  
Executive: Life Operations

## CONTEXT

The ethos of mutuality informs everything the PPS Group does, and this philosophy enables it to support the growth of the professional pipeline beyond financial services. With this in mind, the PPS Foundation continues to implement development initiatives that are aligned to the United Nations Sustainable Development Goals:

- ⦿ Goal 1: - No poverty
- ⦿ Goal 2: - Zero hunger
- ⦿ Goal 4: - Quality education
- ⦿ Goal 8: - Decent work and economic growth



## SUPPORTING ACCESS TO QUALITY TERTIARY EDUCATION

A key PPS objective is to make a positive contribution to education, specifically tertiary education. Through its bursary programme the PPS Foundation therefore continues to improve access to quality education. The programme provides comprehensive funding towards tuition, text books and accommodation for students studying towards professional degrees with a focus on science, technology, engineering and mathematics (STEM).

The University Support Programme is a further initiative that supports activities aimed at enhancing the teaching and learning experience at academic institutions. The programme focuses on providing access to resources that will positively impact students' academic journeys, including psychosocial needs, as well as improving facilities that educators can use to deliver a world-class education.

Sadly, one of the challenges faced by students is food insecurity, with hunger and malnutrition contributing significantly to poor health, poor academic scores and a higher-than-average drop-out rate. Since 2018, the PPS Foundation has partnered with Rise Against Hunger to help address this issue, and has sponsored over 100 000 meal packs for distribution to students at public universities. These were packed

by PPS employees and student volunteers working on-campus.

## ADDRESSING UNEMPLOYMENT

Unemployment, particularly in the youth segment, has reached crisis levels in South Africa. Business must become involved if things are to change. To this end, the PPS Foundation has partnered with universities to roll out the LEAP Work-Readiness Programme, which prepares young graduates adequately for their transition into the world of work.

LEAP sessions with prospective graduates take place during their final year of study. The objective: to help them become **L**earned, **E**ngaged, **A**ccelerated **P**rofessionals. The sessions deal with relevant work-readiness topics and provide skills training on CV writing, interviewing techniques and personal branding. In 2019 alone, more than 1 000 students made use of the programme.

In addition to LEAP, Professionals Connect is at the disposal of graduates. This digital platform provides relevant industry-specific information, job advertisements and mentorship opportunities to aid new graduates with tools and mechanisms when transitioning from academia to the workplace. Professional associations, corporates, academic institutions, and experienced professionals assist with curating the information on the portal.

## SKILLS DEVELOPMENT: FINANCIAL LITERACY

Financial education sessions are facilitated to students in all nine provinces on a regular basis. Graduate marketing specialists conduct PPS-sponsored workshops called Money Matters as part of the Group's effort to secure lifelong financial wellbeing for graduate professionals. In 2019, 5 324 students at 26 campuses across the country attended the workshops.

## EMPLOYEE AND MEMBER VOLUNTEERISM

In addition to assembling meal packs for Rise Against Hunger, PPS employees have mobilised to drive social projects in their communities. The PPS Foundation supports several employee-driven initiatives and, in 2019, these included:

**TLC Children's home**, a project close to the hearts of PPS employees, who collect nappies, milk formula, clothes, toys and groceries to donate to the home.

**Caring4girls**, an initiative that helps reduce the number of school days girls have to miss due to a

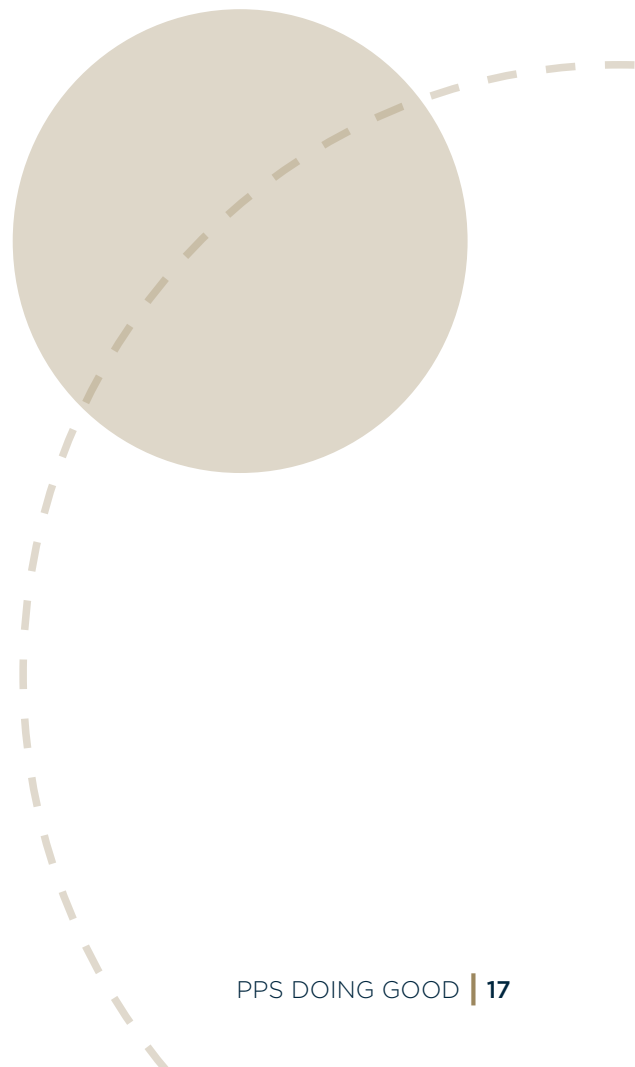
lack of sanitary products. In 2019, PPS employees donated over 1 300 sanitary packs to the Imbumba Foundation's distribution programme, which helps to keep adolescent girls in school during their monthly cycles.

South African **National Blood Service**, to which employees donate blood on a quarterly basis.

In keeping with the ethos of mutuality and shared success, PPS members can offer their time and expertise to young graduates with whom they have been paired through the Foundation's **mentorship programme**.

The PPS Foundation is also a beneficiary of the MySchool MyVillage MyPlanet programme. Cardholders can add the Foundation to their profile and contribute via this fundraising initiative.

Finally, as it is a Public Benefit Organisation (PBO), the PPS Foundation has created a donations platform to broaden its donor base. This safe and easy-to-use portal, which can be accessed at <https://ppsfoundation.pps.co.za>, allows members to donate towards the Foundation's activities. Donors qualify for a tax exemption and receive Section 18A certificates.



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## STRATEGY

Throughout its long history, PPS was driven by a single focus: meeting the needs of graduate professionals. The Group's unique products, services and solutions are designed to leverage off its ethos of mutuality. That said, today's professionals want more than just smart financial products, they want a deeper engagement with an inspiring and collaborative community, which is a unique added value PPS strives to provide.



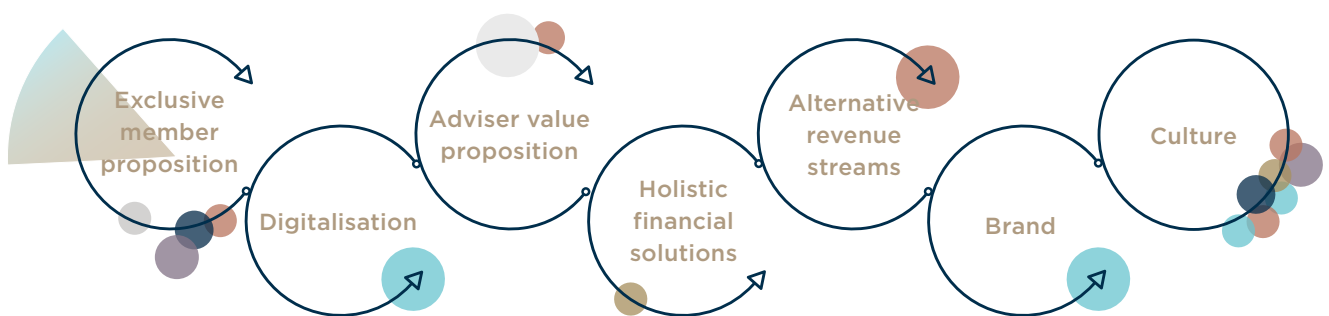
## PURPOSE

PPS's purpose is to help professional members and their families protect their dreams, grow and secure their financial worth, and live the lives they want to live.

## STRATEGIC VISION 2022

The strategic vision of PPS is to continue to build itself as an aspirational brand aimed at meeting the financial services needs of graduate professionals and to be an undisputed brand leader in the markets it serves.

This vision is supported by seven strategic focus areas:



## STRATEGY (CONTINUED)

### STRATEGIC FOCUS AREAS

Focus area	Why it is important	Objectives
<b>Exclusive Member Proposition</b>	With an existence centred around membership, PPS creates meaning for its members by building and maintaining a PPS community where professionals can network and interact.	<p>Be acknowledged for best-in-class products and solutions.</p> <p>Create a compelling community experience for members and their families.</p> <p>Introduce exclusive community benefits over and above products and services.</p>
<b>Digitalisation</b>	Most professionals are time-starved and technology savvy; therefore, they demand efficient and intuitive services.	Develop and deploy an omnichannel sales and service experience for PPS members.
<b>Adviser Value Proposition</b>	Advisers are integral to PPS's member relationships, which is why the Group is continuously developing tools and solutions that enable PPS advisers to engage with their clients more seamlessly and effectively.	Position PPS as THE obvious brand of choice in the professional adviser community.
<b>Holistic Financial Solutions</b>	PPS products are created for the professional, with distinct advantages over similar offerings in the market. Purchasing more PPS products increases gain for the member, from aggregated Profit-Share.	<p>Responsibly build out PPS's financial advisory services to be a holistic financial services provider.</p> <p>Leverage PPS's Specialist Support Services (S<sup>3</sup>) for specialised member and channel support.</p>
<b>Alternative Revenue Streams</b>	<p>Alternative revenue streams boost members' Profit-Share and offer some protection against factors outside PPS's direct control, like political uncertainty and foreign exchange volatility.</p> <p>It adds value to protect members against political and currency impacts by diversifying revenue streams.</p>	<p>Broaden the member value proposition through increased access to income streams and opportunities.</p> <p>Grow member take-up of new products by demonstrating value to graduate professionals at different stages of their lives.</p> <p>Grow PPS Mutual Australia, the Group's first off-shore business, which over time will make meaningful contributions to local members' Profit-Share.</p>
<b>Brand</b>	Effective brand positioning is crucial to attracting new members, especially younger professionals who need PPS products and services more than they might appreciate.	<p>Position PPS as a thought leader in the professional market.</p> <p>Demonstrate the value of the exclusive offering, tailored for professionals.</p>
<b>Culture</b>	An internal culture that drives results, learning and caring is central to the PPS employee value proposition, and ultimately drives PPS's member value proposition.	<p>Promote a high trust culture in which people feel empowered and are engaged.</p> <p>Inculcate a learning mindset that drives results while caring about the member experience.</p>

Milestones in 2019 included the launch of the first iteration of a new member engagement platform called **PPS PRO-FiT**. A beta version went live to a number of members at the end of the year, allowing for the user experience to be optimised prior to the full launch in 2020. Once registered on the platform, members can take advantage of added-value functionality, which enables them to:

- ⦿ view all the products they have with the PPS Group, including insurance, investments, short-term insurance and medical aid products;
- ⦿ view and amend their personal details;
- ⦿ access the details of their PPS intermediary;
- ⦿ view the details of their current Profit-Share benefit; and
- ⦿ access their latest Profit-Share statement.

PRO-FiT also offers an interactive Profit-Share calculator called **PLAYZONE**, which enables members to explore various scenarios that will help them to optimise their Profit-Share. This user-friendly tool allows them to project what their Profit-Share will be at the time of retirement; obtain an illustration of how it can be put towards funding certain needs, such as post-retirement medical care; and see what the impact of extending their product portfolio will be. PLAYZONE brings the concept of profit sharing to life and provides tangible evidence of its long-term value.

In keeping with the ethos of mutuality, PPS uses the platform to gain deeper insight into its members, including their hobbies and interests. This allows the Group to serve them better and to offer additional lifestyle benefits.

For example, PRO-FiT offers access to UCook, a healthy eating service that provides users with 12 seasonally inspired recipes per week. Once users have made a selection from the featured recipes, they can arrange to have all the ingredients required to cook their chosen meals delivered right to their door. This service means that they can enjoy restaurant-quality meals in the comfort of their own homes without the fuss and effort of shopping for ingredients. It is the perfect meal solution for the busy professional.

PRO-FiT will be enhanced throughout 2020 to ensure that the functionality and

user experience surpasses member requirements and expectations.

In another development, PPS deepened its focus on the student **graduate market** and is planning to deliver a modular product offering specifically designed for this group. It will provide an easy, menu-driven way to browse and select from the full range of PPS products and services.

On a Group-wide basis, PPS also adopted an innovative new approach to underwriting during the course of the year.

Key product developments included an enhancement to the PPS lump-sum disability product range in September 2019. The **Functional Disability** product solution is available to all members, regardless of their occupation. Prior to this, members in certain occupations did not have access to disability products due to the risk assessment of their occupations. With Functional Disability, eligibility assessment considers objective medical evidence rather than the member's ability to perform an occupation, thereby offering wider resonance in the market.

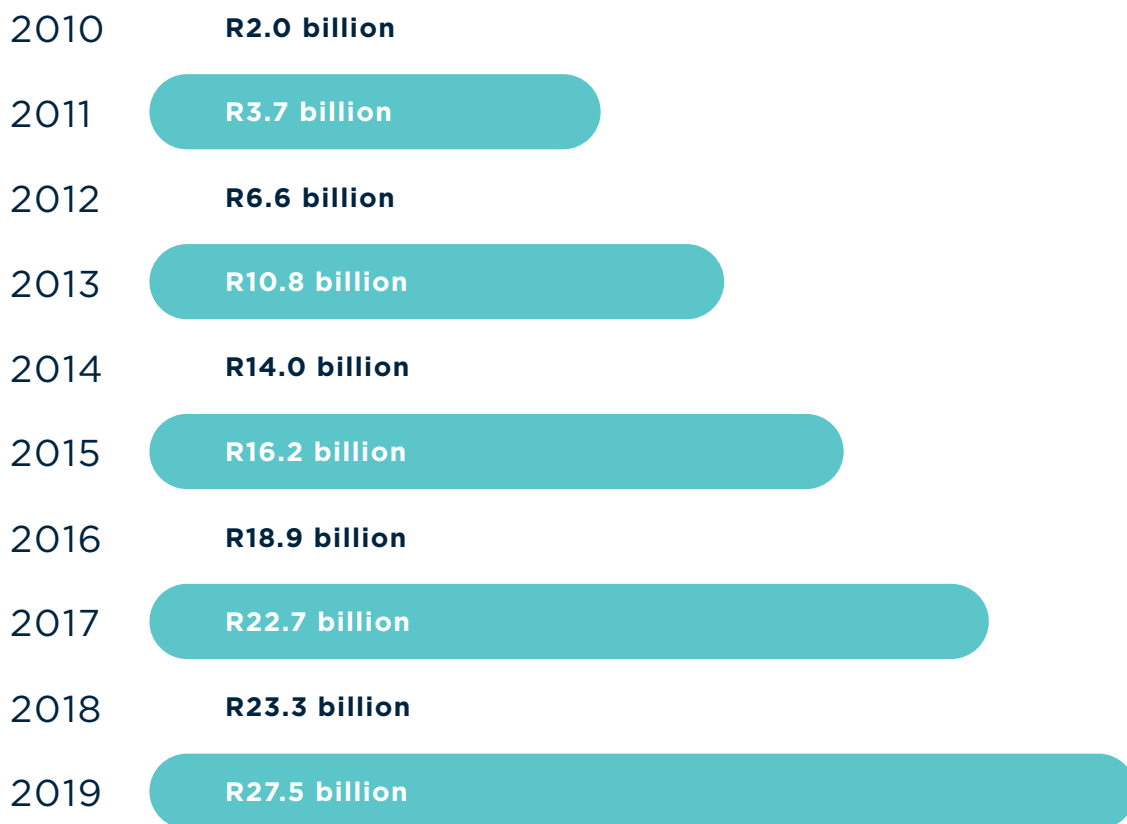
PPS reviewed the assessment of **pregnancy-related** claims and as a result enhanced its sickness benefit claims definition. Previously, members only qualified to claim if the condition they suffered from during pregnancy was one of 17 predefined listed conditions. PPS abandoned this list of predefined conditions because it did not meet the full range of members' needs. The outcome is that pregnancy-related illness is now being treated like any other illness.

Another product launched during the course of the year was **PPS Business Assurance**, which caters for all the risks that professional business owners have to face, while simultaneously reducing the process and administration complexity often involved in making business assurance claims.

Furthermore, PPS demonstrated renewed commitment to its **Namibian** members by expanding the product range available in that country. Namibian members previously only had access to the Sickness and Permanent Incapacity product range. However, with the competitor and regulatory landscape in Namibia changing, PPS recognised its responsibility to improve its offering to members. Following the launch of lump sum death, disability and critical illness benefits, the Namibian business exceeded targets considerably, demonstrating how urgent the need was for extended coverage. As part of this focus on making more products available in Namibia, three new product enhancements will be introduced during the current period.

**R27.5 billion** cumulatively allocated to members over the last **10 years**

# HIGHLIGHTS



When we say **there's more for you**, we mean it. The bigger your portfolio with us, the bigger your Profit-Share. With our new PPS PRO-FiT platform, you can use the PLAYZONE to explore how you can get more from PPS with our Profit-Share simulator.



**UP 18%**

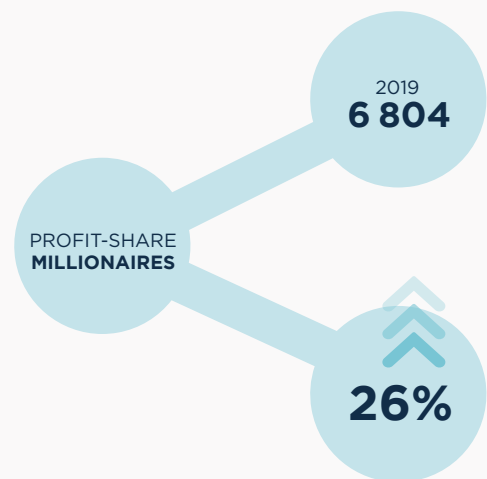
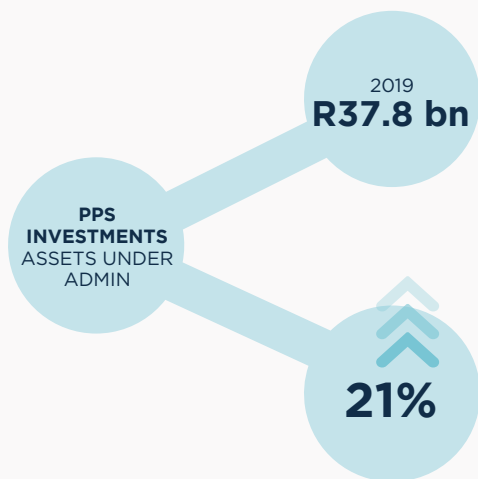
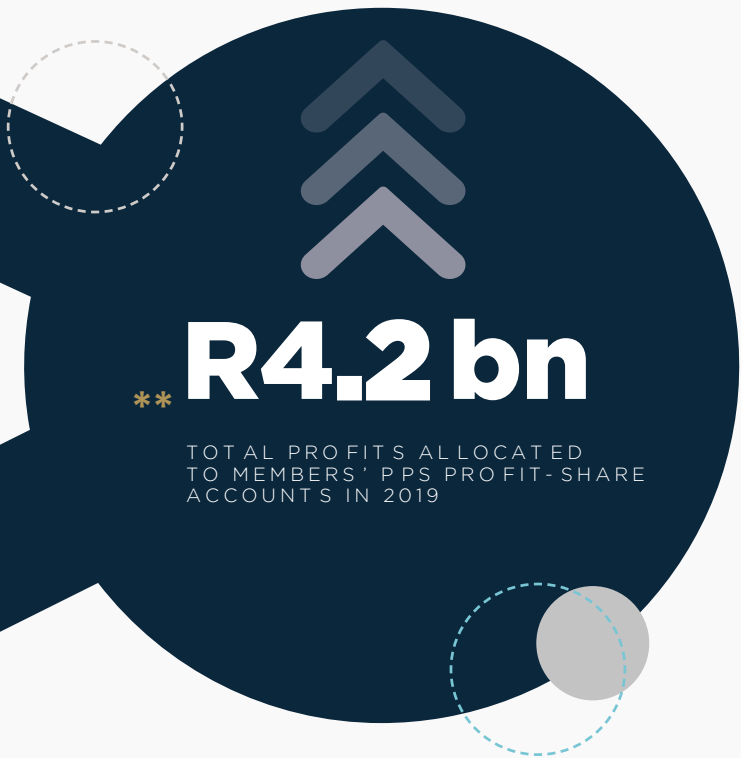
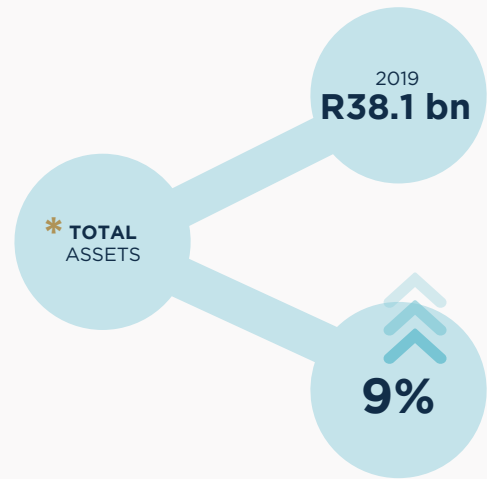
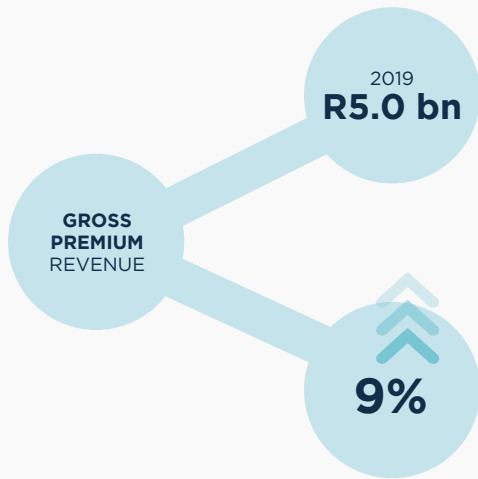
FROM 2018

**R3.7 bn**

**TOTAL BENEFITS PAID**

SICKNESS	R619.9 m
LIFE COVER	R618.5 m
PERMANENT INCAPACITY	R541.2 m
CRITICAL ILLNESS	R225.7 m
LUMP SUM DISABILITY	R153.6 m
MOTOR & HOUSEHOLD	R134.7 m
EXIT PAYMENTS	R1 456 m





\* Excluding unit trusts for third parties. \*\* Members with qualifying products. Past performance is not necessarily indicative of future performance.

## CHAIRMAN'S STATEMENT



“Despite operating in a challenging economic environment, PPS has delivered solid returns for its members. At the time of writing this report, the COVID-19 pandemic is unfolding; it will have an influence on numbers in 2020.”

DR SYBIL SEOKA  
PPS CHAIRMAN



## OPERATING ENVIRONMENT

The year 2019 was extremely challenging for the South African economy, with the South African Reserve Bank announcing economic growth at only 0.2% in 2019; less than half the growth rate recorded in 2018. Despite this difficult economic environment, PPS delivered a strong performance in 2019. Under the guidance of the Board, PPS has continued to invest meaningfully in its various business units and has delivered positive results for its members.

Our ethos of mutuality is what differentiates the Group from other providers. Mutuality ensures that members can share in the profits of the company through the unique PPS Profit-Share Account; a benefit that only PPS offers in the South African financial services industry.

Our members enjoyed good investment returns on their Profit-Share Accounts in 2019. The returns on most of our in-house investment portfolios were also very pleasing. This was a direct result of our long-term approach to investing, and the growth-asset focus in the various diversified portfolios. Growth assets had a torrid time in 2018. However, our asset managers maintained a long-term focus, and the recovery in investment returns in 2019 was very satisfying.

At the time of writing this report, the COVID-19 pandemic is unfolding. All the 2019 investment gains have already been reversed. It is hoped that investment markets will recover over the course of 2020, but this is of course impossible to predict. Investment markets always recover at some stage. Again, a long-term approach to investing is in our view the best strategy to deal with the current situation - short-term knee-jerk changes to investment strategy, trying to

“time the market”, usually destroys value and we shall steer clear of such an approach.

Even before the COVID-19 pandemic, South African economic growth was expected to remain sluggish, with growth of just 0.3% predicted for 2020. With the pandemic now unfolding around us, it will almost certainly be negative, with some commentators predicting a deep recession in 2020. In this environment, PPS continues to strike the appropriate balance between investing to achieve its long-term vision and sensibly containing short-term costs.

## COMPANY PERFORMANCE

It gives me pleasure that amid all of South Africa's challenges and a feared persistent recession in 2019, PPS recorded a 9% increase in revenue, bringing our gross premium income to R5.0 billion.

We believe in consistently innovating according to the ever-changing needs of graduate professionals, and in 2019 we delivered solutions that solve certain pain-points for our members. PRO-FiT is a powerful member engagement platform that allows members to engage digitally with PPS or with fellow professionals, and explore ways to optimise their Profit-Share.

In response to member feedback, we also reviewed and enhanced some of our risk products. The PPS Sickness and Permanent Incapacity benefit will now cover pregnancy-related illnesses in a way that meets the full spectrum of our members' needs. We enhanced our Disability Provider to include a Functional Disability benefit, which is available to all members regardless of their occupation. Business

## CHAIRMAN'S STATEMENT (CONTINUED)

owners will benefit from the new Business Assurance product, which has several cover options for the range of complex risks that businesses face.

For members in the health professions we developed PPS Health Professions Indemnity, designed in response to the increasingly high costs of indemnity insurance, providing peace of mind to members in times of need.

Our members with investment products can now benefit from the PPS Investments Family Network, which is designed to encourage the aggregation of individual and family assets. Members on Family Network enjoy lower fees because of the larger asset base.

Lastly, an exciting change for our Namibian members is that we have expanded the product range available to them beyond just the Sickness and Permanent Incapacity benefit. This has clearly resonated with our members, as evidenced by the high uptake of lump-sum death, disability and critical illness benefits, which exceeded our launch targets.

### GLOBAL ISSUES

As the third decade of the 21st century begins, the three biggest challenges facing the world as a whole are climate change and the resulting impact on biodiversity, income inequality and rapid technological change.

In response to climate change and its impact on the environment, PPS is implementing responsible practices with regard to water and energy consumption and waste management. More importantly, we are cognisant of the significant impact that climate change is likely to have on investment markets and factor this understanding into our strategic planning.

With regard to income inequality, it is sobering to acknowledge that we live in the most income-unequal country in the world. In other countries – from Chile to France – the issue of income inequality is coming to a head and citizens are challenging the status quo. Since we at PPS believe that the most sustainable remedy to income inequality is education, the PPS Foundation is actively involved in improving access to tertiary education and in supporting positive outcomes for beneficiaries of the Foundation's programmes.

Finally, as rapid technological advances continue to disrupt existing business models and practices across the globe, we are adapting and investing in new and better ways to serve our members.

### LOCAL ISSUES

One risk that has become much more significant recently is the movement of professionals across country borders and, especially, emigration from South Africa. Professionals who have excellent qualifications and often extensive experience generally have a choice where they live and practice. This is obviously top-of-mind in our strategic thinking.

Developments relating to the proposed National Health Insurance (NHI) have further highlighted the extent of this risk. Given our unique positioning among professionals, who are crucial to the successful implementation of any national healthcare strategy due to the skills they supply and the taxes they contribute, we are not shying away from our responsibility to influence these developments. With this in mind, I would like to thank members who have participated in the surveys that have informed our response to the issue. Thank you also to the executives and managers who were actively involved in compiling PPS's submissions on not only the NHI Bill, but the Medical Schemes Amendment Bill as well. The official PPS commentary on the proposed NHI is available on our website.

## REGULATORY CHANGES AND COMPLIANCE

Legislative and regulatory changes continued to impact financial services businesses in South Africa in 2019. This places an additional responsibility on our boards and management to ensure compliance with the new requirements.

## CORPORATE SOCIAL RESPONSIBILITY

### PPS FOUNDATION

The PPS Foundation uses the shared value of our community of professionals to solve key challenges that we face as a developing economy, particularly with regard to our large youth population. South Africa's education crisis requires all levels of society to collaborate and find solutions. The PPS Foundation's mandate provides for university bursaries to be awarded to deserving students with a focus on the science, technology, engineering and mathematics (STEM) fields of study.

The Foundation's University Support programme means that we can also fund other important but often ignored student needs, such as food security and psychosocial support.

We are grateful to our professional members who take part in the important work of youth development by offering their time and knowledge to the PPS Foundation's Mentorship Programme.

### PPS TRAINING ACADEMY

The Academy continues to be a learning institution that makes us immensely proud. In 2019, it raised the bar yet again with regard to its development programmes for young employees of PPS, thereby contributing towards alleviating the skills deficit and unemployment crisis in South Africa. Through a partnership with UNISA's TMALI, our graduate interns and the PPS Young Leadership Forum attended a series of leadership programmes at UNISA, aimed at developing young people into strong leaders for South Africa's future.

## ETHICS AND CORPORATE GOVERNANCE

The Group complies with all relevant legislation and regulations, and our corporate governance practices align with the King IV™ Code principles.

## BOARD CHANGES

In 2019, PPS welcomed new members to two of our boards, namely the PPS Holdings Trust Board and the Insurance Company Board. New members appointed to the Holdings Trust Board are Dr Renier Putter, who is a dentist by profession, and Prof. Leon Snyman, a professor of Obstetrics and Gynaecology. New members appointed to the Insurance Company Board are Mr Nicolaas Kruger, an actuary who has also been appointed as a member of the PPS Group Actuarial Committee, and Mr Edmund Franklin, an engineer who will contribute to our Group IT strategy. I wish them a fruitful tenure at PPS.

## THANK YOU

On behalf of my fellow trustees I would like to thank our CEO, Izak Smit, and his executive team for entrenching PPS as the preferred provider of premium risk, financial and investment products to professionals in South Africa and Namibia.

A sincere word of thanks also goes to our members, who trust us with their financial goals.

Lastly, I would like to extend my gratitude to Dr Mannie Kruger, my deputy, and our fellow trustees, who continue to make the board the solid think-tank that it is, always seeking ways to provide better value to the PPS community. I must also thank my family, whose support during this year has been invaluable.



**Dr Sybil Seoka**  
Chairman

6 April 2020

# PPS HOLDINGS TRUST



## Front Row:

### **Dr A Coetzee**

B Med Sc, MB ChB, CAHM, ABCD  
Family Practitioner in the Private Sector  
Independent Non-Executive Trustee

### **Ms P Natesan**

B Com (Hons), CA(SA)  
Chief Executive Officer: Institute of Directors  
in Southern Africa  
Independent Non-Executive Trustee

### **Mrs N N Nongogo**

B Juris, LLB  
Practising Attorney  
Independent Non-Executive Trustee

### **Dr S N E Seoka**

B Pharm, PhD, FPS  
Pharmacist  
Independent Non-Executive Chairman

### **Dr C M Krüger**

MB ChB, M Prax Med, M Pharm Med  
Family Physician  
Independent Non-Executive Deputy Chairman

## Back Row:

### **Dr N H P Khosa**

MB ChB, MBA  
Medical Doctor  
Independent Non-Executive Trustee

### **Dr F Mansoor**

BDS, MBA  
Chief Executive Officer: The Integrated  
Dental Ecosystem  
Independent Non-Executive Trustee

### **Dr D P du Plessis**

B Sc, MBA, DBA  
Chartered Director (SA)  
Independent Non-Executive Trustee

### **Mr E A Moolla**

B Juris  
Practising Attorney  
Independent Non-Executive Trustee

### **Prof H E Wainer**

B Acc, CA(SA)  
Chartered Accountant and Registered Auditor  
Independent Non-Executive Trustee

### **Mr V P Rimbault**

BSc Eng (Mech)  
Chief Executive Officer: The South African  
Institution of Mechanical Engineering  
Independent Non-Executive Trustee



**Prof L C Snyman**

B Med Sci, MB ChB, M Prax Med, M Med O&G, FCOG, PhD  
Principal Specialist and Acting HOD, Department O & G, Kalafong Provincial Tertiary Hospital  
Independent Non-Executive Trustee

**Ms D L T Dondur**

B Acc (Hons), B Compt, CA(SA), MBA,  
Chartered Director (SA)  
Independent Non-Executive Trustee

**Mr P Ranchod**

B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing  
Independent Director and Business Consultant  
Independent Non-Executive Trustee

**Mr I Kotzé**

B Pharm  
Executive Director: Pharmaceutical Society of South Africa  
Independent Non-Executive Trustee

**Mr S Trikamjee**

B Com (Hons), CA(SA)  
Chartered Accountant  
Independent Non-Executive Trustee

**Mr C Erasmus**

B Sc, FIA, FASSA  
Director of Companies  
Independent Non-Executive Trustee

**Mr N C Nyawo**

B Com (Hons), CA(SA), MBA  
Standard Bank Group: Head of MIS Global Markets Africa Finance  
Independent Non-Executive Trustee



**Mr J A B Downie**

BSc, MBA, CFP  
Asset Consultant and Professional Trustee  
Independent Non-Executive Trustee



**Dr R Putter**

B ChD, MSc (Dentistry and Public Dental Health)  
Private Practice: Dentist  
Independent Non-Executive Trustee

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## CEO'S MESSAGE TO MEMBERS

“

Once again, I'm reporting back on a challenging year, but one in which we still managed to outperform most of the goals we had set for ourselves.

”

**IZAK SMIT**  
PPS GROUP CEO





## OVERVIEW

It is my pleasure to report to our members that, despite the tough trading environment in which we operate and which continued to pose challenges to financial services businesses throughout South Africa in 2019, PPS managed to outperform most of the goals we had set for ourselves at the beginning of the year.

This result was due to the hard work of our staff and the committed implementation of our strategic agenda, as well as the enduring strength of our mutual model. We are often humbled by the niche market we serve, a market segment that includes some of South Africa's and Namibia's most educated and influential individuals in government, the academic world, business and, of course, the various professions. It is both a privilege and a mammoth responsibility.

Although professionals generally have the education, experience and resources to navigate the changes and challenges in the world around them, they are by no means immune to the effects of the prevailing environment. Our mutual model and the behavioural traits of our professional target market benefit our business and our members, particularly when trading conditions are tough.

## CEO'S MESSAGE TO MEMBERS (CONTINUED)

To elaborate on the Group's performance, our main life insurance business achieved the new business growth targets that we had set for ourselves. Expenses were managed within budget. Claims experience developed in line with actuarial assumptions. Our subsidiaries, still small compared to the life business, will continue to contribute a larger portion of total group revenue and profit as they grow off their low starting bases. All four of our main subsidiaries managed to outperform the performance goals that had been set for the reporting period.

### PERFORMANCE

In the previous period (2018), the Profit-Share allocation to our members was negatively impacted by investment market returns. Our medium-term investment objective is to outperform inflation by a good margin and our approach is to invest in a well-diversified portfolio containing a significant portion of growth assets.

Growth assets had a difficult time in 2018, with returns on almost every major asset class being negative. In contrast, these enjoyed surprisingly good returns in 2019 and the year ended on a strong note.

Market returns, especially from growth assets, will always be volatile by nature. Annual reporting periods and the resulting calendar cut-off points for reporting purposes are somewhat artificial. It is nevertheless pleasing to note that market returns bounced back in 2019. With these added to the operating profit of the business, which is more stable by nature and which recorded positive growth in 2019, members have been able to enjoy good allocations to their Profit-Share Accounts.

The unfolding COVID-19 pandemic, an event that happened after the financial year-end, will influence both operating profit and investment returns in 2020. At the time of writing this report, all the 2019 investment gains and more have already been reversed. However, our investment strategy will remain long-term focused. Investment markets will eventually recover, as they always do. And our financial position remains very strong, enabling us to honour our commitments to our members in future.

To contribute to the part that private businesses need to play in helping to slow down this pandemic in South Africa, the PPS Board has decided to set aside R50 million of 2019's profits for possible use towards COVID-19 support. At the time of writing, management has only been mandated to utilise R25 million, and the rest will be held in reserve. After these allocations, our total profit allocations to members for 2019 amount to R 4.2 billion, with operating profit of R1.1 billion and investment profit of R3.1 billion.

### STRATEGY

PPS, like all South African businesses, is exposed to the political and economic uncertainty that has become

the new normal in the country. It is our responsibility to develop the necessary strategies to deal with this reality. Nevertheless, in every challenge there is often an opportunity.

Our strategy, which is outlined in more detail in the strategy section of this report, remains centred around the following seven focus areas:

- ⦿ Our exclusive member value proposition (MVP);
- ⦿ The digitalisation of our services for members;
- ⦿ Expanding our value proposition to advisers;
- ⦿ Developing holistic solutions and raising awareness of all products and services;
- ⦿ Creating alternative revenue streams to boost the value we can return to our members;
- ⦿ Positioning the PPS brand as the financial services provider of choice for professionals; and
- ⦿ Shaping the PPS community culture, which encompasses both staff and members.

An important part of our strategy remains to collaborate with professional associations across the various professional disciplines. These partnerships, which we value highly, allow us to understand the needs of professionals better and to develop bespoke solutions that meet their specific needs.

## PERFORMANCE SNAPSHOTS

### PPS INSURANCE

The annual premium income of new life insurance business written in 2019 breached a quarter of a billion rand for the first time in 2019, growing 10% from 2018. Given the professional segment we serve, advice is an important aspect of the sickness cover and life solutions we offer. Distribution therefore takes place exclusively through face-to-face advisers, both within and independent of PPS.

Approximately 80% of new business comes through independent financial advisers. They are very important business partners because they serve our professional members. In 2019, 20% of new business came from internally employed advisers, where we saw growth of 15% for the period. Given the prevailing economic environment, we are very pleased with this growth, which was driven mainly by growth in our fiduciary services (wills and estates) business unit; new products, such as Business Assurance and Functional Disability; the value added by our S<sup>3</sup> advisory unit; marketing initiatives; and hard work.

Group premium revenue for the reporting period was R5.0 billion, up by 9% on 2018. This was supported by a low lapse rate that is among the lowest in the world despite harsh economic conditions. Claims held up well in the first half of the year, exceeded budgeted actuarial assumptions in the second half,

and eventually came in exactly in line with these assumptions for the full year. Our primary purpose is to assist our members in times of need, which means paying valid claims; making a profit is a secondary objective.

Given our mutual model, if we were to experience a claims overrun against original actuarial expectations, as is likely to happen in 2020 with the COVID-19 pandemic unfolding, it would simply mean that more money had been distributed to claimants who had experienced unfortunate events during the year and less had been accumulated to the Profit-Share pool. We remain in a very strong financial position to honour long-term commitments to our members.

Management expenses represent the only 'leakage' of money from the pool that is eventually returned to our members in the form of claims payments or Profit-Share. Efficiency ratios are therefore very important metrics that we, as a management team, keep careful track of. With the challenging economic environment and our early move to the IT cloud environment, expense management was a challenge during the reporting period. Despite this, I am happy to report that we managed to stay just within the expense ratio target set for us by the Board.

## PPS INVESTMENTS

Despite the negative investment market conditions at the end of 2018, it was pleasing when net income exceeded expectations by year-end, with 19% growth on 2018. This was supported by strong gross new business inflows of over R6 billion, 3% up on 2018.

Professionals typically consolidate their assets on one administration platform after retirement and it is the goal of PPS Investments to be that platform. The Family Pricing model that we rolled out towards the end of 2019, which is an industry first, supports this goal. Profit-Share distributions to our members also enable PPS Investments to position itself as an ultra-low-cost administration platform provider. Significant inroads with respect to digital channels, both to advisers and members, support the service that professionals expect and receive from the business.

Assets under administration at PPS Investments increased from R31.4 billion at the start of the year to R37.8 billion by year-end. Surplus generated increased by 11.0% from R29.4 million in 2018 to R32.6 million in 2019. This demonstrates that the business is on a strong growth trajectory, with a strategy that is built on four key pillars, namely:

- ⦿ diversifying investment distribution to include becoming the partner of choice for specialist investment and network advisers;
- ⦿ creating a future-fit administration environment that facilitates ease of doing business and, through Profit-Share, makes it difficult for other administration platforms to compete on price;

- ⦿ selectively building certain bespoke asset management capabilities while continuing to work with our established asset-management business partners; and
- ⦿ retaining post-retirement savings (lifetime mutuality).

Again, the currently unfolding COVID-19 pandemic will have a big impact on the PPS Investments numbers in 2020.

## PPS SHORT-TERM INSURANCE

The value of new gross premiums for short-term insurance business written in 2019, which amounted to R39 million, fell short of our target of R49 million, the only negative in an otherwise good set of results for this business.

That said, claims to the value of R128 million were not only below budget, but also lower than the figure of R133 million for 2018. This resulted in a claims ratio of 69.3%, down from 79.9% in 2018, which was supported by good underwriting and claims management, as well as fairly benign weather conditions in comparison to 2018. We remain firmly of the view that professionals, due to their personal risk management practices and behavioural traits, are a good risk pool.

Expenses were well managed and the loss of R27 million recorded for 2019 was lower than budgeted for in the business plan. According to the plan, it will still be about three years before PPS Short-Term Insurance breaks even as it needs scale to grow through its fixed-cost base. It is all about top-line revenue growth, but not growth at the expense of claims ratios.

We have also recently established a business under our short-term licence to provide indemnity insurance cover to members in the healthcare disciplines. Our members in healthcare have raised the issue of the cost of indemnity cover with us for some time now. Because they need indemnity cover in order to practice, they had no other option than to pay higher premiums. Many industry incumbents have exited this market after incurring heavy losses.

Naturally, we cannot supply this cover to members in healthcare professions at the expense of other members; this business line must be sustainable in its own right. After detailed investigations, PPS started underwriting indemnity cover as an independent offering in early 2019. By year-end more than 400 PPS members were covered by PPS Healthcare Indemnity policies, with gross written premiums being R13 million. We expect significant growth in this business in 2020.

Rolling out this new business product is in line with the purpose of PPS: helping members to focus on their professions, enabling them to practice, and helping them to live the lives they want to live.

## CEO'S MESSAGE TO MEMBERS (CONTINUED)

### PPS HEALTHCARE ADMINISTRATORS

The year under review was a good one for our healthcare administration business, which operates in an industry that is, at best, stagnant. Revenue increased by 8% on the back of a 9% growth in the number of principal members across the schemes for which we provide administration services. This growth was supported by the number of principal members in the Profmed scheme increasing by 4% during 2019. The addition of three new schemes, for which we now provide certain managed healthcare administration services, added to this growth.

PPS members who are also members of Profmed essentially get administration services at cost, since much of the profit generated by these services is returned to them as Profit-Share. At the same time, they enjoy industry-leading administration services from a highly professional team.

### PPS NAMIBIA

PPS members in Namibia enjoyed a good year as far as claims were concerned, with net claims increasing by only 4% from 2018 and remaining well within budgeted assumptions. This helped to offset a growth in expenses from N\$25 million in 2018 to N\$34 million in 2019. This increase, which nevertheless remained within pre-defined parameters, was due to changes to the regulatory structure in Namibia, which require certain functions previously supported from South Africa to be supported from Windhoek.

In 2019, we also rolled out new product lines in Namibia, which was a very exciting development. This led to the value of new business written in Namibia increasing to N\$16 million, more than double the value of new business written in 2018. On the back of new product lines and investment in distribution, we expect PPS Namibia to experience good growth over the next few years.

### A WORD OF THANKS

Tough times typically bring out either the best or the worst in people. It was my privilege in 2019 to witness the resilience with which our PPS people took on the challenges and opportunities presented by the tough economic environment in which we were operating. We could not have delivered such positive returns for our members without the commitment of our employees. I feel honoured to be part of a team of such outstanding people.

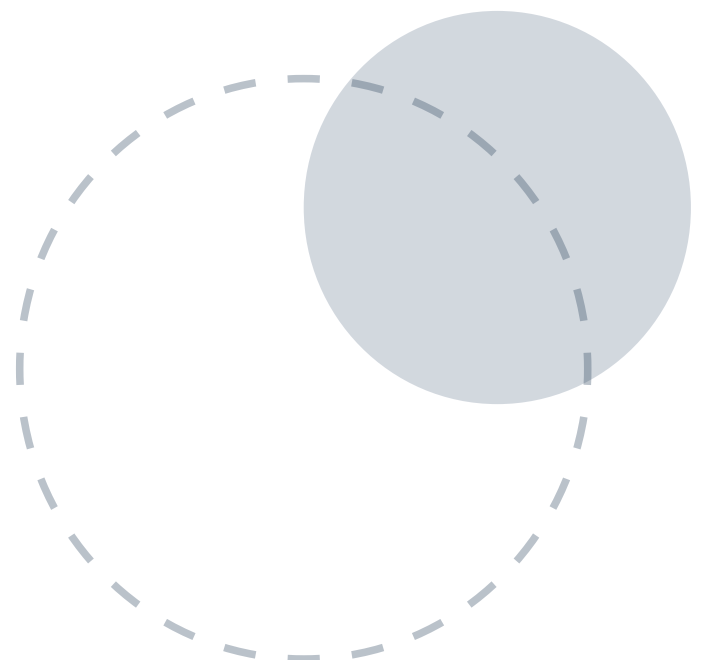
The support that I continue to enjoy from a strong and diverse Board is also invaluable. Both the chair of PPS Holdings Trust, Dr Sybil Seoka, and of PPS Insurance, Charles Erasmus, are valued sources of advice.

We will continue to go from strength to strength in the new decade. Our position in the market is strong and secure, which means that we can focus on our prime objective: the betterment of our professional members.



**Izak Smit**  
*PPS Group CEO*

6 April 2020



The PPS Group	Key indicators	2019	Five year review												
Profit-Share allocations and benefit payments															
<p>Through our unique mutual model, all the profits are ultimately attributable to our members. This is achieved by allocating operating profit and investment returns to the members' PPS Profit-Share Accounts which are available to members on retirement, or to their beneficiaries on death.</p>	<p><b>Total annual profit-share allocations</b></p>	<p><b>R4.2 billion</b></p>	<table border="1"> <caption>Total annual profit-share allocations (R'bn)</caption> <tr><th>Year</th><td>2015</td><td>2016</td><td>2017</td><td>2018</td><td>2019</td></tr> <tr><th>Value</th><td>2.0</td><td>2.5</td><td>3.5</td><td>0.5</td><td>4.2</td></tr> </table>	Year	2015	2016	2017	2018	2019	Value	2.0	2.5	3.5	0.5	4.2
	Year	2015	2016	2017	2018	2019									
	Value	2.0	2.5	3.5	0.5	4.2									
	<p><b>Annual operating profit allocations</b></p>	<p><b>R1.1 billion</b></p>	<table border="1"> <caption>Annual operating profit allocations (R'bn)</caption> <tr><th>Year</th><td>2015</td><td>2016</td><td>2017</td><td>2018</td><td>2019</td></tr> <tr><th>Value</th><td>1.0</td><td>1.2</td><td>1.1</td><td>1.1</td><td>1.1</td></tr> </table>	Year	2015	2016	2017	2018	2019	Value	1.0	1.2	1.1	1.1	1.1
	Year	2015	2016	2017	2018	2019									
Value	1.0	1.2	1.1	1.1	1.1										
<p><b>Annual investment profit/(loss) allocations</b></p>	<p><b>R3.1 billion</b></p>	<table border="1"> <caption>Annual investment profit/(loss) allocations (R'bn)</caption> <tr><th>Year</th><td>2015</td><td>2016</td><td>2017</td><td>2018</td><td>2019</td></tr> <tr><th>Value</th><td>1.0</td><td>1.5</td><td>2.5</td><td>-0.5</td><td>3.1</td></tr> </table>	Year	2015	2016	2017	2018	2019	Value	1.0	1.5	2.5	-0.5	3.1	
Year	2015	2016	2017	2018	2019										
Value	1.0	1.5	2.5	-0.5	3.1										
<p><b>Annual gross benefits paid to members</b></p>	<p><b>R3.7 billion</b></p>	<table border="1"> <caption>Annual gross benefits paid to members (R'bn)</caption> <tr><th>Year</th><td>2015</td><td>2016</td><td>2017</td><td>2018</td><td>2019</td></tr> <tr><th>Value</th><td>2.0</td><td>2.5</td><td>3.0</td><td>3.2</td><td>3.7</td></tr> </table>	Year	2015	2016	2017	2018	2019	Value	2.0	2.5	3.0	3.2	3.7	
Year	2015	2016	2017	2018	2019										
Value	2.0	2.5	3.0	3.2	3.7										
<p><b>Annual gross benefits paid to members and Profit-Share allocations</b></p>	<p><b>R8.0 billion</b></p>	<table border="1"> <caption>Annual gross benefits paid to members and Profit-Share allocations (R'bn)</caption> <tr><th>Year</th><td>2015</td><td>2016</td><td>2017</td><td>2018</td><td>2019</td></tr> <tr><th>Value</th><td>4.5</td><td>5.0</td><td>6.5</td><td>4.0</td><td>8.0</td></tr> </table>	Year	2015	2016	2017	2018	2019	Value	4.5	5.0	6.5	4.0	8.0	
Year	2015	2016	2017	2018	2019										
Value	4.5	5.0	6.5	4.0	8.0										

# PPS INSURANCE



## Front Row:

### Mr C Erasmus

B Sc, FIA, FASSA  
Director of Companies  
Independent Non-Executive Chairman

### Mr S Trikamjee

B Com (Hons), CA(SA)  
Chartered Accountant  
Independent Non-Executive Director

### Prof H E Wainer

B Acc, CA(SA)  
Chartered Accountant and Registered Auditor  
Independent Non-Executive Deputy Chairman

## Middle Row:

### Mr I J Smit

B Com (Hons), FASSA  
Group Chief Executive Officer  
Executive Director

### Ms D L T Dondur

B Acc (Hons), B Compt, CA(SA), MBA  
Chartered Director (SA)  
Independent Non-Executive Director

### Mrs T Boesch

B Com (Hons), CA(SA)  
Group Chief Financial Officer  
Executive Director

### Mr J A B Downie

B Sc, MBA, CFP  
Asset Consultant and Professional Trustee  
Independent Non-Executive Director

### Dr J A van der Merwe

MB ChB, MBL, DBL, PED. (IMD)  
Medical Doctor  
Independent Non-Executive Director

### Mr P Ranchod

B Compt (Hons), CA(SA), MBL, H Dip Business Data  
Processing  
Independent Director and Business Consultant  
Independent Non-Executive Director

### Dr S N E Seoka

B Pharm, PhD, FPS  
Pharmacist  
Independent Non-Executive Director

### Dr C M Krüger

MB ChB, M Prax Med, M Pharm Med  
Family Physician  
Independent Non-Executive Director

## Back Row:

### Dr D P du Plessis

B Sc, MBA, DBA  
Chartered Director (SA)  
Independent Non-Executive Director



**Mr N J Battersby**

B Sc Eng (Mech), B Com (Hons), CFP, MBA, AMP (Harvard)  
Chief Operating Officer  
Executive Director

**Mr N A S Kruger**

B Com Mathematics, FIA, FASSA, AMP  
Director of Companies  
Independent Non-Executive Director

**Mr E J S Franklin**

B Sc Physics and Applied Mathematics, B Sc Elec Eng, M Sc Elec Eng (Manchester), MBA  
Consultant  
Independent Non-Executive Director



**Mr E A Moolla**

B Iuris  
Practising Attorney  
Independent Non-Executive Director

# PPS LIFE INSURANCE

## ABOUT PPS LIFE INSURANCE

PPS Life Insurance provides long-term life, accidental death, sickness, critical illness and disability insurance for graduate professionals, a niche with a distinct profile and unique needs. The business' aim is to provide peace of mind, security and wealth protection for PPS members, both during their working lives and throughout retirement. In order to do this, PPS life products and solutions include features and benefits that many competitive products do not offer.

For example, PPS's flagship product, the Sickness and Permanent Incapacity Benefit, offers much more than the traditional sickness cover products available from other insurers. Firstly, the sickness benefit is designed to support the member during an initial period of sickness for a duration of up to 728 days. The member does not have to prove loss of earnings in order to receive the benefit and any remuneration received during that time is not deducted from the amount paid out. Should the member become permanently incapacitated due to sickness or a chronic condition, the permanent incapacity benefit will replace or supplement the member's income until retirement. The product's pregnancy benefit also enhanced in 2019 and all pregnancy-related illnesses are now comprehensively covered.

Other differentiators offered by the PPS product suite, which is designed to ensure members' peace of mind, include international cover and cover for hazardous pursuits that some professionals engage in recreationally, such as scuba diving or flying private aircraft. Moreover, unlike other offerings in the market, the PPS ethos of mutuality ensures that PPS members who have qualifying products automatically participate in the Group's Profit-Share programme.

## PERFORMANCE

In 2019, annual premium income from new life insurance business exceeded a quarter of a billion rand for the first time, up by 10% from 2018. Independent financial advisers are important business partners. They generate nearly 80% of new business income and provide a primary interface with members.

Given the constraints of the current economic climate, this result is very positive. It was supported by a low lapse rate, which is one of the lowest in the world.

## RISKS, CHALLENGES AND OPPORTUNITIES

As with all other businesses in the Group, the economic climate in South Africa poses a big challenge for PPS Life Insurance in the immediate future. The currently unfolding COVID-19 pandemic poses an even bigger challenge. However, PPS will support our members in this very challenging environment, true to our purpose.

The year 2018 saw the launch of an independent, wholly-owned advisory practice called FS4P (Financial Solutions 4 Professionals). In the space of one year this practice has doubled its adviser

complement and already serves 3 600 PPS members. The FS4P business grew by an impressive 450% in 2019, with production growth per financial adviser growing by 42%.

## INNOVATION

During the course of 2019, PPS Life Insurance launched a remote support channel providing an effective and swift service to all PPS-accredited financial advisers, focusing on digital and technological support. This has successfully ensured that advisers, who are important distribution partners, are able to do business with their clients easily and efficiently. The business also integrated the Short-Term Insurance adviser support team into its distribution structures in order to promote better collaboration with financial advisers and support them in serving their clients' different needs.

To further meet the needs of graduate professionals, PPS launched the Functional Disability Provider, which covers individuals based on an assessment of their ability to function, rather than on their capacity to perform specific occupations. This means that PPS's disability products are now available to a wider range of professionals than before.

Feedback from the 2019 PPS Student Confidence Index shows that 90% of university students would feel more confident about managing their finances if they received instruction in how to do this from an earlier age. In order to address this challenge for PPS's future member base, the business designed a series of financial education workshops called Money Matters, which are facilitated at different universities throughout South Africa. The content is aimed at improving financial literacy and building confidence about budgeting, saving, investing and insurance among this group of future professionals. During 2019, PPS's graduate advisers presented Money Matters to more than 5 300 students in their final year.

## LOOKING AHEAD

PPS Life Insurance has put strategies in place to deal with the effects that the tough economic environment and the COVID-19 pandemic have on growing its member base. A major focus is retaining existing members and providing an experience that is a real proof-point and benefit of belonging to this community of professionals. Recruitment of new graduates remains a key driver in the sustainability of the Life Insurance business, as is constant product and systems development.



The PPS Group	Key indicators	2019	Five-year review
<p>Since inception, PPS has steadily expanded its product range and has moved beyond its initial focus on sickness cover to include other financial products. Today, the Group is a fully fledged financial services provider.</p>	Group Total assets*	<b>R38.1 billion</b>	
	Gross premium revenue	<b>R5.0 billion</b>	
	New Life Risk Annual Premium Income	<b>R250.9 million</b>	

\* Excluding assets in unit trusts for third parties

## FINANCIAL SERVICES 4 PROFESSIONALS



### Seated:

#### Mr M Spies

B Compt (Hons), C.T.A., CA(SA)  
Non-Executive Director

#### Mr W J Mouton

B Proc  
Executive Director

#### Mr I J Smit

B Com (Hons), FASSA  
Non-Executive Director

#### Mr M M Mtshali

B Com, MBA  
Non-Executive Director

### Standing:

#### Mr N J Battersby

B Sc Eng (Mech), B Com (Hons),  
CFP, MBA, AMP (Harvard)  
Non-Executive Chairman

#### Mr L du Plessis

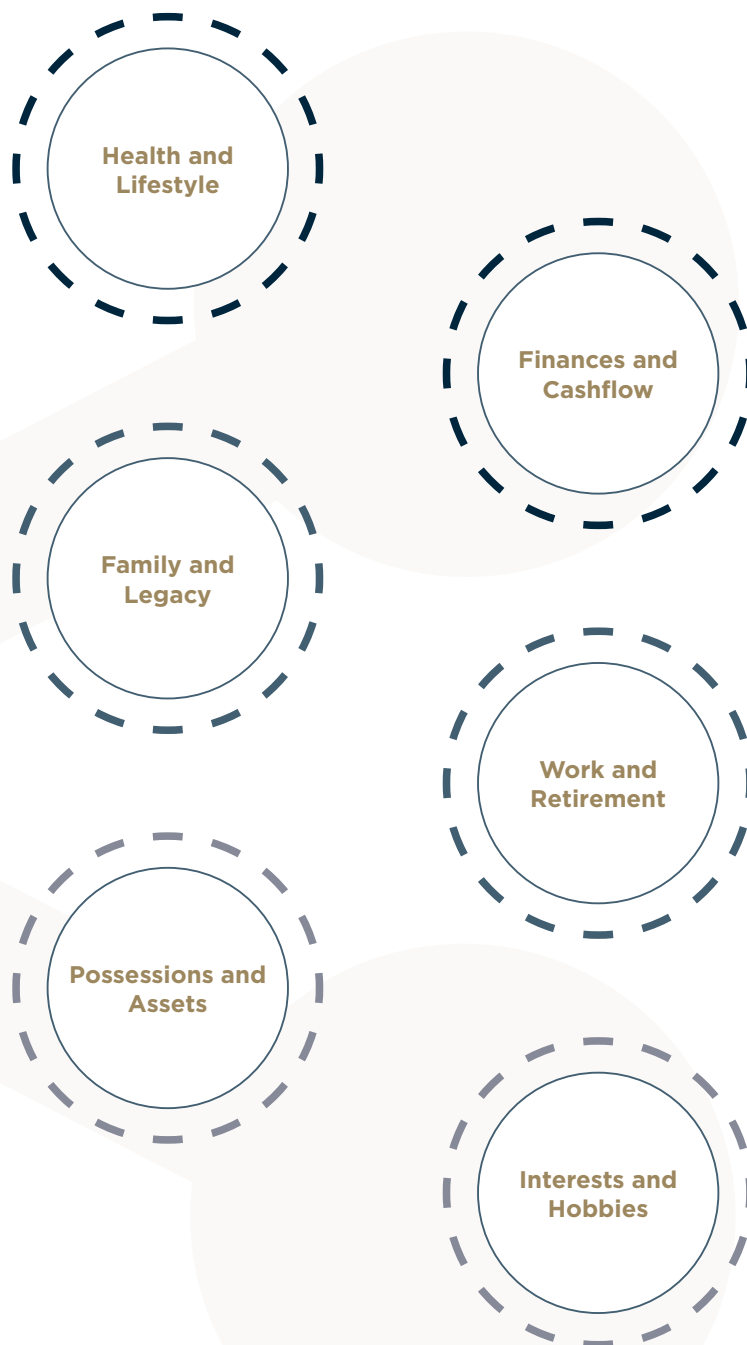
B Iuris, LLB, M Com (Business  
Management)  
Non-Executive Director

# PPS ADVISORY SERVICES

## ABOUT PPS ADVISORY SERVICES

PPS Advisory Services is an internal advisory channel that provides members with holistic financial advice and planning services to ensure that they are able to live the lives they deserve to live.

Specialised advisers offer recommendations, guidance and proposals for a range of customised solutions as well as expert advice on the entire suite of PPS products. The planning process takes into account various lifestyle and financial issues that impact on graduate professionals in order to ensure that each tailored financial journey meets the unique needs and goals of each professional. These include:



PPS Advisory Services' integrated approach ensures that members can benefit from financial solutions that satisfy both their financial and lifestyle needs. These include:

### Risk Insurance Planning

Risk insurance planning is the process of planning for an unforeseen event like the death, disability or severe illness of a breadwinner or business owner. PPS Advisory Services can help to mitigate the impact of unexpected events like these with appropriate lifestyle protection.

### Savings and Investments Planning

Savings and investments have different purposes, but both are crucial for professionals to reach their financial goals in the short-, medium-and long-term. They are fundamental to financial security and the longer the savings or investment period, the greater the benefit from compound returns.

### Estate and Legacy Planning

The value of the legacies that professionals leave behind when they pass away depends on long-term planning. PPS's estate and legacy planning service enables members to create a valuable legacy proactively. A sound estate plan enables them to protect and grow their assets during their lifetime and to ensure that those assets are available to provide for loved ones after their death.

### Retirement Planning

There are only around 480 pay cheques between the time professionals typically start working at the age of 25 and the time they retire around the age of 65. Since many will live to 85 or more, they will need an income for at least 240 months. The only way to secure this is to plan for retirement early and to select the right investment strategy.

### Business Planning

Business planning is designed to maximise tax efficiency and ensure business continuity in the event of a serious illness or death. A sound business plan also ensures that the business is covered against such eventualities as accidental damage and personal liability claims.

## Performance

An internal reorganisation of PPS Advisory Services in 2018 has had a positive impact on business performance, staff morale and member experience. The channel consistently achieved its targets in 2019, recording positive growth by year-end.

Financial Advisers are well positioned to satisfy and service the graduate professionals market, which is demonstrated by a 12% growth in new members in

2019. The business recorded a significant 10% increase in average premium income per adviser and a 0.5% reduction in lapse rates for the year.

PPS Advisory Services exceeded its annual premium income by achieving 15% more than the previous year. Investment gross flows for the year were up by 12% on the previous year.

In addition, member experience has improved significantly, with the Net Promoter Score (NPS) rising from 5 to 27 and the Customer Experience Measure (CEM) reaching 7.46, up from 5.5 in 2018. The continued focus on being an advice-led business and on providing holistic financial planning has improved both the level of adviser knowledge and the member experience.

During the course of the year, the business also established a Wealth Advisory channel, which takes a focused approach aligned to growth prospects and market demand. The proposition was launched in October 2019 and provides tailored financial solutions to high-net-worth graduate professionals.

PPS Advisory Services also has the specialist and holistic support of the Specialist Support Services (S<sup>3</sup>) business unit at its disposal. This is a team of professionals whose sole purpose is to offer their expertise to the financial advisers who serve PPS members.

## Risks, challenges and opportunities

In many countries, financial regulations are becoming increasingly onerous and South Africa is no exception. The financial services industry continues to experience many legislative and technological changes that impact directly on providers. In general, PPS has been able to respond to these changes by developing new advice protocols and tools. It has also enhanced its recruitment criteria, training standards, processes and procedures.

## Prospects

In the current period, PPS Advisory Services plans to continue the process of expanding its presence and entrenching its footprint in all the major cities, while simultaneously building its reach into key outlying regions. The channel also intends to stimulate growth by deepening current stakeholder relationships with professional associations, academic institutions and important partner organisations.

# PPS INVESTMENTS

## ABOUT PPS INVESTMENTS

PPS Investments provides customised savings and investment solutions and the very highest standards of investment management for PPS members. By investing through PPSI, they also qualify for the unique PPS Profit-Share benefit.



### Left to Right:

**Mr M J Jackson**

BA (Hons), MA  
Independent Non-Executive Director

**Dr D P du Plessis**

B Sc, MBA, DBA, Chartered  
Director (SA)  
Independent Non-Executive Director

**Mrs T Boesch**

B Com (Hons), CA(SA)  
Non-Executive  
Director

**Mr I J Smit**

B Com (Hons), FASSA  
Non-Executive  
Director

**Mr N J Battersby**

B Sc Eng (Mech), B Com  
(Hons), CFP, MBA, AMP  
(Harvard)  
Chief Executive: PPS  
Investments

**Mr P J Koekemoer**

CA(SA), CFP, CFA  
Independent Non-Executive Director

**Mr A Pillay**

B Bus Sc, CA(SA), CFA, AMP  
Independent Non-Executive Director

**Mrs R G Govender**

B Com (Acc), M Com (Tax), Advanced Post  
Graduate Diploma in Financial Planning, CFP  
Independent Non-Executive Director

**Mr E A Moolla**

B Juris  
Independent Non-Executive Chairman

## PERFORMANCE

Despite the challenges posed by the South African macroeconomic climate, new business was up by 3% year-on-year by year-end, exceeding R6 billion for the first time in the company's history. This was partly due to an increase of 12.3% in the number of investors, who now number 46 800.

With the new administration platform introduced in 2018 now well established 2019 was also a year during which PPS Investments was able to deliver on a number of new initiatives. Firstly, a new fee model was introduced, featuring a lower management fee for assets in excess of R5 million. The intention of this fee model is to reward members with a larger asset base. The new model also features a family fees proposition called the PPS Investments Family Network, which is designed to encourage the aggregation of individual and family assets.

PPS Investments also launched its first hard currency off-shore fund, called the PPS Global Equity Fund, in partnership with the Capital Group. This is designed to provide an investment opportunity for members who have externalised assets without having to invest outside of the PPS Group. In a similar vein, the company has placed the PPS Partnership Funds, launched in 2018, onto the platforms of other large investment businesses in order to broaden their distribution footprint.

## MARKET COMMENTARY

Following strong gains in 2019, global equity markets sold off sharply in the first quarter of 2020 as the COVID-19 pandemic spread across the globe, and authorities took extreme measures to stop the spread of the virus.

In 2019, for South African investors, companies exposed to platinum group metals experienced outsized gains, while those whose performance was more linked to the domestic equities continued to de-rate. According to Statistics South Africa, the South African economy was in recession for the final two quarters of the year, and grew by just 0.2% in 2019.

Foreign equities in contrast delivered sizable returns in rands for 2019 despite softening economic growth, following renewed monetary easing by foreign central banks.

PPS Investments portfolios benefited in 2019 from being overweight in foreign equities and SA bonds, relative to other asset classes, and have maintained this positioning through the recent market volatility in 2020. While SA equities are now extremely attractive on valuations grounds, economic growth for 2020 is likely to be negative and the South African Government has only been able afford a very weak fiscal stimulus amounting to 0.2% of GDP to combat the enforced lockdown.

In contrast, so far global authorities have announced fiscal support measures between 2% and 10% of GDP, as well as extensive quantitative easing, to mitigate effects of the pandemic. Central banks too have also cut interest rates aggressively including the South African Reserve Bank (SARB) that reduced the repo rate by 1% in March.

The approach of PPS Investments in situations like these is not to try to predict the likely economic outcome of the pandemic, but rather to build portfolios that can deliver on their return objectives across different scenarios. PPS continues to maintain an overweight position in foreign equities, with a preference for high conviction managers that can benefit from a much broader universe of companies than what is available to South African investors.

On the margin, PPS Investments continues to favour SA bonds over SA equities, despite the recent SA sovereign downgrade, because SA bonds offer investors a more predictable return. As in 2019, PPS Investments continues to purchase both inflation-linked bonds and nominal bonds on the expectation that both offer exceptional value.

The next few months will be very challenging for investors. While it may seem appropriate to flee to the apparent safety of SA cash in such circumstances, this is seldom in the long-term benefit of the investor, especially given the compelling valuations on offer across other asset classes and the likelihood that short-term interest rates will fall further. Consequently, PPS remains invested and appropriately diversified, to ensure portfolios are adequately positioned in the current environment.

In the medium-term, the South African economy is profoundly exposed to the transition to a greener global economy; and taking ESG (environmental, social, and governance) factors into account when conducting due diligences on managers, and how they think about their portfolios, is becoming increasingly important. As a

multi-manager, the role of PPS Investments is to ensure the managers we appoint are adequately addressing this issue.

## RISKS, CHALLENGES AND OPPORTUNITIES

Among the risks that occupy management's attention is that of an accelerated disruption of the investment industry, either through advancements in fintech or regulatory change. Treating this risk has been a contributory factor to the sustained multi-year investment in strengthening and expanding our digital engagement platforms as well as broadening our product and value proposition. The emphasis continues to be on offering a variety of digitally supported investment products and portfolios at attractive price points.

Given the Black Swan event of the COVID-19 virus and its socio-economic impact, these digital engagement platforms are providing essential access for investors to remain connected with their savings and investments.

The long-term economic impact of the COVID-19 virus remains unquantifiable to any degree of certainty but without doubt, it will have a damaging effect on the savings and confidence levels of PPS members. While PPS members have persistently proven to be more resolute in their approach to saving than the rest of the population, maintaining their confidence levels will be a main focus for PPS.

## PROSPECTS

Having brought many new value-adding capabilities to market during the final quarter of 2019, PPS Investments is well-positioned to assist members in this challenging and uncertain economic environment. Among the new capabilities, a high rate of adoption is expected among members taking advantage of the new family fee structure, which in turn, will jointly reduce costs and encourage an intergenerational culture of saving, and investment.

The appointment of Capital Group as the underlying manager of the PPS Global Equity Fund, introduces its capability to South African investors for the first time. It also provides an opportunity exclusively available to PPS Investments investors.

In the current period, the launch of the PPS Lifetime Income Solution, scheduled to take place during the first quarter, will introduce an innovative solution for members entering retirement and contemplating the respective merits of living annuities or guaranteed annuities. The new solution will permit members to enjoy a blend of the two, which can be customised over time to accommodate changing needs and risk appetite.

In conclusion, the launch of a supplementary rand-based feeder fund into the PPS Global Equity Fund is scheduled for the second quarter of 2020, bringing even more depth to the solutions offered by PPS Investments.

PPS investments	Key indicators	2019	Five year review												
PPS Investments is a 100% owned investment company that offers investment, retirement and savings products to PPS members.	Total assets under administration	R37.8 billion	<table border="1"> <caption>Total assets under administration (Rbn)</caption> <tr><th>Year</th><td>2015</td><td>2016</td><td>2017</td><td>2018</td><td>2019</td></tr> <tr><th>Value</th><td>22</td><td>25</td><td>28</td><td>32</td><td>38</td></tr> </table>	Year	2015	2016	2017	2018	2019	Value	22	25	28	32	38
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Value	22	25	28	32	38										
New business: Flows	R6.1 billion	<table border="1"> <caption>New business: Flows (Rbn)</caption> <tr><th>Year</th><td>2015</td><td>2016</td><td>2017</td><td>2018</td><td>2019</td></tr> <tr><th>Value</th><td>3.5</td><td>3.8</td><td>4.2</td><td>5.8</td><td>6.1</td></tr> </table>	Year	2015	2016	2017	2018	2019	Value	3.5	3.8	4.2	5.8	6.1	
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Value	3.5	3.8	4.2	5.8	6.1										

# PPS SHORT-TERM INSURANCE

## ABOUT PPS SHORT-TERM INSURANCE

PPS Short-Term Insurance is unlike any other short-term insurance provider. It serves only graduate professionals, and its solutions are tailored to meet the specific needs of this market. In addition, like all businesses in the PPS Group, it operates under the ethos of mutuality. The fair treatment of members is the most important goal for PPS Short-Term Insurance's claims staff. It is their mission to ensure that claims are both valid and fair.



### Seated:

**Mr I J Smit**

B Com (Hons), FASSA  
Non-Executive Director

**Mr J D van der Sandt**

B Com (Hons), CA(SA)  
Executive Director

**Mr W Bosman**

B Compt (Hons), CA(SA)  
Chief Executive

**Mr P Ranchod**

B Compt (Hons), CA(SA), MBL,  
H Dip Business Data Processing  
Independent Non-Executive Director

### Standing:

**Mr M J Jackson**

BA (Hons), MA  
Independent Non-Executive Chairman

**Mrs T Boesch**

B Com (Hons), CA(SA)  
Non-Executive Director

**Mr C Erasmus**

B Sc, FIA, FASSA  
Independent Non-Executive Director

## PERFORMANCE

The PPS Short-Term Insurance business enjoyed a successful year, with actual loss coming in below the budgeted figure in the business plan. This was due to better-than-expected claims performance, with the business achieving a loss ratio of 69.2% which is a decline of 9.4% from the previous year. Prudent

underwriting and good claims management resulted in operating expenses growing by only 6.1% compared to 2018. The value of new premiums written the whole Short-Term Insurance business (including PPS Health Professions Indemnity) during 2019, however, came in lower than expected for the year at R38.6 million.

Another key indicator for the business is the lapse rate – a measure of the percentage of members who cancel their policies during the course of the year. The lapse rate for 2019 was below industry norm, which attests to the business's differentiated service offering. The number of active policies now exceeds 15 000.

## RISKS, CHALLENGES AND OPPORTUNITIES

Like all financial services business in South Africa, PPS Short-Term Insurance is exposed to ongoing political and socio-economic uncertainty and has to take this into account in all aspects of its business. Also, rapid technological developments had a disruptive effect on the financial services sector in 2019, representing both a challenge and an opportunity.

As the COVID-19 pandemic unfolds, an immediate risk is the economic impact on members' ability to pay their insurance premiums. In these unprecedented times, we are investigating ways to support our members.

Further risks to PPS Short-Term Insurance include the risk of the market becoming saturated with similar products, the risk of members dropping short-term insurance from their portfolios due to financial pressure and, finally, the risk of not being able to attract new members from the pool of recent graduates. Strategies are in place at both Group and subsidiary level to address these issues, including continuous focus on marketing to new graduates.

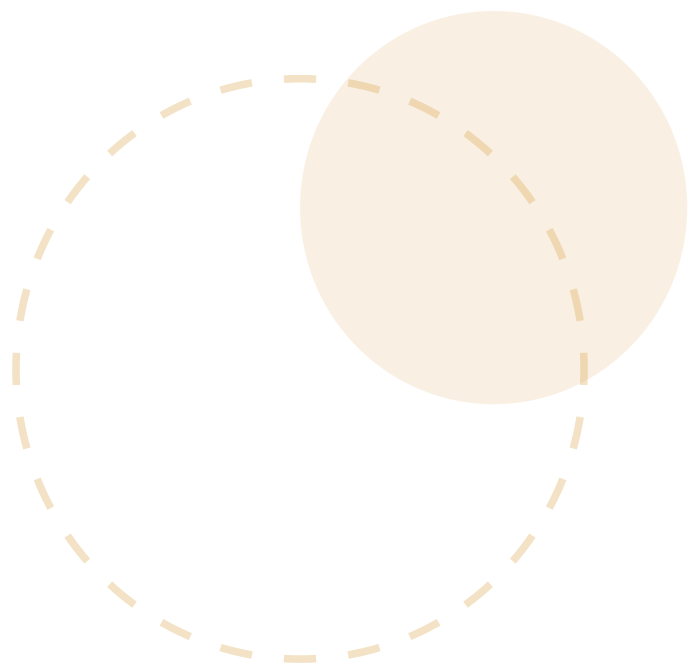
## PPS HEALTH PROFESSIONS INDEMNITY

An innovation specific to PPS Short-Term Insurance is PPS Health Professions Indemnity, a new product launched in early 2019. Designed specifically for health professionals registered with the Health Professions Council of South Africa and working in practice, it provides superior coverage and, above all, peace of mind.

PPS Health Professions Indemnity was a response to steep hikes in the cost of indemnity insurance and an increasingly litigious environment. The product provides the security health professionals need to be able to focus on their practice, safe in the knowledge that their indemnity needs are in the hands of a brand they know and trust. In addition, in line with the ethos of mutuality, when profits arise they are distributed to the Profit-Share Accounts of members with qualifying products.

## PROSPECTS

While the business is still relatively new and faces significant environmental challenges, its performance in 2019 indicates that both its short- and medium-term prospects are positive.



# PPS HEALTHCARE ADMINISTRATORS (PPSHA)

## ABOUT PPSHA

It is a wholly owned subsidiary of PPS Insurance and currently provides primary administration services to three medical schemes and managed healthcare services to additional medical schemes. It is a wholly owned subsidiary of PPS Insurance and currently administers three medical schemes and provides managed healthcare services to medical schemes as well.



### Left to Right:

**Mr I J Smit**

B Com (Hons), FASSA  
Non-Executive Director

**Dr N H P Khosa**

MB ChB, MBA  
Independent  
Non-Executive Director

**Mr S J van Molendorff**

B Compt (Hons), CA(SA)  
Chief Financial Officer

**Mrs S Bassudev**

B Pharm  
Chief Executive

**Mr N C Nyawo**

B Com (Hons), CA(SA), MBA  
Independent  
Non-Executive Director

**Mr I Kotzé**

B Pharm  
Independent  
Non-Executive Director

**Mrs T Boesch**

B Com (Hons), CA(SA)  
Non-Executive Director

**Mr M J Jackson**

BA (Hons), MA  
Independent  
Non-Executive Chairman

Medical schemes include:

- ⦿ Profmed, a closed scheme for graduate professionals - (administration and managed healthcare)
- ⦿ KeyHealth, an open scheme that services local government employees and a growing number of private members - (administration and managed healthcare)
- ⦿ Regular Force Medical Continuation Fund (RFMCF) a prefunded medical scheme that funds healthcare treatment for retired member of the South African National Defence Force - (administration and managed healthcare)
- ⦿ De Beers Benefit Society, a closed medical scheme specifically for employees of De Beers - (managed healthcare services)

- ⦿ SEDMED, a closed medical scheme for the Seventh Day Adventist Church - (managed healthcare services)

The schemes in the PPSHA portfolio cater for members with diverse needs. A one-size-fits-all management approach is not an option. The client schemes' unique requirements demand customised administration and managed healthcare solutions. PPSHA delivers seamlessly on these demands. The company's high-service model and proven capability to manage closed, open and pre-funded schemes further differentiates it from competitors.



## PERFORMANCE

PPSHA is the fourth-largest medical schemes administrator in South Africa with fees that track within the industry average range. The company has consistently paid dividends and is a contributor to the PPS Group's Profit-Share allocations. PPS Profmed members also earn additional Profit-Share, which can be viewed in their PPS Profit-Share Account statements.

PPSHA has grown considerably since 2005 when it took on its first client, Profmed. In August 2019, the company acquired three additional schemes for managed healthcare services, bringing the total membership under management to 96 000 families.

The new schemes came on board within the space of two months. Through careful planning and efficient systems and procedures, PPSHA ensured that their inclusion in the fold did not cause administrative issues. Feedback from the three schemes reported that PPSHA's transition management was exceptional.

During this period, PPSHA also extended managed healthcare services for Profmed to include Disease Risk Management. This offering provides co-ordinated healthcare interventions for members with chronic conditions. Knowledge sharing and patient self-care are integral to the concept of disease management.

Costs were managed prudently during this period with non-healthcare expenses kept below 10% on average.

## RISK, CHALLENGES AND OPPORTUNITIES

The constantly changing regulatory environment is possibly the greatest risk for PPSHA. To mitigate this the business engages actively with stakeholders and provide input on proposed regulatory changes. In 2019, it compiled a comprehensive submission on the proposed National Health Insurance (NHI) Bill for South Africa.

A difficult economic environment saw many administrators absorbed by their competitors and medical schemes merging. Despite the challenges posed by the environment, PPSHA continues to focus on providing added value to schemes and their members while keeping a tight control on expenses.

At present 11 administrators are competing for 80 remaining schemes in South Africa.

## INNOVATION

The business introduced a "private client" model for its schemes in 2018. Profmed and its professional base were the first to benefit from this new service model. Implementation across the business happened in 2019. The model is a customised "private client" experience for the medical scheme environment that

aims to provide first-time resolution of queries. The objective is to provide a "high-touch" environment with exceptional levels of service to professionals. PPSHA provides an omnichannel for all its clients that ensures an excellent user experience.

Information and Communication Technologies (ICT) innovations designed to support the above include an enhanced online application. It increases efficiencies and reduces the turnaround time for new member onboarding to less than 24 hours. Further enhancement to the mobile app for Profmed members saw the app voted as the best medical scheme app in the Android store.

## PROSPECTS

The affordability of medical aids is expected to remain a major issue for members during the current period. This naturally increases the risk of attrition. The introduction of an NHI scheme poses a further immediate risk; medical professionals in private practice may choose to emigrate should they be adversely affected by it.

Against this backdrop, the fact that PPSHA retained existing clients in 2019 and welcomed three new schemes indicates that it is holding steady despite an uncertain environment. Increases in revenue were due to organic growth and the addition of the new clients, and this supports a positive outlook for 2020.

## MATERIAL MATTERS AND RISK MANAGEMENT

PPS defines a material matter as an issue that can directly or indirectly create, preserve or erode financial, economic, environmental and/or social value for the Group and its stakeholders. Both internal and external influences are considered when determining and prioritising material matters and the Group's response to them.

PPS considers the following as matters that are material to the Group, its members, its staff and other stakeholders:

## **WEAK ECONOMIC ENVIRONMENT**

### **Defining the issue**

The constrained economic environment in South Africa influences all aspects of life. For PPS, it makes it more challenging to sign up new members, threatens to increase lapse rates, impacts on costs, affects investment returns and can have a negative influence on profitability. Existing members may also choose to reduce their premiums or forego certain products when budgets become restrained.

### **PPS's response**

PPS takes a long-term view of wealth creation and focuses on delivering lifetime value for its members. A variety of asset managers, asset classes and types are used to diversify investment risk. The asset manager portfolios are positioned appropriate to market conditions. This approach yields the best results in the medium to long term, mitigating the negative effects of short-term conditions. Normal economic cycles and key events are taken into account when developing investment strategies in order to either maximise or mitigate their effect.

As far as lapse rates are concerned, management implements retention initiatives on an ongoing basis to mitigate controllable lapses. Costs are also stringently managed. Initiatives to attract the younger graduate market are also a key focus.

## **SUSTAINING STAKEHOLDER VALUE**

### **Defining the issue**

PPS's purpose is to create sustainable financial and lifestyle value for members and their families during their working lives and beyond. The principles of mutuality are key considerations in determining the risk appetite for PPS. These principles include endeavouring to ensure inter-generational fairness and include operating the business for the benefit of all members, without favouring any specific group of members over another.

### **PPS's response**

In order to fulfil this objective, the Group consistently improves on and expands its range of products and services, which are designed to meet members' changing needs throughout their lives. Highly qualified and experienced PPS advisers not only assist with developing unique financial solutions for every member but also minimise the time that busy professionals need to spend on financial planning.

The Group also adds value through its Specialist Support Services (S<sup>3</sup>) business unit, which is staffed by a team of highly qualified individuals who assist

financial advisers with specialised and complex financial research and advice.

## **DEVELOPING INNOVATIVE PRODUCTS, SERVICES AND SOLUTIONS**

### **Defining the issue**

In a constantly changing socio-economic environment defined by the rapid emergence of new technologies, insurers are able to analyse customer data and bring new products to market quickly. PPS has to maintain a deep understanding of its target market and its needs in order to design and launch customised and relevant products, services and solutions timeously.

### **PPS's response**

The Group continuously engage with its members in order to maintain understanding and insight into their dreams, goals and requirements. Drawing on this, it endeavours to develop, launch and improve its products and services. Details on recent innovations are in the Innovations section of this report.

## **DIGITAL TRANSFORMATION**

### **Defining the issue**

Digitalisation has fundamentally changed the way in which people engage. Professionals operating in an internet-enabled 24/7 information-sharing and transacting environment measure the standard of service provided by their insurer against the standard of service they receive from all other providers, including their banks and online retailers like Amazon. They have come to expect constant multi-channel access to providers as well as features such as paperless transactions, speed, efficiency, transparency and remote advice.

### **PPS's response**

At PPS, technology is used to improve all aspects of the business. This includes a member and adviser engagement platform, a tool to calculate actual and potential Profit-Share, a data analytics platform that draws on various data points, a security platform powered by AI and a robotics initiative. Analysing and responding to technological developments is a fundamental aspect of PPS's commitment to continuous improvement.

## **COVID-19 PANDEMIC**

### **Defining the issue**

A global pandemic develops. The global impact is severe. A global macro-economic slowdown is looming, and future growth forecasts have been adjusted to the downside as a result of the pandemic. The volatility in financial markets and negative investor sentiment impacts adversely on investment market performance. It also has a devastating effect on supply chains and business.

Medical science is continuously learning as the pandemic grows and experience is gained. PPS will therefore monitor progress and adapt our risk mitigations accordingly with the objective to ensure safe and healthy working environments for PPS employees, and to ensure business continuity for our members, staff and other stakeholders.

### **PPS's response**

With such external challenges, PPS strives to treat all its members fairly and equitably, and for this purpose we have to rely on the best relevant expertise available. Given that this is a unique and unusual situation, where we cannot rely on previous experience, we and other stakeholders will constantly grow our understanding of this situation and our response as insurers and therefore our risk mitigations will continue to evolve.

A PPS Group Epidemic Management Policy has been developed and implemented and sets out the Group's response to the management of epidemics. This policy applies in conjunction with the Business Continuity Plan (BCP). As the level of risk associated with the pandemic reaches the predefined levels as indicated in the policy, the appropriate responses as governed by the BCP are followed.

## **REGULATORY ISSUES**

### **Defining the issue**

As a financial institution, PPS complies with all laws and regulations governing the industry. There should be a balance, however, between protecting customers, the stability of the financial system and onerous legislative requirements that are constantly changing.

### **PPS's response**

After extensive research and analysis, PPS has developed its own complete ORSA (Own Risk and Solvency Assessment), demonstrating that the Group is prudently managed.

## **RISK MANAGEMENT**

PPS takes care of the financial interests of its members by providing advice, products and services to create, protect and manage their wealth. The Group's risk appetite is determined by its ethos of mutuality and its responsibility to operate efficiently and ethically within legislative parameters to achieve its mandate. PPS risk management – an iterative process applied at strategic, operational and project levels – is integrated throughout all PPS activities.

Risks are identified by ascertaining the causes and sources of events, situations or circumstances that could materially impact the group, either positively or negatively. Methods for identifying risk include monitoring the external environment and industry trends; conducting risk analysis workshops; interviews and analysing various scenarios, data and assumptions, and audits.

Risks identified in terms of PPS's risk management criteria are evaluated for likelihood, consequence and velocity, taking into account the effectiveness of existing controls. All of these factors are combined in order to determine residual risk, which is assessed against PPS's approved risk appetite. Reasonably foreseeable, emerging and relevant material risks for the Group are reported in various risk registers. These include current and emerging risks and take into account the Group's long-term strategic targets as well as its risk appetite for each type of risk. Mitigation plans and existing controls are articulated and measured for all risks.

The Group's process of identifying and managing risks typically includes and facilitates:

- ⊙ discussions on how emerging risk scenarios might impact on business strategy;
- ⊙ consideration of key trends and developments in the insurance and wider financial services industry and the ways in which these could impact on PPS in the future; and

- ⊙ reviewing the emerging risks being experienced by other insurers and/or similar financial services institutions.

In order to manage risk effectively, PPS continuously tracks many different risks on its various risk dashboards and responds to emerging risks as soon as they are identified. The following are the material risks for the group:

RISK	MITIGATING ACTIONS
1. Slow economic growth	<ul style="list-style-type: none"> <li>⊙ Develop our brand</li> <li>⊙ Group product innovations and holistic solutions</li> <li>⊙ Build on adviser value proposition</li> <li>⊙ Data analytics to construct big data relationships</li> </ul>
2. Membership growth	<ul style="list-style-type: none"> <li>⊙ Member experience initiatives</li> <li>⊙ Establish Wealth Advisory business</li> <li>⊙ Profit-Share Account benefits</li> </ul>
3. Market risk and volatile investment return	<ul style="list-style-type: none"> <li>⊙ Long-term investment horizon</li> <li>⊙ Balanced portfolios with international exposure</li> <li>⊙ Multiple asset managers</li> </ul>
4. Pandemic	<ul style="list-style-type: none"> <li>⊙ Frequent monitoring by the crisis committee as situation evolves</li> <li>⊙ Business Continuity Plan</li> <li>⊙ Implement and update PPS Group Epidemic Management Policy</li> <li>⊙ Regular communication to employees</li> <li>⊙ Adherence to National Institute for Communicable Diseases (NICD) guidelines</li> </ul>
5. Sustainability	<ul style="list-style-type: none"> <li>⊙ Secure IT Platforms</li> <li>⊙ Strategic opportunities</li> <li>⊙ Exploit efficiencies</li> <li>⊙ Legislative compliance</li> <li>⊙ Responsible Governance</li> <li>⊙ Keep abreast of external events impacting our members</li> </ul>

# PPS GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	2019 R'm	2018 R'm	2017 R'm	2016 R'm	2015 R'm	DESCRIPTION OF INDIVIDUAL ITEMS
<b>ASSETS</b>						
Property and equipment	736	594	593	546	467	Fixed assets owned and leased. These include PPS' head office premises, furniture, equipment, computers and vehicles.
Investment property	501	409	382	356	379	Properties which are held for the purpose of rental income and capital appreciation.
Intangible assets	175	168	90	73	64	Internally developed insurance software and acquired customer relationships.
Other non-current assets	47 914	43 215	41 395	37 150	32 912	Assets backing insurance liabilities. These mainly comprise investments in equities and bonds managed by investment managers who act in accordance with investment mandates set by the board of directors of PPS Insurance.
Current assets	3 673	3 203	3 531	2 383	3 369	Primarily cash resources of PPS Group.
<b>Total assets</b>	<b>52 999</b>	<b>47 589</b>	<b>45 992</b>	<b>40 508</b>	<b>37 190</b>	
<b>EQUITY AND LIABILITIES</b>						
Total equity	339	360	449	400	300	Statutory capital requirement of the insurance entities, revaluation reserve of owner-occupied properties and certain reserves of subsidiaries.
Insurance policy liabilities and Profit-Share Accounts	33 419	31 136	31 418	28 216	26 591	
PPS Profit-Share Accounts (DPF-Policyholder Liabilities)	28 975	26 073	26 615	23 949	22 224	Members' Profit-Share Accounts comprising cumulative operating profits and investment profits/(losses).
Actuarial reserves (Non-DPF Policyholder Liabilities)	3 945	4 537	4 268	3 907	3 996	Capital held to pay future claims.
Current liabilities	499	526	535	361	372	Long-term insurance: Notified claims not yet paid and claims provisions.
Investment contract liabilities	2 589	2 046	1 877	1 465	1 140	Funds of members invested in PPS living annuities and endowment products.
Liabilities to unit trust holders	14 908	12 670	10 709	9 089	7 674	Value of outsiders' investments in unit trusts controlled by PPS.
Other liabilities	1 744	1 376	1 538	1 338	1 486	Primarily current liabilities.
<b>Total equity and liabilities</b>	<b>52 999</b>	<b>47 589</b>	<b>45 992</b>	<b>40 508</b>	<b>37 190</b>	

PPS Members' Profit-Share Accounts comprising Apportionment and Special Benefit Accounts

# PPS GROUP CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2019

	2019 R'm	2018 R'm	2017 R'm	2016 R'm	2015 R'm	DESCRIPTION OF INDIVIDUAL ITEMS
Net insurance premium revenue	4 607	4 163	3 858	3 414	2 986	Premiums received from policyholders net of reinsurance premiums paid to reinsurers.
Other income	481	418	437	369	357	Administration fees: Long- and short-term insurance, medical aid and retirement annuity. Short-term insurance commissions. Fees earned for asset management.
Investment income and profits on financial assets and investment property	5 345	31	4 611	2 293	2 686	Interest, dividends, and realised and unrealised gains on investment assets.
Attributable to unit trust holders	(1 735)	(155)	(967)	(477)	(279)	Third-party unit trust holders' share of relevant income and revaluation gains.
<b>Total revenue</b>	<b>8 697</b>	<b>4 458</b>	<b>7 940</b>	<b>5 600</b>	<b>5 750</b>	
Gross insurance benefits and claims	3 749	3 167	2 877	2 423	2 177	Gross benefits paid to members.
Reinsurance claims recoveries	(260)	(235)	(177)	(160)	(132)	Claims recovered from reinsurers.
Increase/(Decrease) in fair value of policyholder liabilities under investment contracts	170	(48)	140	15	69	Investment income, net of expenses, relating to the underlying assets linked to the investment policyholder contracts.
Expenses	2 210	1 910	1 596	1 507	1 381	Group operating expenses, commissions paid on new business written, and investment management fees.
Finance costs	24	17	17	18	3	Interest cost on borrowings and lease liabilities.
<b>Profit before movement in insurance policy liabilities</b>	<b>2 804</b>	<b>(353)</b>	<b>3 487</b>	<b>1 796</b>	<b>2 251</b>	
Movement to insurance policy liabilities	2 436	(334)	3 012	1 547	1 821	The amount allocated to members in their capacity as policyholders.
Tax	381	(28)	465	226	356	Taxes raised in favour of the South African and Namibian Revenue Services.
(Deficit)/Surplus after tax and policy movements	(13)	9	10	23	75	Any adjustment required to maintain capital cover and the result of operations of subsidiaries, other than the long-term insurance subsidiary. This includes losses of subsidiaries that are in the start-up phase of their business cycle.

This comprises insurance claims paid to members and Profit-Share pay-outs

This amount forms part of the annual allocation to members' PPS Profit-Share Accounts. A further R1.8bn is allocated from the movement in the Actuarial Reserve

## STRATEGIC PERFORMANCE

Key Performance Indicators (KPIs) for each strategic focus area are allocated to specific individuals. Monthly scorecards for each are submitted to the PPS Executive Committee (Exco) for review.

Our key kpi's	Unit of measure		2019 Performance	2019 Goal	Commentary
<b>FINANCIAL STABILITY</b>	Gross premium income	Rand billions	5,0	5,0 ●	Gross premium income (long-term & short-term) is in line with expectations.
	Investment return	%	6,5	6,6 ●	Investment return measured over a three-year rolling period performed more or less in line with the benchmark.
	Efficiency ratio	%	16,0	16,1 ●	Cost control remains an imperative of the Group.
	New annual risk premiums (long-term insurance)	Rand millions	250,9	241,4 ●	New annual risk premiums are 10% up on prior year and performed ahead of targets.
	New gross written premium (short-term insurance)	Rand millions	38,6	49,2 ●	New gross written premiums are 34% up on prior year, but performed below targets.
	New investment inflows	Rand billions	6,1	5,9 ●	Performance is up on prior year, and ahead of internal target.
<b>MEMBERSHIP</b>	Number of new members recruited during the year	Individuals	7 327	8 379 ●	New member recruitment performed below target in 2019.
<b>SERVICE</b>	Member survey results: Call centre	%	94,8	90,0 ●	PPS aims to provide members with world-class service. Member survey results exceeded targets during the year.
<b>STAFF</b>	Training spend as a percentage of payroll	%	5,4	> 4,5 ●	Training spend is ahead of target. Investment in human capital continues to be an important strategic objective of the Group.

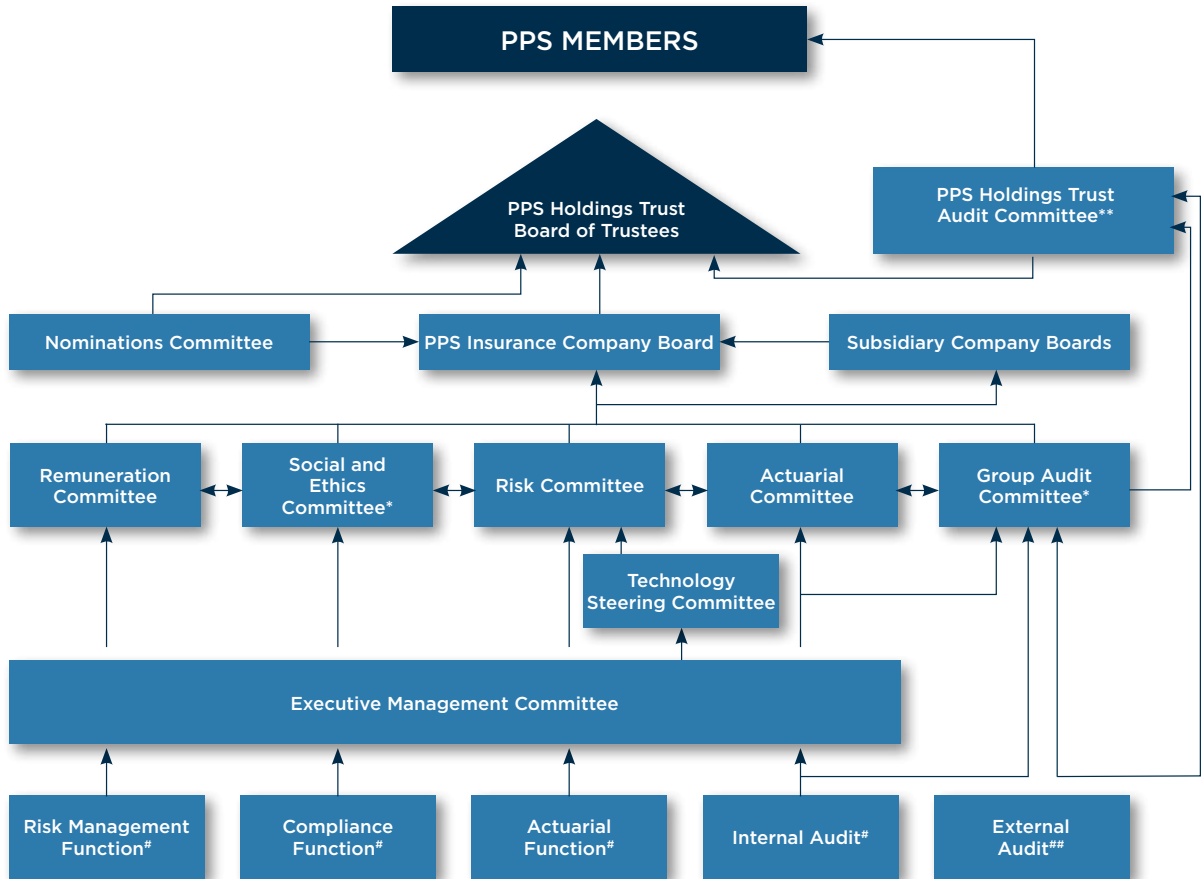
● Achieved

● Partly achieved

● Not achieved



## GOVERNANCE STRUCTURE



\* These are statutory committees with a direct reporting line to the PPS Insurance Board.

\*\* This is a statutory committee, required in terms of the Trust Deed of PPS Holdings Trust, with a direct reporting line to the PPS Holdings Trust Board.

# These functions also have direct reporting lines to the appropriate board committees.

## External audit has a direct reporting line to the boards of PPS Holdings Trust, PPS Insurance and its subsidiaries, and reports primarily to PPS members.

## GOVERNANCE

The holding entity of the PPS Group is the Professional Provident Society Holdings Trust (PPS Holdings Trust). Its primary operating subsidiary is Professional Provident Society Insurance Company Limited (PPS Insurance). The key operating subsidiaries of PPS Insurance are Professional Provident Society Short-Term Insurance Company Limited (PPS Short-Term Insurance), Professional Provident Society Investments Proprietary Limited (PPS Investments) and Professional Provident Society Healthcare Administrators Proprietary Limited (PPS Healthcare Administrators). Good corporate governance is an integral part of the PPS Group's operations and the PPS Group is fully committed to the principles of King IV and the Prudential Standards. In terms of the Prudential Standards, Risk Management and Internal Controls for Insurers (GOI 3), PPS Insurance is required to adopt, implement, and document an effective governance framework that provides for the prudent management and oversight of its insurance business and adequately protects the interests of its policyholders.

## CORPORATE GOVERNANCE REPORT CONTINUED

The governance framework consists of three parts being:

- ⦿ Boards and board committees – This pertains to the composition, governance and structure of the PPS Holdings Trust Board of Trustees, the PPS Insurance Board of Directors, the boards of directors of the operating subsidiary companies, with well-defined roles and responsibilities, as well as statutory and other board committees, being the PPS Holdings Trust Audit Committee, the Group Audit, Risk, Social and Ethics, Actuarial, Remuneration, Nominations and Technology Steering Committees, as well as the Risk and Audit Committees established by certain subsidiaries.
- ⦿ Risk management system – The risk management system includes the following key policies:
  - Enterprise Risk Management Framework
  - Risk Appetite Policies
  - Fit and Proper Policy
  - Outsourcing Policy
  - Remuneration Policy
  - Asset-Liability Management Policies
  - Investment Management Policies
  - Reinsurance and Other Risk Transfer Policy
  - Financial Risk Policy
  - Underwriting Policy
  - Strategic and Operational Risk Policy
  - Fraud and Corruption Policy and Response Plan
  - Own Risk and Solvency Assessment (ORSA) Policy
  - Data and Reporting Policy
  - IT Policy
- ⦿ Internal control system.

The PPS Governance Framework provides for the prudent management and oversight of PPS, as well as adequately protecting the interests of PPS' members. The framework is appropriate, given the nature, scale and complexity of the PPS Group and its associated risks and is based on key principles as set out in this report.

### TRANSPARENT ORGANISATIONAL STRUCTURE

The governance framework provides an adequate, transparent organisational structure with a clear allocation and appropriate segregation of responsibilities. The roles and responsibilities of persons accountable for the management and oversight of PPS are clearly defined. The PPS Group is governed by a unitary board of trustees, assisted by boards of directors, board committees and management committees.

An appropriate system of delegation is in place, in terms of which the direction of the operations of the PPS Group has been delegated to the PPS Insurance Board. The PPS Insurance Board has delegated some of the activities and tasks associated with its role and responsibilities to board committees, the Group Executive Committee, senior management and other employees of the PPS Group.

### FIT AND PROPER

The PPS Group Boards are ultimately responsible for ensuring that PPS complies with the fitness and propriety principles and requirements.

The Prudential Standard as outlined in GOI 4 Fitness and Propriety of Significant Owners and Key Persons of Insurers states that the following persons must, at all times, meet Fit and Proper requirements:

- ⦿ Trustees and directors.
- ⦿ Key Persons, being directors and trustees, the Group Chief Executive (Chief Executive) and persons reporting directly to the Chief Executive with decision-making powers.
- ⦿ Heads of Control Functions.
- ⦿ Auditors.
- ⦿ Significant owners of insurance companies in the PPS Group.

The Fit and Proper requirements are defined in the Prudential Standard, as well as the PPS Group Fit and Proper Policy, as requirements which are based on the principles of honesty and integrity, competence – including experience, qualifications and knowledge, as well as financial standing for Significant Owners. Fit and Proper checks for the aforementioned persons are conducted on an annual basis.

### RISK MANAGEMENT SYSTEM

The risk management system comprises the totality of strategies, policies and procedures for identifying, measuring, monitoring, managing and reporting of all reasonably foreseeable current and emerging material risks, and is part of the day-to-day business activities conducted at the PPS Group. The system takes into account the probability, potential impact, velocity and duration of risks and is adapted as the business and the external environment change. The system supports the boards of directors and trustees in meeting their responsibilities relating to the furtherance of the safe and sound operation of the PPS Group and the protection of its members. The objectives of the PPS Group are aligned with its environmental policies. The risk management system takes into account the alignment of sustaining and growing the business while preserving the environment.

The risk management system comprises the following components:

- ⦿ A clearly defined and documented risk management strategy, which considers the overall business strategy and business activities.
- ⦿ Documented procedures which clearly define the decision-making processes within the framework of the risk management system.
- ⦿ An adequate written overall risk management policy and component policies, consistent with the risk management strategy.
- ⦿ Appropriate processes, procedures, and tools for identifying, measuring, monitoring, managing, and reporting (including communication and escalation mechanisms) on all material risks.
- ⦿ Reports to inform senior management, the Group Risk Committee, and the boards of directors and trustees on all material risks faced by the PPS Group and on the effectiveness of the risk management system itself.
- ⦿ Processes for ensuring adequate contingency planning, business continuity, and crisis management.

The detailed particulars of the risk management system are set out in the PPS Group Enterprise Risk Management Framework.

## INTERNAL CONTROL SYSTEM

The internal control system consists of the totality of strategies, policies, procedures, and controls to assist the boards of directors, trustees and managing executives in the fulfilment of their oversight and management responsibilities. The PPS Group has adopted a Five Lines of Assurance model, supported by a combined assurance framework, to facilitate and ensure effective governance across all processes and functions.

The internal control system provides the boards of directors, trustees, and managing executives with reasonable assurance from a control perspective that the business is operated consistently within the following parameters:

- ⦿ Business objectives of the PPS Group.
- ⦿ Strategy determined by the boards of directors and trustees. The detailed particulars of the strategic planning process are set out in the Strategic Planning and Capital Allocation Framework.
- ⦿ Key business, information technology and financial policies and processes, as well as related risk management policies and procedures, determined by the boards of directors and trustees.
- ⦿ Applicable laws and regulations.

The internal control system comprises the following components:

- ⦿ Appropriate segregation of duties, and controls to ensure that segregation is observed.
- ⦿ Appropriate controls for all key business processes and policies, including for major business decisions.
- ⦿ End-to-end control processes for complex business activities.
- ⦿ Controls to provide reasonable assurance over the fairness, accuracy, reliability and completeness of the insurers' financial and non-financial information.
- ⦿ Board-approved delegations of authority, (these are reviewed regularly by the PPS Group boards).
- ⦿ Controls at the appropriate levels, including at the procedural or transactional levels, and at the legal entity or business unit levels.
- ⦿ Regular monitoring of all controls to ensure they remain effective.
- ⦿ An inventory of all key policies and procedures, and the controls in respect of each policy and procedure.
- ⦿ Training in respect of relevant components of the system of internal controls, particularly for employees in positions of trust or responsibility, or who carry out activities that involve significant risk.

## CONTROL FUNCTIONS

In terms of the Prudential Standard GOI 3 Risk Management and Internal Controls, insurance companies must have certain control functions in place and these must be adequately resourced. The following four key control functions are in place within the two PPS Group insurance companies:

- ⦿ Risk management.
- ⦿ Actuarial.
- ⦿ Compliance.
- ⦿ Internal audit.

The control functions are structured to include the necessary authority, independence, resources, expertise, access to the boards and all relevant employees, as well as information to enable them to exercise their authority and perform their responsibilities. The performance of the control functions is reviewed periodically by the PPS Group boards or relevant committee/s. The control functions are required to complete regular self-assessments of their respective functions.

The roles and responsibilities of the control functions are documented and reviewed on an annual basis and are approved by the PPS Group boards. The control functions must avoid conflicts of interest and where conflict arises, it will be brought to the attention of the PPS Group boards.

## CORPORATE GOVERNANCE REPORT CONTINUED

Where appropriate, the Heads of Internal Audit and Actuarial Control Functions may be outsourced – subject to the provisions of the Outsourcing Policy – in light of the nature, scale, and complexity of the business, risks, and legal and regulatory obligations. The Actuarial Control Functions are performed by Deloitte in terms of outsourced arrangements. Mr G T Waugh of Deloitte serves as the Head of the Actuarial Control Function for PPS Insurance. Mr J van der Merwe of Deloitte serves as the Head of the Actuarial Control Function for PPS Short-Term Insurance. The Internal Audit Control function is performed by KPMG in terms of an outsourced arrangement. Ms I Fourie of KPMG serves as the Head of the Internal Audit Control Function for both insurance companies in the PPS Group. The Compliance and Risk Management Control Functions are performed in-house. Mrs T Boesch serves as the Head of the Compliance and Risk Management Control Functions for PPS Insurance. For PPS Short-Term Insurance, Mr H van Heerden serves as the Head of the Risk Management Control Function, while Ms S Stuart serves as the Head of the Compliance Control Function.

The existence of the control functions does not relieve the boards of directors and trustees, or Key Persons, from their respective governance and related responsibilities. The governance framework will continue to evolve to ensure compliance with emerging legislation and to enhance the ability of the boards of directors and trustees, managing executives and heads of control functions to manage PPS soundly and prudently. The Actuarial, Audit, Risk, Remuneration and Social and Ethics Committees fulfil a key role in ensuring good corporate governance within the PPS Group. Processes are reviewed regularly to ensure compliance with legal obligations and codes of governance.

The heads of the Control Functions are required to:

- ⦿ Be fit and proper.
- ⦿ Have sufficient seniority and authority to be effective.
- ⦿ Have reporting lines that support their independence.
- ⦿ Have unrestricted access to relevant information.
- ⦿ Have direct access to the boards of directors or relevant committee/s, without the presence of senior management if so requested, for the purpose of raising concerns about the effectiveness of the risk management system or system of internal controls.
- ⦿ Have the freedom to report to the boards of directors or relevant committee without fear of retaliation from senior management.
- ⦿ Have appropriate segregation of duties from operational business line responsibilities.
- ⦿ Must report regularly to the PPS Group boards or relevant committee/s, especially on matters of non-compliance with legislation.

There are adequate policies and procedures in relation to the appointment, dismissal and succession of heads of control functions.

The appointment, performance assessment, remuneration, disciplining and dismissal of the head of each control function must be done with the approval of, or after consultation with, the PPS Group boards or relevant committee/s.

### CONVERSION OF PPS INSURERS

PPS Insurance and PPS Short-Term Insurance are in the process of converting their respective Long-Term and Short-Term Insurance licences to Insurance licences in terms of the Insurance Act, 18 of 2017. The Prudential Authority (PA) proposed designating PPS as an insurance group that includes the following entities:

- ⦿ PPS Insurance.
- ⦿ PPS Short-Term Insurance.
- ⦿ PPS Investments.
- ⦿ PPS Healthcare Administrators.
- ⦿ PPS Property Fund Trust.
- ⦿ Financial Solutions 4 Professionals (FS4P).
- ⦿ PPS Management Company.
- ⦿ PPS Multi-Managers.
- ⦿ PPS Investment Administrators.
- ⦿ PPS Nominees.

The PA is proposing that PPS Insurance be designated as the controlling company of the insurance group.

### GOVERNANCE DEPARTMENTS

The following departments ensure good corporate governance throughout the PPS Group:

### GROUP COMPANY SECRETARIAT

The chairmen of the Boards of PPS Holdings Trust, PPS Insurance and its subsidiaries, the board sub-committees, and the Chief Executive are assisted by the Group Company Secretary in ensuring good corporate governance and adherence to the PPS Group's governance policies. By working closely with the respective board Chairmen and the Chief Executive of the PPS Group, the Group Company Secretary ensures that the agendas for board, board committee and the Group Executive Committee meetings address the key business and governance issues, and that the boards are adequately informed to enable them to discharge their duties and make informed decisions. He is responsible for the determination of the corporate calendar to ensure all required matters are addressed by the respective PPS Group boards and committees.

The Group Company Secretary also has a significant role in supporting the Group Nominations Committee in the discharge of its duties to ensure that the PPS Group boards and committees are appropriately constituted and have appropriate Terms of Reference, and that the PPS Group board and committee members, as well as the PPS Group Executive Committee members, comply with Fit and Proper requirements, are inducted on appointment and are trained and evaluated. The Group Company Secretary co-ordinates the contents and holding of the annual directors' and trustees' strategy and training programme, as well as access to and attendances at governance programmes by external service providers, in accordance with best practice and King IV.

All trustees and directors have direct access to the services of the Group Company Secretary, who is also appointed as the Secretary of PPS Holdings Trust and as a member and Secretary of the Group Executive Committee. He advises them on all corporate governance matters, on board procedures, and on compliance with the Trust Deed of PPS Holdings Trust and PPS Group entities' Memoranda of Incorporation and Trust Deeds.

Comprehensive agendas and papers are provided to the boards and board committees by the Group Company Secretary (and by subsidiary Company Secretaries, as applicable) in advance of the meetings of the boards and board committees, including circulation of committee minutes and reports to the appropriate boards. The Group Company Secretary also has responsibility for the secretarial functions of all subsidiary companies, and to ensure that the minutes and statutory records of all PPS Group board and board committee meetings are prepared and maintained in the appropriate PPS Group records.

Members of the PPS Group boards have access to independent professional advice, as may be required, through the office of the Group Company Secretary and with the respective chairmen's consent, at the PPS Group's expense, in order to discharge their responsibilities as directors and trustees.

## GROUP LEGAL

The Group Legal Department is the centralised legal function, with the main responsibility of identifying and managing legal risks that may arise during the course of the PPS Group's activities, and ensuring that these risks are appropriately mitigated across all entities. This is achieved by providing or sourcing appropriate legal advice, ensuring that legal risks are optimally negotiated, documented, and monitored, and that the necessary controls are implemented. The Group Legal Department regularly reports to the Group Executive Committee and the Group Risk Committee on the management and status of all material legal risks. All Group Legal Advisers employed in such capacity report to the Head of Group Legal and Compliance.

The Group Legal Department is also responsible for implementing and maintaining legal policy standards throughout the PPS Group and ensuring that the standards are adopted and followed by all subsidiary companies and their internal legal staff (where applicable).

## GROUP COMPLIANCE

The PPS Group boards are ultimately accountable for compliance with applicable laws and adopted non-binding rules, codes, and standards. The primary objective of the compliance function is to assist the boards with this responsibility. Management is committed to ensuring that the business is run with integrity, complies with all regulatory and best practice requirements, and is conducted in accordance with the highest ethical standards. The appointed Compliance Officer is responsible for the effective implementation of the Compliance Risk Management Framework and for facilitating compliance throughout the business by creating awareness, independent monitoring, reporting and the provision of practical solutions or recommendations. However, the primary responsibility for complying with any regulatory requirement lies with all members of staff conducting the particular transaction or activity to which the requirement applies.

PPS has implemented a combination of a centralised and a decentralised compliance function. Group Compliance is the central department, with the main role of developing the compliance policy (the boards approve such policy) and related standards to ensure a consolidated compliance risk management and reporting process throughout the PPS Group. The decentralised compliance function consists of business units which have their own compliance functions that are responsible for implementing the PPS Group policies, monitoring the activities of the business units and reporting the status of compliance to Group Compliance. PPS Investments, PPS Healthcare Administrators, PPS Short-Term Insurance and Professional Provident Society Insurance Company (Namibia) Limited (PPS Namibia) have their own business unit compliance officers with oversight by Group Compliance for compliance-related matters. Group Compliance assumes direct responsibility for compliance risk management in PPS Insurance and its divisions.

The compliance function performs its activities in accordance with these five principles:

- ⦿ All legislative requirements, such as acts, bills, directives, practice notes, industry codes of conduct, and relevant discussion documents, which impose obligations on PPS are identified and interpreted continuously.
- ⦿ Compliance requirements are addressed in business processes.
- ⦿ Management and staff are trained on the compliance requirements relevant to their roles.

- ⦿ Compliance monitoring is conducted to provide assurance on the level of compliance.
- ⦿ Compliance incidents or suspected incidents are reported and managed.

### GROUP RISK MANAGEMENT

The taking of risk, in an appropriate manner, is an integral part of business. Success relies on optimising the trade-off between risk and reward, following an integrated risk management process, and by considering all internal and external risk factors. While conducting its business, PPS is exposed to, and needs to take on, a variety of risks. The long-term sustained growth, continued success, and reputation of PPS are critically dependent on the quality of risk management. Management is committed to applying best practice and standards, including the implementation of the ISO 31000 standard on Risk Management, Prudential Standards, Risk Management and Internal Controls for Insurers (GOI 3) and King IV. The PPS Group Enterprise Risk Management Framework is aligned to such standards.

PPS' risk philosophy is underpinned by its objective of member value creation, meeting member benefit expectations and achieving sustainable profitable growth, in a manner that is consistent with members' expectations of PPS' risk appetite. This means the PPS Group must ensure that a high-quality risk management culture is instilled throughout its operations, built on the following main elements:

- ⦿ Adherence to the value system of PPS.
- ⦿ Proactive risk management.
- ⦿ A risk awareness culture via management of the business units.
- ⦿ Disciplined and effective risk management processes and controls, and adherence to risk management standards and limits.
- ⦿ Compliance with the relevant statutory, regulatory, and supervisory requirements by way of a robust compliance risk management process.
- ⦿ Regular monitoring by Compliance.
- ⦿ Review of control measures by Internal Audit.
- ⦿ Oversight of the risk management process by the Group Risk Committee.

The PPS Group boards ensure that PPS has implemented an effective ongoing process to identify risk, measure its potential outcome and then implement what is necessary to proactively manage these risks. This responsibility includes setting the risk appetite and tolerance of the PPS Group, measuring the relevant risks against it, and ensuring that the necessary controls and service level agreements are in place, are effective and are adhered to at all times. Assurance of good corporate governance is achieved through the regular measurement, reporting, and communication of risk management performance, which includes progress with risk management plans and improvements to risk management maturity.

Management and employees are responsible for the management of risk in accordance with the Enterprise Risk Management Framework, and incorporating risk management into the day-to-day operations of the PPS Group. Management is assisted by the risk management control function in performing annual risk assessments and updating these quarterly, and agreed mitigating actions are managed utilising CURA software. Risk registers are produced from CURA and reviewed monthly by the Group Executive Committee and quarterly by the Group Risk Committee for strategic and major operational risks. A Risk Report containing the findings and conclusions of the risk environment of the PPS Group is prepared on a quarterly basis and is reviewed by the Group Risk Committee and the respective Boards. Other operational risk registers are continuously managed by the relevant business areas.

An opportunity assessment methodology has been implemented by PPS. The purpose of using this methodology is to identify opportunities and the material risks associated with new opportunities to enhance the quality and depth of the risk management process. This methodology also enables an assessment of current strategic objectives against those derived, based on opportunities and the prioritisation of the efforts to get maximum return based on readily accessible resources.

The PPS Holdings Trust Audit Committee, the PPS Group Risk, Audit, Actuarial, Remuneration, Social and Ethics and Technology Steering Committees, as well as the Risk and Audit Committees of subsidiaries, make reports and recommendations to the PPS Group boards, enabling them to discharge their responsibilities in regard to risk management.

### MANAGEMENT OF FRAUD AND CORRUPTION RISK AND CONFIDENTIAL REPORTING

The PPS Group maintains a Fraud and Corruption Policy and Response Plan, and a Confidential Reporting Policy to manage fraud and corruption risk in the PPS Group, and to ensure that employees are able to report suspicious activities without fear of retribution. An anonymous reporting hotline, operated independently from the PPS Group by Deloitte, provides a facility to enable employees to report suspicious activities and unethical behaviour in a safe environment. All financial crime-related suspicious transactions and reports are managed by the Fraud Committee and other unethical behaviour is managed by the Human Resources Department.

## PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT

PPS Insurance issues insurance policies with a discretionary element of bonuses and is required to establish and maintain a document setting out its Principles and Practices of Financial Management (PPFM) and provide this document to policyholders. This document outlines PPS Insurance's principles and practices of financial management, in order that policyholders can better understand the profit distribution principles and practices in place at PPS Insurance, as well as the investment strategy adopted by the PPS Insurance Board. The PPFM document is available to all policyholders on the PPS Group website at [www.pps.co.za](http://www.pps.co.za).

## INFORMATION TECHNOLOGY (IT) GOVERNANCE

Key Information Technology focus areas for 2019 have been the provision of enhanced secure engagement platforms for members and their financial advisors as well as investments in future-proofing core operating environments. The various digital platforms that stakeholders use to engage with us have been redesigned and upgraded towards consistent and intuitive customer experiences whilst, at the same time, remaining steadfastly focused on the security of member data. Information security and privacy is maintained through proactive measures taken to protect the confidentiality, integrity, and availability of information systems and data in the landscape of constantly evolving threats.

During the year, PPS became one of the first South African financial services firms to successfully migrate our core applications into the Cloud. Aside from removing the obvious capital expenditure burden of maintaining physical hardware, the migration has facilitated a significant improvement in our software development activities. The availability of multiple cloud-based environments has rendered a far more nimble and scalable software development life cycle, providing the capability to engage with multiple projects. Favorable impacts on business continuity have also been noted in the recent disaster recovery exercise and audits.

The alignment between business functions and the Information Technology across the Group has been strengthened with the mid-year appointment of a Group Chief Operating Officer whose focus lies in aligning

capabilities across the various operating divisions in support of our long-term strategies. As the Group has expanded in both divisional and geographical context, the imperative for alignment has become paramount to the future success of both our run and grow strategies. In further recognition of the increasing complexity of the technology environment, and to provide additional guidance to the management team, the Board has established a Group Technology Steering Committee (GTSC) as a sub-committee of the Group Risk Committee. This new structure, in addition to the existing Architecture Review Board and the Strategic Change Council, plays an important role in the overall governance and prioritisation of Information Technology Initiatives. The mandate of the GTSC includes ongoing review of the PPS Group IT strategy against which progress is tracked regularly along with any adjustments that may have resulted from changed business strategies or environmental developments.

PPS continues to apply the standards recommended by the Information Technology Infrastructure Library (ITIL) which is a set of good practices for IT service management that focuses on aligning IT services with the needs of business. These standards describe procedures, tasks and checklists that are not organisation-specific, and are recommended to be used for establishing a minimum level of competency. They allow the organisation to establish a baseline from which it can plan, implement and measure. They are used to demonstrate compliance and to measure improvement. Annual ITIL maturity reviews are conducted and Internal Audit and other independent assurance providers regularly perform, *inter alia*, IT control audits, King IV governance audits and an internal security ethical hack. These reviews are intended to provide the PPS Insurance Board with independent assurance on the effectiveness and state of internal controls, as well as confidence in the ability of IT to deliver the approved strategies.

## REGULATORY DEVELOPMENTS

During the year under review, there was a significant volume of proposed legislation and amendments to existing legislation, all of which will impact the governance and reporting of governance within the PPS Group. This has placed additional responsibilities on the boards and management to ensure adherence to, and compliance with, the new requirements.

The most important legislative changes for PPS are highlighted below:

## 1. FINANCIAL INSTITUTIONS: PRUDENTIAL STANDARDS

During July of 2019 the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA) (“Authorities”) jointly published for comment a proposed Joint Standard on the fit and proper requirements for significant owners of financial institutions. The Joint Standard seeks to, among others, prevent individuals from: (a) prejudicially controlling or influencing the business or strategy of a financial institution and; (b) impacting negatively on its prudential management and financial soundness either alone, or in collaboration with any other related or interrelated person. The Standard has not been finalised.

The impact of the Joint Standard will be low as PPS already has policies in place managing the fit and proper status of significant owners.

## 2. MARKET CONDUCT

The FSCA’s predecessor, the FSB, first launched its outcomes-based customer protection initiative, Treating Customers Fairly (TCF), with the publication of its TCF Roadmap during March 2011. TCF is a regulatory and supervisory approach that seeks to ensure that financial institutions deliver specific, clearly articulated fairness outcomes for financial services customers throughout the financial product lifecycle.

The Financial Sector Regulation (FSR) Act (2017) formally entrenched the TCF approach in the legislative framework by giving the FSCA an explicit objective to promote fair treatment of financial customers by financial institutions and empowering the FSCA to make conduct standards aimed at ensuring that this is achieved.

During December of 2018 the National Treasury published for comment the draft Conduct of Financial Institutions (COFI) Bill 2018. The COFI Bill is the main instrument that will facilitate Market Conduct implementation. The Bill is aimed at significantly streamlining the legal framework for the regulation of the conduct of financial institutions, and to give legislative effect to the market conduct policy approach, including implementation of the TCF principles, as these principles currently have little legal or legislative backing. The COFI Bill contains a number of chapters specifically focused on ensuring financial institutions deliver market conduct outcomes for their customers and empowering the FSCA to set conduct standards to reinforce this objective.

PPS is currently busy drafting a market conduct framework to assist with managing conduct risk and ensuring fair and appropriate outcomes for clients. PPS always strives to treat all its clients fairly. Because PPS operates on the ethos of mutuality, with no outside shareholders, it has an added advantage of not having to consider conflicting outside shareholders’ interests in its dealings with clients. PPS always ensures that it does not only act in the interest of a single client, but that it also considers the interests of its broader client base, and where appropriate take steps to redress client interests, therefore the impact of the Bill will be low to medium.

## 3. LONG-TERM INSURANCE ACT

### 3.1 FSCA – Format for the replacement advice record

The FSCA issued a revised template on the replacement advice record, in terms of Rule 19 of the Policyholder Protection Rules for Long-term Insurance, which took effect on 1 September 2019. The new template aims to achieve a consistent format for the replacement advice record to ensure that the comparison done by an intermediary between a replacement policy and a replaced policy is clearly and easily understood by the policyholder among other items. The impact of the amendments was high and led to numerous changes in PPS.

### 3.2 Revised Practice Note on Interest for Late Payment of Insurance Benefits

During May of 2019 the Office of the Ombudsman for Long-term Insurance published a Revised Practice Note on Interest for Late Payment of Insurance Benefits. In terms of the Practice Note, interest for late payment can be based on the common law pertaining to *mora debitoris* as complemented and modified by the Prescribed Rate of Interest Act 55 of 1975 or in terms of Rule 3.2.6 of the rules that regulate the relationship between the Ombudsman and its subscribing members. The claim for interest on the ground of *mora* is aimed at compensating an insured or beneficiary for the loss s/he suffered as a result of the insurer’s breach of contract. An insured need not prove that s/he would have put the sum claimed to good use. Thus, where there is fault on the part of an insurer interest will usually need to be paid at the *mora* rate. The impact of the Practice Note is medium.



## 4. MEDICAL SCHEMES: NATIONAL HEALTH INSURANCE BILL 2019

The National Health Insurance (“NHI”) Bill was tabled in August of 2019. The NHI Bill provides for the establishment of the NHI Fund as a public entity reporting to the Minister of Health. It intends to overhaul the healthcare and healthcare funding system in South Africa to create a single payer system. The Bill seeks to provide for the universal access to healthcare services in the Republic by 2026. The National Health Insurance Fund (“Fund”) will purchase healthcare services for all users who are registered with the Fund. The Fund will strive to achieve the following broad objectives:

- a. Universal protection against financial risk;
- b. Equitable distribution of the burden of funding the universal health system;
- c. Equitable and fair provision and use of health services;
- d. Efficiency in service provision and administration;
- e. Quality in service delivery;
- f. Good governance and stewardship.

In preparation for its submission to Parliament’s Portfolio Committee on Health, PPS embarked on research among its members to ascertain their knowledge, perceptions and concerns about the NHI and the impact of the Bill on PPS is high. By far the largest concern was the lack of clarity regarding certain areas that affect professionals directly – as suppliers of medical services, as users of these services, and as taxpayers in general. PPS’s submission was based on the sentiments of its professional members and dealt with the following issues:

1. Supply of Service Providers – Healthcare Professionals;
2. Human Resource Planning and Labour Management;
3. Freedom of Choice and Association;
4. Financial Sustainability;
5. IT Infrastructure for Administration of Services;
6. Governance;
7. Need for clarity.

The highest risk to effective universal health cover in South Africa is the loss of highly skilled professionals, through emigration, for better prospects elsewhere. PPS believes that this risk is not appreciated enough by the government as a likely consequence of the proposed legislation. Healthcare professionals are not restricted

geographically; it is becoming increasingly easier for them to ply their trade almost anywhere in the world.

PPS has committed to engage in constructive engagements with policy makers to highlight concerns that professionals have as well as provide solutions to the challenges of health care in South Africa. In the submission, PPS proposed that existing resources and infrastructure in both private and the public sector should be utilised to increase the chances of success of the scheme.

## 5. OTHER

### 5.1 Protection of Personal Information

During December 2018 the Information Regulator, under section 112(2) of the Protection of Personal Information Act 4 of 2013, published new regulations relating to the protection of personal information. The regulations provide for procedures regarding, amongst others: (a) the objection to the processing of personal information; (b) the request for correction or deletion of personal information or destruction or deletion of records of personal information; (c) additional responsibilities of information officers; and (d) the submission of complaints and assessments. The impact of these amendments on PPS is medium.

### 5.2 B-BBEE

Amendments were made to the Code Series 400 under the Codes of Good Practice on broad-based black economic empowerment, effective 30 November 2019. The amendments cover the following, among other items, (a) Enterprise and Supplier Development Scorecard; (b) Key Measurement Principles; (c) Total Measured Procurement Spend; (d) Enterprise Development and Supplier Development Contributions. The impact of these amendments on PPS is medium.

### 5.3 Cybercrime

A second version (“B” version) of the Cybercrimes Bill was published during February of 2019. The Bill criminalises cyber-facilitated offences such as fraud, forgery, uttering and extortion, which were adapted specifically for the cyber environment. All clauses in the Bill that addressed cybersecurity were removed and the Bill now only speaks to cybercrime. The aspects of the introduced Bill that addressed cybersecurity will be dealt with at another stage. The impact of these amendments on PPS is low.

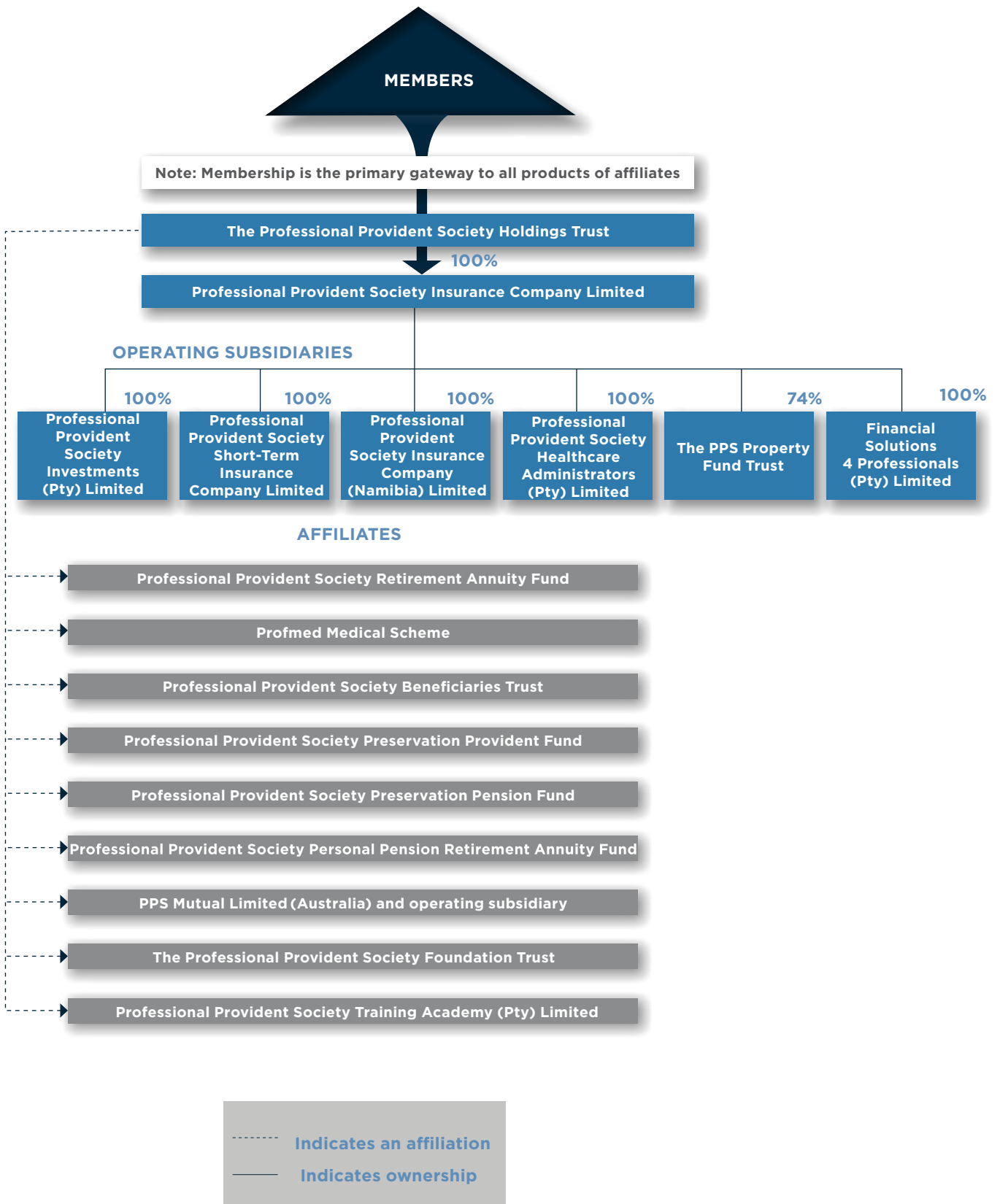
# APPLICATION OF THE PRINCIPLES OF KING IV

The King IV Report on Corporate Governance replaced King III in its entirety, and unlike its predecessors, the King IV Report is outcome-based. Four governance outcomes, viz: ethical culture, good performance, effective control and legitimacy, are guided and supported by 17 principles and over 400 recommended practices.

An assessment of the application of the King IV principles by the PPS Group was conducted as part of the 2019 Group Compliance Programme, using the King IV Governance assessment instrument. The results of the assessment indicated that the PPS Group had satisfactorily applied 390 of the recommended practices, with 10 practices not being applicable to PPS and five practices which had not been applied.

Practice 36.a	The chair of the governing body should not be a member of the Audit Committee. <b>Commentary:</b> The Chairman of PPS Insurance is a member, but not the Chairman, of the Group Audit Committee where he provides actuarial expertise and a link between the Actuarial and Group Audit Committees. For particulars of the responsibilities and functions of the two audit committees, please refer to the Report of the Audit Committees in this Integrated Report.	Not Applied
Practice 83.a	The notice period stipulated in the CEO's employment contract and the contractual conditions related to termination should be disclosed. <b>Commentary:</b> Particulars of the Group Chief Executive's employment contract are considered to be competitive information and are not publicly reported.	Not Applied
Practice 34.c	The overview of the remuneration policy should include a description of the framework and performance measures used to assess the achievement of strategic objectives and positive outcomes, including the relative weighting of each performance measure and the period of time over which it is measured.	Not Applied
Practice 34.d	The overview of the remuneration policy should include an illustration of the potential consequences on the total remuneration for executive management, on a single, total figure basis, of applying the remuneration policy under minimum, on-target and maximum performance outcomes.	Not Applied
Practice 35.b	The implementation report must include an account of the performance measures used and the relative weighting of each, as a result of which awards under variable remuneration incentive schemes have been made, including: the targets set for the performance measures and the corresponding value of the award opportunity; and for each performance measure, how the organisation and executive managers, individually, performed against the set targets. <b>Commentary:</b> Detailed particulars of the above remuneration aspects are considered to be competitive information and are not publicly disclosed.	Not Applied

# GROUP STRUCTURE



## GOVERNANCE OF THE PPS GROUP BY THE BOARDS

The PPS Group is ultimately governed by PPS Holdings Trust, which has a unitary board of trustees, assisted by the boards of directors and trustees of PPS Group entities and the committees as detailed below.

The wholly-owned principal operating subsidiary, PPS Insurance, has a majority of independent non-executive directors, eight of whom are nominated members of the PPS Holdings Trust Board (including two *ex officio* appointees), and includes directors with specialist skills appropriate to the insurance, investment and financial services industries. The PPS Insurance Board is accountable to the PPS Holdings Trust Board for the achievement of strategic objectives determined by the PPS Holdings Trust Board in furthering the interests of its members. These objectives pertain to:

- ⦿ Operational efficiency;
- ⦿ Investment returns;
- ⦿ Membership and sales growth;
- ⦿ Service to PPS members.

The primary operating subsidiaries of PPS Insurance are set out in the Trustees' Report and their boards are comprised of executive and non-executive directors and trustees as set out in this report.

## BOARD COMPOSITION, APPOINTMENTS AND SUCCESSION PLANNING

The PPS Holdings Trust Board is comprised of 20 trustees, all of whom are independent non-executive trustees. In terms of its Trust Deed, PPS Ordinary Members may nominate and elect 10 Ordinary Members to the PPS Holdings Trust Board at its annual general meeting. At the invitation of the PPS Holdings Trust Board, a further six members of the current Board of PPS Holdings Trust are, subject to the recommendations of the Group Nominations Committee and the approval of the PPS Holdings Trust Board in accordance with the provisions of the Trust Deed, nominated to serve on the PPS Holdings Trust Board by professional associations whose members are significantly represented in the PPS membership base. The PPS Holdings Trust Board has co-opted a further two members for their specific skills, as provided for in the Trust Deed, which also stipulates that the Chairman and Deputy Chairman of PPS Insurance are appointed *ex officio* to the PPS Holdings Trust Board. All PPS Holdings Trust Board members are appointed for specific terms and re-appointment is not automatic.

The PPS Holdings Trust Board appoints the members of its board committees, as well as the members of the PPS Insurance, the PPS RA Fund, the PPS Namibia RA Fund and the PPS Beneficiaries Trust Boards. In turn,

the PPS Insurance Board appoints the members of its board committees and the members of its subsidiaries' boards.

Under delegated authority of the PPS Holdings Trust Board, the Group Nominations Committee, within its powers, evaluates, selects and recommends for appointment the PPS Group trustees and directors, including the Chief Executive, executive directors and non-executive directors/trustees and board committee members, taking into account the Fit and Proper and other regulatory requirements for the appointment of directors/trustees of long-term and short-term insurance companies and their holding entities.

The Group Nominations Committee considers trustee and director succession planning and makes appropriate recommendations to the PPS Group boards. This encompasses an evaluation of the skills, knowledge and experience required to add value to the PPS Group, as well as compliance with Fit and Proper requirements, for all trustees and directors, including PPS Holdings Trust trustees standing for re-election, as well as new candidates standing for election for the first time. All elections of trustees of PPS Holdings Trust are made in terms of a formal and transparent procedure and are subject to approval by the Ordinary Members of PPS Holdings Trust at its annual general meeting.

The Nominations Committee periodically considers the factors determining the suitability of professional associations for invitation to nominate representatives to serve on the PPS Holdings Trust Board, to further the relationship of the PPS Group with the members of such professional associations, and makes recommendations in this regard to the PPS Holdings Trust Board. The current professional associations who have representation on the PPS Holdings Trust Board are:

- ⦿ The South African Medical Association;
- ⦿ The South African Dental Association;
- ⦿ The Pharmaceutical Society of South Africa;
- ⦿ The Law Society of South Africa;
- ⦿ The South African Institute of Chartered Accountants;
- ⦿ The Professional Engineers' Societies.

The PPS Holdings Trust Board has considered and is of the view that the PPS Group boards and committees are appropriately constituted to meet statutory requirements and the PPS Group's needs.

Candidates who have been nominated for service on PPS Group boards are required to clearly identify any conflict, or potential conflict, of interest with the activities of PPS Holdings Trust, its subsidiaries and affiliates. Candidates who are financial advisors or intermediaries, or hold any office or interest, directly or indirectly, in any entity which competes in the same sphere of business as the PPS Group, do not qualify for appointment to any of the PPS Group Boards.

## CHAIRMAN AND DEPUTY CHAIRMAN OF THE PPS HOLDINGS TRUST BOARD OF TRUSTEES

The PPS Holdings Trust Board elected Dr S N E Seoka, who had held the position of Deputy Chairman of the PPS Holdings Trust Board since 2012, as its Chairman on 13 June 2018. Dr C M Krüger, who has served on the PPS Holdings Trust Board since 2004, was elected as Deputy Chairman of the PPS Holdings Trust Board on 13 June 2018. The Chairman and Deputy Chairmen were re-elected to their respective positions at the 12 June 2019 PPS Holdings Trust Board meeting.

In terms of PPS Insurance's Memorandum of Incorporation, the Chairman and Deputy Chairman of PPS Holdings Trust are appointed *ex officio* to the PPS Insurance Board and form part of the eight trustees of PPS Holdings Trust nominated annually by the PPS Holdings Trust Board to serve on the PPS Insurance Board.

## CHAIRMAN AND DEPUTY CHAIRMAN OF THE PPS INSURANCE BOARD OF DIRECTORS

Mr C Erasmus has held the position of Chairman of the PPS Insurance Board since 2014. Prof H E Wainer was elected as Deputy Chairman of the PPS Insurance Board in 2015. In terms of the Trust Deed of PPS Holdings Trust, the Chairman and Deputy Chairman of PPS Insurance are appointed *ex officio* to the PPS Holdings Trust Board.

## CHIEF EXECUTIVE OF THE PPS GROUP

Mr I J Smit was appointed as the Chief Executive of the PPS Group on 25 July 2016.

## BOARD CHARTERS AND TRUST DEED

In accordance with the principles of sound corporate governance, the Board Charters for the PPS Holdings Trust, the PPS Insurance and the subsidiary boards – modelled on the charter principles recommended by King IV and adapted to the requirements of PPS – incorporate the powers of the boards, providing a clear and concise overview of the division of responsibilities and accountability of PPS Group board members, collectively and individually, to ensure a balance of power and authority. The Board Charters are reviewed regularly to ensure continued compliance with regulation and best practice.

The Trust Deed of PPS Holdings Trust incorporates key elements of the Companies Act, 2008, and its trustees have similar responsibilities and duties to those of company directors, including the statutory responsibilities imposed on directors by the Companies Act, in addition to their responsibilities and duties as trustees.

Committees of the boards act within board approved Terms of Reference and the Chairman of each committee reports, as appropriate, to the board which constituted such committee at the scheduled meetings of that Board. These Terms of Reference are reviewed annually to ensure continued compliance with regulation and best practice. Where appropriate, the minutes of the committee meetings are tabled at subsequent board meetings. The chairmen of the PPS Holdings Trust and PPS Insurance Boards are independent non-executive trustees/directors. At PPS Insurance, the roles of Chairman and Chief Executive are separated, with a clear division of responsibility to ensure distinction between their respective duties and responsibilities. The Chairmen have no executive functions. The role of all trustees and directors is to bring independent judgement and experience to the boards' decision-making process and to act in the best interests of the trust or company on whose board such trustee/director serves.

## FUNCTIONING OF THE BOARDS AND BOARD COMMITTEES

The Group Executive Committee and various other management sub-committees, established by the Group Executive Committee, provide ongoing input and support to the boards, board committees and Chief Executive as and when required.

The members of the boards receive timely, accurate and relevant information to enable them to fulfil their duties. All new directors and trustees undergo a formal induction process, which includes meeting the PPS Group's senior management to discuss key aspects of the business and the governance thereof, with comprehensive documentation regarding the governance and management structures of the PPS Group. All directors and trustees are encouraged to undertake continuing professional development, training and education throughout their term of office. The PPS Group sponsors membership of the Institute of Directors for its board members. Board members are provided on an ongoing basis with information and training relevant to the business of the PPS Group and the industries in which it operates. Board members also attend an annual strategy day, which includes training on pertinent aspects of the business, regulation and the environment in which the PPS Group operates.

The Chairmen's key responsibilities are to provide leadership to the boards, to oversee the determination of strategy, to guide the process to ensure a balance in the composition of the boards, to ensure sufficient and open discussion of matters before the boards and to promote effective communication between executive and non-executive directors/trustees.

The Chief Executive has overall responsibility for the management of the PPS Group's business and its operations, in line with the policies and strategic objectives set and agreed on by the PPS Insurance Board. The Chief Executive reports to the PPS Insurance Board on the performance of the PPS Group and any other material matters at regular Board meetings, which are scheduled six times per annum. He reports on how the PPS Group has performed against key indicators following the monthly meetings of the Group Executive Committee, which manages the PPS Group's business on a day-to-day basis. Key reports are reviewed at the meetings of the PPS Insurance Board when the Chief Executive highlights significant issues and other executive and non-executive directors, as well as members of senior management who attend by invitation, are invited to contribute, as appropriate. Additional meetings of the boards are scheduled as may be required.

The Chief Executive also reports on the performance of PPS Insurance to the PPS Holdings Trust Board against the strategic objectives determined for PPS Insurance by the PPS Holdings Trust Board.

Additional papers on issues upon which the boards are required to make decisions are submitted, as appropriate, and members of senior management regularly attend board meetings by invitation to present papers and to deal with issues raised by the boards.

### BOARD PERFORMANCE ASSESSMENT

The Group Nominations Committee is mandated by the PPS Holdings Trust and PPS Insurance Boards to institute formal and comprehensive board evaluation programmes for the assessment of the PPS Group's trustees and directors in accordance with regulatory requirements. In terms of these programmes, the PPS Group Boards, as well as the individual trustees and directors serving on those boards, are evaluated regularly with the assistance of independent consultants, in accordance with best local and international governance and board evaluation practices, including the Fit and Proper requirements stipulated by the PA.

The results of the evaluations are reported to the boards and any identified areas for improvement are incorporated into the board training programmes and agendas for scheduled meetings of the boards and the annual PPS Group Board Strategy Day. The most recent evaluations of the boards were performed in November 2019 by an independent assessor, The Board Practice.

The assessments indicated that the PPS Group boards were effective in discharging their duties.

### RETIREMENT OF BOARD MEMBERS BY ROTATION

One-third of the maximum of ten elected PPS Holdings Trust trustees, who are not representatives of a professional association or co-opted, and are appointed in terms of clause 5.3.1 of the Trust Deed, and who are in office as at the date of the annual general meeting, are subject to retirement by rotation at least every three years, but may stand for re-election at the annual general meeting, subject to the approval of the Group Nominations Committee. There are currently ten elected trustees in office. The names and abbreviated curricula vitae of the three trustees who are retiring by rotation and are eligible for re-election, as well as of new nominees standing for election, at the forthcoming annual general meeting to be held on 9 June 2020, are stated in the notice of annual general meeting included in this Integrated Report.

In accordance with the provisions of the Trust Deed, PPS Holdings Trust trustees who are representatives of professional associations and trustees who are co-opted to the board are also appointed for a three-year term, after which they are required to retire, but may be nominated by the professional associations, or be co-opted, subject to the Nominations Committee's recommendation, for re-appointment by the PPS Holdings Trust Board.

### INTERESTS IN CONTRACTS AND CONFLICTS OF INTEREST

PPS Group trustees and directors are required to avoid conflicts of interest, where possible, and where it cannot be avoided, to inform the respective board/s on which they serve timeously of any conflicts or potential conflicts of interest that they may have in relation to particular items of business and they are obliged to recuse themselves from discussions or decisions in relation to such matters. Trustees and directors are also required to disclose their interests in, and directorships of, other companies/entities in accordance with statutory requirements and to inform the boards when any changes occur.

During the year ended 31 December 2019, none of the directors/trustees had disclosed any interest in contracts or arrangements entered into by the PPS Group. The Chief Executive is required to disclose any appointments to non-PPS Group boards. Directors and trustees are required to submit and maintain written declarations of interests, which are presented to the respective boards at each board meeting and board members are required to acknowledge in writing that they have read the written disclosures submitted.

## PROFESSIONAL INDEMNITY INSURANCE

Adequate Directors and Officer's liability insurance and indemnity cover has been effected by the PPS Group in respect of all its trustees, directors and officers. No claims under the relevant policies were lodged during the year under review.

## TRUSTEES OF THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST

Trustee	Age*	Qualification	Classification	Term of Office
<b>Dr S N E Seoka</b> (Chairman) Independent Non-executive	64	B Pharm, PhD, FPS	Co-opted for a three-year term	Appointed 15 August 2005 Ends AGM 2020
<b>Dr C M Krüger</b> (Deputy Chairman) Independent Non-executive	54	MB ChB, M Prax Med, M Pharm Med	Elected for a three-year term	Appointed 21 June 2004 Ends AGM 2021
<b>Dr A Coetzee</b> Independent Non-executive	60	B Med Sc, MB ChB, CAHM, ABCD	Nominated for a three-year term <sup>(6)</sup>	Appointed 1 March 2019 Ends AGM 2022
<b>Ms D L T Dondur</b> Independent Non-executive	53	B Acc (Hons), B Compt, CA(SA), MBA, Chartered Director (SA)	Nominated for a three-year term <sup>(1)</sup>	Appointed 6 July 2011 Ends AGM 2020
<b>Mr J A B Downie</b> Independent Non-executive	61	B Sc, MBA, CFP	Co-opted for a three year term	Appointed 15 April 2010 Ends AGM 2020
<b>Dr D P du Plessis</b> Independent Non-executive	65	B Sc, MBA, DBA, Chartered Director (SA)	Elected for a three-year term	Appointed 3 June 2013 Ends AGM 2022
<b>Mr C Erasmus</b> Independent Non-executive	68	B Sc, FIA, FASSA	Appointed <i>ex officio</i>	Appointed 1 June 2015 Ends N/A
<b>Dr N H P Khosa</b> Independent Non-executive	38	MB ChB, MBA	Elected for a three-year term	Appointed 19 June 2018 Ends June 2021
<b>Mr I Kotzé</b> Independent Non-executive	63	B Pharm	Nominated for a three-year term <sup>(2)</sup>	Appointed 27 August 2001 Ends AGM 2020
<b>Dr F Mansoor</b> Independent Non-executive	40	BDS, MBA	Nominated for a three-year term <sup>(3)</sup>	Appointed 17 July 2017 Ends AGM 2020
<b>Mr E A Moolla</b> Independent Non-executive	69	B Iuris	Elected for a three-year term	Appointed 11 March 2002 Ends AGM 2021
<b>Ms P Natesan</b> Independent Non-executive	40	B Com (Hons), CA(SA)	Elected for a three-year term	Appointed 17 July 2017 Ends AGM 2020
<b>Mrs N N Nongogo</b> Independent Non-executive	48	B Juris, LLB	Nominated for a three-year term <sup>(4)</sup>	Appointed 16 October 2018 Ends AGM 2021
<b>Mr N C Nyawo</b> Independent Non-executive	40	B Com (Hons), CA(SA), MBA	Elected for a three-year term	Appointed 2 June 2014 Ends AGM 2022
<b>Dr R Putter</b> Independent Non-executive	41	B ChD, M Sc (Dentistry and Public Dental Health)	Elected for a three-year term	Appointed 10 July 2019 Ends AGM 2022
<b>Mr P Ranchod</b> Independent Non-executive	64	B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing	Elected for a three-year term	Appointed 6 June 2011 Ends AGM 2020
<b>Mr V P Rimbault</b> Independent Non-executive	56	B Sc Eng (Mech)	Nominated for a three-year term <sup>(5)</sup>	Appointed 12 September 2011 Ends AGM 2020
<b>Prof L C Snyman</b> Independent Non-executive	57	B Med Sci, MB ChB, M Prax Med, M Med O&G, FCOG, PhD	Elected for a three-year term	Appointed 10 July 2019 Ends AGM 2022

## CORPORATE GOVERNANCE REPORT CONTINUED

Trustee	Age*	Qualification	Classification	Term of Office
<b>Mr S Trikamjee</b> Independent Non-executive	41	B Com (Hons), CA(SA)	Elected for a three-year term	Appointed 8 June 2009 Ends AGM 2020
<b>Prof H E Wainer</b> Independent Non-executive	58	B Acc, CA(SA), Registered Auditor	Appointed <i>ex officio</i>	Appointed 1 June 2015 Ends N/A

\* As at 1 April 2020  
N/A = Not applicable

Note: Trustee nominated by:

1. The South African Institute of Chartered Accountants
2. The Pharmaceutical Society of South Africa
3. The South African Dental Association
4. The Law Society of South Africa
5. The Professional Engineers' Societies
6. The South African Medical Association

## DIRECTORS OF PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY LIMITED

Director	Age*	Qualification	Appointed
<b>Mr C Erasmus</b> (Chairman) Independent Non-executive	68	B Sc, FIA, FASSA	19 February 2007
<b>Prof H E Wainer</b> (Deputy Chairman) Independent Non-executive	58	B Acc, CA(SA), Registered Auditor	30 November 2009
<b>Ms D L T Dondur</b> Independent Non-executive	53	B Acc (Hons), B Compt, CA(SA), MBA, Chartered Director (SA)	24 June 2013
<b>Mr J A B Downie</b> Independent Non-executive	61	B Sc, MBA, CFP	24 June 2013
<b>Dr D P du Plessis</b> Independent Non-executive	65	B Sc (QS), MBA, DBA, Chartered Director (SA)	19 June 2017
<b>Mr E J S Franklin</b> Independent Non-executive	57	B Sc Physics and Applied Mathematics, B Sc Elec Eng, M Sc Elec Eng (Manchester), MBA	1 March 2019
<b>Dr C M Krüger</b> Independent Non-executive	54	MB ChB, M Prax Med, M Pharm Med	29 June 2015
<b>Mr N A S Kruger</b> Independent Non-executive	52	B Com Mathematics, FIA, FASSA, AMP	1 July 2019
<b>Mr E A Moolla</b> Independent Non-executive	69	B Iuris	24 February 2003
<b>Mr P Ranchod</b> Independent Non-executive	64	B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing	24 June 2013
<b>Dr S N E Seoka</b> Independent Non-executive	64	B Pharm, PhD, FPS	26 June 2006
<b>Mr S Trikamjee</b> Independent Non-executive	41	B Com (Hons), CA(SA)	29 June 2015
<b>Dr J A van der Merwe</b> Independent Non-executive	64	MB ChB, MBL, DBL, PED. (IMD)	18 June 2018
<b>Mr I J Smit</b> (Chief Executive) (Executive)	52	B Com (Hons), FASSA	25 July 2016
<b>Mr N J Battersby</b> (Chief Operating Officer) (Executive)	52	B Sc, B Com (Hons), MBA, CFP, AMP (Harvard)	28 September 2016
<b>Mrs T Boesch</b> (Chief Financial Officer) (Executive)	45	B Com (Hons), CA(SA)	4 May 2009

\* As at 1 April 2020



## DIRECTORS/TRUSTEES OF SUBSIDIARIES AND AFFILIATES:

PPS Namibia	PPS Healthcare Administrators	PPS Short-Term Insurance
<b>Directors</b>	<b>Directors</b>	<b>Directors</b>
Mr I J Smit (Acting Chairman)	Mr M J Jackson (Chairman)	Mr M J Jackson (Chairman)
Mr S I de Bruin	Mrs T Boesch	Mrs T Boesch
Ms M D Erkana (Appointed 1 March 2019)	Mrs S Bassudev (Chief Executive)	Mr W Bosman (Chief Executive)
Dr E Maritz	Dr N H P Khosa (Appointed 18 June 2019)	Mr C Erasmus
Mr W J Mouton (Resigned 1 May 2019)	Mr I Kotzé	Mr P Ranchod
Mr J A Thomas	Dr C M Krüger (Resigned 18 June 2019)	Mr I J Smit
Mr R van Rooi (Appointed 1 August 2019)	Mr N C Nyawo	Mr J D van der Sandt (Appointed 1 March 2019)
Mr J van der Westhuizen (Chief Executive)	Mr I J Smit	
	Mr S J van Molendorff	

PPS Investments	PPS Investment Administrators	PPS Multi-Managers	PPS Management Company	PPS Nominees
<b>Directors</b>	<b>Directors</b>	<b>Directors</b>	<b>Directors</b>	<b>Directors</b>
Mr E A Moolla (Chairman)	Mr N J Battersby (Chairman)	Dr D P Du Plessis (Chairman) (Appointed 1 July 2019)	Mr N J Battersby (Chairman)	Mr N J Battersby (Chairman)
Mr N J Battersby (Chief Executive)	Mr A J Fraser	Mr N J Battersby	Mr A J Fraser	Mr S M Gerber
Mrs T Boesch		Mr D R Crosoer	Mr S M Gerber	Mr A J Woolfson
Dr D P du Plessis			Mr A J Woolfson	
Mrs R G Govender				
Mr M J Jackson				
Mr P J Koekemoer				
Mr A C Pillay				
Mr I J Smit				

PPS Personal Pension Retirement Annuity Fund	PPS Preservation Provident Fund	PPS Preservation Pension Fund
<b>Trustees</b>	<b>Trustees</b>	<b>Trustees</b>
Mrs R G Govender (Chairman)	Mrs R G Govender (Chairman)	Mrs R G Govender (Chairman)
Mr A Bosch	Mr A Bosch	Mr A Bosch
Mr J A B Downie	Mr J A B Downie	Mr J A B Downie
Mr H P du Toit (Deputy Chairman)	Mr H P du Toit (Deputy Chairman)	Mr H P du Toit (Deputy Chairman)
Mr S Trikamjee	Mr S Trikamjee	Mr S Trikamjee

## CORPORATE GOVERNANCE REPORT CONTINUED

PPS Retirement Annuity Fund	PPS Beneficiaries Trust
<b>Trustees</b>	<b>Trustees</b>
Mr J A B Downie (Chairman)	Mr S Trikamjee (Chairman)
Mrs R G Govender (Deputy Chairman)	Ms D L T Dondur
Ms D L T Dondur	Dr D P du Plessis
Mr H P du Toit	
Dr S N E Seoka	
Mr S Trikamjee	

PPS Foundation Trust	PPS Educational Trust	PPS Training Academy	PPS Property Fund Trust
<b>Trustees</b>	<b>Trustees</b>	<b>Directors</b>	<b>Trustees</b>
Dr S N E Seoka (Chairman)	Dr S N E Seoka (Chairman)	Dr S N E Seoka (Chairman)	Mr I J Smit (Chairman)
Dr D P du Plessis	Dr D P du Plessis	Dr D P du Plessis	Mr N J Battersby
Mr N C Nyawo	Mr N C Nyawo	Mr N C Nyawo	Mrs T Boesch
Mr P Ranchod	Mr P Ranchod	Mr P Ranchod	Mr V Schroeder
Ms M D Molefe (Appointed 1 March 2019)	Ms M D Molefe (Appointed 1 March 2019)	Ms M D Molefe (Appointed 1 March 2019)	

Financial Solutions 4 Professionals	Six Anerley Road Holdings	Plexus Properties
<b>Directors</b>	<b>Directors</b>	<b>Directors</b>
Mr N J Battersby (Chairman)	Mr I J Smit (Chairman)	Mr I J Smit (Chairman)
Mr L du Plessis (Appointed 18 June 2019)	Mrs T Boesch	Mrs T Boesch
Mr I J Smit		
Mrs T Boesch (Resigned 18 June 2019)		
Mr W J Mouton		
Mr M M Mtshali		
Mr M Spies (Appointed 18 June 2019)		

## MEETINGS AND ATTENDANCE

The schedules below set out the PPS Holdings Trust and PPS Insurance Board meetings held during the year and attendance thereat were as follows:

The PPS Holdings Trust	2 April 2019	12 June 2019	26 Sep 2019	20 Nov 2019
Dr S N E Seoka (Chairman)	✓	✓	✓	✓
Dr C M Krüger (Deputy Chairman)	✓	✓	✓	✓
Dr A Coetzee (Appointed 1 March 2019)	✓	AP	✓	✓
Ms D L T Dondur	✓	AP	✓	✓
Mr J A B Downie	✓	✓	✓	✓
Dr D P du Plessis	✓	✓	✓	✓
Mr C Erasmus	✓	✓	✓	✓
Dr N H P Khosa	✓	✓	✓	✓
Mr I Kotzé	✓	✓	AP	✓
Dr F Mansoor	✓	✓	✓	✓
Mr E A Moolla	✓	✓	✓	✓
Ms P Natesan	✓	✓	✓	✓
Mrs N N Nongogo	✓	AP	✓	✓
Mr N C Nyawo	✓	✓	✓	✓
Dr R Putter (Appointed 10 July 2019)	N/A	N/A	✓	✓
Mr P Ranchod	✓	✓	✓	✓
Mr V P Rimbault	✓	✓	AP	✓
Prof L C Snyman (Appointed 10 July 2019)	N/A	N/A	✓	✓
Mr S Trikamjee	✓	✓	✓	✓
Prof H E Wainer	✓	✓	✓	✓

AP = Apology  
N/A = Not Applicable

PPS Insurance Company Limited	4 Mar 2019	1 April 2019	18 June 2019	3 Sep 2019	25 Sep 2019	18 Nov 2019
Mr C Erasmus (Chairman)	✓	✓	✓	✓	✓	✓
Prof H E Wainer (Deputy Chairman)	✓	✓	✓	✓	✓	✓
Mr N J Battersby	✓	✓	✓	✓	✓	✓
Mrs T Boesch	✓	✓	✓	✓	✓	✓
Ms D L T Dondur	✓	✓	AP	✓	✓	✓
Mr J A B Downie	✓	✓	✓	✓	✓	✓
Dr D P du Plessis	✓	✓	✓	✓	✓	✓
Mr E J S Franklin (Appointed 1 March 2019)	✓	✓	✓	✓	✓	✓
Dr C M Krüger	✓	✓	✓	✓	✓	✓
Mr N A S Kruger (Appointed 1 July 2019)	N/A	N/A	N/A	✓	✓	✓
Mr E A Moolla	✓	✓	✓	✓	✓	✓
Mr P Ranchod	✓	✓	✓	✓	✓	✓
Dr S N E Seoka	✓	✓	✓	✓	✓	✓
Mr I J Smit	✓	✓	✓	✓	✓	✓
Mr S Trikamjee	✓	✓	✓	✓	✓	✓
Dr J A van der Merwe	✓	✓	✓	✓	✓	✓

AP = Apology  
N/A = Not Applicable

Note: In addition, ad hoc Board Sub-committee meetings, attended by Mr C Erasmus, Prof H E Wainer, Mr E J S Franklin and Mr N A S Kruger, were held on 25 November and 5 December 2019.

## BOARD COMMITTEES

A number of standing board committees have been established to assist the boards in discharging their responsibilities. The boards are satisfied that the members of the respective committees have sufficient recent and relevant experience and are appropriately qualified to enable them to discharge their respective duties and responsibilities.

The membership and principal functions of these committees are set out below.

The various committee members as well as their attendance at the relevant committee meetings are provided in this Corporate Governance Report, the Report of the Audit Committees and the Report of the Group Social and Ethics Committee.

## PPS HOLDINGS TRUST STANDING BOARD COMMITTEES

The PPS Holdings Trust Board has established the following standing board committees:

- ⦿ PPS Holdings Trust Audit Committee;
- ⦿ Group Nominations Committee.

## PPS INSURANCE STANDING BOARD COMMITTEES

The PPS Insurance Board has established the following standing board committees:

- ⦿ Group Actuarial Committee;
- ⦿ Group Audit Committee;
- ⦿ Group Remuneration Committee;
- ⦿ Group Risk Committee;
- ⦿ Group Technology Steering Committee;
- ⦿ Group Social and Ethics Committee.

## PPS HOLDINGS TRUST AUDIT COMMITTEE (TAC) AND GROUP AUDIT COMMITTEE (GAC)

The composition, roles, responsibilities and attendance at meetings of the TAC and GAC are set out in the Audit Committees' Report included in this Integrated Report.

## GROUP RISK COMMITTEE (GRC)

### MEMBERS

Dr J A van der Merwe MB ChB, MBL, DBL, PED. (IMD) (Chairman)

Mr C Erasmus B Sc, FIA, FASSA

Dr D P du Plessis B Sc (QS), MBA, DBA Chartered Director (SA)

Mr E J S Franklin B Sc Physics and Applied Mathematics, B Sc Elec Eng, M Sc Elec Eng (Manchester), MBA (Appointed 1 March 2019)

Mr I J Smit B Com (Hons), FASSA

The role of the GRC is to assist the PPS Group boards in discharging their fiduciary duties regarding risk management within the PPS Enterprise Risk Management and Governance Frameworks, which include:

- ⦿ Risk policy and the implementation of risk management;
- ⦿ Risk governance structures;
- ⦿ Risk infrastructure, processes and culture;
- ⦿ The setting of risk appetite and tolerances;
- ⦿ Risk assessment, profiling, mitigation and reporting;
- ⦿ Assurance and stakeholder disclosures.

The GRC is comprised of four independent non-executive PPS Insurance directors, who are risk management specialists, and the Chief Executive. The GRC is chaired by an independent non-executive director. The GRC is scheduled to meet at least four times a year. There is overlap in the non-executive membership of the GRC, the GAC and the Group Actuarial Committee. The internal auditors and Heads of Group Compliance and Risk Management are present at each meeting, when reports are tabled outlining the progress in terms of the risk management framework, internal audit plans and an overview of the PPS Group's risk profile. The GRC is satisfied that the risk assessments, responses and interventions for the PPS Group are effective. The GRC is responsible for the statutory compliance monitoring functions and makes reports to the GAC and Group Social and Ethics Committee on risk matters pertaining to those committees. The GRC considers and recommends the PPS Group SAM ORSA Report for approval by the PPS Insurance Board. The GRC also receives reports by the Risk and Audit Committees of the PPS Insurance subsidiaries which have such committees.

The GRC established the Group Technology Steering Committee (GTSC) as a sub-committee of the GRC to, *inter alia*, assist and enable the GRC to discharge its responsibilities in relation to the management of Information Technology (IT) delivery and risks. There is overlap in the non-executive membership of the GRC and the GTSC. Further particulars of the GTSC are provided in this Integrated Report.

The GRC meetings held during the year and the attendance thereat were as follows:

Group Risk Committee	5 Mar 2019	27 May 2019	9 Sep 2019	6 Nov 2019
Dr J A van der Merwe (Chairman)	✓	✓	✓	✓
Dr D P Du Plessis	✓	✓	✓	✓
Mr C Erasmus	✓	✓	✓	✓
Mr E J S Franklin (Appointed 1 March 2019)	✓	✓	✓	✓
Mr I J Smit	✓	✓	✓	✓

## GROUP TECHNOLOGY STEERING COMMITTEE (GTSC)

### MEMBERS

Mr E J S Franklin (Chairman) B Sc Physics and Applied Mathematics, B Sc Elec Eng, M Sc Elec Eng (Manchester), MBA

Dr J A van der Merwe MB ChB, MBL, DBL, PED. (IMD)

Mr L de Villiers (Acting Chief Information Officer) BA Economics and Statistics, Nat. Dip. Electronic Data Processing, GITI - Information Technology & Telecommunications (INSEAD), DIS - Information Technology (Harvard)

Mr A Nel B Com (Computer Science, Management Accountancy)

Mr N J Battersby (Chief Operating Officer) B Sc Mech Eng, B Com (Hons), CFP, MBA, AMP (Harvard)

Dr A Bachoo (Chief Technology Officer) B Com, B Sc (Hons), M Com, PhD (Wits) (Resigned 31 January 2020)

All the members of the GTSC were appointed on 9 September 2019, the date of establishment of the committee by the GRC.

The role of the GTSC is to assist and enable the GRC to discharge its responsibilities in relation to the management of Information Technology (IT) delivery and risks. The Committee has an independent oversight role, with delegated responsibility for interrogating and monitoring IT Risks, associated ratings and responses in a manner that promotes engagement between IT and business and to report thereon to the GRC. The Committee must perform all the functions necessary to fulfil this role and is responsible for governing technology and information in a way that supports the organisation setting and achieving its strategic objectives, as set out in the recommended practices under Principle 12 (Technology and information governance) of the King IV Report of Corporate Governance for South Africa, 2016. In addition, the Committee has the following specific responsibilities as assigned to it by the GRC, on an ongoing basis:

- ⦿ Review and annually approve the Group IT Strategy;
- ⦿ Review and monitor the supporting management actions, in order to implement the IT strategy in a timeous and cost-effective manner, ensuring that the desired business benefits are realised;
- ⦿ Review and approve the Group Architecture Principles as recommended by the Group Architecture Review Board (ARB);
- ⦿ Monitor that effective IT programme/project approval, prioritisation processes, risk management and corporate governance are in place for the PPS Insurance Group;
- ⦿ Review the IT strategic and operational risk assessments;
- ⦿ Review the IT audits, including, but not limited to:
  - IT General Controls audits;
  - Security Audits;
  - Disaster Recovery audits;
  - King IV Compliance audits;
  - IT Service Management (ITIL) audits;
- ⦿ Review the Software Development Life Cycle;
- ⦿ Review metrics for the measurement of IT Operations ("run environment") and the IT Build environment ("DevOps");
- ⦿ Review and approve the IT Operating Model structure (organogram);
- ⦿ Review and approve the IT skills strategy (sourcing, retaining, building in redundancy and upskilling);
- ⦿ Promote engagement between IT and business within the Group;
- ⦿ Assess the impact on IT of current projects (dashboard) and consider which projects are at risk;
- ⦿ Review and interrogate feedback from the ARB and the Strategic Change Office for consistency of approach, and to provide insights to management.

## CORPORATE GOVERNANCE REPORT CONTINUED

The GTSC is comprised of i) two independent PPS Insurance non-executive directors and members of the GRC, being the IT specialist GRC member, who is the chairman of the GTSC, and the GRC Chairman, ii) up to two independent technology specialists (who are not members of the Insko Board or GRC) co-opted by the GRC to serve on the Committee and iii) the Group Chief Operating Officer and the Chief Information Officer. Following the resignation of the Chief Technology Officer on 31 January 2020, one of the independent technology specialists, Mr L de Villiers, was appointed as the Acting Chief Information Officer, pending the appointment of a permanent Chief Information Officer. The GTSC is scheduled to meet at least four times a year. There is overlap in the non-executive membership of the GRC and the GTSC.

The GTSC meetings held during the year and the attendance thereat were as follows:

Group Technology Steering Committee	22 Oct 2019	29 Nov 2019
Mr E J S Franklin (Chairman)	✓	✓
Dr A Bachoo	✓	✓
Mr N J Battersby	✓	✓
Mr L de Villiers	✓	✓
Mr A Nel	✓	✓
Dr J A van der Merwe	✓	✓

## GROUP ACTUARIAL COMMITTEE (AC)

### MEMBERS

Mr C Erasmus B SC, FIA, FASSA (Chairman)

Prof H E Wainer B Acc, CA(SA), Registered Auditor

Mr I J Smit B Com (Hons), FASSA (Appointed 1 April 2019)

Mr N A S Kruger B Com Mathematics, FIA, FASSA, AMP (Appointed 1 July 2019)

The AC is chaired by an independent non-executive director and is comprised of three independent non-executive directors of PPS Insurance and the Chief Executive Officer.

The AC has an important role in ensuring the integrity of actuarial processes and the proper assessment of PPS Insurance Group Companies' risk philosophy from an actuarial perspective, strategy, policies, financial and operational processes and controls, as well as assessments of major risks from an actuarial perspective. The AC's activities are focused on

considering actuarial assumptions and experience, product pricing and design, valuation results, risk metrics and reporting guidelines and practices adopted by the Head of Actuarial Control Function and the Company Actuaries, as well as other actuarial matters as applicable to PPS Insurance and any of its subsidiaries operating a life or short-term insurance licence.

The AC acts as an independent adviser to the PPS Insurance, PPS Namibia and PPS Short-Term Insurance Boards and has the following primary responsibilities:

- To assist the boards in fulfilling their oversight responsibilities regarding:
  - the accuracy and integrity of the actuarial statements;
  - compliance with actuarial, legal and regulatory requirements; and
  - the performance of the Actuarial Functions of PPS Insurance and PPS Short-Term Insurance.
- To assist the boards in the execution of their fiduciary duties regarding the oversight of the reinsurance arrangements and risk transfer processes.
- To assist the boards with the execution of their responsibilities relating to the Own Risk and Solvency Assessment (ORSA).
- To provide a sounding board for the Head of Actuarial Control Function and the Company Actuaries in making recommendations to the boards and to consider, for tabling at board meetings, the recommendations of the Head of Actuarial Control Function and the Company Actuaries.

The AC meetings held during the year and attendance thereat were as follows:

Group Actuarial Committee	21 Feb 2019	27 May 2019	5 Sep 2019	6 Nov 2019
Mr C Erasmus (Chairman)	✓	✓	✓	✓
Mr N A S Kruger (Appointed 1 July 2019)	N/A	N/A	✓	✓
Mr I J Smit (Appointed 1 April 2019)	N/A	✓	✓	✓
Prof H E Wainer	✓	✓	✓	✓

# GROUP REMUNERATION COMMITTEE (REMCO)

## MEMBERS

Dr D P du Plessis B Sc (QS), MBA, DBA, Chartered Director (SA) (Chairman)

Mr C Erasmus B Sc, FIA, FASSA

Mr E A Moolla B Iuris

Prof H E Wainer B Acc, CA(SA), Registered Auditor

Chaired by an independent non-executive PPS Insurance director and comprising solely of non-executive directors of PPS Insurance, the Group Remuneration Committee (REMCO) has been established as a sub-committee of the PPS Insurance Board with delegated responsibility for ensuring the implementation of the PPS Group Remuneration Policy, as approved by the PPS Insurance Board from time to time, and making recommendations to the PPS Group boards, excluding the PPS Investments Board which has its own remuneration committee, over which REMCO exercises oversight, in regard to employee and non-executive remuneration for consideration and final approval. REMCO is responsible for advising the PPS Group in relation to:

- ⦿ Matters of executive, senior management and staff remuneration;
- ⦿ The remuneration of non-executive directors and trustees of PPS Holdings Trust and its subsidiaries, as well as their respective related entities (with the exception of PPS Insurance subsidiaries which have appointed their own remuneration committees);
- ⦿ Key human resources and employee-related matters, including employment equity and transformation.

The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management. The role of REMCO is to assist the PPS Group boards to ensure that:

- ⦿ The PPS Group remunerates non-executive directors and trustees, the CEO, executives, management and staff fairly, responsibly and competitively;
- ⦿ The disclosure of director/trustee and executive remuneration by the PPS Group is accurate and in accordance with the Companies Act and the recommendations of the PPS Group Audit Committee;
- ⦿ The functions prescribed by the Prudential Authority in terms of the Prudential Standards are performed.

REMCO is responsible for developing a remuneration philosophy and remuneration policies and practices that aim to set appropriate remuneration levels which enable the PPS Group to attract, engage, motivate, reward and retain executives, senior managers, key talent and other competent staff with the appropriate retention tools.

REMCO is responsible for advising the PPS Group in relation to:

- a. The setting and administering of remuneration at all levels in the PPS Group;
- b. The establishment of a remuneration policy that will promote the achievement of sustainability and strategic objectives, attract top quality staff and encourage individual performance, and recommend such policy to the PPS Insurance Board for approval;
- c. Ensuring that the remuneration takes into account and is adjusted for all performance metrics, types of risks and the risk appetite of the PPS Group. Remuneration must be proportional to risk outcomes. The mix of short-term and long-term incentives must be aligned to risk, in order that management's performance is aligned with members' interests. The remuneration must be consistent with the PPS Group's risk appetite and must not induce excessive or inappropriate risk-taking;
- d. The various components of remuneration of all Key Persons, as defined in the Remuneration Policy, whose actions may have material impact on the companies' risk profiles and advise the Board accordingly;
- e. Accessing independent surveys and consultants in determining key remuneration and human resources decisions and policies when required. In monitoring this, the Remuneration Committee should take into account PPS Insurance and its business units' direct competitors and, in particular, required skillsets;
- f. Reviewing the outcomes of the implementation of the remuneration policy to ensure that the remuneration system operates as intended;
- g. Ensuring that the mix of fixed and variable pay, in cash, incentives and other elements, meets the PPS Group's needs, is market related and consistent with the PPS Group strategy in regard to remuneration;
- h. Satisfying itself as to the appropriateness of performance measures that govern the vesting of incentives;
- i. Ensuring that all benefits, including retirement benefits and other financial arrangements, are justified, correctly valued and appropriately applied across job levels;

## CORPORATE GOVERNANCE REPORT CONTINUED

- j. The selection and appointment of the Group Chief Executive, in consultation with the Group Nominations Committee;
- k. The performance of the Group Chief Executive and other Executive Directors, both as directors and as executives, in determining remuneration;
- l. Selecting appropriate benchmarks when comparing remuneration levels, to be performed at least every three years;
- m. Regularly reviewing incentive schemes to ensure continued contribution to member value and that these are administered in terms of the rules;
- n. Reviewing the appropriateness of any early vesting of incentive schemes or non-contractual termination arrangements at the end of employment;
- o. Ensuring that appropriate leadership and strategic training for executives and senior management is supported and implemented;
- p. Ensuring that the recruitment policy and process encourages the employment of individuals appropriate to the culture, values and ethics of the PPS Group;
- q. Advising on the remuneration of non-executive Directors of PPS Insurance Group entities, as well as PPS Holdings Trust trustees;
- r. Reporting to the Group Social and Ethics Committee (SEC) on all matters required by statute to be monitored by the SEC, which fall within the responsibilities of the Remuneration Committee;
- s. Overseeing the implementation of employment equity in the PPS Group;
- t. Providing sufficient forward-looking information for the members to pass a special resolution authorising the payment of non-executive Trustees' fees in terms of section 66(9) of the Companies Act, 2008;
- u. Reviewing Human Resources policies regarding diversity targets, performance measurements, grading and job descriptions; ensuring that effective performance management systems are in place and that a performance culture is encouraged and rewarded; and ensuring that HR practices are supportive to, and aligned with, the regulatory and compliance requirements of the business, including Solvency Assessment and Management and Own Risk and Solvency Assessment obligations;
- v. Determining the remuneration of the non-executive trustees and directors of PPS Holdings Trust and its subsidiaries and related entities for recommendation to the respective PPS Group boards for approval, and ultimate approval by the respective entities' members by special resolution at their respective annual general meetings, in advance of making payment of such remuneration to the board members.

The PPS Group operates under the ethos of mutuality, where the policyholders are also the members (shareholders). There are thus no external shareholders. It therefore espouses a unique culture of member-centric service, where members are key stakeholders, and a long-term orientation, the highest standards of governance, performance and professionalism are driven.

The PPS Group operates in the highly developed and competitive Financial Services Sector, where multitudes of skills are critical and scarce and this tends to be reflected in the remuneration levels applicable in the industry. The pressure for new product and service offerings, constantly changing demands for enhanced technical skills and expertise, constantly evolving customer service needs, the ever-increasing regulatory/legislative compliance demands and growth in sales and membership necessitate that the PPS Group constantly recruits and retains top quality talent.

Notwithstanding its unique business model and culture, the PPS Group still needs to compete with the other players in the market, as the required key talent needs to be drawn from the broader generic skills pool for which there is fierce competition in the industry. The remuneration practices of the PPS Group have been structured to be competitive in this context. The philosophy rewards consistent and sustainable individual and corporate performance. PPS complies with the "Equal Pay for Work of Equal Value" concept as defined in the amended Employment Equity Act.

Non-executive directors/trustees are remunerated on the basis of annual retainers, as well as attendance fees for each meeting attended. The value of the annual retainers and the attendance fees are benchmarked against fees paid in the insurance industry by companies of a similar size to PPS. Non-executive directors/trustees do not participate in the PPS Group's long-term or short-term incentive schemes. The trustees' fees for the PPS Holdings Trust Board and its committees are subject to the ultimate approval by the Ordinary Members of PPS Holdings Trust at its annual general meeting.



No employee included in the scope of this policy is involved in deciding his or her own remuneration. The Group Chief Executive and the Group Executive: Human Resources attend the meetings of REMCO by invitation. The Chief Executive and Group Executive: Human Resources are recused from any discussion and/or decision pertaining to their own remuneration.

The REMCO meetings held during the year and the attendance thereat were as follows:

Group Remuneration Committee	21 Feb 2019	21 May 2019	5 Sep 2019
Dr D P du Plessis (Chairman)	✓	✓	✓
Mr C Erasmus	✓	✓	✓
Mr E A Moolla	✓	✓	✓
Prof H E Wainer	✓	✓	✓

## GROUP NOMINATIONS COMMITTEE (GNC)

The GNC is a sub-committee of the PPS Holdings Trust Board, mandated with responsibility for PPS Holdings Trust and its subsidiaries.

### MEMBERS

Dr S N E Seoka (Chairman)

Mr C Erasmus (Deputy Chairman)

Dr C M Krüger

Mr V P Rimbault

Mr S Trikamjee

The GNC is chaired by an independent non-executive trustee and comprises solely of independent non-executive trustees of PPS Holdings Trust.

It is the responsibility of the GNC to ensure that succession plans are in place for appointments to the Boards of PPS Holdings Trust and its subsidiaries that will maintain an appropriate balance of qualifications, skills and experience and achieve compliance with Fit and Proper requirements. The GNC leads the process for appointment and re-election of trustees and directors

and makes recommendations to the boards for the appointment of PPS Group boards and committees, except in regard to the appointment of the members of the GNC itself, which is the sole prerogative of the PPS Holdings Trust Board, ensuring that there is a formal, rigorous and transparent procedure for all appointments. The PPS Holdings Trust Board is satisfied that the range and balance of expertise, experience and qualifications of the PPS Group board members are appropriate for the current needs of the business, but keeps these matters under regular review.

The GNC annually considers the continued service of board members with a period of appointment in excess of nine years and is satisfied that such board members still meet the requirements for independence.

The GNC considers the suitability of trustees nominated by professional associations at the invitation of the PPS Holdings Trust Board, for appointment to the PPS Holdings Trust Board and makes recommendations in this regard for consideration by the PPS Holdings Trust Board.

The PPS Holdings Trust Board is responsible for ensuring that an effective system for succession planning and development is in place, covering trustees and directors. It has delegated this task to the GNC. In considering an appointment, the GNC assesses and defines the characteristics, qualities, skills and experience it believes would complement the overall balance and composition of the PPS Holdings Trust Board, subsidiary boards and board committees, ensuring compliance with Fit and Proper requirements. The GNC may appoint external consultants to assist it in the identification and recruitment of an individual who satisfies the GNC's criteria. Where the GNC is considering matters relating to an individual who is a member of the GNC, such individual is recused from the discussion of that item.

The GNC is satisfied that non-executive trustees and directors achieve the commitment required to properly discharge their responsibilities. The PPS Group directors and trustees have continued to update their skills and knowledge, both within the PPS Group and externally. The GNC has been mandated to perform, and is responsible for, the evaluation of the boards and board members, including ethics, performance and compliance with the enhanced requirements regarding independence and being Fit and Proper for serving on an insurance company board in terms of regulation.

## CORPORATE GOVERNANCE REPORT CONTINUED

The GNC meetings held during the year and the attendance thereat were as follows:

Group Nominations Committee	13 Feb 2019	11 Mar 2019	21 May 2019	26 Aug 2019
Dr S N E Seoka (Chairman)	✓	✓	✓	✓
Mr C Erasmus (Deputy Chairman)	✓	✓	✓	✓
Dr C M Krüger	✓	✓	✓	✓
Mr V P Rimbault	✓	✓	✓	✓
Mr S Trikamjee	✓	✓	✓	✓

### GROUP SOCIAL AND ETHICS COMMITTEE (SEC)

Particulars of the composition, role and responsibilities of the SEC and attendance at meetings are set out in the SEC's Report included in this Integrated Report.

### GROUP EXECUTIVE COMMITTEE (GROUP EXCO)

#### MEMBERS

Mr I J Smit (Chairman) (Group Chief Executive)

Mr Q J Augustine (Executive: Member Value Proposition)

Mr V E Barnard (Group Company Secretary)

Mrs S Bassudev (Chief Executive: PPS Healthcare Administrators)

Mr N J Battersby (Group Chief Operating Officer and Chief Executive: PPS Investments)

Mrs T Boesch (Group Chief Financial Officer)

Mr W Bosman (Chief Executive: PPS Short-Term Insurance)

Mr S R Clark (Executive: Life Administration and Systems) (resigned as a member of Group Exco with effect from 1 June 2019)

Ms K Govender (Executive: Life Operations) (Appointed 20 February 2020)

Mr W J Lynch (Executive: Business Change and Strategic Development) (resigned 31 October 2019)

Mrs M D Molefe (Executive: Human Resources) (appointed 1 February 2019)

Mr M M Mtshali (Executive: Advisory Services and Enablement)

Mr W J Mouton (Executive: External Distribution)

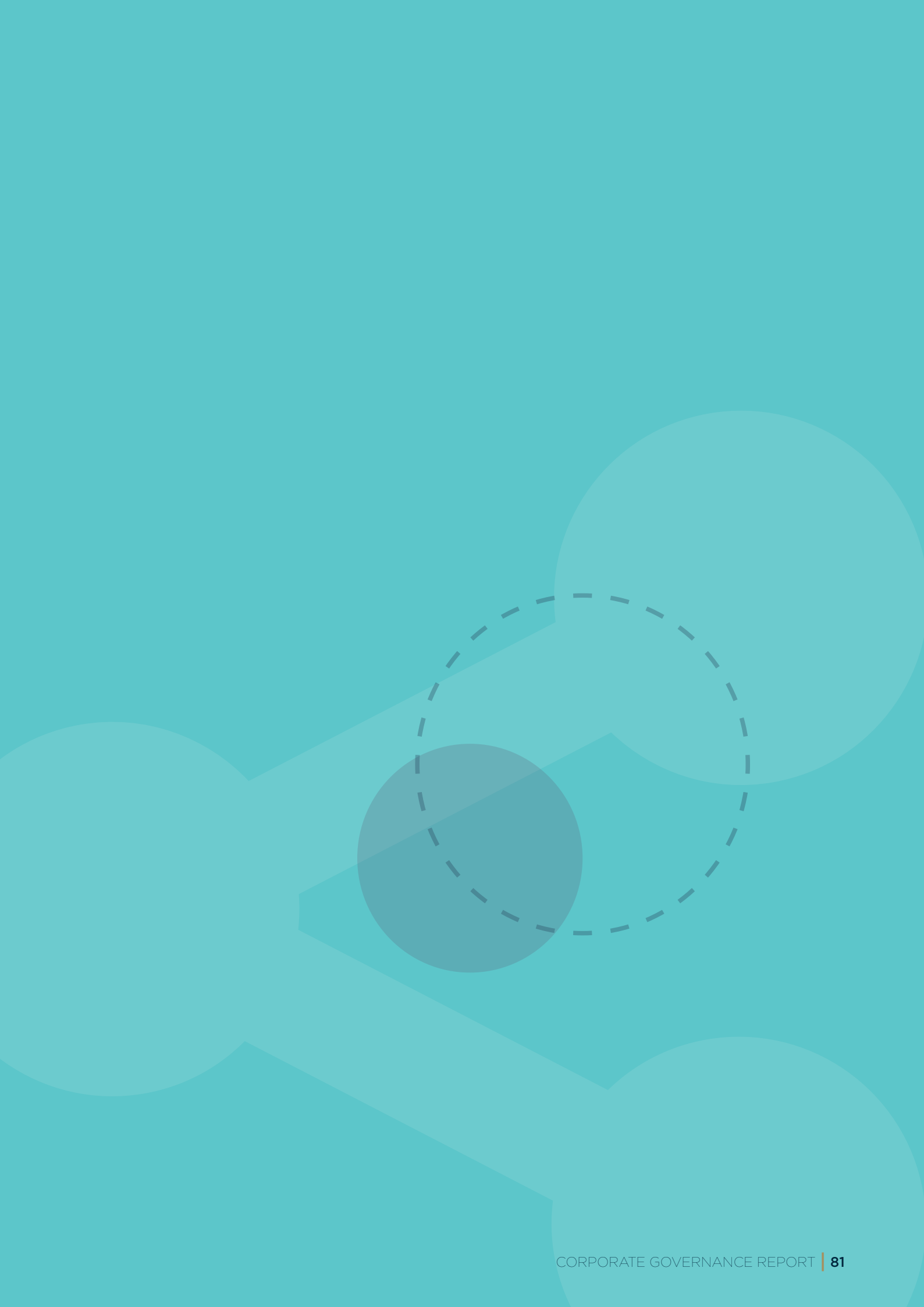
Mr B Thomas (Executive: Actuarial Services)

Mrs A N Seboni (Group Executive: Group Marketing and Communication)

### COMPOSITION AND MEETING PROCEDURES

Group Exco is chaired by the Chief Executive and has regular input from executives in Operations, Internal and External Distribution, Finance, Actuarial, IT, Human Resources, Compliance, Governance, Marketing, Business Change and Strategic Development, Member Value Proposition, the Group Company Secretary, the subsidiary businesses of PPS Investments, PPS Short-Term Insurance, PPS Healthcare Administrators and Financial Solutions 4 Professionals, as well as the associate PPS Mutual Australia. Group Exco meetings are held at least monthly and additional meetings are scheduled as required. Group Exco is responsible for the implementation of day-to-day strategy and the operations of the PPS Group, within the parameters defined by the PPS Group boards.

Group Exco is supported by a number of management committees throughout the PPS Group.





**2019 ANNUAL  
FINANCIAL  
STATEMENTS**

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This report comprises of the audited consolidated annual financial statements of The Professional Provident Society Holdings Trust and its subsidiaries.

The report was prepared under the supervision of T Boesch CA(SA). An audit was performed by PricewaterhouseCoopers Inc. in line with requirements of the Trust Deed.

Published: 6 April 2020

# STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

for the year ended 31 December 2019

The Trustees accept responsibility for the fair presentation of the financial statements of The Professional Provident Society Holdings Trust, comprising the financial statements of the trust itself and the consolidated financial statements of the trust and its subsidiaries. These financial statements have been prepared in accordance with International Financial Reporting Standards, and in the manner required by the Insurance Act of 2017, the South African Companies Act of 2008, and the Trust Deed. The Trustees are of the opinion that the financial statements are fairly presented in the manner required. The independent auditors are responsible for reporting on these financial statements and were given unrestricted access to all financial records and related data including minutes of all meetings of members of the Board of Trustees and Committees of the Board. The Trustees have no reason to believe that any representations made to the independent auditors during the audit were not valid and appropriate. The Trustees accept responsibility for the maintenance of accounting records and systems of internal financial control.

The Trustees are satisfied that no material breakdown in the operations of the systems of internal financial controls and procedures occurred during the year under review.

Nothing has come to the attention of the Trustees to indicate that the Group, or any company within the Group, will not remain a going concern for at least the ensuing financial year. The financial statements have been prepared on the same basis.

The annual financial statements, which appear on pages 101 to 185, were approved by the Board of Trustees and are signed on its behalf by:



**Dr S N E Seoka**  
*Chairman*



**Mr I J Smit**  
*Chief Executive*



**Mrs T Boesch**  
*Financial Director*

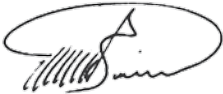
## **The Professional Provident Society Holdings Trust**

Johannesburg

6 April 2020

# CERTIFICATE BY THE SECRETARY

In my capacity as the Secretary of The Professional Provident Society Holdings Trust, I hereby certify in terms of section 88(2)(e) of the Companies Act of 2008 and the Trust Deed that for the year ended 31 December 2019, the Group has lodged with the Companies and Intellectual Property Commission all such returns as are required in terms of this Act. I also confirm that all returns to the Master of the High Court's office, required for The Professional Provident Society Holdings Trust in terms of its Trust Deed and the Trust Property Control Act of 1988, are to the best of my knowledge and belief true, correct and up to date.



**V E Barnard**

*Group Company Secretary*

**The Professional Provident Society Holdings Trust**

6 April 2020

# INDEPENDENT AUDITOR'S REPORT

## TO THE TRUSTEES OF THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST

### OUR OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Professional Provident Society Holdings Trust (the Trust) and its subsidiaries (the Group) as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### WHAT WE HAVE AUDITED

The Professional Provident Society Holdings Trust's consolidated financial statements set out on pages 101 to 185 comprise:

- The Consolidated Statement of Financial position as at 31 December 2019;
- The Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year then ended;
- The Consolidated Statement of Changes in Equity for the year then ended;
- The Consolidated Statement of Cash Flows for the year then ended;
- The Group Accounting Policies; and
- The Notes to the Consolidated Financial Statements.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

### INDEPENDENCE

We are independent of the Trust in accordance with the sections 290 and 291 of The Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of The Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of The International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and The International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively.

### OTHER INFORMATION

The trustees are responsible for the other information. The other information comprises the information included in the document titled "2019 Annual Financial Statements". The other information does not include the consolidated financial statements and our auditor's report thereon.

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



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE TRUSTEES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

A handwritten signature in black ink that reads "PricewaterhouseCoopers Inc." The signature is written in a cursive, slightly slanted style.

**PricewaterhouseCoopers Inc.**

**Director: J Goncalves**

**Registered Auditor**

**Johannesburg**

**6 April 2020**

# INVESTMENT RETURNS AND PROFIT ALLOCATION TO POLICYHOLDERS' PPS PROFIT-SHARE ACCOUNT

for the year ended 31 December 2019

At the end of each year policyholders' PPS Profit-Share Account, comprising the Apportionment Accounts and the Special Benefit Accounts, are allocated the profit or loss, net of movements in insurance policy liabilities earned over that year. The PPS Profit-Share Account accumulates from year to year until a policyholder reaches retirement age. **On retirement, death or exit, policyholders can access an amount based on the balance accumulated in their PPS Profit-Share Account at that time. This is over and above the cover enjoyed by them as policyholders. This represents a valuable pool of retirement assets for members, particularly retiring members.**

The PPS Profit-Share Account represents an allocation of surplus and investment returns only. This account vests upon retirement, death or exit, and is then payable. The total assets backing the PPS Profit-Share Account belong to PPS Insurance or PPS Namibia at all times.

The investment returns or losses and net operating income allocated each year may be positive or negative, depending on investment return as well as the operating experience of PPS Insurance and/or PPS Namibia. Therefore, the PPS Profit-Share Account may increase or decrease in any year. Possible variations in the PPS Profit-Share Account are set out in the accounting policies and notes to these financial statements. No guarantees can be given by PPS Insurance or PPS Namibia that the allocations of operating results or investment returns will always be positive, or that the PPS Profit-Share Account will not reduce in any year.

The net operating income is allocated with reference to the qualifying products a policyholder holds and in accordance with the allocation rules for the specific products held. The investment returns are allocated in proportion to the size of the policyholders' PPS Profit-Share Account.

For all policyholders from age 60 to 65, the full value of the PPS Profit-Share Account is available through the Vested Profit-Share Account to such policyholders on termination of cover or resignation, subject to the vesting rules as contained in the policy document. On death of a member, at any age, the PPS Profit-Share Account is paid to the policyholders' beneficiaries or their estates. For all policyholders aged 66 or older, the fair value of the PPS Profit-Share Account becomes available through the Vested Profit-Share Account, for inclusion in financial plans of such policyholders, and it is paid to the policyholders' beneficiaries or their estates on death. On surrender of a policy prior to the age of 60, policyholders are entitled to receive a lump sum termination payment determined as a proportion of the PPS Profit-Share Account at the time subject to a discount, if the exit is before retirement age.

## TOTAL ALLOCATIONS TO PPS PROFIT-SHARE ACCOUNTS

	2019 R'000	2018 R'000
<b>PPS Insurance</b>		
Allocation to / (from) Special Benefit Accounts	2 625 000	(745 019)
Allocation to Apportionment Accounts	1 415 182	1 372 696
<b>Total allocations to PPS Profit-Share Accounts</b>	<b>4 040 182</b>	<b>627 677</b>
	2019 N\$'000	2018 N\$'000
<b>PPS Namibia</b>		
Allocation to / (from) Special Benefit Accounts	121 703	(76 098)
Allocation to Apportionment Accounts	84 205	82 994
<b>Total allocations to PPS Profit-Share Accounts</b>	<b>205 908</b>	<b>6 896</b>

INVESTMENT RETURNS AND PROFIT ALLOCATION TO  
POLICYHOLDERS' PPS PROFIT-SHARE ACCOUNT (CONTINUED)  
for the year ended 31 December 2019

## ALLOCATION TO APPORTIONMENT ACCOUNTS

The allocations at 31 December 2019 to policyholders' Apportionment Accounts are set out as follows:

	<b>2019</b>	2018
<b>PPS Insurance</b>	<b>R'000</b>	R'000
<b>Total investment income allocation</b>	<b>367 617</b>	<b>305 315</b>
PPS Sickness and Permanent Incapacity Benefit	<b>525 527</b>	621 939
Hospital benefits	<b>36 435</b>	44 919
PPS Provider	<b>426 830</b>	356 023
Bonus allocation for PPS Investments' portfolios and products	<b>15 132</b>	12 000
Bonus allocation for PPS Medical Aid products	<b>42 144</b>	30 818
PPS Rewards scheme bonus allocation	<b>31</b>	-
BEE allocation	<b>1 466</b>	1 682
<b>Total profit allocation</b>	<b>1 047 565</b>	<b>1 067 381</b>
<b>Total allocated</b>	<b>1 415 182</b>	<b>1 372 696</b>
	<b>2019</b>	2018
<b>PPS Namibia</b>	<b>N\$'000</b>	N\$'000
<b>Total investment income allocation</b>	<b>22 263</b>	<b>17 563</b>
PPS Sickness and Permanent Incapacity Benefit	<b>55 177</b>	59 077
Hospital Benefits	<b>4 609</b>	5 120
Broadening Mutuality Products - percentage of premium	<b>403</b>	-
Sickness and Permanent Incapacity	<b>1 518</b>	1 007
PPS Retirement Annuity	<b>235</b>	227
<b>Total profit allocation</b>	<b>61 942</b>	<b>65 431</b>
<b>Total allocated</b>	<b>84 205</b>	<b>82 994</b>

## ALLOCATION TO SPECIAL BENEFIT ACCOUNTS

The following investment allocations for 2019\* were made to the Special Benefit Accounts:

	2019 R'000	2018 R'000
<b>PPS Insurance</b>		
PPS BEE investment income gains	11 470	(6 162)
Investment income and gains	2 549 689	(727 347)
PPS Vested Profit-Share	63 841	(11 510)
<b>Total allocated</b>	<b>2 625 000</b>	<b>(745 019)</b>
<b>PPS Namibia</b>		
	2019 N\$'000	2018 N\$'000
<b>Total allocated</b>	<b>121 703</b>	<b>(76 099)</b>

\* Investment return allocated to policyholders' Special Benefit Accounts as a percentage of the PPS Profit-Share Account at the beginning of the year.

# TRUSTEES' REPORT

## HOLDING ENTITY

The holding entity for the PPS Group is The Professional Provident Society Holdings Trust, registration number IT 312/2011 ('PPS Holdings Trust'), which controls all the entities in the PPS Group.

## PRINCIPAL ACTIVITIES

**PPS Holdings Trust** is a trust registered by the Master of the High Court in terms of the Trust Property Control Act of 1988. PPS Holdings Trust's sole investment is 100% of the shares of Professional Provident Society Insurance Company Limited ('PPS Insurance'). The beneficiaries of PPS Holdings Trust are the PPS Group companies. Membership of PPS Holdings Trust is acquired through participation in PPS Group products. The Ordinary Members of PPS Holdings Trust control the Group through the election of trustees. Ordinary Members participate in all the profits of the PPS Group through their participation in their policyholder PPS Profit-Share Accounts.

**PPS Insurance Company Limited** ('PPS Insurance') is a wholly-owned subsidiary of PPS Holdings Trust and is a long-term insurance company registered in South Africa in terms of the Insurance Act, which offers a broad range of insurance products, including sickness and incapacity benefits, life and disability benefits, critical illness benefits and business assurance policies. PPS Insurance also issues linked living annuities and endowment policies to PPS members.

**Professional Provident Society Investments (Pty) Limited** ('PPS Investments') and its subsidiaries are wholly-owned subsidiaries of PPS Insurance which provide, *inter alia*, savings and investment products primarily to PPS members.

**Professional Provident Society Insurance Company (Namibia) Limited** ('PPS Namibia') is a wholly-owned subsidiary of PPS Insurance and provides insurance products exclusively to the Namibian market. A reinsurance agreement with PPS Insurance is in place for PPS Namibia. In terms of this reinsurance arrangement, PPS Namibia partially reinsures its obligations to the Namibian policyholders with PPS Insurance. This arrangement was put in place in order to protect the security and benefit expectations of the Namibian policyholders. Without this reinsurance arrangement, the Namibian subsidiary with over 5 000 Namibian policyholders would be exposed to higher volatility from fluctuations in claims experience.

**Professional Provident Society Healthcare Administrators (Pty) Limited** ('PPS Healthcare Administrators') is a wholly-owned subsidiary of PPS Insurance, which administers Profmed and other medical schemes. PPS Healthcare Administrators' objective is to provide professional service and to support the sustainability of the schemes by applying scheme, benefit and tariff rules properly and managing clinical risk, to enable medical schemes to provide for the health care needs of members when they need it most. The administered schemes have their own independent boards of trustees.

**Professional Provident Society Short-Term Insurance Company Limited** ('PPS Short-Term Insurance') is a wholly-owned subsidiary of PPS Insurance and is a fully-fledged short-term insurer, offering Personal Lines, Commercial Lines and through its Healthcare Professionals Indemnity Division, professional indemnity products, to PPS members.

**PPS Mutual Limited** and its operating subsidiary are affiliates of PPS Insurance launched in Sydney, Australia in February 2016. The company's operating model replicates the PPS Group in South Africa's mutual model, focusing on the insurance needs of graduate professionals in Australia.

**The PPS Property Fund Trust** ('PPS Property Trust') is a trust controlled by PPS Insurance, registered in terms of the Trust Property Control Act of 1988, which invests in certain investment property for the benefit of PPS Insurance.

**Financial Solutions 4 Professionals (Pty) Limited** (FS4P) is a wholly-owned subsidiary of PPS Insurance, established as a brokerage, to provide a vehicle for supporting agents that are not able to sell PPS due to Retail Distribution Review regulation, which came into effect on 1 January 2018, and enables the continuity of members' insurances.

**The Professional Provident Society Foundation Trust** is a trust founded by PPS Insurance and registered by the Master of the High Court in 2016 in terms of the Trust Property Control Act of 1988. It has the principal objectives of working with strategic partners to improve access to Science, Technology, Engineering and Mathematics (STEM) related professions and build the professional pipeline, especially the scarce skills disciplines, making a measurable contribution to sustainable development within South Africa's communities (as defined in the DTI B-BBEE Codes of Good Practice) and the Financial Sector Charter and ensuring that the Foundation's funds are spent on real sustainable, measurable benefits in support of the professional pipeline being created.

**Professional Provident Society Training Academy (Pty) Limited** is a wholly-owned subsidiary of The Professional Provident Society Insurance Company Limited (PPS Insurance) and operates as a training academy for the PPS Group. The 51% interest in this company formerly held by the PPS Educational Trust was transferred to PPS Insurance during 2019 and the PPS Educational Trust was subsequently deregistered.

## GOING CONCERN

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## EVENTS AFTER FINANCIAL YEAR-END

### COVID-19 virus pandemic

After the PPS 31 December 2019 financial year-end, there has been a wide-spread international outbreak of the Covid-19 virus originating in China, which has significantly affected lives, and entities and economic activity around the world. In 2020, many countries around the world have, amongst other radical actions, implemented national "lockdowns" as part of attempts to contain the spread of the virus. The South African Government, *inter alia*, implemented a 21-day national "lockdown" starting at midnight on 26 March 2020. As a result of the spread of the virus and the reactions thereto, there have been material adverse financial effects, *inter alia*, on stock markets around the world.

#### Financial effects

In terms of IFRS, these events are material "non-adjusting events" occurring after the reporting period, requiring disclosure of the nature of the event, and an estimate of its financial effect, or a statement that such an estimate cannot be made.

It is not possible to provide accurate estimates of the financial effects of the pandemic on the Group which is inherently uncertain, but the following are potential future financial effects on the Group:

#### Value of investments

Potentially reduced investment values due to reductions in market values of the Group's investments in equities, bonds and unit trusts & pooled funds. Up to the date of publication of the 2019 financial statements, markets have shown significant decline, and all the investment gains reported in the 2019 financial statements had reversed. It is unknown whether, and to what extent markets will recover during 2020.

#### Claims

Potentially increased claims in 2020 due to possible higher mortality and morbidity of members, especially older members and members with an underlying immune deficiency, as well as members working in the health sector.

#### Policy lapse rates

A potential increase in the extent of policy lapses in 2020 as a result of the contracted economy and its potential financial effect on members.

### **Impact on service levels**

Only companies rendering essential services are allowed to maintain trading during the lockdown period. The Group, as a financial services provider, qualifies as an essential services provider, and operations are continuing during the lockdown. The operations are monitored on a daily basis, to ensure continued high level of service to the Group's policyholders and members.

All essential functions, such as the Group's call centres, claims processing and payments, as well as Intermediary Servicing and new business administration are all operating uninterrupted, and at service levels comparable to the Group's normal standards.

### **Going concern and solvency**

PPS has prepared scenarios of the potential impact of the pandemic on its operations. These scenarios included qualitative and quantitative analyses based on a high, medium and low impact scale. The results of these scenarios indicate that the pandemic will not change the going concern status of the Group, as assets are estimated to be sufficient to settle liabilities. Although the pandemic could have a material negative impact on investments, and possibly operating profits in 2020, the solvency of the Group remains resilient and is expected to meet regulatory requirements, even under extreme stressed conditions.

### **Management's response**

The Group had in place an Epidemic Management Policy and a Business Continuity Plan (BCP), which sets out its response to the management of epidemics. These were activated after the financial year-end. If the level of risk associated with the pandemic reaches predefined levels in the Policy, appropriate responses set in the BCP are followed.

The Group's BCP was invoked, leading to the establishment of the associated control structures involving all business units. As a consequence, as the Covid-19 crisis evolved, an increasing proportion of our workforce were enabled to work from home, whilst arrangements for those who remained in the office were adjusted to ensure appropriate 'social distancing' to protect our employees.

Importantly, by the date of the initiation of the lockdown, we had already successfully migrated all of our operational teams to be capable of working from home, with well over 90% of our total workforce enabled to do so.

## FINANCIAL RESULTS

The financial results on pages 101 to 185 set out the results of the Trust and the PPS Group (comprising PPS Holdings Trust and all its subsidiaries) for the financial year ended 31 December 2019.



# AUDIT COMMITTEES' REPORT

## INTRODUCTION

The PPS Holdings Trust Audit Committee ('TAC') and the PPS Group Audit Committee ('GAC') are committees of the PPS Holdings Trust and PPS Insurance Boards, respectively. The responsibilities of these committees are prescribed by the Trust Deed and the Companies Act, and are outlined in their written Terms of Reference, which are in line with King IV, and are reviewed and updated annually. The Committees have an independent role, with accountability to both the Boards and PPS members in terms of the Companies Act and the Trust Deed of PPS Holdings Trust.

The TAC has oversight over PPS Holdings Trust and the PPS Group, while the GAC has oversight over PPS Insurance and its subsidiaries. This includes oversight over the separate Risk and Audit Committees of PPS Investments and PPS Short-Term Insurance, which make reports to the GAC.

The report of the TAC and GAC is presented to the members in terms of section 94(7)(f) of the Companies Act, No 71 of 2008 ('the Companies Act'), and a similar provision in the Trust Deed.

## COMPOSITION OF THE PPS HOLDINGS TRUST AUDIT COMMITTEE

### Members:

Independent non-executive Trustees of PPS Holdings Trust:

Ms D L T Dondur (Chairman), B Acc (Hons), B Compt, CA(SA), MBA, Chartered Director (SA), Member of the TAC since 2012

Mr E A Moolla, B Iuris, Member of the TAC since 2011

Mr P Ranchod, B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing, Member of the TAC since 2014

The appointment of the current Members of the TAC was confirmed by PPS members at the annual general meeting held on 20 May 2019.

The TAC was established pursuant to the Trust Deed of PPS Holdings Trust and comprises three independent non-executive trustees of PPS Holdings Trust. The members of the Committee are elected annually by the members of PPS Holdings Trust at its annual general meeting, after being nominated for election by the Nominations Committee and being approved by the PPS Holdings Trust Board for election. As PPS Holdings Trust is not an operating company, but consolidates the financial results of PPS Insurance and its subsidiaries, the TAC considers the recommendations of the GAC in regard to the integrated report and the annual financial statements of PPS Insurance and its subsidiaries. There is an overlap in membership of the TAC and the GAC to ensure appropriate information is exchanged between the two audit committees, and the TAC does not replicate the work performed by the GAC in regard to PPS Insurance and its subsidiaries.

Meetings of the TAC held during the year and attendance thereat:

PPS Holdings Trust Audit Committee	6 March 2019	11 November 2019
Ms D L T Dondur (Chairman)	✓	✓
Mr E A Moolla	✓	✓
Mr P Ranchod	✓	✓

## COMPOSITION OF THE PPS GROUP AUDIT COMMITTEE

### Members:

Independent non-executive directors of PPS Insurance:

Prof H E Wainer (Chairman), B Acc, CA(SA), Member of GAC since 2001

Ms D L T Dondur, B Acc (Hons), B Compt, CA(SA), MBA, Chartered Director (SA), Member of GAC since 2013

Mr C Erasmus, BSc, FIA, FASSA, Member of GAC since 2009

Mr E A Moolla, B Iuris, Member of GAC since 2015

Mr P Ranchod, B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing, Member of the GAC since 2014

Dr J A van der Merwe, MB ChB, MBL, DBL, PED. (IMD), Member of GAC since 2018

### Specialist consultant:

Dr C E Rabin, D Phil, CA(SA), specialist consultant to the GAC since 2011, formerly a member of the GAC from 2005 to 2011.

Meetings held during the year and attendance thereat:

Group Audit Committee	6 Mar 2019	29 May 2019	9 Sep 2019	11 Nov 2019
Prof H E Wainer (Chairman)	✓	✓	✓	✓
Ms D L T Dondur	✓	✓	✓	✓
Mr C Erasmus	✓	✓	✓	✓
Mr E A Moolla	✓	✓	✓	✓
Mr P Ranchod	✓	✓	✓	✓
Dr J A van der Merwe	AP	AP	✓	AP
Dr C E Rabin *	✓	AP	✓	✓

\*Consultant

AP = Apology

The GAC comprises of six non-executive PPS Insurance directors, all of whom are independent. Dr Rabin, who is not a member of the PPS Insurance Board, and was formerly a member of the GAC, was appointed as a specialist consultant to the GAC pursuant to the requirement of the Companies Act, 2008, that all members of the GAC have to be Board members. Three of the members of the GAC and the specialist consultant are Chartered Accountants. The remaining members of the GAC are an actuary, a lawyer and a risk management specialist, respectively.

The Boards are satisfied that the members of these Committees have sufficient recent and relevant financial experience to enable them to carry out their duties and responsibilities and that the members of the Committees bring a wide range of relevant experience and expertise. The GAC meets at least four times a year, while the TAC is scheduled to meet at least twice a year. The Chairmen of the Group Risk Committee and the Group Actuarial Committee are also members of the GAC. The Head of the Actuarial Control Function and Statutory Actuary, the Company Actuary, the external auditors, the Head of the Internal Audit Function, the Head of the Risk Management Function and other relevant role players are present at each meeting of the GAC. The external auditors are present at each meeting of the TAC. The GAC has an oversight role in regard to the Risk and Audit Committees of PPS Investments and PPS Short-Term Insurance, which report to the GAC at its quarterly committee meetings.

The TAC and GAC meet both the external and internal auditors separately in private sessions, without executive management being present. The Chief Executive and the Chief Financial Officer, along with other members of senior management, attend Committee meetings, as necessary, at the invitation of the Chairmen of the Committees.

The PPS Group's policy on non-audit services, which is reviewed annually by the Committees, sets out what services may be provided to PPS by the external auditors. All non-audit services are pre-approved by the GAC. The Committees conduct a formal external auditor evaluation process. This evaluation occurs annually and includes various criteria and standards such as independence, audit planning, technical abilities, audit process/outputs and quality control, business insight and general factors (such as black economic empowerment credentials). The Committees keep abreast of current and emerging trends in international accounting standards.

Both committees have satisfied themselves:

- as to the effectiveness of the PPS Group's system of financial controls;
- that the financial statements of PPS Holdings Trust, PPS Insurance and its subsidiaries have been prepared in accordance with IFRS and the requirements of the Companies Act, 2008; and
- that the external auditor is independent of PPS Holdings Trust, PPS Insurance and its subsidiaries.

## ROLE OF THE AUDIT COMMITTEES

The Committees, *inter alia*, assist the trustees and directors in discharging their responsibilities relating to the safeguarding of assets, the operation of adequate and effective systems and control processes and the preparation of the integrated report and fairly presented financial statements in compliance with all applicable legal and regulatory requirements and accounting standards.

The Committees performed their functions required in terms of the Companies Act and the Trust Deed and executed their responsibilities in accordance with their terms of reference. The Committees, *inter alia*:

- Reviewed and recommended for approval the annual financial statements.
- Considered the factors and risks that might affect the financial reporting of PPS Holdings Trust and the PPS Insurance Group.
- Confirmed the going-concern basis of preparation of the annual financial statements.
- Reviewed and recommended for approval the integrated report.
- Assessed the effectiveness of internal financial controls systems and formed the opinion that there were no material breakdowns in internal control.
- Ensured that a combined assurance model was applied to provide a coordinated approach to all assurance activities.
- Reviewed the Internal Audit Policy in line with King IV recommendations, and recommended the approval thereof to the PPS Insurance Board.
- Approved the internal audit plan for the financial year.
- Reviewed and evaluated reports relating to internal audit and risk management.
- Nominated PricewaterhouseCoopers Inc. ('PwC') as the PPS Group's external auditors.
- Determined the external auditors' terms of engagement in the external audit engagement letter and determined the audit fees payable to the external auditors.
- Reviewed the quality and effectiveness of the external audit process and the audit plan and assessed the competence of the external auditors.
- Obtained and considered a statement from the independent auditors confirming that their independence was not impaired.
- Confirmed that no reportable irregularities had been identified or reported by the independent auditors under the Auditing Profession Act.
- Ensured no limitations were imposed on the scope of the external audit.
- Determined the nature and extent of non-audit services that the external auditors may provide and pre-approved any such services.
- Maintained oversight over fraud and corruption risk management and established a protocol for confidential reporting.
- Considered whether there were any concerns or complaints whether from within or outside the PPS Group relating to the accounting practices and internal audit of the PPS Group, the content or auditing of the PPS Group's financial statements, the internal financial controls of the PPS Group or any related matter.
- Made submissions to the Boards on matters concerning the PPS Group's accounting policies, financial control, records and reporting.

## EXTERNAL AUDITORS

PwC served as the PPS Group's external auditors for the 2019 financial year. The auditors' terms of engagement were approved prior to the audit. The Committees satisfied themselves that the external auditors' appointment complies with the Companies Act and in particular Section 90(2) thereof, as well as the Auditing Profession Act.

The Committees are satisfied that both PwC and the audit partner are independent. The external auditors provided assurance that their internal governance processes within their audit firm support and demonstrate their claim to independence.

The GAC was comfortable that non-audit services work was justified and necessary and that it did not give rise to any self-review threat for the external auditors.

## EXPERTISE AND EXPERIENCE OF THE FINANCIAL DIRECTOR AND THE FINANCE TEAM

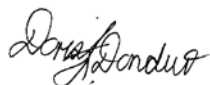
The Committees are satisfied that the expertise and experience of the Chief Financial Officer are appropriate to meet the responsibilities of the position.

The Committees considered the expertise, resources and experience of the PPS Group's finance function and concluded that these are appropriate to meet the requirements of the PPS Group.

## APPROVAL OF THE REPORT

The TAC and GAC confirm for the 2019 financial year that they have functioned in accordance with their Terms of Reference and as required by the Companies Act and Trust Deed of PPS Holdings Trust and that their reports have been approved by the directors and trustees.

On behalf of the Audit Committees:



**Ms D L T Dondur**  
*Chairman of TAC*



**Prof H E Wainer**  
*Chairman of GAC*

6 April 2020

# GROUP SOCIAL AND ETHICS COMMITTEE'S REPORT

## INTRODUCTION

The PPS Group Social and Ethics Committee ('SEC') is a statutory committee of the PPS Insurance Board established by the Board in terms of section 72(4) of the Companies Act (71 of 2008) ('Companies Act') and has the functions set out in Regulation 43(5) of the Companies Act.

The SEC is tasked with monitoring specific activities of the PPS Insurance Group as set out below and to advise the PPS Insurance Group Boards in relation to such matters. The SEC meets at least twice a year. The SEC is supported in discharging its duties by the Group Remuneration Committee, the Group Risk Committee and the Group Audit Committee.

### Members

Ms D L T Dondur (Chairman), Independent Non-Executive Director

Mrs T Boesch, Executive Director

Mr C Erasmus, Independent Non-Executive Director

Mr I J Smit, Chief Executive

### Functions

The SEC performs all the functions as are necessary to fulfil the following statutory duties:

Monitoring the PPS Insurance Group's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:

- Social and economic development
- Good corporate citizenship
- Assessment of the ethical risk profile
- Labour and employment
- Consumer relationships
- The environment, health and public safety
- The implementation of Treating Customers Fairly regulation
- Drawing matters within its mandate to the attention of the PPS Insurance Group boards as may be required

Reporting, through one of its members, to the members of PPS Insurance at its annual general meeting on the matters within its mandate.

The SEC meetings held during the year and attendance thereat were as follows:

	6 Mar 2019	11 Nov 2019
Ms D L T Dondur (Chairman)	✓	✓
Mrs T Boesch	✓	✓
Mr C Erasmus	✓	✓
Mr I J Smit	✓	✓

### Report to PPS Insurance members by the SEC

During 2019, the committee discharged its statutory duties and considered reports from the various contributors regarding the relevant functions and the following items were specifically noted:

# GROUP SOCIAL AND ETHICS COMMITTEE'S REPORT

## (CONTINUED)

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<b>Social and economic development</b>	<ul style="list-style-type: none"><li>• The United Nations Global Compact Principles are not legislation but reflect international best practice. PPS conducts its business in accordance with the principles regarding human rights, labour standards, the environment and anti-corruption.</li><li>• Compliance with the Employment Equity Act is managed in accordance with a report and a plan submitted to the Department of Labour, which are frequently tracked at executive management and board level.</li><li>• Various action plans are in place to address the requirements of the sectoral Broad-Based Black Economic Empowerment Act and Financial Services Charter.</li></ul>
<b>Good corporate citizenship</b>	<ul style="list-style-type: none"><li>• PPS promotes equality and prevents unfair discrimination against both employees and members.</li><li>• Various corporate social investment initiatives are in place to develop the professional community and students studying towards qualifying degrees.</li><li>• Various sponsorships, donations and charitable initiatives are undertaken and are regularly reviewed.</li></ul>
<b>Assessment of the ethical risk profile</b>	<ul style="list-style-type: none"><li>• Corruption and fraud management is a priority for PPS and a Fraud and Corruption Policy, as well as a confidential reporting facility, operated by an independent third party, are in place, and have been appropriately communicated to staff.</li></ul>
<b>Consumer relationships</b>	<ul style="list-style-type: none"><li>• PPS has implemented Treating Customers Fairly (TCF) and has fully integrated it into its operations, achieving a high score using the self-assessment tool provided by the FSCA for this purpose.</li><li>• Industry-specific consumer protection legislation is in place (FAIS, Insurance Act, etc.) and compliance therewith is actively managed and high levels of compliance have been achieved.</li></ul>
<b>The environment, health and public safety, labour and employment</b>	<ul style="list-style-type: none"><li>• The impact of the activities of the various PPS Group entities on the environment is considered and projects to minimise the environmental impact of the operations of the organisation continue.</li><li>• The occupational health and safety of employees and clients in buildings occupied by PPS are monitored and a high level of compliance is achieved.</li><li>• Excellent working conditions are in place for all employees.</li><li>• Employment relationships are valued at PPS and programmes for continued improvements to maintain best employee practice are in place and effective, as evidenced by the results of regular employee surveys.</li><li>• Educational development of employees is achieved through various initiatives including internal and external training, induction programmes and bursary schemes.</li></ul>

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The committee is satisfied with the reporting and governance framework to ensure compliance with its statutory responsibilities in terms of the Companies Act.

No complaints were received by the SEC during the year ended 31 December 2019 and based on the above monitoring reports, the SEC concluded that there were no specific issues under its purview which required reporting to the PPS Insurance Board or members of the PPS Group.

On behalf of the PPS Group Social and Ethics Committee:



**Ms D L T Dondur**  
Chairman of SEC

6 April 2020

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Note	Group	
		2019 R'000	2018 R'000
<b>ASSETS</b>			
Property and equipment	2	736 011	594 268
Investment property	3	500 569	408 540
Intangible assets	4	175 211	167 833
Deferred tax	17	170 398	144 279
Financial assets – Investments at fair value through profit or loss	5	47 725 372	42 988 508
Reinsurance assets	6,12,13	18 470	82 346
Insurance and other receivables	7	578 025	583 884
Current income tax asset		129 020	64 130
Cash and cash equivalents	8	2 966 057	2 554 907
<b>TOTAL ASSETS</b>		<b>52 999 133</b>	47 588 695
<b>EQUITY</b>			
Accumulated funds	9	293 887	299 188
Revaluation Reserve	10	41 512	49 543
Equity attributable to Group		335 399	348 731
Non-controlling interest	11	3 570	11 060
<b>TOTAL EQUITY</b>		<b>338 969</b>	359 791
<b>LIABILITIES</b>			
Long-term insurance policy liabilities and PPS Profit-Share Accounts	12	33 379 967	31 114 654
Short-term insurance policy liabilities	13	38 883	21 808
Investment contract liabilities	14	2 589 356	2 045 946
Liabilities to outside unit trust holders	15	14 908 168	12 670 465
Borrowings	16	166 244	173 688
Deferred tax	17	137 645	57 462
Retirement benefit obligations	18	5 706	5 587
Employee related obligations	19	231 984	220 074
Reinsurance liabilities	6,12,13	62 383	-
Insurance and other payables	20	1 135 657	915 762
Current income tax liabilities		4 171	3 458
<b>TOTAL LIABILITIES</b>		<b>52 660 164</b>	47 228 904
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>52 999 133</b>	47 588 695

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Note	Group	
		2019 R'000	2018 R'000
Net insurance premium revenue	21	<b>4 606 791</b>	4 163 102
Other income	22	<b>480 807</b>	418 219
Net investment income and gains/(losses) on financial assets, excluding third party unit trust holders		<b>3 609 692</b>	(123 247)
Investment income	23	<b>2 385 663</b>	2 114 846
Gains/(losses) on financial assets and investment property	24	<b>2 959 262</b>	(2 083 475)
Attributable to unit trust holders	15	<b>(1 735 233)</b>	(154 618)
		<b>8 697 290</b>	4 458 074
Net insurance benefits and claims paid	25	<b>3 489 217</b>	2 931 878
Movement in fair value of policyholder liabilities under investment contracts	14	<b>170 002</b>	(48 342)
Expenses	26	<b>2 209 496</b>	1 910 477
Finance costs	28	<b>24 366</b>	17 151
<b>Profit/(loss) before movement in insurance policy liabilities</b>		<b>2 804 209</b>	(353 090)
Movement in insurance policy liabilities	12	<b>2 435 702</b>	(333 723)
Tax charge/(credit)	29	<b>381 298</b>	(27 939)
(Deficit)/surplus after tax and policy movements		<b>(12 791)</b>	8 572
Other comprehensive income:			
Revaluation of owner-occupied property net of deferred tax		<b>263</b>	4 648
Total comprehensive (loss)/income for the year		<b>(12 528)</b>	13 220

The mutual nature of PPS should be noted. The allocation to policyholders – described above as ‘Movement in insurance policy liabilities’ – is a portion of the annual allocation to members’ PPS Profit-Share Account in their capacity as policyholders. A further R1.8bn is from the movements in the Actuarial Reserve. The deficit after tax is the result of operations of the non-insurance subsidiaries and any increase required to maintain capital.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Note	Accumulated funds R'000	Revaluation reserve R'000	Non- controlling interest R'000	Total R'000
<b>Group</b>					
Balance at 1 January 2018		323 663	48 609	77 142	449 414
Transfer to DPF liability	12.2	-	(3 714)	-	(3 714)
Issue of shares by subsidiary to minority		-	-	14 994	14 994
Purchase of minority's interest in subsidiary		(51 620)	-	(62 503)	(114 123)
Total comprehensive income/(loss) for the year		27 145	4 648	(18 573)	13 220
Surplus / (deficit) for the year		27 145	-	(18 573)	8 572
Other comprehensive income for the year		-	4 648	-	4 648
Balance at 31 December 2018		299 188	49 543	11 060	359 791
Transfer to DPF liability	12.2	-	<b>(8 294)</b>	-	<b>(8 294)</b>
Total comprehensive (loss) / income for the year		<b>(5 301)</b>	<b>263</b>	<b>(7 490)</b>	<b>(12 528)</b>
Deficit for the year		<b>(5 301)</b>	-	<b>(7 490)</b>	<b>(12 791)</b>
Other comprehensive income for the year		-	<b>263</b>	-	<b>263</b>
<b>Balance at 31 December 2019</b>		<b>293 887</b>	<b>41 512</b>	<b>3 570</b>	<b>338 969</b>

The Discretionary Participation Features (DPF) liability is the PPS Profit-Share accounts.

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	Note	Group	
		2019 R'000	2018 R'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	29	45 056	173 554
Interest received		1 503 714	1 341 644
Dividend received		753 065	637 782
Finance costs	28	(24 366)	(17 151)
Tax paid	30	(399 899)	(375 675)
<b>Net cash from operating activities</b>		<b>1 877 570</b>	1 760 154
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	2	(144 043)	(56 041)
Improvements to investment property	3	(72 013)	(43 441)
Software development	4	(59 998)	(84 075)
Purchase of financial assets	5,15	(23 397 923)	(20 106 331)
Proceeds from sale of furniture and equipment		228	600
Proceeds from disposal of financial assets		22 232 692	18 173 523
<b>Net cash used in investing activities</b>		<b>(1 441 057)</b>	(2 115 765)
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital of subsidiary to minority		-	14 994
Purchase of minority's interest in subsidiary		-	(114 123)
Decrease in finance lease liabilities		(17 919)	-
Decrease in borrowings	16	(7 444)	(7 014)
<b>Net cash from financing activities</b>		<b>(25 363)</b>	(106 143)
<b>Net increase/(decrease) in cash and bank</b>			
Cash and cash equivalents at beginning of year		2 554 907	3 016 661
<b>Cash and cash equivalents at end of year</b>	8	<b>2 966 057</b>	2 554 907

# GROUP ACCOUNTING POLICIES

The principal accounting policies applied are set out below.

## 1. BASIS OF PREPARATION

These financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS').

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 the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 35.

All monetary information and figures presented in these financial statements are stated in thousands of Rand (R'000), unless otherwise indicated.

The following new standards and amendments to standards have application of 1 January 2019:

- IFRS 16, 'Leases'
- Amendments to IFRS 9, 'Financial instruments'
- Amendments to IAS 19, 'Employee benefits'
- Amendments to IAS 28, 'Investments in associates and joint ventures'
- Amendments to IFRS 3, 'Business combination'
- Amendments to IFRS 11, 'Joint arrangements'
- Amendments to IAS 12, 'Income taxes'
- Amendments to IAS 23, 'Borrowing costs'
- IFRIC 23, 'Uncertainty over income tax treatments'

These do not have a material impact on the Group's overall results and financial position.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

- Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material (effective for annual periods beginning on or after 1 January 2020).

The amendments will not result in a material impact on the Group's financial statements.

- IFRS 17, 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2022).

The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that are intended to increase the comparability of financial statements. For insurers, the transition to IFRS 17 is expected to have a material impact on financial statements and on key performance indicators.

Under IFRS17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are re-measured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides the premium allocation approach. This approach is applicable for certain types of contract, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining period.

The amendments will result in a material impact on the Group's financial statements.

## 1. BASIS OF PREPARATION *(continued)*

- Amendment to IFRS 3, 'Business combinations' (Annual periods on or after 1 January 2020). This amendment revises the definition of a "business". To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce.

The amendment will not result in a material impact on the Group's financial statements.

## 2. CONSOLIDATION

The financial statements include the assets, liabilities and results of the operations of PPS Holdings Trust ('Parent') and its subsidiaries (together 'the Group').

### Subsidiaries

Subsidiaries are entities over which the Group directly or indirectly has control. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investee.

Subsidiaries are consolidated from the date on which the Group obtains control. Subsidiaries are deconsolidated when control ceases.

All the Group subsidiaries were created by the Group. There are no acquired subsidiaries and there is no goodwill arising on consolidation.

All unit trusts which are managed by a controlled subsidiary of the Group are consolidated, irrespective of the Group's economic interest. Third Party unit trust holders' interests in unit trusts are liabilities of the unit trust and are classified as such in the Group.

Intra-group transactions, balances and unrealised gains on transactions are eliminated on consolidation.

Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. In the Parent's separate annual financial statements, the interests in subsidiaries are accounted for at cost. A provision for impairment is created if there is evidence of impairment.

### Non-controlling interest

This is the minority shareholders' interest in the surplus/deficit after tax since acquisition, and the net assets of entities controlled by the group. In the Statement of Financial Position, the non-controlling interest is disclosed as part of equity in terms of IFRS.

## 3. FINANCIAL INSTRUMENTS

### 3.1 General

The Group initially recognises financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss), when the Group becomes a party to the contractual provisions of the instrument.

Financial instruments recognised in the Statement of Financial Position include investments, other receivables, cash and cash equivalents, investment contract liabilities, borrowings, accruals, third party liabilities arising on consolidation of unit trusts, and other payables.

### 3.2 Financial assets

The Group has the following financial asset categories: financial assets at fair value through profit or loss, as well as financial assets at amortised cost.

All financial assets are initially measured at fair value including, for financial assets not at fair value through profit or loss, any directly attributable transaction costs. All financial asset purchases and sales are initially recognised using trade date accounting.

### **Financial instruments at fair value through profit or loss**

A financial asset is placed into this category if so designated by management upon initial recognition.

Financial assets designated at fair value through profit or loss, consist of local and foreign equities, money market instruments, government bonds, corporate bonds and unit trusts. Subsequent to initial recognition, these financial assets are accounted for at fair value. Fair value gains and losses arising from changes in fair value are included in the Statement of Profit or Loss and other Comprehensive Income as net fair value gains on financial assets in the period in which they arise.

Equity fair values are based on regulated exchange quoted bid prices at the close of business on the last trading day on or before the reporting date. Bond fair values are based on regulated exchange quoted closing prices at the close of business on the last trading day, on or before the reporting date. Unit trust fair values are based on the net asset value (price) on the reporting date.

### **Financial assets at amortised cost**

Insurance and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Insurance and other receivables are initially measured at fair value and subsequently at amortised cost using the effective interest rate method less impairment adjustments (accounting policy note 12).

## **3.3 Financial liabilities**

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Financial liabilities include other payables, borrowings categorised as financial liabilities at amortised cost, investment contract liabilities (accounting policy note 4.2.3) and third-party financial liabilities arising on consolidation of unit trusts (accounting policy note 2), designated on initial recognition as at fair value through profit and loss.

Other payables are initially measured at fair value less transaction costs that are directly attributable to the raising of the funds, and are subsequently stated at amortised cost using the effective interest rate method. Any difference between the proceeds, net of transaction costs and the redemption value is recognised in the Statement of Profit or Loss and other Comprehensive Income over the period of borrowing.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Profit or Loss and other Comprehensive Income over the period of the borrowings using the effective interest method.

Investment contract liabilities are initially measured at fair value less transaction costs, and are subsequently measured at fair value.

Third-party financial liabilities arising on consolidation of unit trusts are measured at fair value, which is the unquoted unit values as derived by the fund administrator, with reference to the rules of each particular fund. Fair value gains or losses are recognised in the Statement of Profit or Loss and other Comprehensive Income.

## **3.4 Derecognition of financial assets and financial liabilities**

The Group derecognises an asset:

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

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

### 3. FINANCIAL INSTRUMENTS (continued)

#### 3.4 Derecognition of financial assets and financial liabilities (continued)

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

#### 3.5 Financial Instruments, owner occupied property (accounting policy note 8) and insurance and investment contract (accounting policy note 4) analysis

IFRS 13 indicates a three tier hierarchy for fair value measurement disclosures:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. These are the 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 is not based on observable market data (unobservable inputs).

### 4. INSURANCE AND INVESTMENT CONTRACTS

#### 4.1 Classification of contracts

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Such contracts may also transfer financial risk. The Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is significantly more than the benefits payable if the insured event did not occur. Insurance contracts are classified in three main categories, depending on the type of insurance risk exposure, namely long-term insurance, short-term insurance and investments.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. These are contracts where the Group does not actively manage the investments of the policyholder over the lifetime of each policy contract. Benefits are linked to the performance of a designated pool of assets, selected based on the policyholder risk appetite.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

The Group issues long-term insurance contracts that contain a discretionary participation feature ('DPF'). This feature entitles the contract holder to receive, as a supplement to guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer; and
- that are contractually based on:
  - i. the performance of a specified pool of contracts or a specified type of contract;
  - ii. realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - iii. the profit or loss of the company, fund or other entity that issues the contract.

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime, unless the terms of the contract change to such an extent that it is treated as an extinguishment of the existing contract and the issuance of a new contract.

## **Insurance contracts**

The Group issues long-term insurance contracts that transfer insurance risk and include a DPF component. Such contracts may also transfer financial risk. The DPF component in the Group's insurance contracts cannot be determined and separated from the insurance component from inception. The respective cash flows relating to each component are also not independent of each other.

Each year, any profits or losses arising on the non-DPF component are allocated to the DPF component. In this way a significant portion of the insurance risk is carried by the policyholder in the DPF component of their benefits. The profits or losses will include the impact of changes in the underlying assumptions or estimates on the non-DPF policy liabilities. The DPF component cannot therefore be unbundled or accounted for as a separate investment contract. In such cases, IFRS 4 accepts that the entire insurance contract is accounted for as a liability with movements through the Statement of Profit or Loss and other Comprehensive Income.

Short-term insurance contracts provide benefits under short-term policies, which include motor, household and professional indemnity, or a combination of any of those policies. Short-term insurance contracts are further classified into the following categories:

- Personal insurance, consisting of insurance provided to individuals and their personal property; and
- Commercial insurance, providing cover on the assets and liabilities of business enterprises.

## **4.2 Valuation and recognition**

### **4.2.1 Long-term Insurance contracts**

#### ***Principles of valuation and profit recognition***

The accounting policy for the measurement of liabilities in respect of insurance contracts has been determined having regard to the Standard of Actuarial Practice (SAP's) and Advisory Practice Notes (APN's) issued by the Actuarial Society of South Africa (ASSA). Of particular relevance to the insurance liability calculations, are the following actuarial guidance notes:

SAP 104: Life Offices – Valuation of Long-Term Insurers;

APN 102: Life Offices – HIV/AIDS;

APN 105: Recommended AIDS extra mortality bases.

#### ***Valuation***

The insurance contracts are valued in terms of the financial soundness valuation ('FSV') basis contained in SAP 104 issued by the ASSA. A liability for contractual benefits that are expected to be incurred in the future, (the non-DPF component of the policy liabilities) is recorded in respect of the existing policy book when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the premiums to be paid in terms of the policy contract. The liability is based on best-estimate assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued and updated on an annual basis at reporting date to reflect current expectations. The policy liabilities also make provision for future profit declarations to policyholders. The profits provided for are in line with the Group's interpretation of policyholder reasonable benefit expectations. The policy liabilities are discounted using an asset-backed rate.

Compulsory margins for adverse deviations are included in the assumptions as required in terms of SAP 104.

The contracts issued contain a DPF component that entitles the holder to receive, as a supplement to the sickness and permanent incapacity benefits, additional benefits or profits. These non-vesting profits are declared annually.

The terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF component of the policy liabilities) and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders. These benefits consist of a non-vesting allocation of profits or losses of PPS Insurance and investment returns thereon, as determined by the Group.

## 4. INSURANCE AND INVESTMENT CONTRACTS (continued)

### 4.2 Valuation and recognition (continued)

#### 4.2.1 Long-term insurance contracts (continued)

Where the same policy includes both insurance and investment components and the policy is classified as an insurance policy in terms of IFRS 4, the liability for the insurance benefits and investment benefits are valued. To avoid premature recognition of future profit, in the policy valuation, compulsory and discretionary margins are added to the best estimate assumptions, profits are only recognised to the extent of the initial acquisition costs, thus no separate deferred acquisition cost is recognised.

The Group has an obligation upon death or retirement to pay contract holders the DPF component of their benefits (the members' apportionment and special benefit account) with a certain deduction on resignation. This deduction that is not paid out is retained as a liability for the benefit of all contract holders until paid to them individually in future periods.

The premium component relating to the DPF element cannot be determined and separated from the fixed and guaranteed terms and is therefore recognised as revenue as described below.

#### **Recognition: insurance contracts**

##### ***Premiums***

From inception of the policy, premiums are recognised on a monthly basis. Premiums are before deduction of expenses for the acquisition of insurance contracts, and before the deduction of reinsurance premiums. Premium income received in advance is included in insurance and other payables.

##### ***Insurance benefits***

Insurance benefits and claims are recorded as an expense gross of any reinsurance recovery when they relate to the sickness, permanent incapacity, disability, death, retirement or resignation of a member. These claims are recognised when notified. These claims also include the movement in incurred but not reported benefits.

Unintimated claims (IBNR) are defined as 'incurred but not reported' claims. This liability is held in respect of the sickness and permanent incapacity policies, life and disability policies, the professional health preserver policies and the life and disability assurance group policy. The reserve is measured using a management estimate, by making assumptions about future trends in reporting of claims. It has been calculated using a consistent methodology and on a statistical basis as for previous years' reporting. The calculation is based primarily on a weighted average historic claims payout rate. The profile of claims run-off (over time) is modelled by using historic data of the Group. The profile is then applied to actual claims data of recent periods for which the run-off is not complete. The IBNR is included in the insurance policy liabilities.

##### ***Claims payable***

A claims payable liability is held in respect of sickness and permanent incapacity policies, and the professional preserver policies, where the Group has been notified of a claim before reporting date, and the claim has not been paid at reporting date. Claims payable are estimated by claims assessors for individual cases reported to the Group and are included in insurance policy liabilities.

##### ***Expenses for the acquisition of insurance contracts***

Expenses for the acquisition of insurance contracts consist of commission and marketing management costs paid by the Group upon the acquisition of new and additional insurance business. These costs are expensed in full in the financial period during which the new policies are acquired.



### ***Liability adequacy test***

At each reporting date, liability adequacy tests are required to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future premiums, claims, and claims handling and administration expenses are used. Since the insurance policy liabilities are calculated in terms of the financial soundness valuation ('FSV') basis, as described in SAP104, which meets the minimum requirements of the liability adequacy test, it is not necessary to perform an additional liability adequacy test.

### **Recognition: Reinsurance contracts**

#### ***Reinsurance contracts outwards***

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more insurance contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are recognised as reinsurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets, which are dependent on the expected reinsurance claims and benefits arising under the related reinsured insurance contracts. These assets consist of short-term balances due from reinsurers (classified as insurance and other receivables) and long-term receivables (classified as reinsurance assets).

Amounts recoverable from or due to reinsurers are measured in terms of each reinsurance contract.

Reinsurance assets are assessed for impairment at each statement of financial position date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in profit and loss for the period.

Reinsurance liabilities consist of premiums payable for reinsurance contracts and are recognised as an expense when due.

#### ***Reinsurance premiums***

Reinsurance premiums paid are recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income when they become due for payment in terms of the contracts at the undiscounted amounts payable in terms of the contracts.

#### ***Reinsurance recoveries***

Reinsurance recoveries are recognised in the statement of Profit or Loss and Other Comprehensive Income in the same period as the related claim at the undiscounted amount receivable in terms of the contracts.

#### ***Reinsurance inwards***

Reinsurance premiums inwards are recognised as revenue on inception of the reinsurance agreement and on a monthly basis thereafter. Reinsurance premiums inwards are calculated in terms of the reinsurance agreements and disclosed as part of reinsurance premiums.

#### ***Receivables and payables related to insurance contracts***

Insurance receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

## 4.2.2 **Short-term insurance contracts**

### **Principles of valuation and profit recognition**

The accounting policy for the measurement of liabilities in respect of insurance contracts has been determined having regard to both Advisory Practice Note 401 (APN 401) issued by the Actuarial Society of South Africa (ASSA), as well as Insurance Act 18 of 2017 issued by the Prudential Authority.

## 4. INSURANCE AND INVESTMENT CONTRACTS (continued)

### 4.2 Valuation and recognition (continued)

#### 4.2.2 Short-term insurance contracts (continued)

##### **Claims Incurred**

Claims incurred comprise of claims paid net of recoveries and salvages, reinsurance recoveries, incurred but not reported ("IBNR") claims and outstanding claims reserve ("OCR") and claims handling fees.

##### **Gross written premium**

Premiums are accounted for as income when the risk related to the insurance policy incepts and are spread over the risk period of the contract by using an unearned premium reserve where necessary. Gross premiums include premiums received in terms of inward reinsurance arrangements. Gross premiums exclude value added tax and are shown before the deduction of direct acquisition costs.

##### **Deferred acquisition cost (DAC)**

Commissions that vary with and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, and recognised as a current asset. All other costs are recognised as expenses when incurred.

##### **Provision for unearned premiums (UPR)**

The Unearned Premium Reserve represents the portion of the current year's premiums that relate to risk periods extending into the following year. The portion of unearned premium is calculated using the 365th method.

##### **Provision for unexpired risk**

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims (including claims handling fees and related administrative costs). This liability adequacy test is performed annually.

##### **Outstanding Claims Reserve (OCR)**

Provision is made for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are based on the estimated liability for compensation owed to insurance contract holders or third parties damaged by insurance contract holders. The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges. The outstanding claims reserve is not discounted.

##### **Provision for claims incurred but not reported (IBNR)**

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the company at that date. This provision is calculated using actuarial modeling (refer note 13.1). This reserve is undiscounted.

##### **Reinsurance contracts outwards**

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more insurance contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

##### **Reinsurance premiums**

Reinsurance premiums are recognised as an expense in the Statement of Profit of Loss and Other Comprehensive Income when they become due for payment in terms of the contracts at the undiscounted amounts payable in terms of the contract.

### **Reinsurance claims**

The benefits to which the Group are entitled under its reinsurance contracts held are recognised as reinsurance assets, which are dependent on the expected reinsurance claims and benefits arising under the related reinsured insurance contracts. These assets consist of short-term balances due from reinsurers (classified as insurance and other receivables) and long-term receivables (classified as reinsurance assets) that are calculated based on the gross OCR and IBNR reserves.

Amounts recoverable from or due to reinsurers are measured in terms of each reinsurance contract.

### **Reinsurance UPR**

The reinsurer's share of unearned premiums represents the portion of the current year's outward reinsurance premiums that relate to risk periods covered by the related reinsurance contracts extending into the following year. The reinsurers' share of unearned premium is calculated using the 365th method.

### **Reinsurance Commission Revenue/Deferred Revenue Liability**

Income from reinsurance contracts ceded, that varies with and is related to obtaining new reinsurance contracts and renewing existing reinsurance contracts, is deferred over the period of the related reinsurance contracts and is recognised as a current liability.

### **Reinsurance assets**

Reinsurance assets are assessed for impairment at each statement of financial position date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in profit and loss for the period.

### **Reinsurance liabilities**

Reinsurance liabilities consist of premiums payable for reinsurance contracts and are recognised as an expense when due.

#### **4.2.3 Investment contracts**

Investment contracts are recognised as financial liabilities in the Statement of Financial Position at fair value when the Group becomes party to their contractual provisions. Contributions received from policyholders are not recognised in profit or loss but are accounted for as deposits. Amounts paid to policyholders are recorded as deductions from the investment contract liabilities.

All investment contracts issued by the Group are designated by the Group on initial recognition as at fair value through profit or loss. This designation eliminates or significantly reduces a measurement inconsistency that would otherwise arise if these financial liabilities were not measured at fair value, since the assets held to back the investment contract liabilities are measured at fair value.

Changes in the fair value of investment contracts are included in profit or loss in the period in which they arise. The change in fair value represents a change in the fair value of the assets linked to these investment contracts. The fair value of the Investment contract liability is equal to that of the assets in the unitised fund underlying the policies, as reflected by the value of units held by each policyholder. The carrying amount of the assets backing the investment contract liabilities under investment contracts reflect the fair value of the assets concerned, thus the actuarial valuation of the investment contract liabilities under unmaturing investment contracts also reflect the fair value of the contractual liabilities.

### **Receivables and payables related to investment contracts**

Amounts due from and to policyholders and agents in respect of investment contracts are included in insurance and other receivables and payables.

### 5. FOREIGN CURRENCY TRANSLATION

#### 5.1 Transactions and balances

The consolidated financial statements are presented in Rands ('the functional currency' in terms of IFRS), which is the Group's presentation currency. Foreign currency transactions are translated into Rands 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 Profit or Loss and Other Comprehensive Income.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

#### 5.2 Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that entity's most recent statement of financial position;
- income and expenses for each Statement of Profit or Loss and Other Comprehensive Income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

### 6. DIRECT AND INDIRECT TAX

Direct tax includes South African and foreign jurisdiction corporate tax payable, as well as capital gains tax.

The charge for current tax is based on the results for the year. It is calculated using taxation rates that have been enacted or substantively enacted by the reporting date, in each particular jurisdiction within which the Group operates.

Tax in respect of South African life insurance operations is determined using the five-fund method applicable to life insurance companies.

### 7. CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits at call with banks. Cash equivalents comprise highly liquid investments that are convertible to cash with insignificant risk of changes in value.

### 8. PROPERTY AND EQUIPMENT

Owner-occupied property represents offices held for administrative purposes and for capital appreciation, occupied by the Group. Owner-occupied property is initially recorded at cost, and is subsequently shown at fair value, based on annual year-end valuations by an external independent appraiser. Any accumulated depreciation on the buildings at the date of revaluation is eliminated against the carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. The revaluation movement is allocated to the revaluation reserve. To avoid an accounting mismatch, the related movement in insurance policy liabilities is mirrored to the revaluation reserve.

Changes to the carrying amount arising on revaluation of land and buildings are recognised through other comprehensive income.

Other fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Buildings 50 years;
- Vehicles 5 years;
- Computer hardware 3 years;
- Furniture and fittings 6 years;
- Office equipment 5 years;
- Leasehold improvements the lesser of 5 years or the period of the lease.
- Right-of-use assets the lesser of the life of the asset or lease term

Land is not depreciated.

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are included in the Statement of Profit or Loss and Other Comprehensive Income and are determined by comparing sales proceeds with the carrying amount.

## 9. INTANGIBLE ASSETS

### Computer software development costs

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as an intangible asset when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Direct costs include the external software development team's costs. Computer software acquired as part of the software development project is capitalised on the basis of the acquisition costs and related costs to bring it to use. All other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised, from the date the asset is available for use, using the straight-line method over their useful lives, not exceeding a period of five years. The useful lives of the assets are reviewed at each reporting date and adjusted if appropriate.

### Customer Relationships

Customer relationships consist of acquired rights to income streams on an existing financial adviser book of business. These customer relationships are recognised at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the estimated useful lives of an average eight years.

The useful life of customer relationships is estimated based on the cancellation experience of the acquired book of business at a product level.

## 10. INVESTMENT PROPERTY

Investment properties are held for the purpose of earning rental income and for capital appreciation. Investment properties are initially recorded at cost and include transaction costs on acquisition. Subsequent expenditure is capitalised to the asset's carrying value, only when it is probable that the future economic benefits associated with the item will flow to the group and the cost can be measured reliably.

Investment properties are valued annually, by external independent valuers, and adjusted to fair value as at the reporting date, except for properties purchased within six months of the year-end which are valued at cost, unless an independent valuation is performed.

Properties under construction, which are excluded from investment property valuations, are carried at cost where the PPS Property Fund Trust is satisfied that cost is a reasonable approximation of fair value. On completion, the cost is transferred to the carrying value of investment property and subsequently valued independently.

Any gain or loss arising from the fair value of the investment property is included in the Statement of Profit or Loss and Other Comprehensive Income for the period to which it relates.

Gains and losses on the disposal of investment properties are recognised in the Statement of Profit or Loss and Other Comprehensive Income and are calculated as the difference between the sale price and the carrying value of the property.

## 11. LEASES

### Leases where a Group entity is the lessee

The group leases various offices. Rental contracts are typically made for fixed periods of one month to five years. Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Until the 2018 financial year, leases of offices were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the group.

Payments associated with short-term leases of offices are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Leases for low value assets are expensed.

#### **Leases where a Group entity is the lessor**

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Rental income from other property is classified as other income.

## **12. IMPAIRMENT OF ASSETS**

### **Financial assets**

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For insurance and other receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables (see note 36.3 for further details).

### **Non-financial assets**

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. Such indicators include continued losses, changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of fair value less costs to sell and value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. The carrying amount of the asset is reduced by the impairment loss. The amount of the loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the impairment provision account. The amount of the reversal is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

## **13. DEFERRED TAXATION**

Deferred tax is provided, using the liability method, on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not recognised on initial recognition of the assets and liabilities where it does not impact either

## 13. DEFERRED TAXATION (continued)

accounting or taxable profit. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. For Investment Property measured at fair value, deferred tax is provided at rates applicable to capital gains. The principal temporary differences arise from the revaluation of financial assets held at fair value through profit or loss and provisions.

Deferred tax assets relating to the carry forward of unutilised tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised.

Deferred tax liabilities and assets are not discounted.

## 14. EMPLOYEE BENEFITS

### 14.1 Pension/retirement obligations

The Group provides for retirement benefits of employees by means of a defined contribution pension and provident fund. The assets are held in separate funds controlled by trustees appointed by the Group and employees.

### 14.2 Post-retirement medical obligations

The Group provides for the unfunded post-retirement healthcare benefits of a small number of retirees, their spouses and dependents. For past service of employees, the Group recognises and provides for the actuarially determined present value of post-retirement medical aid employer contributions on an accrual basis using interest rates with reference to the market yield of government bonds at reporting date.

An independent actuary performs valuations of the defined benefit obligation, annually at reporting date, using the projected unit credit method to determine the present value of its post-retirement medical obligations and related current and past service costs.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

### 14.3 Termination benefits

Termination benefits are recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income and a liability in the statement of financial position when the Group has a present obligation relating to termination.

### 14.4 Leave pay provision

The Group recognises employees' rights to annual leave entitlement in respect of past service accumulated at reporting date.

### 14.5 Management bonuses

Management bonuses are recognised as an expense in staff costs as incurred when it is probable that the economic benefits will be paid and the amount can be reliably measured. Management bonuses arise as a result of a contractual obligation, but the amount of the bonus is at the discretion of the employer.

### 14.6 Long-term incentive and retention schemes

Long-term incentive and retention schemes for certain employees are in place. The entitlement to these benefits is based on the employee remaining in service of the Group for a period of three to five years, depending on the scheme.

The present value of the long-term incentive scheme is determined by discounting the estimated cash flows using an appropriate bond yield curve as at the reporting date, applying the projected unit credit method.

The growth of the benefit under the retention scheme is based on the five-year historical rolling average growth rate of the PPS Profit-Share account.



## 15. REVENUE

### 15.1 Insurance premium revenue

See accounting policies 4.2.1 and 4.2.2.

### 15.2 Other income

Other income is recognised in line with IFRS 15, "Revenue from contracts with customers". There are no material changes to revenue recognition of other income which is recognised under IFRS 15.

Other income is measured at the fair value of the consideration received or receivable.

Policy administration and collection services fee income are fees arising from services rendered in conjunction with the administration of long-term insurance policies which are underwritten by other insurance companies as well as Retirement Annuities housed in the PPS Retirement Annuity Fund.

Administration fees include fees charged to medical aid schemes for administration services rendered to these entities.

Investment management fees include service fees earned in respect of investment management services rendered.

Commission received is recognised in the accounting period in which it accrues.

All fees and commission are recognised as services are rendered.

### 15.3 Investment income

Investment income comprises interest, dividends, as well as net fair value gains or losses on financial assets held at fair value through profit or loss.

Interest is recognised as income on the effective interest method. Interest income on financial assets at fair value through profit or loss is recognised as part of the fair value movement.

Dividends are recognised as income on the last day to register in respect of listed shares. Dividends include shares received in terms of capitalisation issues, irrespective of whether there is an option to receive cash *in lieu* of shares.

### 15.4 Gains / (Losses) on financial assets and investment property

Gains and losses (both realised and unrealised) on financial assets held at fair value through profit or loss comprise of gains and losses on disposal or revaluation of assets to fair values and are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

## 1. FINANCIAL INSTRUMENT AND INSURANCE CONTRACT ANALYSIS

The tables analyse each class of financial instrument and insurance contracts per category as well as provide their fair values, where applicable.

R'000	Note	Financial assets and liabilities designated at fair value through profit or loss on initial recognition	Financial assets and liabilities at amortised cost	Insurance contract assets and liabilities (IFRS 4)	Pre-payments	Total carrying amount	Fair value
<b>Group 2019</b>							
Equity securities							
	5	<b>15 136 746</b>	-	-	-	<b>15 136 746</b>	<b>15 136 746</b>
	5	<b>277 218</b>	-	-	-	<b>277 218</b>	<b>277 218</b>
Debt securities							
	5	<b>10 141 708</b>	-	-	-	<b>10 141 708</b>	<b>10 141 708</b>
	5	<b>420 419</b>	-	-	-	<b>420 419</b>	<b>420 419</b>
	5	<b>21 749 281</b>	-	-	-	<b>21 749 281</b>	<b>21 749 281</b>
	6	-	-	<b>18 470</b>	-	<b>18 470</b>	<b>N/A</b>
	7	-	<b>122 529</b>	-	-	<b>122 529</b>	<b>122 529</b>
	7	-	-	-	<b>20 441</b>	<b>20 441</b>	<b>20 441</b>
	7	-	<b>290 004</b>	-	-	<b>290 004</b>	<b>290 004</b>
	7	-	<b>145 051</b>	-	-	<b>145 051</b>	<b>145 051</b>
	8	<b>2 487 023</b>	<b>479 034</b>	-	-	<b>2 966 057</b>	<b>2 966 057</b>
	12	-	-	<b>33 379 967</b>	-	<b>33 379 967</b>	<b>N/A</b>
	13	-	-	<b>38 883</b>	-	<b>38 883</b>	<b>N/A</b>
	14	<b>2 589 356</b>	-	-	-	<b>2 589 356</b>	<b>2 589 356</b>
	15	<b>14 908 168</b>	-	-	-	<b>14 908 168</b>	<b>14 908 168</b>
	16	-	<b>166 244</b>	-	-	<b>166 244</b>	<b>166 244</b>
	20	-	<b>38 493</b>	-	-	<b>38 493</b>	<b>38 493</b>
	20	-	<b>74 627</b>	-	-	<b>74 627</b>	<b>74 627</b>
	20	-	<b>81 469</b>	-	-	<b>81 469</b>	<b>81 469</b>
	20	-	<b>941 068</b>	-	-	<b>941 068</b>	<b>941 068</b>

R'000	Note	Financial assets and liabilities designated at fair value through profit or loss on initial recognition	Financial assets and liabilities at amortised cost	Insurance contract assets and liabilities (IFRS 4)	Pre-payments	Total carrying amount	Fair value
<b>Group 2018</b>							
Equity securities							
Local listed	5	13 683 791	-	-	-	13 683 791	13 683 791
International listed	5	104 144	-	-	-	104 144	104 144
Debt securities							
Government and local bonds	5	8 974 934	-	-	-	8 974 934	8 974 934
International listed	5	381 367	-	-	-	381 367	381 367
Unit trusts and pooled funds	5	19 844 272	-	-	-	19 844 272	19 844 272
Reinsurance assets	6	-	-	82 346	-	82 346	N/A
Insurance receivables	7	-	80 697	-	-	80 697	80 697
Prepayments	7	-	-	-	35 364	35 364	35 364
Other receivables	7	-	388 272	-	-	388 272	388 272
Reinsurance receivables	7	-	79 551	-	-	79 551	79 551
Cash and cash equivalents	8	2 087 525	467 382	-	-	2 554 907	2 554 907
Insurance contract liabilities	12	-	-	31 114 654	-	31 114 654	N/A
Short-term insurance policy liabilities	13	-	-	21 808	-	21 808	N/A
Investment contract liabilities	14	2 045 946	-	-	-	2 045 946	2 045 946
Liabilities to unit trust holders	15	12 670 465	-	-	-	12 670 465	12 670 465
Borrowings	16	-	173 688	-	-	173 688	173 688
Reinsurance payables	20	-	35 448	-	-	35 448	35 448
Insurance payables	20	-	71 620	-	-	71 620	71 620
Other payables	20	-	808 694	-	-	808 694	808 694

NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 2. PROPERTY AND EQUIPMENT

	<b>Owner-occupied property</b>	<b>Computer hardware</b>	<b>Vehicles, office furniture &amp; equipment</b>	<b>Leasehold improvements</b>	<b>Right-of-use assets: Buildings</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>		<b>R'000</b>
<b>Year ended 31 December 2018</b>						
Opening net book amount	463 422	49 043	63 068	17 912	-	593 445
Reclassification to intangible assets	-	-	(15 369)	-	-	(15 369)
Additions	14 366	37 262	3 653	760	-	56 041
Disposals: Cost	-	(38 055)	(26 669)	-	-	(64 724)
Disposals: Accumulated Depreciation	-	38 055	26 203	-	-	64 258
Depreciation charge	(860)	(26 804)	(13 241)	(3 516)	-	(44 421)
Revaluation surplus	5 038	-	-	-	-	5 038
<b>Closing net book amount</b>	<b>481 966</b>	<b>59 501</b>	<b>37 645</b>	<b>15 156</b>	<b>-</b>	<b>594 268</b>
<b>At 31 December 2018</b>						
Cost or valuation	481 966	128 985	86 245	29 367	-	726 563
Accumulated depreciation	-	(69 484)	(48 600)	(14 211)	-	(132 295)
<b>Net book amount</b>	<b>481 966</b>	<b>59 501</b>	<b>37 645</b>	<b>15 156</b>	<b>-</b>	<b>594 268</b>
Non-current	481 966	59 501	37 645	15 156	-	594 268
<b>Year ended 31 December 2019</b>						
Opening net book amount	<b>481 966</b>	<b>59 501</b>	<b>37 645</b>	<b>15 156</b>	<b>-</b>	<b>594 268</b>
Recognition on adoption of IFRS 16	-	-	-	-	<b>66 456</b>	<b>66 456</b>
Additions	<b>77 813</b>	<b>53 649</b>	<b>7 886</b>	<b>4 695</b>	<b>43 893</b>	<b>187 936</b>
Transfers to investment property	<b>(22 728)</b>	-	-	-	-	<b>(22 728)</b>
Disposals: Cost	-	<b>(43 389)</b>	<b>(13 191)</b>	-	<b>(22 483)</b>	<b>(79 063)</b>
Disposals: Accumulated Depreciation	-	<b>43 389</b>	<b>13 109</b>	-	<b>2 004</b>	<b>58 502</b>
Depreciation charge	<b>(10 163)</b>	<b>(30 024)</b>	<b>(12 472)</b>	<b>(3 704)</b>	<b>(21 747)</b>	<b>(78 110)</b>
Revaluation surplus	<b>8 750</b>	-	-	-	-	<b>8 750</b>
<b>Closing net book amount</b>	<b>535 638</b>	<b>83 126</b>	<b>32 977</b>	<b>16 147</b>	<b>68 123</b>	<b>736 011</b>
<b>At 31 December 2019</b>						
Cost or valuation	<b>535 638</b>	<b>139 245</b>	<b>80 940</b>	<b>34 062</b>	<b>87 866</b>	<b>877 751</b>
Accumulated depreciation	-	<b>(56 119)</b>	<b>(47 963)</b>	<b>(17 915)</b>	<b>(19 743)</b>	<b>(141 740)</b>
<b>Net book amount</b>	<b>535 638</b>	<b>83 126</b>	<b>32 977</b>	<b>16 147</b>	<b>68 123</b>	<b>736 011</b>
Non-current	<b>535 638</b>	<b>83 126</b>	<b>32 977</b>	<b>16 147</b>	<b>68 123</b>	<b>736 011</b>

The internally generated software capitalised to Property and equipment in the previous year has been reclassified to Intangible assets.

## OWNER-OCCUPIED PROPERTY

The land and buildings revaluation gain represents the capital appreciation on the owner-occupied properties. As the properties are held to back insurance policy liabilities, with discretionary participation features, the movement in insurance policy liabilities as a result of the revaluation is recognised directly in equity.

Deferred tax has been provided on the revaluation difference arising on owner-occupied property owned by PPS Insurance Company Limited, based on the amounts and at the rate applicable to recovery through use.

Owner occupied property is carried at fair value and is classified as level 3 in terms of the IFRS 13 hierarchy.

All of the Group's owner-occupied property consisting of office blocks situated at 6 and 7 Anerley Road, Parktown, and PPS Centurion Square were valued at 31 December 2019 by Quadrant Properties (Pty) Limited .

Independent valuations were performed using the discounted cash flow of future income stream method. The discounted cash flow method takes projected cash flows and discount them at a rate which is consistent with comparable market transactions. Refer to note 35.5 for valuation assumptions. The opening carrying value is depreciated and then adjusted to reflect market value at year end.

If the owner-occupied properties were stated on a historical cost basis, the amounts would be as follows:

	Group	
	2019 R'000	2018 R'000
Cost	452 843	375 030
Accumulated depreciation	(22 261)	(12 098)
<b>Net book amount as at 31 December</b>	<b>430 582</b>	<b>362 932</b>

## LEASES

### Amounts recognised in the Statement of Financial Position

The statement of Financial Position includes the following amounts related to leases:

	Group	
	2019 R'000	1 January 2019 R'000
<b>Right-of-use assets</b>		
Buildings	68 123	66 456
<b>Lease Liabilities (note 20)</b>		
Current	20 345	16 855
Non-current	54 282	56 157
<b>Total lease liabilities</b>	<b>74 627</b>	<b>73 012</b>

The Group has adopted IFRS 16 Leases retrospectively, but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard.

NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 2. PROPERTY AND EQUIPMENT (continued)

### Amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income

The Statement of Profit and Loss and Other Comprehensive Income includes the following amounts related to leases:

	Group	
	2019 R'000	2018 R'000
Depreciation - Right-of-use assets: Buildings (included in expenses - Note 26)	21 747	-
Interest expense (included in finance costs - Note 28)	6 887	-
Expenses relating to short-term leases (included in expenses - Note 26)	6 413	34 896

The total cash outflow for leases in 2019 was R31.2 million.

## 3. INVESTMENT PROPERTY

	Group	
	2019 R'000	2018 R'000
Opening net book amount	408 540	381 869
Additions	72 013	43 441
Revaluation deficit	(2 712)	(16 770)
Transfer from owner-occupied property	22 728	-
<b>Net carrying value at end of year</b>	<b>500 569</b>	408 540

Investment properties were valued using the discounted cash flow of future income stream method. Investment property is carried at fair value and is classified as level 3 in terms of the IFRS 13 hierarchy. The transfer from owner-occupied property of R22.7 million is as a result of a subsidiary terminating its lease of a property owned by the Group.

Investment property under construction is carried at cost.

## 4. INTANGIBLE ASSETS

	Computer Software R'000	Customer Relationships R'000	Total R'000
Year ended 31 December 2018			
Opening net carrying value	89 941	-	89 941
Reclassification from Property and equipment (Note 2)	15 369	-	15 369
Additions	84 075	-	84 075
Amortisation	(21 552)	-	(21 552)
At 31 December 2018	167 833	-	167 833
Cost	232 582	-	232 582
Accumulated amortisation	(64 749)	-	(64 749)
Net carrying value at beginning of year	167 833	-	167 833

	Computer Software R'000	Customer Relationships R'000	Total R'000
<b>Year ended 31 December 2019</b>			
Opening net carrying value	167 833	-	167 833
Additions	51 498	8 500	59 998
Amortisation	(31 191)	(89)	(31 280)
Impairment	(21 340)	-	(21 340)
<b>Closing net carrying value</b>	<b>166 800</b>	<b>8 411</b>	<b>175 211</b>
<b>At 31 December 2019</b>			
Cost	273 909	8 500	282 409
Accumulated amortisation and impairment	(107 109)	(89)	(107 198)
<b>Net carrying value at end of year</b>	<b>166 800</b>	<b>8 411</b>	<b>175 211</b>

## 5. FINANCIAL ASSETS - INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2019 R'000	2018 R'000
Financial assets excluding third party assets	33 662 360	31 004 492
Unit trusts and pooled funds managed for third parties (note 15)	14 063 012	11 984 016
<b>Total financial assets at fair value through profit or loss</b>	<b>47 725 372</b>	42 988 508
<b>Analysis of financial assets held at fair value through profit or loss</b>		
<b>Level 1 fair value financial assets</b>		
Equity securities:		
- local listed	15 136 746	13 683 791
- international listed	277 218	104 144
	<b>15 413 964</b>	13 787 935
<b>Level 2 fair value financial assets</b>		
Debt securities – fixed interest rate:		
- government bonds and local listed	10 141 708	8 974 934
- international listed	420 419	381 367
	<b>10 562 127</b>	9 356 301

NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 5. FINANCIAL ASSETS – INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	Group	
	2019 R'000	2018 R'000
Unit trusts and pooled funds:		
- local unit trusts and pooled funds	<b>14 693 319</b>	13 805 341
- international equity unit trusts	<b>4 064 572</b>	3 532 610
- international fixed interest unit trusts	<b>135 409</b>	38 608
- international balanced unit trusts	<b>2 855 981</b>	2 467 713
	<b>21 749 281</b>	19 844 272
<b>Total level 2 fair value financial assets</b>	<b>32 311 408</b>	29 200 573
<b>Total financial assets at fair value through profit or loss</b>	<b>47 725 372</b>	42 988 508
The investment in local unit trusts and pooled funds comprises mainly of:	<b>14 693 319</b>	13 805 341
- Debt securities	<b>7 626 277</b>	6 356 534
- Cash and cash equivalents	<b>362 704</b>	189 286
- Equities	<b>4 953 813</b>	5 454 349
- International	<b>1 750 525</b>	1 805 172

International investments denominated in foreign currencies were translated to Rands at the closing exchange rates at 31 December 2019 of:

\$1 = R14.00 (2018: \$1 = R14.35)

N\$1 = R1.00 (2018: N\$1 = R1.00)

At 31 December 2019, investments classified as Level 2 comprise approximately 67.7% (2018: 67.9%) of financial assets measured at fair value. Debt securities are classified as Level 2 as directly observable market inputs other than level 1 inputs have been used to value these bonds. The observable inputs used to determine the fair value of unit trusts and pooled funds classified as Level 2 are the unit prices published by the unit trust fund managers.

At 31 December 2019, no financial assets are classified as Level 3 (2018: nil).

	Group	
	2019 R'000	2018 R'000
<b>Analysis of movements in financial assets held at fair value through profit or loss:</b>		
Opening balance	<b>42 988 507</b>	41 188 646
Additions	<b>25 982 112</b>	25 665 587
Disposals at carrying value	<b>(23 174 845)</b>	(21 428 722)
Fair value net gains/(losses) excluding net realised gains/(losses)	<b>1 822 408</b>	(2 563 915)
Accrued interest movements	<b>107 190</b>	126 912
<b>Closing balance</b>	<b>47 725 372</b>	42 988 508
<b>The spread of investments by sector:</b>		
Industrial (%)	<b>49.0%</b>	49.0%
Financial (%)	<b>32.6%</b>	32.6%
Resources (%)	<b>18.4%</b>	18.4%



	Group	
	2019 R'000	2018 R'000
<b>Maturity profile of fixed interest investments:</b>		
Due in 1 year or less	1 158 536	1 216 759
Due between 1 year and 5 years	4 142 035	3 469 618
Due between 5 years and 10 years	1 407 586	1 439 626
Due after 10 years	3 853 970	3 230 298
	<b>10 562 127</b>	9 356 301

There is no maturity profile for equity securities and unit trusts and management is unable to provide a reliable estimate given the volatility of equity markets.

## 6. REINSURANCE ASSETS AND LIABILITIES

	Group	
	2019 R'000	2018 R'000
<b>Reinsurance Assets</b>		
Total assets arising from reinsurance contracts at beginning of the year	82 346	99 825
Reinsurers' share of long-term insurance policy liabilities (note 12.2)	(1 707)	(17 357)
Reinsurers' share of short-term insurance policy liabilities (note 13.2)	11 716	(122)
Transfer to reinsurance liability	(73 885)	-
<b>Total assets arising from reinsurance contracts at end of the year</b>	<b>18 470</b>	82 346
Non-current	18 470	82 346
<b>Reinsurance Liabilities</b>		
Transfer from reinsurance asset	73 885	-
Reinsurers' share of long-term insurance policy liabilities (note 12.2)	(136 268)	-
<b>Total liabilities arising from reinsurance contracts at end of the year</b>	<b>(62 383)</b>	-
Non-current	(62 383)	-
<b>Net Reinsurance (liability)/asset per Group entity:</b>		
Professional Provident Society Insurance Company Limited	(62 383)	73 885
Professional Provident Society Insurance Company (Namibia) Limited	5 797	7 504
Professional Provident Society Short-Term Insurance Company Limited	12 673	957
<b>Total net (liability)/assets arising from reinsurance contracts at end of the year</b>	<b>(43 913)</b>	82 346

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in Insurance and other receivables (note 7).

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## 7. INSURANCE AND OTHER RECEIVABLES

	Group	
	2019 R'000	2018 R'000
Receivables arising from insurance policies	<b>122 529</b>	80 697
due from policy holders	<b>135 459</b>	91 105
less allowance for impairment losses from receivables from policy holders	<b>(12 930)</b>	(10 408)
Due from reinsurers	<b>145 051</b>	79 551
Other receivables	<b>290 004</b>	388 272
accrued interest	<b>21 789</b>	17 927
accrued dividends	<b>85 830</b>	67 998
loan to PPS Mutual and related parties	<b>256 659</b>	212 723
less allowance for impairment loss of loan to PPS Mutual	<b>(234 358)</b>	(91 629)
deferred acquisition costs	<b>65</b>	112
sundry receivables	<b>160 019</b>	181 141
Prepayments	<b>20 441</b>	35 364
<b>Total receivables including insurance receivables and prepayments</b>	<b>578 025</b>	583 884
Current	<b>578 025</b>	583 884
Fair value of receivables held at amortised cost	<b>557 584</b>	548 520
<b>Allowances for impairment losses of receivables from policy holders</b>		
<b><i>Specific allowances for impairment</i></b>		
At beginning of year	<b>(10 408)</b>	(12 742)
Impairment loss recognised	<b>(5 019)</b>	(1 020)
Impairment loss reversals	<b>2 497</b>	3 354
<b>At end of year</b>	<b>(12 930)</b>	(10 408)
<b>Allowances for impairment losses of loan to PPS Mutual</b>		
<b><i>Specific allowances for impairment</i></b>		
At beginning of year	<b>(91 629)</b>	-
Impairment loss recognised	<b>(142 729)</b>	(91 629)
<b>At end of year</b>	<b>(234 358)</b>	(91 629)

## 8. CASH AND CASH EQUIVALENTS

	Group	
	2019 R'000	2018 R'000
Financial assets excluding third party assets	1 441 436	1 291 177
Unit trusts and pooled funds managed for third parties (note 15)	1 524 621	1 263 730
<b>Total cash and cash equivalents</b>	<b>2 966 057</b>	2 554 907
Cash at bank and in hand	479 034	467 382
Cash on call	2 487 023	2 087 525
<b>Total cash and cash equivalents</b>	<b>2 966 057</b>	2 554 907

The proportion of cash held to fund the working capital of the Group as part of the investment portfolio is 16.2% (2018: 18.3%) of total cash and cash equivalents. The balance of the cash is held as part of the investment portfolio. The effective interest rate earned was 6.50% (2018: 6.75%).

## 9. ACCUMULATED FUNDS

The accumulated funds balance represents the amount of reserves which is not distributable as this is part of the amount the Group must retain to cover the regulatory capital cover requirement. The Group has maintained its level of regulatory capital cover at 2.6 times (2018: 2.6 times) which has resulted in R36.0 million (2018: R56.7 million) being allocated to accumulated funds in the current year from the surplus after tax. Additional allocations to accumulated funds arise from the surplus after tax and non-controlling interests of subsidiaries.

## 10. REVALUATION RESERVE

	Group	
	2019 R'000	2018 R'000
Opening balance	49 543	48 609
Revaluation surplus	8 750	5 038
Deferred tax	(8 487)	(390)
Transfer to Long-Term Insurance Policy Liabilities	(8 294)	(3 714)
<b>Closing balance</b>	<b>41 512</b>	49 543

Revaluation reserve consists of fair value gains/losses on the revaluation of owner-occupied properties.

## 11. NON-CONTROLLING INTEREST

	Group	
	2019 R'000	2018 R'000
Total Non-controlling interest	3 570	11 060

Non-controlling interest consists of a minority's share of the Net Asset Value of PPS Property Fund Trust.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 12. LONG-TERM INSURANCE POLICY LIABILITIES, AND PPS PROFIT-SHARE ACCOUNTS

### 12.1 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity

#### (a) Process used to decide on assumptions

The sickness and disability insurance contracts issued by the Group include a non-DPF and a DPF component. The non-DPF component includes sickness, disability, death and dreaded disease benefits. The DPF component is the PPS Profit-Share accounts allocated to each policyholder. The participating nature of these contracts results in the insurance and other risk being carried by the insured parties. These contracts are, however, managed and accounted for as one contract.

The determination of the non-DPF liabilities under long-term insurance contracts is dependent on estimates made by the Corporate Actuarial Department. Any changes in estimates will impact on the size of the non-DPF policy liabilities and on the bonus rates the Group declares to the DPF component of the policy liabilities. Hence the changes in estimates will impact on the balance between the DPF component of the liabilities and the non-DPF component of the liabilities. In aggregate the changes will have no impact on the value of the total policy liabilities.

The assumptions used for the insurance contracts disclosed in this note are as follows:

- *Mortality*

Estimates are made as to the expected future mortality experience. The estimates are based on standard industry and national mortality tables that reflect historical mortality experience, adjusted where appropriate to reflect the Group's own experience. The main sources of uncertainty are epidemics such as AIDS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits. These uncertainties could result in future mortality being significantly worse than in the past. However, continuing improvements in medical care and social conditions could result in improvements in longevity.

An investigation into the Group's experience over the most recent year is performed to calibrate the base table to the PPS experience. The estimates of future mortality are based on standard industry and national mortality tables that reflect historical mortality experience, adjusted where appropriate to reflect the Group's own experience. The base table currently in use is SA85-90.

- *Morbidity*

Estimates are made as to the expected number of temporary and permanent incapacity claims for each of the years in which the Group is exposed to risk. These estimates of permanent incapacity are based on 01/01/2018 to 31/108/2019 experience and the estimates of temporary incapacity are based on 01/01/2018 to 31/08/2019 experience of the Group. The main source of uncertainty is epidemics such as AIDS, Severe Acute Respiratory Syndrome, economic conditions and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits. These uncertainties could result in future morbidity being worse than in the past for the age groups in which the Group has significant exposure to morbidity risk. The estimated morbidity experience determines the value of the future benefit payments in the policy liabilities.

The rates of disability and dread disease claims are derived from the experience of the Group over the preceding four years.

- *Persistency*

Estimates are made as to the future rate at which policyholders will terminate their contracts prior to the original maturity date. These estimates are based on the 01/01/2018 to 31/08/2019 experience of the business. The future termination rates will vary with economic conditions, the profitability of the business and with changes in consumer behaviour.

- *Investment returns*

Risk-free fixed interest securities: the risk free rates are based on the gross redemption yield of the Prudential Authority's nominal yield curve.

- *Renewal expense level and inflation*

Estimates are made as to the future level of administration costs to be incurred in administering the policies in force at the current year end, using a functional cost approach. This approach allocates expenses between policy and overhead expenses and within policy expenses, between new business, maintenance and claims. These future costs are assumed to increase each year in line with an assumed inflation rate. The assumed inflation rate is set at a level consistent with the assumed future investment returns. Variations in administration costs will arise from any cost reduction exercises implemented by management or from cost overruns relative to budget.

The current level of expenses is taken as an appropriate expense base. Expense inflation is assumed to be 3.00% (2018: 2.75%) less than the Prudential Authority's nominal yield curve for South Africa and 2.75% (2018: 2.75%) less than the Prudential Authority's nominal yield curve for Namibia.

- *Tax*

It has been assumed that current tax legislation and rates continue unaltered. Allowance is made for future tax and tax relief.

- *Future profit allocations*

The assumed future profit allowance on the non-DPF portion of the liabilities are in line with the Group's past practice and members' reasonable expectations.

**(b) Incurred but not reported ('IBNR')**

The IBNR liability calculation is based on run-off tables using historical data from 2012 to 2019. Due to the short term over which these liabilities will be settled, no allowance is made for claims handling expenses, claims inflation, adjustments for trends, unusual claims or loss ratios, and the IBNR liability is undiscounted.

**(c) Change in assumptions**

The assumptions used to calculate the non-DPF portion of the policy liabilities are updated annually to reflect current best estimates of future experience. Changes to the assumptions will result in changes to the amount of the non-DPF policy liabilities. The impact of the changes will be included in the profits allocated to the DPF component of the policy liabilities.

Consequently the aggregate value of the policy liabilities will be unchanged as a result of changes to the assumptions.

The economic basis changes led to a decrease in liabilities of R927.0 million (2018: R11.0 million decrease).

**(d) Sensitivity analysis**

The following tables present the sensitivity in the key valuation assumptions of the value of the non-DPF component of the insurance policy liabilities disclosed in this note to movements in the assumptions used in the estimation of these insurance policy liabilities. The impact of a deviation from the best estimate assumption for all future years on a per policy basis on the liability is shown.

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## 12. LONG-TERM INSURANCE POLICY LIABILITIES, AND PPS PROFIT-SHARE ACCOUNTS (continued)

Variable	Change in liability 2019		Change in liability 2018	
	Change in variable %	R'000 % change	R'000	% change
Liability per note 12.2		<b>3 973 407</b>	4 430 343	
Worsening in mortality	<b>10</b>	<b>1 161 073</b>	1 442 596	32.56
Worsening in morbidity rates	<b>10</b>	<b>2 045 828</b>	2 012 256	45.42
Worsening in PI inception rate	<b>10</b>	<b>897 044</b>	687 823	15.53
Lowering of investment returns	<b>(1)</b>	<b>2 079 415</b>	1 972 397	44.52
Lowering of terminations	<b>(10)</b>	<b>614 720</b>	612 328	13.82
Worsening of maintenance expense level	<b>10</b>	<b>1 360 169</b>	1 346 858	30.40
Worsening of expense inflation rate	<b>10</b>	<b>2 476 833</b>	2 288 258	51.65

To the extent the non-DPF liability above increases, the profit allocation for the year to the DPF would be correspondingly lower and vice versa.

The above analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated - for example, change in interest rate and change in market values; change in lapses and future mortality.

The size of the sensitivities were chosen to illustrate the impacts for changes in key variables that would have a significant impact on the non-DPF liabilities, as well as mainly chosen to facilitate comparison with the sensitivities disclosed by other major insurers.

### (e) Compulsory margins

The published liabilities are on the FSV basis and include the following margins that need to be added to the best estimate margins. The following compulsory margins which have not changed since 2005 were added for both 2018 and 2019:

Assumption	Margin
Mortality	7.5% (increase or decrease, depending on which alternative increases liabilities)
Morbidity	10%
Medical	15%
Lapse	25% (increase or decrease, depending on which alternative increases liabilities)
Terminations for disability income benefits in payment	10%
Surrenders	10% (increase or decrease, depending on which alternative increases liabilities)
Expenses	10%
Expense inflation	10% (of estimated escalation rate)
Charge against investment return	25 basis points in the investment performance-based margin

12.2 **Movements in long-term insurance policy liabilities and re-insurance assets - Long-term insurance contracts with and without DPF**

	Group					
	2019			2018		
	Gross R'000	Re- insurance R'000	Net R'000	Gross R'000	Re- insurance R'000	Net R'000
<b>Analysis of balance at beginning of the year:</b>						
Sickness and disability policies						
- Claims payable (notified claims)	33 810	-	33 810	19 292	-	19 292
- Unintimated claims (IBNR)	69 916	6 001	63 915	74 260	-	74 260
- Non-DPF liability	4 504 659	70 809	4 433 850	4 233 454	93 040	4 140 414
- Cessation benefits (notified claims)	207 414	-	207 414	161 375	-	161 375
- DPF liability	26 073 342	-	26 073 342	26 614 866	-	26 614 866
Life policies						
- Claims payable (notified claims)	186 892	-	186 892	160 435	-	160 435
- Unintimated claims (IBNR)	38 621	4 579	34 042	40 648	5 554	35 094
- Life assurance policy reserve	-	-	-	489	152	337
Other liabilities	-	-	-	84 222	-	84 222
<b>Total at beginning of the year</b>	<b>31 114 654</b>	<b>81 389</b>	<b>31 033 265</b>	31 389 041	98 746	31 290 295
Change in Insurance policy liabilities per Statement of Comprehensive Income	2 297 727	(137 975)	2 435 702	(351 080)	(17 357)	(333 723)
Transfer from Revaluation Reserve	8 294	-	8 294	3 714	-	3 714
Movement in claims liabilities						
- arising from current year claims	(92 193)	-	(92 193)	44 022	-	44 022
- arising from prior year claims	51 485	-	51 485	28 957	-	28 957
<b>Total movement in insurance policy liabilities</b>	<b>2 265 313</b>	<b>(137 975)</b>	<b>2 403 288</b>	(274 387)	(17 357)	(257 030)

NOTES TO THE CONSOLIDATED  
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## 12. LONG-TERM INSURANCE POLICY LIABILITIES, AND PPS PROFIT-SHARE ACCOUNTS (continued)

### 12.2 Movements in long-term insurance policy liabilities and re-insurance assets - Long-term insurance contracts with and without DPF (continued)

	Group					
	2019			2018		
	Gross R'000	Re- insurance R'000	Net R'000	Gross R'000	Re- insurance R'000	Net R'000
Total movement allocated	<b>2 265 313</b>	<b>(137 975)</b>	<b>2 403 288</b>	(274 387)	(17 357)	(257 030)
Sickness and disability policies						
Claims payable (notified claims)	<b>(7 676)</b>	-	<b>(7 676)</b>	14 518	-	14 518
Unintimated claims (IBNR)	<b>7 106</b>	<b>63</b>	<b>7 043</b>	(4 344)	6 001	(10 345)
Non-DPF liability	<b>(598 691)</b>	<b>(138 248)</b>	<b>(460 443)</b>	271 205	(22 231)	293 436
Cessation benefits (notified claims)	<b>21 170</b>	-	<b>21 170</b>	46 039	-	46 039
DPF liability	<b>2 902 099</b>	-	<b>2 902 099</b>	(541 524)	-	(541 524)
Life policies						
Claims payable (notified claims)	<b>(70 853)</b>	-	<b>(70 853)</b>	26 457	-	26 457
Unintimated claims (IBNR)	<b>12 158</b>	<b>210</b>	<b>11 948</b>	(2 027)	(975)	(1 052)
Life assurance policy reserve	-	-	-	(489)	(152)	(337)
Other liabilities	-	-	-	(84 222)	-	(84 222)
<b>Analysis of balance at end of the year:</b>						
Sickness and disability policies						
Claims payable (notified claims)	<b>26 134</b>	-	<b>26 134</b>	33 810	-	33 810
Unintimated claims (IBNR)	<b>77 022</b>	<b>6 064</b>	<b>70 958</b>	69 916	6 001	63 915
Non-DPF liability	<b>3 905 968</b>	<b>(67 439)</b>	<b>3 973 407</b>	4 504 659	70 809	4 433 850
Cessation benefits (notified claims)	<b>228 584</b>	-	<b>228 584</b>	207 414	-	207 414
DPF liability	<b>28 975 441</b>	-	<b>28 975 441</b>	26 073 342	-	26 073 342
Life policies						
Claims payable (notified claims)	<b>116 039</b>	-	<b>116 039</b>	186 892	-	186 892
Unintimated claims (IBNR)	<b>50 779</b>	<b>4 789</b>	<b>45 990</b>	38 621	4 579	34 042
<b>Total at end of the year</b>	<b>33 379 967</b>	<b>(56 586)</b>	<b>33 436 553</b>	31 114 654	81 389	31 033 265
Current	<b>498 558</b>	<b>10 853</b>	<b>487 705</b>	536 653	10 580	526 073
Non-current	<b>32 881 409</b>	<b>(67 439)</b>	<b>32 948 848</b>	30 578 001	70 809	30 507 192
<b>Total</b>	<b>33 379 967</b>	<b>(56 586)</b>	<b>33 436 553</b>	31 114 654	81 389	31 033 265



	Group	
	2019 R'000	2018 R'000
<b>The non-DPF liabilities developed as follows:</b>		
Liabilities at beginning of the year	4 433 850	4 140 414
Unwinding of discount rate	343 390	353 967
Expected cash flows	(466 836)	1 220 806
Expected risk liability at year-end	4 310 404	5 715 187
Impact of movements	(101 277)	(151 339)
Change in valuation assumptions	(926 879)	(258 380)
Asset value adjustments	105 735	(41 250)
Risk benefit liability for new business issued	585 424	(830 368)
<b>Liabilities at end of the year</b>	<b>3 973 407</b>	4 433 850
<b>The DPF liabilities developed as follows:</b>		
Liabilities at beginning of the year	26 073 342	26 614 866
Claims paid during the year	(1 482 288)	(1 203 249)
Allocation of profits	4 246 090	634 573
Unallocated profit	50 000	-
Asset value adjustments	88 297	27 152
<b>Liabilities at end of the year</b>	<b>28 975 441</b>	26 073 342
<b>Analysis of total insurance policy liabilities, net of reinsurance:</b>		
Non-DPF liabilities	3 973 407	4 433 850
DPF liabilities	28 975 441	26 073 342
Current liabilities	487 705	526 073
<b>Liabilities at end of the year</b>	<b>33 436 553</b>	31 033 265

## 13. SHORT-TERM INSURANCE POLICY LIABILITIES

### 13.1 Short-term insurance contracts - assumptions

#### Unearned premium provision

Unearned premiums represent the proportion of premiums written in the current year, which relate to risks that have not expired by the end of the financial year. The Group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires. The unearned premium provision is released evenly over the period of insurance using a time proportion basis. Deferred acquisition costs and Reinsurance commission revenue are recognised on a basis that is consistent with the related provision for unearned premiums. At each reporting date an assessment is made of whether the provisions for unearned premiums are adequate.

#### Unexpired risk provision

If the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to those policies, after deduction of any deferred commission expenses, management

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### 13. SHORT-TERM INSURANCE POLICY LIABILITIES (continued)

#### 13.1 Short-term insurance contracts - assumptions (continued)

assesses the need for an unexpired risk provision. Management will base the assessment on the expected outcome of those contracts, including the available evidence of claims experience on similar contracts in the past year, as adjusted for known differences, events not expected to recur, and the normal level of seasonal claims.

#### Outstanding claims

Outstanding claims represent the Group's estimate of the cost of settlement of claims that have occurred and were reported by the reporting date, but that have not yet been finally settled. Claims provisions are determined based on previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on the interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard for the specific circumstances, information available from the insured and/or loss adjuster, past experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions. A separate calculation is performed to estimate reinsurance recoveries where applicable. The calculation of reinsurance recoveries considers the type of risk underwritten, the year in which the loss claim occurred, under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or formed part of a catastrophe reinsurance claim.

#### Claims incurred but not reported (IBNR)

There is also considerable uncertainty concerning the eventual outcome of claims that have occurred but had not yet been reported to the insurer by the reporting date. The IBNR provision relates to these events, as well as potential movements in existing case estimates.

Separate assessments are performed per line of business and the IBNR reserves are raised to at least be sufficient at the 75th percentile level.

The appropriate reinsurance structures are applied to the gross IBNR to calculate the reinsured portion of the IBNR.

Adjustments to the amounts of claims provisions established in prior underwriting years are reflected in the Financial Statements for the period in which the adjustments are made.

#### 13.2 Short-Term insurance policyholder liabilities

	Group					
	2019			2018		
	Gross	Re-	Net	Gross	Re-	Net
	R'000	insurance	R'000	R'000	insurance	R'000
		R'000			R'000	
Notified claims	12 774	957	11 817	21 092	1 079	20 013
Incurred but not reported	7 761	-	7 761	6 769	-	6 769
Unearned premiums	1 273	-	1 273	1 018	-	1 018
<b>Liabilities at beginning of the year</b>	<b>21 808</b>	<b>957</b>	<b>20 851</b>	28 879	1 079	27 800
Movement in insurance policy liabilities:						
Notified claims	4 576	306	4 270	(8 318)	(122)	(8 196)
Incurred but not reported	5 898	5 231	667	992	-	992
Movement in unearned premiums	6 601	6 179	422	255	-	255
<b>Total movement in insurance policy liabilities</b>	<b>17 075</b>	<b>11 716</b>	<b>5 359</b>	(7 071)	(122)	(6 949)

	Group					
	2019			2018		
	Gross R'000	Re- insurance R'000	Net R'000	Gross R'000	Re- insurance R'000	Net R'000
Notified claims	17 350	1 263	16 087	12 774	957	11 817
Incurred but not reported	13 659	5 231	8 428	7 761	-	7 761
Unearned premiums	7 874	6 179	1 695	1 273	-	1 273
<b>Liabilities at end of the year</b>	<b>38 883</b>	<b>12 673</b>	<b>26 210</b>	21 808	957	20 851
Current	38 883	12 673	26 210	21 808	957	20 851

	Group	
	2019 R'000	2018 R'000
<b>Claims and loss adjustment expenses developed as follows:</b>		
Notified claims	11 817	20 013
Incurred but not reported	7 761	6 769
Total at beginning of the year	19 578	26 782
Increase in liabilities		
- arising from current year claims settled	162 699	159 349
- movement in insurance liabilities and current year claims	(157 762)	(166 553)
<b>Liabilities at end of the year</b>	<b>24 515</b>	19 578
Notified claims	16 087	11 817
Incurred but not reported	8 428	7 761
<b>Total</b>	<b>24 515</b>	19 578
<b>Unearned premiums is developed as follows:</b>		
Total at the beginning of the year	1 273	1 018
Charged to the Statement of Comprehensive Income	422	255
<b>Liabilities at end of the year</b>	<b>1 695</b>	1 273

NOTES TO THE CONSOLIDATED  
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for the year ended 31 December 2019

## 14. INVESTMENT CONTRACT LIABILITIES

	Group	
	2019 R'000	2018 R'000
<b>Level 2 fair value investment contract liabilities</b>		
Linked investment contracts	<b>2 589 356</b>	2 045 946
Non-current	<b>2 589 356</b>	2 045 946

All investment contracts are designated on initial recognition as at fair value through profit or loss.

The liabilities relating to linked contracts are measured with reference to the underlying assets linked to these contracts. PPS is contractually required to pay linked investment contract holders an amount equal to the fair value of the assets linked to these contracts. Linked contracts do not include any minimum guarantees and hence, there will be no difference between the carrying amount and the amount payable at the maturity date.

Investment contract liabilities are classified as Level 2, as the assets backing up these liabilities are unit trust funds of which the fair values are derived from the unit prices published by the unit trust fund managers.

	Group	
	2019 R'000	2018 R'000
<b>Movement table for investment contract liabilities</b>		
<b>Linked contracts</b>		
Balance at beginning of the year	<b>2 045 946</b>	1 876 916
Contributions received during the year	<b>585 953</b>	433 522
Fair value of policyholder liabilities under investment contracts	<b>170 002</b>	(48 342)
Investment return credited/(debited) to account balances	<b>193 348</b>	(25 996)
Net fees and charges deducted from account balances	<b>(23 346)</b>	(22 346)
Benefit payments	<b>(212 545)</b>	(216 150)
<b>Balance at end of the year</b>	<b>2 589 356</b>	2 045 946

## 15. LIABILITIES TO OUTSIDE UNIT TRUST HOLDERS

	Group	
	2019 R'000	2018 R'000
<b>Liabilities to outside unit trust holders</b>		
Balance at beginning of the year	12 670 465	10 709 000
Investment by outside unit trust holders	2 584 189	5 559 256
Redemptions by outside unit trust holders	(2 081 719)	(3 752 409)
Attributable to outside unit trust holders	1 735 233	154 618
Investment income	882 674	685 573
Gains/(losses) on financial assets	985 051	(421 434)
Expenses	(132 492)	(109 521)
<b>Balance at end of the year</b>	<b>14 908 168</b>	12 670 465
Current	14 908 168	12 670 465

Liabilities to outside unit trust holders are classified as Level 2, as the fair value of the unit trust funds are derived from unit prices published by the unit trust fund managers.

	Group	
	2019 R'000	2018 R'000
<b>Net assets backing up liabilities to unit trust holders</b>	<b>14 908 168</b>	12 670 465
Financial assets - Investments at fair value through profit or loss (note 5)	14 063 012	11 984 016
Insurance and other receivables	74 981	56 596
Cash and cash equivalents (note 8)	1 524 621	1 263 730
Insurance and other payables	(754 446)	(633 877)

NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 16. BORROWINGS

	Group	
	Carrying amount and fair value	
	2019 R'000	2018 R'000
<b>Amortised cost</b>		
Mortgage loans (Secured)	135 635	147 168
Minority shareholder loans in PPS Property Fund Trust (Unsecured)	30 609	26 520
<b>Total borrowings</b>	<b>166 244</b>	173 688
Current	25 838	24 602
Non-current	140 406	149 086

Mortgage loans bear interest at between prime less 0.5% and prime less 1% and are payable over the period to 2026.

Minority shareholder loans in PPS Property Fund Trust carry interest at prime less 1%. These loans are payable between 31 October 2022 and 6 March 2029.

## 17. DEFERRED TAX

	Group	
	2019 R'000	2018 R'000
<b>Deferred tax assets:</b>		
Provisions	83 987	70 280
Tax losses carried forward	86 411	73 999
<b>End of year</b>	<b>170 398</b>	144 279
<b>Deferred tax liabilities:</b>		
Unrealised gains on investments	125 834	54 138
Unrealised gains on land and buildings revaluation	11 811	3 324
<b>End of year</b>	<b>137 645</b>	57 462
Current asset	83 987	70 280
Non-current asset	86 411	73 999
Non-current liability	137 645	57 462

The tax rate applied to unrealised gains on land and buildings revaluation was increased from 12% (recovery through sale) to 30% (recovery through use) in 2019.

**The movement in the deferred tax assets and liabilities during the year is as follows:**

**(a) Deferred tax assets on provisions and computed tax losses**

	<b>Group</b>
	<b>R'000</b>
At 1 January 2018	107 022
Recognised in profit or loss	37 257
At 31 December 2018	144 279
Recognised in profit or loss	<b>26 119</b>
<b>At 31 December 2019</b>	<b>170 398</b>

The utilisation of the deferred tax asset in respect of the tax losses is dependent on the relevant group entities making future taxable profits. It is assessed as recoverable based on the probability of the future taxable profits of the entity.

**(b) Deferred tax liabilities**

	<b>Group</b>		
	<b>Deferred tax liability on revaluation of investments</b>	<b>Deferred tax liability on cumulative revaluation of land and buildings</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
At 1 January 2018	370 481	2 934	373 415
Recognised in profit or loss	(221 413)	-	(221 413)
Recognised directly in equity	-	390	390
Transfer to current income tax liabilities	(94 930)	-	(94 930)
At 31 December 2018	54 138	3 324	57 462
Recognised in profit or loss	<b>71 696</b>	<b>-</b>	<b>71 696</b>
Recognised directly in equity	<b>-</b>	<b>8 487</b>	<b>8 487</b>
<b>At 31 December 2019</b>	<b>125 834</b>	<b>11 811</b>	<b>137 645</b>

NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 18. RETIREMENT BENEFIT OBLIGATIONS

	Group	
	2019 R'000	2018 R'000
Statement of Financial Position obligations for:		
- post-retirement medical benefits	5 706	5 587
	<b>5 706</b>	5 587
Statement of profit or loss and comprehensive income charge for (note 27):		
- post-retirement medical benefits	746	(664)
	<b>746</b>	(664)

### **Post-employment medical benefits**

The Group provides for the unfunded post-retirement healthcare benefits of those employees and a small number of retirees employed before 4 October 1999, as well as their spouses and dependants. The entitlement to post-retirement healthcare benefits is based on an employee remaining in service up to retirement and completion of a minimum service period.

The amounts recognised in the Statement of Financial Position were determined as follows:

	Group	
	2019 R'000	2018 R'000
Present value of unfunded obligations	5 706	5 587
<b>Liability in the Statement of Financial Position</b>	<b>5 706</b>	5 587

The latest actuarial valuation of the Group's post-employment benefits, carried out at 31 December 2019 indicated a present value of projected future benefits amounting to R5.7 million (2018: R5.6 million).

The movement in the post-employment medical benefit obligation was as follows:

	Group	
	2019 R'000	2018 R'000
Post-employment medical benefit obligations at beginning of the year	5 587	6 818
Interest cost	493	582
Benefits paid	(627)	(567)
Actuarial loss/(gain) recognised during the year	253	(1 246)
<b>Post-employment medical benefit obligations at end of the year</b>	<b>5 706</b>	5 587



The amounts recognised in the Statement of Profit or Loss and Comprehensive Income are as follows:

	Group	
	2019 R'000	2018 R'000
Interest cost	493	582
Actuarial loss/(gain) recognised during the year	253	(1 246)
<b>Total included in staff costs (note 27)</b>	<b>746</b>	<b>(664)</b>
The principal actuarial assumptions used were as follows:		
Discount rate based on the Long-term Bond Index (%)	8.70	9.38
Medical cost inflation (%)	6.34	7.42

The assumed rates of mortality are as follows:

During

employment: SA85-90 (Light) ultimate table ; and

Post-employment: PA(90) ultimate table rated down two years plus 1% improvement per annum (from a base year of 2006).

## 19. EMPLOYEE RELATED OBLIGATIONS

	Group	
	2019 R'000	2018 R'000
<b>Leave pay accrual</b>		
Opening balance	36 158	30 343
Charged to the Statement of Profit or Loss and Other comprehensive income		
- additional provisions	20 641	24 097
Used during the year	(20 312)	(18 282)
<b>Closing balance</b>	<b>36 487</b>	<b>36 158</b>
Current	36 487	36 158
<b>Provision for performance related incentives</b>		
Opening balance	183 916	167 790
Additional provisions (executive directors and employees)	108 738	108 294
Used during the year	(97 157)	(92 168)
<b>Closing balance</b>	<b>195 497</b>	<b>183 916</b>
Current	115 553	99 124
Non-current	79 944	84 792
<b>Total employee related obligations</b>	<b>231 984</b>	<b>220 074</b>

NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 20.INSURANCE AND OTHER PAYABLES

	Group	
	2019 R'000	2018 R'000
Payables arising from insurance policies	<b>81 469</b>	71 620
due to policy holders	<b>79 194</b>	64 825
subscriptions received in advance	<b>2 275</b>	6 795
Reinsurance Payables	<b>38 493</b>	35 448
Other payables	<b>941 068</b>	808 694
accruals	<b>914 279</b>	755 265
employees tax	<b>18 794</b>	19 501
sundry creditors	<b>7 995</b>	33 928
Lease liabilities	<b>74 627</b>	-
<b>Total insurance and other payables</b>	<b>1 135 657</b>	915 762
Current	<b>1 081 375</b>	915 762
Non-current	<b>54 282</b>	-

### Lease liabilities - Maturity analysis

Group R'000	Carrying amount	Contractual undiscounted cash flows		
		Total cash flows	Within 1 year	2 - 5 years
<b>2019</b>	<b>74 627</b>	<b>93 677</b>	<b>27 447</b>	<b>66 230</b>
2018	-	-	-	-

## 21. NET INSURANCE PREMIUM REVENUE

	Group	
	2019 R'000	2018 R'000
Individual premiums from policyholders	4 965 236	4 527 538
Long-term	4 770 598	4 355 564
Short-term	194 638	171 974
Group reinsurance premiums inwards	7 841	15 232
Long-term	6 005	13 535
Short-term	1 836	1 697
Premium revenue arising from insurance contracts issued	4 973 077	4 542 770
Individual premium revenue ceded to reinsurers on insurance contracts issued	(366 286)	(379 668)
Long-term	(354 663)	(372 271)
Short-term	(11 623)	(7 397)
<b>Total net insurance premium revenue</b>	<b>4 606 791</b>	<b>4 163 102</b>
Long-term	4 421 940	3 996 828
Short-term	184 851	166 274

## 22. OTHER INCOME

	Group	
	2019 R'000	2018 R'000
Policy administration and collection services	11 194	14 574
Administration fees	274 541	255 635
Investment management services	76 739	67 525
Commission	39 221	23 024
Rental income	69 383	54 249
Sundry income	9 729	3 212
<b>Total other income</b>	<b>480 807</b>	<b>418 219</b>

## 23. INVESTMENT INCOME

	Group	
	2019 R'000	2018 R'000
<b>Financial assets held at fair value through profit or loss</b>		
Interest income	1 614 766	1 466 086
Dividend income	770 897	648 760
<b>Total investment income</b>	<b>2 385 663</b>	<b>2 114 846</b>

NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 24. GAINS/(LOSSES) ON FINANCIAL ASSETS AND INVESTMENT PROPERTY

	Group	
	2019 R'000	2018 R'000
<b>Financial assets held at fair value through profit or loss</b>		
Net realised gains on disposal of financial assets	1 111 495	484 984
Net realised foreign exchange gains	28 071	12 226
Net unrealised gains/(losses) on revaluation of financial assets	1 822 408	(2 563 915)
<b>Investment property</b>		
Fair value losses on investment property	(2 712)	(16 770)
<b>Total gains/(losses) on financial assets and investment property</b>	<b>2 959 262</b>	<b>(2 083 475)</b>

## 25. NET INSURANCE BENEFITS AND CLAIMS

	Group	
	2019 R'000	2018 R'000
<b>Gross</b>		
Long-term insurance contracts with and without DPF		
- Individual sickness and incapacity benefits: Current year	1 391 232	1 231 269
- Individual sickness and incapacity benefits: Under/(over) provision for prior year	51 485	28 957
- Group non-DPF component of death benefits	716 060	627 438
- Individual DPF component of death, retirement and resignation benefits	1 456 036	1 146 536
Short-term insurance contracts		
- Personal lines	119 358	122 447
- Commercial lines	8 714	10 307
- Professional indemnity	6 591	-
<b>Total gross insurance benefits and claims</b>	<b>3 749 476</b>	<b>3 166 954</b>
<b>Reinsurance recoveries</b>		
Long-term insurance contracts with and without DPF		
- Individual sickness and incapacity benefits	(103 581)	(100 241)
- Death benefits	(150 183)	(134 835)
Short-term insurance contracts		
- Personal lines	(1 264)	-
- Professional indemnity	(5 231)	-
<b>Total reinsurance recoveries</b>	<b>(260 259)</b>	<b>(235 076)</b>
<b>Total net insurance benefits and claims</b>	<b>3 489 217</b>	<b>2 931 878</b>

## 26. EXPENSES

	Group	
	2019 R'000	2018 R'000
<b>Acquisition of insurance contracts:</b>		
Long-term insurance	306 040	267 561
Short-term Insurance	13 589	10 579
<b>Multi-managers' fees in PPS Investments</b>	<b>103 568</b>	92 614
<b>Marketing and administrative expenses include:</b>		
Amortisation and impairment of intangible assets (note 4)	52 620	21 552
Auditor's remuneration	8 628	8 925
- Audit fees	8 231	8 140
- Other services	397	785
Data processing and information technology systems maintenance	213 720	158 465
Depreciation on property and equipment (note 2)	78 110	44 421
Directors'/Trustees' and executives' remuneration	37 924	28 241
- Directors/Trustees - non-executive	9 556	8 797
- Executive directors of PPS Insurance	24 754	17 099
- Directors of other subsidiaries	3 614	2 345
Employee costs (note 27)	883 068	815 812
Fees for services	21 469	20 256
- Actuarial	10 724	12 696
- Legal	7 720	4 805
- Internal audit	3 025	2 755
Investment management fees	96 557	114 155
Other administration, maintenance and product development expenses	387 790	293 000
Operating lease rentals	6 413	34 896
<b>Total expenses</b>	<b>2 209 496</b>	1 910 477

Value-Added Tax which cannot be recovered from the relevant taxation authority is expensed together with the related expense.

## 27. EMPLOYEE COSTS

	Group	
	2019 R'000	2018 R'000
Salaries and related costs	698 514	645 741
Pension costs – defined contribution plans	73 407	62 144
Other post-employment benefits (note 18)	746	(664)
Performance related incentives	110 401	108 591
<b>Total employee costs (excluding executives)</b>	<b>883 068</b>	815 812

NOTES TO THE CONSOLIDATED  
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## 28. FINANCE COSTS

	Group	
	2019 R'000	2018 R'000
Interest expense on borrowings	17 479	17 151
Notional interest expense on lease liabilities	6 887	-
<b>Total investment income</b>	<b>24 366</b>	17 151

## 29. TAX

	Group	
	2019 R'000	2018 R'000
Current tax	242 989	137 699
- Current year tax	242 205	139 644
- Prior years underprovision/(overprovision)	784	(1 945)
Deferred tax	45 576	(258 670)
Dividend withholding tax on deemed dividends	92 733	93 032
<b>Total tax</b>	<b>381 298</b>	(27 939)
Tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to South African/Namibian companies as follows:		
Profit/(loss) before movement in policy liabilities	2 804 209	(353 090)
Tax calculated at domestic tax rates applicable to profits/(losses) in South Africa/Namibia	796 802	(112 520)
Tax effect of income not subject to tax	(1 738 805)	(1 052 934)
Tax effect of non-deductible expenses	1 262 511	1 076 503
Tax effect of tax rate on Dividend Withholding Tax on deemed dividends being different to tax rate on the individual policyholder fund ('IPF')	46 641	55 817
Prior year underprovision/(overprovision)	784	(1 945)
Tax effect of CF tax rate being different to IPF tax rate	13 365	7 140
<b>Total tax per Statement of Profit or Loss and Other Comprehensive Income</b>	<b>381 298</b>	(27 939)

The applicable tax rate was 28% (2018: 28%) for South African companies and 32% (2018: 32%) for Professional Provident Society Insurance Company (Namibia) Limited. Professional Provident Society Insurance Company Limited has five separate tax funds: the individual policyholders' fund (taxed at 30%), the Company policyholders' fund (taxed at 28%), the untaxed policyholder's fund (not taxed), the risk-policy fund (taxed at 28%) and the corporate fund (taxed at 28%). The tax reconciliation is done on total tax on all funds. The Professional Provident Society Holdings Trust is taxed at 45%.

Dividend withholding tax is payable on dividends received in the individual policy fund.

The Group has accumulated losses of R327.2 million (2018: R290.4 million) available in certain subsidiaries for offset against future taxable income in those subsidiaries.

## 30. CASH GENERATED FROM OPERATIONS

	Group	
	2019 R'000	2018 R'000
Reconciliation of profit before movement in insurance policy liabilities to cash generated by operations:		
	<b>4 539 442</b>	(198 472)
Profit before movement in policy liabilities	<b>2 804 209</b>	(353 090)
Attributable to unit trust holders	<b>1 735 233</b>	154 618
Investment contract receipts	<b>585 953</b>	433 522
Investment contract surrenders	<b>(212 545)</b>	(216 150)
Adjustments for:		
- Depreciation	<b>78 110</b>	44 421
- Fair value of policyholder liabilities under investment contracts	<b>170 002</b>	(48 342)
- Amortisation and impairment of intangible asset	<b>52 620</b>	21 552
- Realised profit on disposal of property and equipment	<b>(4 025)</b>	(134)
- Impairment losses from loan to associate company	<b>142 729</b>	91 629
- Investment income	<b>(2 385 663)</b>	(2 114 846)
- Finance costs	<b>24 366</b>	17 151
- Total (gains)/losses on financial assets held at fair value through profit or loss	<b>(2 959 262)</b>	2 083 475
Changes in working capital:		
- Insurance and other receivables	<b>(115 176)</b>	(164 998)
- Insurance and other payables	<b>163 854</b>	158 716
- Short-term policy liabilities	<b>5 359</b>	(6 949)
- Insurance policy liabilities	<b>(40 708)</b>	72 979
<b>Cash generated from operations</b>	<b>45 056</b>	173 554

## 31. TAX PAID

	Group	
	2019 R'000	2018 R'000
Tax receivable at beginning of year	<b>(60 672)</b>	(10 658)
Current tax as per Statement of Profit or Loss and Other Comprehensive Income	<b>335 722</b>	230 731
Transfer from deferred tax liability	-	94 930
Tax receivable at end of year	<b>124 849</b>	60 672
<b>Total tax paid</b>	<b>399 899</b>	375 675

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## 32. COMMITMENTS

	Group	
	2019 R'000	2018 R'000
<b>(a) Capital expenditure contracted for at the reporting date but not yet incurred is as follows:</b>		
- Committed but not contracted for	<b>107 109</b>	109 736
<b>(b) Operating lease commitments - where a Group entity is the lessee</b>		
The Group leases various offices under non-cancellable lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the Statement of Profit or Loss and Other Comprehensive Income during the year is disclosed in note 2 and 26.		
The future aggregate minimum lease payments under non-cancellable leases are as follows:		
Due in one year or less	<b>4 421</b>	36 249
Due between one year and five years	-	68 862
Due after five years	-	-
<b>(c) Operating lease commitments - where a Group entity is the lessor</b>		
The Group leases out its investment property (see note 3) under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease revenue charged to the Statement of Profit or Loss and Other Comprehensive Income during the year is disclosed in note 22.		
The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:		
Due in one year or less	<b>54 496</b>	<b>28 473</b>
Due between one year and five years	<b>76 972</b>	<b>48 408</b>
Due after five years	<b>2 878</b>	<b>2 077</b>



### 33. TRUSTEES' REMUNERATION

*The PPS Holdings Trust trustees' remuneration from the Group*

Trustees	2019			2018		
	The PPS Holdings Trust (including committees)	Subsidiary Companies (including committees)	Total remuneration (including committees)	The PPS Holdings Trust (including committees)	Subsidiary Companies (including committees)	Total remuneration (including committees)
	R'000	R'000	R'000	R'000	R'000	R'000
Adv T N Aboobaker	-	-	-	60	-	60
Dr A Coetzee	151	-	151	-	-	-
Ms D L T Dondur	325	223	548	262	175	437
Mr J A B Downie	428	150	578	399	137	536
Dr D P du Plessis	204	364	568	192	190	382
Mr C Erasmus	103	1 685	1 788	79	1 511	1 590
Dr M J Grootboom	-	-	-	116	-	116
Mr U D Jivan	-	-	-	72	-	72
Dr N H P Khosa	193	18	211	97	-	97
Mr I Kotzé	183	24	207	181	29	210
Dr C M Krüger	408	132	540	307	147	454
Dr F Mansoor	193	-	193	171	-	171
Mr E A Moolla	216	265	481	415	245	660
Ms P Natesan	193	-	193	180	-	180
Mrs N N Nongogo	183	-	183	72	-	72
Mr N Nyawo	182	73	255	181	70	251
Mr M Pillay	-	-	-	109	-	109
Dr R Putter	104	-	104	-	-	-
Mr P Ranchod	216	600	816	193	559	752
Mr V P Rimbault	229	-	229	183	-	183
Prof L C Snyman	104	-	104	-	-	-
Dr S N E Seoka	705	223	928	524	193	717
Dr M W Sonderup	-	-	-	45	-	45
Mr B R Topham	-	-	-	261	-	261
Mr S Trikamjee	348	125	473	317	156	473
Prof H E Wainer	38	968	1 006	35	934	969
<b>Total</b>	<b>4 706</b>	<b>4 850</b>	<b>9 556</b>	4 451	4 346	8 797

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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## 34. RELATED PARTIES

### **Holding Company**

The Professional Provident Society Holdings Trust is the holding entity of the group. The Professional Provident Society Holdings Trust is a trust incorporated in South Africa and has as its sole investment in 100% of the shares of Professional Provident Society Insurance Company Limited, which it acquired from Professional Provident Society NPC during 2011. Professional Provident Society NPC formerly was a company "limited by guarantee" and has been deregistered.

### **Subsidiaries**

PPS's related parties are its subsidiary company Professional Provident Society Insurance Company Limited, as well as Professional Provident Society Insurance Company (Namibia) Limited, Plexus Properties Proprietary Limited, Professional Provident Society Healthcare Administrators Proprietary Limited, Professional Provident Society Short-Term Insurance Company Limited, Professional Provident Society Investments Proprietary Limited, Professional Provident Society Multi-Managers Proprietary Limited, Professional Provident Society Investment Administrators Proprietary Limited, Professional Provident Society Nominees Proprietary Limited, Professional Provident Society Management Company (RF), PPSI Foundation (RF) NPC ('PPSIF'), Professional Provident Society Property Fund Trust, Financial Solutions 4 Professionals Proprietary Limited and Six Anerley Road Holdings Proprietary Limited, which are subsidiary companies/trusts of Professional Provident Society Insurance Company Limited.

### **Other controlled entities**

Entities listed below are controlled through board representation:

PPS Foundation Trust, PPS Education Trust, PPS Training Academy Proprietary Limited, Professional Provident Society Collective Investment Scheme and Professional Provident Society Investments Foundation NPC.

### **Associates**

PPS Mutual Limited and PPS Mutual Insurance Proprietary Limited (Australian entities) are Associates of the Group. PPS Insurance Company has significant influence over PPS Mutual Limited Group, through its representation on their boards. The PPS Group has no shareholding in PPS Mutual Limited Group and therefore no rights to either net profits/losses, or net assets. The Group received R10.8 million (2018: R8.2 million) of interest for the year on loan funding of R234.6 million (2018: R190.4 million) provided to PPS Mutual Limited Group, of which R234.6m has been impaired.

Intembeko Investment Administrators Proprietary Limited (Intia) is an associate of the Professional Provident Society Group due to Professional Provident Society Investments (Pty) Limited deemed to having significant influence over the operations of Intia as a result of a) total loan funding provided of R22.3 million (2018: R22.3m) and b) technical know-how made available. PPS Foundation Trust acquired a 10% shareholding in Intia from PPSIF on 28 November 2019. PPSIF was deregistered on 14 February 2020. No profits at 31 December 2019 (2018: NIL) have accrued to the Group from this associate.

### **Transactions between Group entities**

Transactions between related parties are made on terms equivalent to those that prevail in arm's-length transactions. Transactions that take place between Group entities, are eliminated on consolidation, and are disclosed in the separate annual financial statements of those entities.

### **Key management information**

Key management personnel have been defined as all trustees of The Professional Provident Society Holdings Trust and group executive committee members, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management personnel. A complete list of trustees of The Professional Provident Society Holdings Trust is disclosed in the trustees' report.

The PPS Group appoints its prescribed officers at the PPS Insurance entity level.

Aggregate details of insurance between The Professional Provident Society Holdings Trust, any of its subsidiaries, and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management personnel are set out below:

	Group	
	2019 R'000	2018 R'000
Life and disability		
- Premiums	<b>1 550</b>	1 598
Sickness benefit		
- Premiums	<b>1 222</b>	1 180
- Claims	<b>34</b>	198
PPS Profit-Share Account	<b>12 366</b>	15 458
Motor and household		
- Premiums	<b>649</b>	511
- Claims	<b>98</b>	227
Assets under management	<b>39 027</b>	39 880

The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions with all members.

The aggregate compensation of The Professional Provident Society Holdings Trust trustees and Professional Provident Society Insurance Company Limited executives paid by the Group is set out below:

	Group	
	2019 R'000	2018 R'000
Salaries and other employee benefits	<b>36 462</b>	30 491
Performance payments	<b>30 618</b>	26 036
Trustees' remuneration	<b>9 556</b>	8 797
	<b>76 636</b>	65 324

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 35. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at reporting date as well as affecting the reported income and expenses for the year. Estimates and judgements are evaluated annually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 35.1 Valuation of long-term insurance policy liabilities

The determination of the liabilities under insurance contracts is dependent on estimates and assumptions made by the Group. In determining the value of these insurance policy liabilities, assumptions regarding mortality, persistency, investment returns, expense level and inflation, tax and future profit allocations have been made. For details on these assumptions refer to note 12.1.

No allowance was made for any assumed deterioration in mortality and morbidity due to HIV/AIDS. It is expected that the impact of the epidemic on the current membership will not be significant in the near future.

### 35.2 Valuation of short-term insurance policy liabilities

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events.

Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of the insurance company, principally in respect of the insurance liabilities of the company. Insurance liabilities include the provisions for unearned premiums (including an evaluation of the necessity for an unexpired risk provision), outstanding claims and incurred but not reported (IBNR) claims. For details on these assumptions refer to note 13.1.

### 35.3 Income tax

The Group is subject to tax in South Africa and Namibia. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination was made. The corporate tax rate in South Africa was 28% for the year under review, 32% in Namibia and 45% for trusts in South Africa. PPS Insurance Company Limited has five separate tax funds, the individual policyholders' fund (taxed at 30%), the company policyholders' fund (taxed at 28%), the risk-policy fund (taxed at 28%), the corporate fund (taxed at 28%) and the untaxed policyholders' fund (taxed at 0%). Dividend withholding tax is payable on dividends received in the individual policyholders' fund (taxed at 20%).

### 35.4 Employee benefit liabilities

The cost of the benefits and the present value of post-retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions.

The Group, through the input of an independent actuarial consultant, determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the post-retirement medical obligations. In determining the appropriate discount rate, the Group considers the interest rate on high quality corporate bonds and government bonds that have terms to maturity approximating the terms of the related liability. Additional information is provided in note 18 of these financial statements.

### 35.5 **Valuation of owner-occupied property and investment property**

The value of the owner-occupied property and investment property depends on a number of factors that are determined using a number of assumptions. The assumptions used in determining the value was based on a yield range of 7.83% to 9.83% (2018: 8.50% to 10.25%). Any change in these assumptions will impact the values of the buildings.

### 35.6 **Deferred tax asset**

Deferred tax assets are recognised for unused tax losses and on deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised.

### 35.7 **Valuation of long-term incentive and retention schemes**

The cost of the benefits of the long-term incentive scheme depends on a number of assumptions used in calculating the present value under the projected unit credit method. The assumptions used in determining the charge to the Statement of Profit or Loss and Other Comprehensive income arising from these obligations include the expected growth in the apportionment account (rolling five-year average historical growth 10.3% (2018: 11.5%), the turnover of staff participating in the scheme (nil) (2018: nil) and the discount rate (an appropriate market-related yield curve as at the reporting date). Any changes in these assumptions will impact the charge to the Statement of Profit or Loss and Other Comprehensive income.

The assumptions used in determining the charge to the Statement of Profit or Loss and Other Comprehensive income arising from obligations in terms of the Retention Scheme include the expected growth in the PPS Profit-Share Account (rolling five-year average historical growth 7.1% (2018: 16.7%), and the turnover of staff participating in the scheme (nil) (2018: nil).

### 35.8 **Amortisation of lease liability**

Lease liabilities are amortised at each Group entity's incremental borrowing rate. These rates are set at South African Banks' Prime lending rate less 100 bps, which is a best estimate of the rate which Group entities would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment.

### 35.9 **Consolidation of entities in which the group holds less than 50%**

The trustees have concluded that the Group controls, in the manner contemplated by IFRS, unit trusts managed by Professional Provident Society Investments Proprietary Limited, even though it holds less than half of the economic interest in some of these funds.

### 35.10 **Impairment of loan to PPS Mutual**

Assumptions used to determine the impairment of loan to PPS Mutual are unbiased and probability-weighted and includes consideration of a range of possible outcomes. Time value of money is taken into account by the discounting of future losses to the reporting date at a risk-adjusted discount rate. Reasonable and supportable information is used about past events, current conditions and forecasts of future economic conditions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 36. MANAGEMENT OF RISKS

### 36.1 General

The Board has overall responsibility for the Group's systems of internal control and risk management. The Chief Executive and executive management are responsible for the management and implementation of the PPS Group Enterprise Risk Management Framework and Governance Frameworks.

To assist the Board in the execution of its fiduciary duties in regard to risk management, legal and compliance accountabilities, as set out in detail in policies and frameworks adopted by the PPS Group, the **Group Risk Committee** has the following responsibilities:

- Assisting the Board in setting risk strategy policies in liaison with management and in the discharge of its duties relating to corporate accountability and associated risk in terms of management assurance and reporting;
- Assisting the Board in overseeing the Group's compliance with applicable legal and regulatory requirements, industry standards and the Group's Codes of Conduct;
- Facilitating and ensuring appropriate segmentation of duties of the risk management function from operational business line responsibilities and ensuring that the segregation is observed;
- Assisting the Board in identifying any build-up and concentration of the various risks to which the Group is exposed;
- Monitoring external developments relating to the practice of corporate accountability and the reporting of specifically associated risk, including emerging and prospective impacts;
- Providing an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk, also taking account of reports by management, the Group Actuarial Committee and the Group Audit Committee to the Board on all categories of identified risks facing PPS;
- Performing the functions as may be prescribed by the Regulator and in particular, ensuring that PPS has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to activate what is necessary to proactively manage these risks and to recommend to the Board, PPS' appetite and tolerance for risk;
- To discharge the specific responsibilities ascribed to the Committee in terms of policies and frameworks adopted by the Group in compliance with Solvency Assessment and Management regulation;
- Recommending the risk policy and framework to the Board for approval;
- Recommending the risk appetite and tolerance framework to the Board for approval;
- Ensuring the establishment of an independent risk management control function, reviewing its adequacy and effectiveness as well as introduce measures to enhance the function;
- Recommending the risk management plan for approval by the Board and reviewing progress against it;
- Overseeing the monitoring of risk management on an enterprise-wide and individual business unit basis;
- Approving the combined assurance plan and reviewing the effectiveness of combined assurance arrangements;
- Annually reviewing the risk bearing capacity of the Group in the light of its reserves, insurance coverage, guarantee funds or other such financial structures for approval by the Board;
- Ensuring that regular periodic independent assessments of the risk management function and risk management system are performed;
- Reviewing the risk report and adequate disclosure of the organisations risk and opportunity;
- Considering, in particular, the management of Information Technology risks;
- Considering the Opportunities Register and making recommendations in this regard to the Board;
- Providing feedback to other PPS Boards and committees on identified risks that may be relevant for those particular Boards and committees.

The Board has delegated to the PPS Group Audit Committee an oversight role of financial reporting, accounting, the external auditor, appropriate internal controls and the internal auditors, and regulatory compliance, *inter alia* to ensure the integrity of reporting and financial controls. The internal control systems continue to be enhanced and developed to safeguard the assets of PPS and to ensure timely and reliable monitoring and reporting. These controls encompass suitable policies, processes, tasks and behaviours with the aim of ensuring compliance with applicable laws and regulations to meet the needs of an ever-changing business environment. The **PPS Group Audit Committee's** mandate from the Board is to, *inter alia*:

- ensure compliance with all statutory duties imposed in terms of the Companies Act, the Insurance Act, the Prudential Standards and the recommendations of the King Code;
- oversee the preparation of an integrated report annually that conveys adequate information about the operations of the Group and its integrated sustainability and financial reporting;
- ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities;
- review the expertise, resources and experience of the Group's finance function, and disclose the results of the review in the integrated report;
- oversee internal audit and consider the effectiveness of internal audit at least annually and report to the Board on the assessment from internal audit on the adequacy of the internal controls;
- as an integral component of the risk management process, oversee the financial reporting risks; internal financial controls; IT risks as it relates to financial reporting; and fraud and corruption risk management;
- deal with all aspects of the annual financial statements of the company and the Group and ensure compliance with relevant legislation and, where appropriate, the King Code; make submissions to the board on any matter concerning the Group's accounting policies;
- oversee and monitor financial and internal control, reporting and regulatory compliance; and
- ensure compliance with all statutory requirements in relation to the external auditors including to review the quality and effectiveness of the audit process and assess whether the external auditors have performed the audit as planned.

The following control functions within the Group are responsible for discharging the operations of risk management:

#### **Risk management**

- Directing and assisting in the co-ordination and monitoring of risk management activities within PPS.
- Ensuring adherence to the Risk Management Plan.
- Maintaining the Enterprise Risk Management Framework and Plan for approval by the Board in terms of the appropriate international standards (ISO 31000) and the King Code of Governance Principles.
- Update the PPS Group Enterprise Risk Management Framework.
- Attend to recommendations from the Board, Risk Committee, Management and applicable regulators.
- Providing technical guidance to management in executing their risk management duties.
- Maintain and update the risk matrix for the Group. This includes the identification, assessment, monitoring, mitigation and reporting around the key risks on an individual and aggregated level.
- Report on the Group's risk profile, material changes to the risk profile and details on the risk exposure and mitigating actions.
- Assist with all systematic, documented and formal risk assessments.
- Develop systems for monitoring risk management including regular self-assessments of the risk management control function.
- Drive risk management in PPS by promoting awareness of risk management to both management and employees.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 36. MANAGEMENT OF RISKS (continued)

### 36.1 General (continued)

- Ensure effective risk management training programmes are established.
- Assist management with the embedding of risk management in the day-to-day business activities of the Group.
- Ensure that risk management is considered when setting strategic goals and objectives.

#### Compliance

- Monitors and reports on compliance with regulatory requirements.
- Monitors that systems and controls are in place to ensure that the Group's exposure to legal and/or regulatory risk is minimised.
- Has a risk based compliance monitoring plan/risk matrix.
- Coordinates the Group's relationship with its regulators.
- Evaluates the impact of forthcoming legislative regulatory changes and provides advice on potential process and control changes required and whether the proposed control will be adequate.
- Reports to Group Risk Committee on the status of compliance of the Group.
- Operates in accordance with an approved Compliance Plan.

#### Internal audit

- Provides independent and objective assurance on, and evaluation of, the overall effectiveness of the Group's systems of internal financial control.
- Develops a risk based annual audit plan based on a three-year testing rotation of the control environment for review at the Group Risk Committee and approval at the Group Audit Committee.
- Provides an independent assessment of the effectiveness of management's implementation of the PPS Group Enterprise Risk Management Framework to the Group Risk Committee.

### 36.2 Insurance product risk management

#### General

The Group issues contracts that transfer significant insurance risk. This section summarises these risks and the way the Group manages them.

The risk under any one insurance contract is the uncertainty surrounding the timing and amount of the claim resulting from the insured event. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The table below provides an overview of the types of products and the terms and conditions of life insurance contracts written by the Group:

Type of contract	Terms and conditions
Sickness and permanent incapacity benefit (PPS Provider Policy)	<p>The PPS Provider Policy offers a variety of sickness and incapacity benefit options. The premiums for these benefits are level or age-rated premiums and are payable monthly. However, premiums are level for the old unit of benefit product. Premium rates and benefits are not guaranteed and may be revised at the discretion of the insurer.</p> <p>These benefits entitle a policyholder to claim for periods of sickness and incapacity. The amount of cover obtainable is limited by the applicant's annual gross professional income and maximum limits applied by the Company. The sickness benefit continues as long as the member continues to practice their occupation.</p> <p>The sickness and incapacity benefits are non-DPF benefits.</p>



Type of contract	Terms and conditions
Professional Life Provider (PPS Provider Policy) PPS Life And Disability Policy	<p>The PPS Provider Policy also offers lump sum life and disability cover for a specified term or whole life. The premiums are payable monthly, and either an age rated or level option may be selected as the premium pattern. PPS Insurance is the risk carrier.</p> <p>The PPS Life and Disability Policy which replaced the previous PPS Life Disability Assurance Scheme, is insured by PPS Insurance and is closed to new business. The previous generation of policies (PPS Life and Disability Assurance Scheme) was classified as being part of a grouped individual policy.</p> <p>The premiums and benefits under both generations of policies are not guaranteed and may be revised at the discretion of the insurer. Reinsurance agreements are in place to reduce the impact on PPS of variability in claims experience.</p> <p>The life and disability benefits are non-DPF benefits.</p>
Professional Health Provider (PPS Provider Policy) Professional Health Preserver	<p>These products pay a lump sum benefit according to severity levels on assessment of standard dread disease conditions and physical impairment events. The premiums are payable monthly and are age rated.</p> <p>The Professional Health Preserver is closed to new business.</p> <p>The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer. Reinsurance agreements are in place to reduce the impact on PPS of variability in the claims experience.</p> <p>The dread disease and physical impairment benefits are non-DPF benefits.</p>
Professional Disability Provider (PPS Provider Policy)	<p>The Professional Disability Provider offers lump sum disability cover for a specified term. At age 66, or earlier retirement (if this is over the age of 60), the Professional Disability Provider converts automatically into a severe illness benefit. This is a benefit that pays a one-off lump sum benefit on diagnosis of a severe dread disease (such as a stage 3 or 4 cancer). The premiums are payable monthly and are level or age-rated.</p> <p>The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer.</p> <p>Reinsurance policies are in place to reduce the variability of the claims experience.</p> <p>The disability benefits are non-DPF benefits.</p>

NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

**36. MANAGEMENT OF RISKS (continued)**

**36.2 Insurance product risk management (continued)**

Type of contract	Terms and conditions
PPS Provider Policy	The PPS Provider Policy contains a DPF component, being the PPS Profit-Share Account™. This component continues until retirement, or earlier cancellation of the policy. No premium is payable for the DPF component.
Business Provider (PPS Provider Policy)	<p>The Business Provider Policy provides for the Business Life Provider and the Business Health Provider. The Business Life Provider product provides benefits very similar to those of the Professional Life Provider. The Business Health Provider product provides benefits similar to those of the Professional Health Provider, but tailored to payout for the more severe critical illness and physical impairment conditions only. The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer. Both products are closed for new business.</p> <p>Reinsurance policies are in place to reduce the variability of the claims experience.</p> <p>The policies transfer insurance risk only and do not contain a DPF component.</p>
PPS Education Cover	<p>The Education Cover Policy pays the actual public or private school and university fees of the child beneficiary, up to PPS determined maximums, directly to the education facility at the beginning of the academic year, upon receipt of a valid invoice, in the event of death, disability or Severe illness of the life insured.</p> <p>The premiums and benefits under both generations of policies are not guaranteed and may be revised at the discretion of the insurer. Reinsurance agreements are in place to reduce the impact on PPS of variability in claims experience.</p> <p>The Education Cover benefits are non-DPF benefits.</p>
PPS Endowments	The PPS Endowment and PPS Corporate Endowment afford policyholders the ability to save in a cost effective, transparent and flexible manner. The underlying investments are unit trusts, and no guarantees are offered on these products. The policies do not transfer insurance risk and do not contain a DPF component. These products are available to individuals and corporates respectively.

Type of contract	Terms and conditions
PPS Living Annuity	The PPS Living Annuity is a compulsory purchase linked living annuity and does not offer risk benefits or investment guarantees. The underlying investments are unit trusts. The policies do not transfer insurance risk and do not contain a DPF component.

The PPS Provider Policy includes a DPF element. The participating nature of these contracts results in the insurance risk being carried by the insured parties. All variations in claims, persistency or termination rates are carried by the insured parties by means of variations in the amounts allocated to the DPF element.

However, the Group continues to manage the insurance risk in order to sustainably provide for the insurance benefits and to grow the DPF benefits available to policyholders.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the allowance made for the payments of these benefits. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year-to-year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to appropriately charge for the insurance risks accepted.

The Group has implemented a comprehensive reinsurance strategy to mitigate the risks of variability in the frequency and severity of claims on different portfolios of insurance contracts. This strategy continues to be effective in reducing the impact on PPS of variability in claims.

The table below provides an overview of the types of products and the terms and conditions of short-term insurance contracts written by the Group:

Type of contract	Terms and conditions
Motor	Covers risks relating to the possession, use or ownership of a motor vehicle. This cover can include risks relating to vehicle accident, theft or damage to third-party property or legal liability arising from the possession, use or ownership of the insured vehicle.
Property	Covers risks relating to the use, ownership, loss of or damage to movable or immovable property other than a risk covered more specifically under another insurance contract.
Liability	Provides cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 36. MANAGEMENT OF RISKS (continued)

### 36.2 Insurance product risk management (continued)

Type of contract	Terms and conditions
Miscellaneous	Covers damage to or loss resulting from a risk not addressed under any other class or sub-class referred to in Table 2 (classes and sub-classes of insurance business for non-life insurance) in the Insurance Act 18 of 2017.

#### Insurance contracts - Long-term

##### (a) Frequency and severity of claims

For contracts where morbidity is the insured risk, the most significant factors that could increase the overall frequency of claims are diseases (such as Aids), epidemics (such as Cholera and Severe Acute Respiratory Syndrome), economic conditions, abnormal weather conditions, quality of healthcare and widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

The Group has comprehensive claims assessing processes and protocols in terms of which all claims received are assessed. Delegation of authority levels are applied to ensure that larger claims and repeat claims are assessed by senior assessors and management, and the forensics team if required, before being paid. The Group also conducts regular claims investigations to monitor experience.

The Group manages these risks through its underwriting strategy. The underwriting strategy ensures that the risks accepted are in line with PPS' risk appetite. Medical risk selection is included in the underwriting protocols. Premium loadings and benefit exclusions may be imposed which reflect the health and medical history of the applicant. The Group has maximum exposure limits in respect of any single life insured. Maximum exposures are determined relative to gross professional income to ensure that policyholders are not overinsured. These limits are increased annually in line with expected salary inflation for professionals. Policyholders are reminded each year of their benefits and asked to review these benefits to ensure they are not over insured relative to their income as this may impact on future claims.

In some instances, maximum exposures are not increased annually where not appropriate.

Where appropriate, reinsurance contracts are in place to limit the Group's liability. There is a Board approved reinsurance strategy in place, which is regularly reviewed by the Actuarial Committee for its ongoing appropriateness.

The table below presents the total insured benefits per month and the average benefit per month per individual life assured on the basic sickness and disability contract.

Group	Total insured monthly benefit R'000	Benefit per month per life Rand
2019	7 597 381	71 775
2018	7 274 121	67 934

Insurance risk for contracts disclosed in this note is also affected by the contract holders' right to terminate the contract completely. As a result, the amount of insurance risk is also subject to contract holder behaviour. On the assumption that contract holders will make decisions rationally, overall insurance risk can be assumed to be aggravated by such behaviour. For example, it is likely that contract holders whose health has deteriorated significantly will be less inclined to terminate contracts insuring death benefits than those contract holders remaining in good health. This results in an increasing trend of expected mortality, as the portfolio of insurance contracts reduces due to voluntary terminations.

The Group has factored the impact of contract holders behaviour into the assumptions used to measure these liabilities (see note 12).

**(b) Sources of uncertainty in the estimation of future benefit payments and premium receipts**

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and morbidity and the variability in contract holder behaviour.

The Group uses appropriate base tables of standard mortality and morbidity rates. An investigation into the actual experience of the Group over the last or previous year is carried out, to produce a best estimate of the expected morbidity and mortality for the future. The best estimate of future mortality is based on standard industry tables adjusted for the Group's overall experience and where no such table exists, tables are developed specifically on PPS historic experience.

Lapse experience can have a significant impact on the Group. To manage lapse risk, the Group conducts monthly lapse analyses for each of the product lines. Where experience is worse than long-term valuation expected lapse experience management intervention is taken, over and above normal ongoing retention efforts to reduce overall lapse and exits.

**Risk exposure and concentrations of risk**

The following table shows the Group's exposure to insurance risk (based on the carrying value of the long-term insurance liabilities at the reporting date) per category of business. The table also shows the geographical concentration of these risks and the extent to which the Group has covered these risks by reinsurance:

<b>Group 2019 R'000</b>	<b>Non-DPF component of insurance liabilities</b>	<b>DPF component of insurance liabilities</b>	<b>Total</b>
<b>South Africa</b>			
Gross	3 576 629	27 709 811	31 286 440
Net of reinsurance	3 649 518	27 709 811	31 359 329
<b>Namibia</b>			
Gross	329 338	1 016 376	1 345 714
Net of reinsurance	323 890	1 016 376	1 340 266

<b>Group 2018 R'000</b>	<b>Non-DPF component of insurance liabilities</b>	<b>DPF component of insurance liabilities</b>	<b>Total</b>
<b>South Africa</b>			
Gross	4 160 658	25 001 473	29 162 131
Net of reinsurance	4 096 524	25 001 473	29 097 997
<b>Namibia</b>			
Gross	344 001	869 076	1 213 077
Net of reinsurance	337 326	869 076	1 206 402

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 36. MANAGEMENT OF RISKS (continued)

### 36.2 Insurance product risk management (continued)

#### Insurance contracts – Short-term

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the allowance made for the payments of these benefits. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year-to-year from the estimate established using statistical techniques.

The Group believes that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to appropriately charge for the insurance risks accepted.

Pricing for the Group's short-term insurance products is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes trended forward to recognise anticipated changes in claims patterns. While claims remain the Group's principal cost, the Group also makes allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance and for a profit loading that adequately covers the cost of the capital.

Underwriting limits are set to ensure that the underwriting policy is consistently applied. Underwriting performance is monitored continuously and the pricing policy is revised accordingly. Risk factors considered as part of the review would typically include factors such as age of the insured person, past loss experiences, past insurance history, type and value of asset covered, security measures taken to protect the asset and major use of the covered item. The Group has the right to reprize and change the conditions for accepting risks on renewal and/or 30 days.

Expenses are monitored by business unit based on an approved budget and business plan. The underwriting strategy aims to ensure that the risks underwritten are well diversified in terms of type and amount of risk, size and geography.

Insurance risk is further mitigated by ensuring that reserve and reinsurance risk is adequately managed. Reserve risk relates to the risk that the claim provisions held for both reported and unreported claims as well as their associated expenses may prove insufficient.

The Group currently calculates its short-term insurance technical reserves on two different methodologies, namely the 'percentile approach' and the 'cost-of-capital approach'. The 'percentile approach' is used to evaluate the adequacy of technical reserves for financial reporting purposes, while the 'cost-of-capital approach' is used as one of the inputs for regulatory reporting purposes.

#### (a) Percentile approach

Under this methodology, reserves are held to be at least sufficient at the 75th percentile of the ultimate loss distribution. The first step in the process is to calculate a best-estimate reserve. Being a best-estimate, there is an equally likely chance that the actual amount needed to pay future claims will be higher or lower than this calculated value. The next step is to determine a risk margin. The risk margin is calculated such that there is now at least a 75% probability that the reserves will be sufficient to cover future claims. For more detail on the reserving techniques used in this approach, refer to note 35.2.

#### (b) Cost-of-capital approach

The cost-of-capital approach to reserving is aimed at determining a market value for the liabilities on the statement of financial position. This is accomplished by calculating the cost of transferring the liabilities, including their associated expenses, to an independent third party. The cost of transferring the liabilities off the statement of financial position involves calculating a best-estimate of the expected future cost of claims, including all related run-off expenses, as well as a margin for the cost of capital that the independent third party would need to hold to back the future claims payments.

Two key differences between the percentile and cost-of-capital approaches are that under the cost-of-capital approach, reserves must be discounted using a term-dependent interest rate structure and that an allowance must be made for unallocated loss adjustment expenses.

The cost-of-capital approach will result in different levels of sufficiency per class underwritten so as to capture the differing levels of risk inherent within the different classes. This is in line with the principles of risk-based solvency measurement.

The net claims ratio for the Group, which is important in monitoring short-term insurance risk is summarised below:

<b>Group</b>	<b>2019</b>	2018
<b>Loss history</b>		
Net claims paid and provided % of net earned premiums	<b>69.20%</b>	76.90%

#### *Reinsurance Risk Management*

Reinsurance risk is the risk that the reinsurance cover placed is inadequate and/or inefficient relative to the Group's risk management strategy and objectives. The Group obtains third-party short-term reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or the Group's capital. It is believed that the reinsurance programme suits the risk management needs of the business.

The core components of the reinsurance programme comprise:

- A Whole Account Clash & Catastrophe Excess of loss treaty with five layers. PPS STI retains the first R2.5 million of each and every claim, excluding reinstatement premiums as a result of a claim against the cover;
- A 10%/90% Quota Share Arrangement in respect of the Health Professions Indemnity liability product. PPS STI retains 10% of all premiums and claims.

The PPS Short-term Insurance board approves the reinsurance renewal process on an annual basis. The reinsurance programme is placed with external reinsurers that are registered with the Prudential Authority and have a domestic credit rating of no less than A-.

#### *Risk exposure and concentrations of risk*

The following table shows the Group's exposure to short-term insurance risk (based on the carrying value of the insurance liabilities at the reporting date) per category of business:

<b>Group</b>	<b>Motor</b>	<b>Property</b>	<b>Liability</b>	<b>Miscellaneous</b>
<b>2019</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Gross	<b>17 076</b>	<b>6 816</b>	<b>7 099</b>	<b>18</b>
Reinsurance	-	<b>1 263</b>	<b>5 231</b>	-
Net of reinsurance	<b>17 076</b>	<b>5 553</b>	<b>1 868</b>	<b>18</b>
<b>Group</b>	<b>Motor</b>	<b>Property</b>	<b>Liability</b>	<b>Miscellaneous</b>
<b>2018</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Gross	14 171	5 837	527	-
Reinsurance	-	957	-	-
Net of reinsurance	14 171	4 880	527	-

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for the year ended 31 December 2019

## 36. MANAGEMENT OF RISKS (continued)

### 36.3 Financial risk management (continued)

#### ***Risk management relating to investment contracts***

The Group commenced selling investment products from 2007 through its subsidiary group PPS Investments (Proprietary) Limited ('PPS Investments'). For these contracts the investment risk is carried by the policyholders. In PPS Investments there is a risk of reduced income from fees where these are based on the underlying value of the invested assets. There is furthermore a reputational risk if actual investment performance is not in line with contract holders' expectations. These risks are managed through a rigorous multi-manager investment research process applied by PPS Investments' investment managers, which includes both technical and fundamental analysis.

The investment contracts underwritten by PPS Insurance are the PPS Endowment, the PPS Corporate Endowment and the PPS Living Annuity.

### 36.3 Financial risk management

The Group is exposed to financial risk through its financial assets, financial liabilities (including investment contracts), reinsurance assets and insurance policy liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk (comprising interest rate risk, equity price risk and foreign currency risk), liquidity risk and credit risk. The participating nature of the contracts issued results in the financial risk being carried by the insured parties by means of variations in the amounts allocated to the DPF element. However, the Group continues to manage the financial risk in order to maximise the benefits available to policyholders.

These financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The primary risk that the Group faces arises from the impact of volatility in equity prices and interest rates on the value of assets and liabilities.

The Group manages exposure to investment volatility as part of a regular review of the assets held to back the insurance policy liabilities using asset liability modeling techniques. The asset-liability risk management policy allows for asset liability modeling to drive the optimal long-term asset class composition. This approach ensures the expected return on assets is sufficient to fund the required return on the risk reserves and to maximise the rate of return on the balance of the policy liabilities subject to acceptable levels of risk. Asset class composition is reviewed on a quarterly basis with the respective asset managers.

#### ***Credit and counterparty risk***

Credit risk refers to the risk of loss arising from the inability of the counterparty to service its debt obligations. The Group's key areas of exposure to credit risk include:

- debt securities and cash and cash equivalents;
- amounts due from insurance and investment contract policyholders;
- amounts due from intermediaries;
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of payments already made to policyholders; and
- amounts due from insurance and other receivables.

The nature of the Group's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior period.

In monitoring credit risk, amounts receivable are grouped according to their credit characteristics. The Group also limits its exposure to credit risk by only investing in liquid debt securities and only with counterparties that have a credit rating as set out below as well as only investing with reputable banks which are assessed quarterly.

The Group only enters into insurance contracts with eligible professional individuals. PPS Group operates a Credit Control Policy regarding outstanding long-term insurance premiums, which is formulated on the relevant provisions of the Policyholder Protection Rules ("PPRs") made under section 62 of the Long-Term Insurance Act 52 of 1998, as substituted and/or amended from time



to time and agreed in contracts with our members. In terms of this policy, a formal communication is sent to members after the first month and second month of premium defaults. In the third month of default, members are informed that premium collections have ceased and all benefits are suspended. In the event of default on the part of the individual, where the Apportionment Accounts has vested to the individual, there is a legal right of offset of the Apportionment Account against any outstanding premiums payable. This significantly reduces the credit risk on insurance policyholder recoverables.

The Group only enters into reinsurance agreements with reinsurers registered with the Prudential Authority. The reinsurers contracted with, represent subsidiaries of large international reinsurance companies. No instances of default have been encountered. As such the Group has selected reinsurers with a minimum credit rating of A+ for Long-Term insurance and A- for Short-Term insurance.

Cash and cash equivalents are invested with financial institutions holding credit ratings within the guidelines set by the Board, similar to corporate and government debt indicated below, as well as restrictions in the Collective Investment Schemes Control Act, No. 45 of 2002, as amended. The spread of cash between financial institutions is determined in line with limits specified in the Insurance Act 18 of 2017, as substituted and/or amended from time to time. The financial soundness of counterparties holding the Group's cash is monitored by management on a monthly basis.

#### **Exposure to credit risk**

The maximum exposure to credit risk at the reporting date from financial assets, including unit trusts, and insurance contracts was:

<b>Group R'000</b>	<b>2019</b>	2018
Debt securities*	<b>18 188 404</b>	15 712 835
Reinsurance assets	<b>18 084</b>	82 346
Insurance receivables	<b>122 529</b>	80 697
Cash and cash equivalents*	<b>3 328 761</b>	2 744 193
Other receivables	<b>290 004</b>	388 272
Reinsurance receivables	<b>145 051</b>	79 551
<b>Total</b>	<b>22 092 833</b>	19 087 894

#### **Corporate and government debt**

Included in the category designated at fair value through profit or loss are interest instruments of corporate and government debt. Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt. To mitigate this risk, management has formulated guidelines based on ratings from Standard & Poor's, an industry accepted credit ratings agent.

The Group's total exposure to corporate debt amounted to R18.2 billion (2018: 15.7 billion) at 31 December 2019. The following represent the major industry sectors to which the Group is exposed as at 31 December 2019:

<b>Group R'm</b>	<b>2019</b>	2018
Government	<b>8 023</b>	6 963
Banks	<b>7 464</b>	6 667
Utilities	<b>479</b>	116
Corporate	<b>2 222</b>	1 967
<b>Total</b>	<b>18 188</b>	15 713

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### 36. MANAGEMENT OF RISKS (continued)

#### 36.3 Financial risk management (continued)

##### Concentrations of credit risk

The maximum exposure to credit risk for its financial assets, including unit trusts, at the reporting date by credit rating category was as follows:

Group	Financial assets that are past due					Total
	AAA and Government	Below AAA but no lower than A	Below A but no lower than BBB-	BBB- and Below	Unrated	
<b>2019</b>						
<b>R'000</b>						
Debt securities*	8 714 947	6 962 479	2 281 082	211 207	18 689	18 188 404
Reinsurance assets	-	18 470	-	-	-	18 470
Insurance receivables	-	-	-	-	122 529	122 529
Cash and cash equivalents*	207 861	2 944 806	176 094	-	-	3 328 761
Other receivables	-	-	-	-	290 004	290 004
Reinsurance receivables	-	145 051	-	-	-	145 051

\* Including assets held in unit trust funds

Group	Financial assets that are past due					Total
	AAA and Government	Below AAA But no lower than A	Below A but no lower than BBB-	BBB- and Below	Unrated	
<b>2018</b>						
<b>R'000</b>						
Debt securities*	7 694 248	5 949 692	1 496 240	235 812	336 843	15 712 835
Reinsurance assets	-	81 389	957	-	-	82 346
Insurance receivables	-	-	-	-	80 697	80 697
Cash and cash equivalents*	63 000	2 220 198	2 260	410 273	48 462	2 744 193
Other receivables	-	-	-	-	388 272	388 272
Reinsurance receivables	-	79 551	-	-	-	79 551

\* Including assets held in unit trust funds

##### Ageing of financial assets

The following table provides information regarding the credit quality of assets which expose the Group to credit risk:

Group	Financial assets that are past due				Carrying value
	Neither past due nor impaired	Between 0 - 2 months	Between 2 - 5 months	More than 5 months	
<b>2019</b>					
<b>R'000</b>					
Insurance receivables	96 042	2 242	1 027	23 218	122 529
Reinsurance assets	18 470	-	-	-	18 470
Reinsurance receivables	119 053	3 650	22 348	-	145 051
Other receivables	225 451	62 467	746	1 340	290 004
Cash and cash equivalents	3 328 761	-	-	-	3 328 761

Group	Neither past due nor impaired	Financial assets that are past due			Carrying value
		Between 0 - 2 months	Between 2 - 5 months	More than 5 months	
<b>2018</b>					
<b>R'000</b>					
Insurance receivables	67 256	2 432	278	10 731	80 697
Reinsurance assets	82 346	-	-	-	82 346
Reinsurance receivables	73 098	869	2 697	2 887	79 551
Other receivables	330 753	55 120	476	1 923	388 272
Cash and cash equivalents	2 744 193	-	-	-	2 744 193

The Group does not have collateral or other credit enhancements for its credit risk exposure from financial assets and insurance contract assets during the current or prior year.

There are no financial assets where the terms have been renegotiated for the current or prior year.

#### **Individually impaired assets**

The analysis of overall credit risk exposure indicates that the Group has receivables from contract holders that are impaired at the reporting date. The assets are analysed below:

Group	2019			2018		
	Gross	Impairment losses	Net	Gross	Impairment losses	Net
<b>R'000</b>						
Due from contract holders	135 459	12 930	122 529	91 105	10 408	80 697
Loan to associate company	234 358	234 358	-	190 439	91 629	98 810

#### **Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts and in respect of financial liabilities.

The Group's approach to managing its liquidity risk is as follows:

- Policyholder funds are invested in assets that in aggregate match the reasonable benefit expectation of policyholders, which includes the expectation that funds will be available to pay out benefits as required by the insurance contract.
- Policyholder funds are primarily invested in assets that are listed financial instruments on various stock and bond exchanges and cash or cash equivalents that are actively traded on the various stock and bond exchanges, resulting in the ability to liquidate most of these investments at relatively short notice to be able to timeously pay out benefits as required by the policy contract. Some policyholder funds are invested in less liquid assets, such as fixed property, but not to the extent that this creates a material liquidity risk in meeting commitments to policyholders.
- Furthermore, the operational cash flow is sufficient to cover cash flow of a normal operational nature for example, in order to settle outstanding trade creditor balances.

The following are the contractual maturities of financial liabilities and insurance contract liabilities, including interest payments and excluding the impact of netting agreements:

For long-term obligations with non-DPF components, the amounts in the table represent the estimated cash flows, consistent with the valuation methodology followed by the calculation of the non-DPF component of the insurance liabilities on the published reporting basis. All the cash flows are shown net of reinsurance. Nominal cash flows are shown and the effect of discounting is

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for the year ended 31 December 2019

### 36. MANAGEMENT OF RISKS (continued)

#### 36.3 Financial risk management (continued)

taken into account to reconcile to total policy liabilities under insurance contracts. Since the DPF component is a retrospective accumulation of past profit declarations, the current value is taken as the value of the underlying assets (shown in the tables above).

Group	Contractual cash flows							
	2019 R'000	Carrying amount	Total cash flows	Within 1 year	2 - 5 years	6 - 10 years	11 - 20 years	Over 20 years
Insurance contract liabilities - DPF	28 975 441	28 975 441	1 796 255	4 338 124	6 289 637	10 821 406	5 730 019	
Insurance contract liabilities - non-DPF	3 973 407	(98 664 290)	961 283	3 101 046	2 180 136	(216 607)	(104 690 148)	
Short-term Insurance liabilities	38 883	38 883	33 024	5 859	-	-	-	
Reinsurance payables	38 493	38 493	38 493	-	-	-	-	
Third-party financial liabilities arising on consolidation of unit trusts	14 908 168	14 908 168	14 908 168	-	-	-	-	
Investment contract liabilities	2 589 356	2 589 356	2 589 356	-	-	-	-	
Borrowings	166 244	166 244	25 837	109 798	2 558	28 051	-	
Other financial liabilities	941 068	941 068	941 068	-	-	-	-	
Lease liabilities	74 627	74 627	20 345	54 282	-	-	-	

<b>Group</b>	<b>Contractual cash flows</b>							
	<b>2018</b>	<b>Carrying</b>	<b>Total cash</b>	<b>Within 1</b>	<b>2 - 5</b>	<b>6 - 10</b>	<b>11 - 20</b>	<b>Over 20</b>
<b>R'000</b>	<b>amount</b>	<b>flows</b>	<b>year</b>	<b>years</b>	<b>years</b>	<b>years</b>	<b>years</b>	<b>years</b>
Insurance contract liabilities - DPF	26 073 342	26 073 342	1 512 736	3 784 285	5 551 165	9 719 624	5 505 532	
Insurance contract liabilities - non-DPF	4 433 850	(53 613 043)	886 638	2 547 662	1 397 611	(665 271)	(57 779 683)	
Short-term Insurance liabilities	21 808	21 808	21 292	516	-	-	-	-
Reinsurance payables	35 448	35 448	35 448	-	-	-	-	-
Third-party financial liabilities arising on consolidation of unit trusts	12 670 465	12 670 465	12 670 465	-	-	-	-	-
Investment contract liabilities	2 045 946	2 045 946	2 045 946	-	-	-	-	-
Borrowings	173 688	173 688	24 602	110 862	11 704	26 520	-	-
Other financial liabilities	808 694	808 694	808 694	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-	-	-

### **Market risks**

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and equity prices will affect the value of the Group's financial assets and the amount of the Group's liabilities as well as the Group's insurance contract assets and liabilities. Market risk arises in the Group due to fluctuation in the value of liabilities and the value of investments held.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on assets. The nature of the Group's exposure to market risk and its objectives, policies and procedures for managing market risks have not changed significantly from the prior period although rigor has been applied to these in light of current market conditions and volatility. Refer below for more detail.

NOTES TO THE CONSOLIDATED  
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for the year ended 31 December 2019

## 36. MANAGEMENT OF RISKS (continued)

### 36.3 Financial risk management (continued)

#### Management of market risk

The management of each of these major components of market risk and the exposure of the Group at the reporting date to each major risk is addressed below.

#### (a) Interest rate risk

Interest rate risk arises primarily from the Group's investments in debt securities, cash and cash equivalents and its long-term debt obligations. However, changes in investment values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of insurance and investment contract liabilities. As a result of this, the exposure to interest rate risk is managed by the asset managers through the limit in the investment mandates with regard to investing in debt securities, as well as the internal benchmark performance that the asset managers are measured against.

The nature of the Group's exposure to interest rate risk and its objectives, policies and procedures for managing interest rate risk have not changed significantly from the prior period.

The cash and cash equivalents and debt securities interest rate sensitivity on profit before movement in insurance liabilities is shown below:

Group	2019 R'000	2018 R'000
<b>Cash and cash equivalents</b>		
Interest rate decrease: 1%	<b>(33 288)</b>	(27 442)
Interest rate increase: 1%	<b>33 288</b>	27 442
<b>Debt Securities</b>		
Interest rate decrease: 1%	<b>(181 884)</b>	(157 128)
Interest rate increase: 1%	<b>181 884</b>	157 128
<b>Total interest rate risk</b>		
Interest rate decrease: 1%	<b>(215 172)</b>	(184 956)
Interest rate increase: 1%	<b>215 172</b>	184 956

Fluctuations in the value of assets held to back the DPF component of the policy liabilities will affect the allocations to DPF benefits each year. The choice of assets to back the DPF component of the policy liabilities reflects the Group's interpretation of the investment risk appetite of the policyholders. The assets held in this regard are as follows:

Group 2019	Total Portfolio excluding Investment Choice		Investment Choice	
	R'000	%	R'000	%
<b>Local</b>				
Equity	<b>12 805 234</b>	<b>48.4</b>	<b>1 436 981</b>	<b>32.6</b>
Fixed interest	<b>5 068 087</b>	<b>19.1</b>	<b>1 905 568</b>	<b>43.2</b>
Cash	<b>2 192 264</b>	<b>8.3</b>	<b>253 183</b>	<b>5.7</b>
<b>International</b>				
Equity	<b>6 406 396</b>	<b>24.2</b>	<b>815 944</b>	<b>18.5</b>
<b>Total</b>	<b>26 471 981</b>	<b>100.0</b>	<b>4 411 676</b>	<b>100.0</b>

<b>Group 2018</b>	<b>Total Portfolio excluding Investment Choice R'000</b>	<b>%</b>	<b>Investment Choice R'000</b>	<b>%</b>
<b>Local</b>				
Equity	12 925 783	54.3	1 034 523	27.9
Fixed interest	4 134 492	17.4	1 614 361	43.6
Cash	1 637 542	6.9	208 015	5.6
<b>International</b>				
Equity	5 110 675	21.4	846 878	22.9
<b>Total</b>	<b>23 808 492</b>	<b>100.0</b>	<b>3 703 777</b>	<b>100.0</b>

The assets held to back the non-DPF component of the liabilities similarly reflect the Group's risk appetite and the results of the asset liability modelling exercises undertaken in the past. Investment profits or losses arising from the impact of fluctuations in market values of assets and interest rates on the value of assets and non-DPF policy liabilities will be transferred to policyholders by adjusting the allocations made to the DPF component of their benefits.

Younger policyholders have more time to recover from the volatility in the financial markets. For that reason the strategic asset allocation for the invested portfolio representing these policyholders has a higher exposure to equity and thus risk. Older policyholders have less time to recover from negative market performance, and are thus given a voluntary option each year to switch to more conservative investment portfolios from age 55 ('Investment Choice'), i.e. portfolios where there is reduced exposure to equities.

The assets held to back the non-DPF component of the policy liabilities are as follows:

<b>Group</b>	<b>2019</b>		<b>2018</b>	
	<b>R'000</b>	<b>%</b>	<b>R'000</b>	<b>%</b>
<b>Local</b>				
Equity	<b>428 128</b>	<b>10.8</b>	688 653	15.5
Fixed interest	<b>3 086 363</b>	<b>77.7</b>	3 491 682	78.8
Cash	<b>50 698</b>	<b>1.3</b>	54 444	1.2
<b>International</b>				
Equity	<b>408 218</b>	<b>10.2</b>	199 070	4.5
<b>Total</b>	<b>3 973 407</b>	<b>100.0</b>	<b>4 433 849</b>	<b>100.0</b>

The assets backing the non-DPF liabilities are invested in such a manner as to try and minimise the asset liability mismatch for interest rate risk and duration risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 36. MANAGEMENT OF RISKS (continued)

### 36.3 Financial risk management (continued)

#### (b) Currency risk

The Group's operations in Namibia created no additional sources of foreign currency risk due to the fact that there is no exchange difference between the Namibian Dollar and the South African Rand.

The asset managers actively manage the currency risk when decisions are made in regard to investing internationally. All international investment returns are shown in US Dollars and the effect of the trading in different currencies is reflected in the investment performance which is measured against an internal benchmark. In terms of legislation, up to 30% of the South African long-term insurance company's investments may be invested in foreign currency and hence that Company has less than 30% exposure to currency risk. The limit for the Namibian long-term insurance company is 35% in terms of local legislation.

The potential impact of currency movements on the share prices of domestic equities with significant foreign currency earnings is addressed by the asset managers in their assessment of the appropriate equities to hold in their mandates with PPS.

The international assets' currency sensitivity on profit before movement in insurance liabilities is shown below:

Group	2019 R'000	2018 R'000
<b>Currency risk</b>		
South African Rand exchange rate decrease: 1%	<b>(95 041)</b>	(78 441)
South African Rand exchange rate increase: 1%	<b>95 041</b>	78 441

#### (c) Equity price risk

The Group holds a significant portfolio of equities which are subject to price movements. The majority of these assets are held to support contractual liabilities arising from unit-linked insurance contracts, contracts with DPF and investment contracts and therefore the price movements are matched with corresponding movements on contractual obligations.

The exposure to equities is managed to ensure that the Group's internal capital requirements are met at all times, as well as those mandated by the Group's external regulators.

Benchmarks and risk parameters are set against which the Group measures the asset managers. A monthly compliance statement is provided by each asset manager stating their adherence to the investment mandate, and highlighting any deviations and the corrective action to be taken to rectify the deviations. The performance of the assets against benchmarks, and the adherence to mandates, are monitored monthly by management. The asset managers present the performance against benchmarks and adherence to mandates, to the Board, on a biannual basis.

The nature of the Group's exposures to equity risk and its objectives, policies and processes for managing equity risk have not changed significantly from the prior period. The assets have performed well compared to the benchmark. This coupled with the long-term view that PPS takes towards its investments, means that the long-term asset strategy and asset allocations have remained unchanged.

The Equity price risk sensitivity on profit before movement in insurance liabilities is shown below:

Group	2019 R'000	2018 R'000
<b>Equity Price risk</b>		
Price decrease: 1%	<b>(290 389)</b>	(270 477)
Price increase: 1%	<b>290 389</b>	270 477



### Market risk sensitivity analysis

The table below shows the results of sensitivity testing on the Group's profit or loss (before tax) and equity for reasonable possible changes in the risk variables. The sensitivity analysis indicates the effect of changes in market risk factors arising from the impact of the changes in these factors on the Group's financial assets and liabilities and its insurance assets and liabilities.

For the DPF insurance liabilities and investment contracts the assets and liabilities are matched. The market risk is thus carried by policyholders. The impact of any change in the market risk will be in the movement to/from insurance policy liabilities on the Statement of Profit or Loss and Other Comprehensive Income.

The only other impact is the change in the investment management fees, which will fluctuate as a percentage of the movement in the assets.

This is also disclosed within the movement in policy liabilities on the Statement of Profit or Loss and Other Comprehensive Income. Therefore a market risk sensitivity analysis has not been included for this component of the business.

The market risk sensitivity is shown below:

Group	Contracts with non-DPF Impact on profit/(loss) before movement in insurance policy holder liability	
	2019 R'000	2018 R'000
<b>Interest rate risk</b>		
Decrease of 1% in Yield Curve	<b>(1 903 551)</b>	(1 814 064)
Increase of 1% in Yield Curve	<b>1 316 042</b>	1 365 076

The effect of changes in the net capital value of non-DPF contracts due to market movements are fully absorbed by adjusting the net capital value of DPF contracts resulting in a zero impact on total net capital of the Group.

### Assumptions, methodology and limitations of sensitivity analysis

The effects of the specified changes in factors are determined using actuarial and statistical models, as relevant. The level of movements in market factors on which the sensitivity analysis is based were determined based on economic forecasts and historical experience of variations in these factors.

The sensitivity table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the sensitivity analysis is based on the Group's financial position at the reporting date and may vary at the time that any actual market movement occurs. As investment markets move past pre-determined trigger points, management action would be taken which would alter the Group's position.

### Underwriting risk: Long-Term Insurance

Underwriting risk is the risk that the actual exposure to mortality, disability and medical risks in respect of policyholder benefits will exceed prudent exposure.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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## 36. MANAGEMENT OF RISKS (continued)

### 36.3 Financial risk management (continued)

Underwriting risk is controlled by underwriting principles. The underwriting process takes into account actual and prospective mortality, morbidity and the expense experience.

The Head of Actuarial Function ('HAF') reviews and attests annually on the reliability and adequacy of technical provisions and the Solvency Capital Requirement. The HAF expresses an opinion on the Underwriting Policy as well as the soundness of the premium rates in use and the profitability of the business, taking into consideration the reasonable benefit expectation of policyholders. All new rate tables are approved and authorised by the Executive: Actuarial Services prior to being issued. Regular investigations into the mortality and morbidity experience are conducted. All risk-related mortality lump sum, disability and critical illness liabilities in excess of specified monetary limits are reinsured. A sickness experience report is annually presented analysing claim patterns and trends. The latest report indicated no significant deterioration in claim patterns.

#### **Reinsurance outwards: Long-Term Insurance**

A comprehensive, Board approved, reinsurance strategy is in place for the Group. Certain life, disability, dread disease and physical impairment risks are reinsured. The risks to be reinsured have been decided upon by balancing the need to reduce variability of claims experience against the cost of reinsurance. The reinsurers contracted with have been assessed on their ability to provide the Group with product, pricing, underwriting and claims support, as well on as on their global credit rating.

#### **Claims risk: Long-Term Insurance**

Pro-active training of staff takes place to ensure that fraudulent claims are identified and investigated timeously. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks. The forensic investigation team also advises on improvements to internal control systems and performs forensic investigations on perceived fraudulent claims. The Forensic Investigations department investigates all suspected fraudulent claims.

#### **Products and pricing risk: Long-Term Insurance**

Some of the mitigating measures in place to address this risk include:

- Ongoing analysis of risk experience (such as the sickness and mortality investigations).
- Use of reinsurance - this protects the insurer in that some of the risk of insufficient rates is passed onto a reinsurer.
- Margins in the premium rates - generally additional margins are included in the setting of premium rates to arrive at a more prudent set of rates and should protect against experience being slightly worse than anticipated.
- Non-guaranteed rates allows the Group to change its rates should the experience worsen significantly or be anticipated to worsen significantly.
- The thorough testing of proposed products upfront, including testing expected expenses and volumes of business, provides a sense of the expected parameters within which the product pricing will remain appropriate. If expenses or volumes are significantly different from the business plan then the overall offering and position will be revisited and consideration given to making appropriate changes to remedy worsening positions.
- Valuation - the annual valuation provides valuable information about changing parameters (such as mortality, morbidity, long term investment returns, yields, etc.).

#### **Expense risk**

There is a risk that the Group may suffer a loss from actual expenses being higher than those assumed when pricing or valuing contracts. This may be caused by factors increasing the expense charge in running the business, higher than expected expense inflation, or by an in force policy book smaller than expected. Alternatively, lower than expected volumes of new business or higher than expected contract terminations may result in higher than expected unit costs per policy.

Expense investigations are performed annually and valuation expense assumptions are set based on the results of this investigation, taking cognisance of the budgeted expenses per policy for the next financial year. Actual expenses are compared against budgeted expenses on a monthly basis. Due to the mutual nature of the Group, expense savings or expenses losses compared to expected expenses will respectively result in a higher or lower profit allocation to the policyholders.

#### **Business volume risk**

There is a risk that the Group may not cover the costs of acquisition and distribution if insufficient volumes of new business are sold. A mitigating factor is that a substantial portion of these costs are variable costs. Actual sales volumes are compared against budgeted and annual targeted sales on a monthly basis. This enables management to determine whether there are any factors that could impact the delivery of the targeted volumes. Where these are identified, an investigation occurs and the appropriate corrective action is taken.

#### **Data and model risk**

There is a risk that the Group may suffer a loss if the model used to calculate the insurance liabilities does not project the expected cash flows on the contracts accurately. This risk is mitigated by comparing the actual cash flows with the expected cash flows on a product basis at least annually. All new contract designs are also incorporated into the model. Detailed investigations are performed annually to ensure the integrity of the data used in the valuation process. Automated systems have been implemented to flag any anomalous transactions on an ongoing basis.

#### **Capital management**

##### **Long-Term Insurance**

The Group's capital management objectives are:

- To comply with the insurance regulatory capital requirements in the countries in which the Group operates.
- To safeguard the entity's ability to continue as a going concern.
- To continue to provide acceptable returns for policyholders and members, and benefits for other stakeholders.

The Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and satisfy regulators whilst still creating value for policyholders.

The level of accumulated funds required by the Group is determined by the Insurance Act 18 of 2017 in South Africa and Namibian legislation (Act 5 of 1998) in Namibia, together with the Group's licence requirements.

The minimum capital requirements must be maintained at all times during the year. The table below summarises the minimum accumulated funds requirements across the Group and the actual accumulated funds held.

R'000	2019		2018	
	South Africa	Namibia	South Africa	Namibia
Capital held	470 310	6 000	434 287	6 000
Regulatory capital	179 196	4 000	165 341	4 000

The Board considers the capital of the Group to be the total of all accumulated funds held as well as the DPF Insurance Liabilities (refer note 12) as the policy holders are also the members of the Group. A detailed Asset Liability Matching (ALM) investigation is conducted regularly to better understand the potential impact on the capital of the Group of different market conditions, such as

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 36. MANAGEMENT OF RISKS (continued)

### 36.3 Financial risk management (continued)

interest rate fluctuations and volatility in equity prices. The impact of varying operational conditions (such as variations in deaths, withdrawals and profits) on the Group's capital is also presented to the Board. The results of the ALM investigations may lead to changes in the approved asset class mixes contained in the Investment Policy, in order to address any increases in the risk of volatility identified in the ALM investigation.

There have been no material changes in the Group's management of capital during the period. The Group has maintained its level of regulator capital cover at 2.6 times. This decision has resulted in R36.0 million (2018: R56.7 million) being allocated to accumulated funds.

#### **Short-Term Insurance**

The Board's policy is to maintain an adequate capital base to protect policyholders' and creditors' interests and satisfy regulators whilst still creating value for shareholders.

The level of accumulated funds required by the Group is determined by the Prudential Standards under the Insurance Act 18 of 2017.

The minimum capital requirements are maintained at all times during the year. The Board considers the capital of the Group to be the total of all accumulated funds held.

The Group has a level of SCR cover at 1.43 times (2018: 1.43 times).

The Group has complied with all externally and internally imposed capital requirements throughout the period.

#### **PPS Collective Investment Scheme funds managed by PPS Multi-Managers Pty Ltd**

The Group invests in various registered unit trusts in order to match obligations provided in policyholder contracts.

Each fund has its own legal constitution and operates within a defined fund mandate delegated to the appointed fund manager. Market and credit risks assumed within the assets held are controlled by various protection mechanisms within the mandate and in law. For example, the Collective Investment Schemes Control Act, No. 45 of 2002 as amended, in South Africa prescribes maximum limits for the concentration of risk exposures.

The Collective Investment Scheme's oversight board appoints administrators who are responsible to ensure that the fund's mandate and any internal and legislated control procedures are adhered to. In the event of a breach they are obligated to immediately bring it to the attention of the fund's trustees, Board and management for remedial action.

The unit trust fund vehicle and related procedures for offering investments is mature within South Africa and is well-regulated.

The unit trust funds which are defined as portfolios can be grouped under the group company, namely Professional Provident Society Investments (Pty) Ltd ('PPS Investments'), a Professional Provident Society Insurance Company Ltd subsidiary. Described below is the unit trust subsidiary manager and asset manager and its respective mandate and objective.

#### **Funds managed by PPS Multi-Managers Pty Ltd**

PPS Investments Group employs a combination of single- and multi-manager investment approach that is designed to generate acceptable levels of returns at lower than average levels of risk. This is achieved by:

- thorough and ongoing quantitative and qualitative research process of potential managers in the domestic market;
- selecting specialist asset managers, taking their investment style and specific areas of expertise into consideration;
- determining the optimal blend of selected managers within the portfolio through a portfolio construction and optimisation process;
- writing segregated investment mandates with selected managers to tightly control portfolio risk;

- continuous monitoring of the portfolio risk and return characteristics of each selected manager as well as of the overall portfolio; and
- making manager changes where PPS Investments feels this is in the best interest of investors.

The Collective Investments Scheme Control Act also imposes specific restrictions which the underlying managers have to comply with and also restricts the interest rate and credit risk, where applicable, that they are able to take.

**(a) PPS Conservative Fund of Funds**

**Investment objective**

To maximise total portfolio return while outperforming a conservative return target of CPI + 2% per annum over the medium term.

**Investment mandate**

This multi-managed fund invests in a number of underlying managers with the specific mandate to employ real return strategies to provide real capital growth. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 40% of the portfolio value.

**Typical investments**

The managers invest in fixed instruments such as money market and bonds, as well as local and international equities.

**Risk exposure**

A conservative fund exposed to credit risk, interest rate risk, local and international equity price risk and currency risk.

**(b) PPS Moderate Fund of Funds**

**Investment objective**

To maximise total portfolio return while outperforming a moderate return target of CPI + 4% per annum over the medium term.

**Investment mandate**

This multi-managed fund invests in a number of underlying managers with the specific mandate to employ real return strategies to provide real capital growth. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 60% of the portfolio value.

**Typical investments**

The managers invest in fixed instruments such as money market and bonds, as well as local and international equities.

**Risk exposure**

A moderate fund exposed to credit risk, interest rate risk, local and international equity price risk and currency risk.

**(c) PPS Enhanced Yield Fund**

**Investment objective**

To provide an enhanced level of income in excess of a broad short-term fixed interest benchmark.

**Investment mandate**

This specific mandate to actively manage the fund by investing in instruments across various maturities but limiting the weighted average maturity to less than one year. Asset allocation is defensive with exposure primarily to floating rate instruments, including high-yielding corporate bonds and securities, government bonds and cash.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 36. MANAGEMENT OF RISKS (continued)

### 36.3 Financial risk management (continued)

#### **Typical investments**

The manager typically invests in income-yielding floating rate domestic big five bank paper as well as money market and government bonds.

#### **Risk exposure**

An enhanced yield income fund exposed to credit risk and interest rate risk.

#### **(d) PPS Flexible Income Fund**

##### **Investment objective**

To provide investors with a total return with a strong income bias while also seeking to protect capital in terms of bond market index.

##### **Investment mandate**

This multi-managed flexible income fund invests in a number of underlying managers with the specific mandate to actively manage the fund by investing without prescribed maturity limits. Asset allocation is defensive with exposure to fixed interest instruments, including high-yielding corporate bonds and securities, government bonds, listed property, preference shares and inflation-linked bonds and to the extent as allowed by the Act.

##### **Typical investments**

The manager invests in income-yielding fixed instruments such as money market, bonds and preference shares.

##### **Risk exposure**

A flexible income fund exposed to credit risk, interest rate risk and currency risk.

#### **(e) PPS Equity Fund**

##### **Investment objective**

To provide long-term capital growth that exceeds the return provided by a broad equity market index.

##### **Investment mandate**

This multi-managed fund invests in a number of underlying managers with the specific mandate to actively manage exposures to domestic listed equities in order to deliver long-term performance.

##### **Typical investments**

This multi-managed fund invests in domestic listed equities and cash.

##### **Risk exposure**

An equity fund exposed to local equity price risk, company specific risk and indirect currency risk.

#### **(f) PPS Balanced Fund of Funds**

##### **Investment objective**

To maximise total portfolio returns while outperforming a peer-relative benchmark over the medium to long term.

##### **Investment mandate**

This multi-managed fund invests in a number of underlying managers who invest in a spectrum of local and international securities within the parameters of Regulation 28 of the Pension Funds Act, No 24 of 1956 with the specific focus on long-term growth.

##### **Typical investments**

The managers invest in local and international equities, bonds, property, as well as money market instruments.

**Risk exposure**

A medium to high risk fund, exposed to credit risk, interest rate risk, local and international equity price risk and currency risk.

**(g) PPS Worldwide Flexible Fund of Funds****Investment objective**

To maximise total portfolio returns while outperforming a return target of CPI+6% per annum over the long term.

**Investment mandate**

This multi-managed fund invests in a number of underlying managers who invest in a spectrum of local and international securities with the specific mandate to provide real capital growth. Flexible asset allocation provides diversification across asset classes and sectors.

**Typical investments**

The managers invest in local and international equities, bonds, property, as well as money market instruments.

**Risk exposure**

A medium to high risk fund, exposed to credit risk, interest rate risk, local and international equity price risk and currency risk. The fund can hold up to 100% offshore, but in general is expected to be between 40% and 60% invested in international assets.

**(h) PPS Global Balanced Fund of Funds****Investment objective**

To maximise total portfolio returns while outperforming a composite industry benchmark (comprising 60% global equities and 40% global bonds) over the medium to long term.

**Investment mandate**

This multi-managed fund invests in a number of underlying managers who invest in a spectrum of international securities with the specific focus on long-term capital growth and income.

**Typical investments**

The managers invest in international equities, bonds, property, property, as well as money market instruments.

**Risk exposure**

A medium to high risk fund, exposed to credit risk, interest rate risk, international equity price risk and currency risk.

**(i) PPS Balanced Index Tracker Fund****Investment objective**

To track the customised PPS Balanced Index, a published multi-asset high equity composite index that is diversified across a number of constituent indices, and calculated and published daily by a recognised index compiler.

**Investment mandate**

This index tracker invests in the type of securities necessary to effectively track the index.

**Typical investments**

The multi-asset, high equity composite index that the PPS Balanced Index Tracker Fund tracks includes local and international equities, domestic bonds, domestic cash and domestic property.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 36. MANAGEMENT OF RISKS (continued)

### 36.3 Financial risk management (continued)

#### **Risk exposure**

A medium to high risk fund, exposed to credit risk, interest rate risk, international equity price risk and currency risk.

#### **(j) PPS Institutional Multi-Asset Low Equity Fund**

##### **Investment objective**

Deliver a consistent benchmark beating return over a rolling 36-month period, while aiming to minimise capital loss over any 12-month period.

##### **Investment mandate**

This institutional multi-managed fund has a focus on capital protection and diversification. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 40% of the portfolio value.

##### **Typical investments**

The manager invests in fixed instruments such as money market and bonds, as well as local and global property and equities.

##### **Risk exposure**

A low to medium risk fund exposed to equity price risk, credit risk, currency risk, liquidity risk and interest rate risk, both domestically and internationally.

#### **(k) PPS Bond Fund**

##### **Investment objective**

To outperform the broad bond market index within defined duration limits relative to the benchmark, with more consistency than a typical bond fund.

##### **Investment mandate**

This multi-managed bond fund invests in underlying managers that invests in a spectrum of fixed interest securities with the focus on benchmark relative performance, together with a regular and high level of income. Inflation protection over the long-term forms part of the investment mandate.

##### **Typical investments**

The portfolio will invest in a spread of listed and unlisted bonds, inflation-linked bonds, fixed deposits and other interest-bearing securities. The portfolio may invest in short, intermediate and long-dated securities.

##### **Risk exposure**

A bond fund exposed to credit risk, interest rate risk and inflation risk.

#### **(l) PPS Institutional Multi-Asset Flexible Fund**

##### **Investment objective**

To maximise total portfolio return while outperforming CPI for all urban areas over a rolling three-year period. The portfolio has a focus on capital growth and diversification.

##### **Investment mandate**

This institutional multi-managed fund invests in a number of underlying managers with a specific mandate to allocate assets based on their best investment view. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limited to not more than 75% of the portfolio value.



**Typical investments**

The managers may invest in a flexible combination of listed and unlisted investments across equity, bond, money and property market.

**Risk exposure**

A moderate to high risk fund exposed to credit risk, interest rate risk and local equity price risk.

**(m) PPS Stable Growth Fund****Investment objective**

The primary objective to outperform ASISA SA MA Medium equity while preserving capital over the medium to long-term. The investment horizon for this fund is greater than five years.

**Investment mandate**

This portfolio will be managed using a single-manager investment process. This fund has an absolute return focus and the fund will aim for medium to long term growth.

**Typical investments**

The portfolio can include domestic equities, domestic bonds, domestic cash and domestic property. The portfolio may also invest in any listed or unlisted financial instruments, and international cash, international bonds, international property and international equities.

**Risk exposure**

A medium risk fund exposed to equity price risk, credit risk, currency risk, liquidity risk and interest rate risk, both domestically and internationally.

**(n) PPS Defensive Fund****Investment objective**

To outperform the ASISA SA Multi Asset Low Equity category average and will aim for low short-term volatility with long-term capital growth. The investment horizon for this fund is greater than three years.

**Investment mandate**

This portfolio will be managed using a single-manager investment process with a risk conscious mindset and a focus on protecting capital by maintaining a diversified asset class exposure to the extent that the act allows.

**Typical investments**

The portfolio can include domestic equities, domestic bonds, domestic cash and domestic property. The portfolio may also invest in any listed or unlisted financial instruments, and international cash, international bonds, international property and international equities.

**Risk exposure**

A low to medium risk fund exposed to equity price risk, credit risk, currency risk, liquidity risk and interest rate risk, both domestically and internationally.

**(o) PPS Managed Fund****Investment objective**

To aim for medium to long term capital growth of at least CPI for all urban areas plus 5%. The benchmark of the portfolio will be CPI for all urban areas plus 5% per annum, with an investment horizon greater than six-years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

## 36. MANAGEMENT OF RISKS (continued)

### 36.3 Financial risk management (continued)

#### Investment mandate

This portfolio will be managed using a single-manager investment process that seeks to achieve medium to long-term capital growth and can invest in a spectrum of local and international securities within the parameters of Regulation 28 of the Pension Fund Act, No 24 of 1956.

#### Typical investments

The portfolio can include domestic equities, domestic bonds, domestic cash and domestic property. The portfolio may also invest in any listed or unlisted financial instruments, and international cash, international bonds, international property and international equities.

#### Risk exposure

A medium to high risk fund exposed to equity price risk, credit risk, currency risk, liquidity risk and interest rate risk, both domestically and internationally.

#### (p) PPS Global Equity Fund

##### Investment objective

The Fund's primary investment objective is to outperform the MSCI All Country World Index (net of fees), with an investment horizon of greater than seven years.

##### Investment mandate

This is a USD denominated portfolio and will be managed using a single-manager investment process that seeks to achieve long-term capital growth by investing in the listed equities of companies in both developed and emerging market economies.

##### Typical investments

The Fund will invest in a diversified portfolio of global equity and equity-related securities. The Fund may also hold ancillary liquid assets, collective investment schemes and hold cash positions. Investments will have a global focus insofar as investments are not confined or concentrated in any particular geographic region or market.

##### Risk exposure

A medium to high fund exposure to Market risk, Currency risk, Derivative risk, Liquidity risk, Counterparty risk and Developing market risk.

## 37. EVENTS AFTER FINANCIAL YEAR-END

### COVID-19 virus pandemic

After the PPS 31 December 2019 financial year-end, there has been a wide-spread international outbreak of the Covid-19 virus originating in China, which has significantly affected lives, and entities and economic activity around the world. In 2020, many countries around the world have, amongst other radical actions, implemented national "lockdowns" as part of attempts to contain the spread of the virus. The South African Government *inter alia* implemented a 21-day national "lockdown" starting at midnight on 26 March 2020. As a result of the spread of the virus and the reactions thereto, there have been material adverse financial effects, *inter alia* on stock markets around the world.

#### Financial effects

In terms of IFRS, these events are material "non-adjusting events" occurring after the reporting period, requiring disclosure of the nature of the event, and an estimate of its financial effect, or a statement that such an estimate cannot be made.

It is not possible to provide accurate estimates of the financial effects of the pandemic on the Group which is inherently uncertain, but the following are potential future financial effects on the Group:

### **Value of Investments**

Potentially reduced investment values due to reductions in market values of the Group's investments in equities, bonds and unit trusts & pooled funds. Up to the date of publication of the 2019 financial statements, markets have shown significant decline, and all the investment gains reported in the 2019 financial statements had reversed. It is unknown whether, and to what extent markets will recover during 2020.

### **Claims**

Potentially increased claims in 2020 due to possible higher mortality and morbidity of members, especially older members and members with an underlying immune deficiency, as well as members working in the health sector.

### **Policy lapse rates**

A potential increase in the extent of policy lapses in 2020 as a result of the contracted economy and its potential financial effect on members.

### **Impact on service levels**

Only companies rendering essential services are allowed to maintain trading during the lock down period. The Group, as a financial services provider, qualifies as an essential services provider, and operations are continuing during the lockdown. The operations are monitored on a daily basis, to ensure continued high level of service to the Group's policyholders and members.

All essential functions, such as the Group's call centres, claims processing and payments, as well as Intermediary Servicing and new business administration are all operating uninterrupted, and at service levels comparable to the Group's normal standards.

### **Going concern and Solvency**

PPS has prepared scenarios of the potential impact of the pandemic on its operations. These scenarios included qualitative and quantitative analyses based on a high, medium and low impact scale. The results of these scenarios indicate that the pandemic will not change the going concern status of the Group, as assets are estimated to be sufficient to settle liabilities. Although the pandemic could have a material negative impact on investments, and possibly operating profits in 2020, the solvency of the Group remains resilient and is expected to meet regulatory requirements, even under extreme stressed conditions.

### **Management's response**

The Group had in place an Epidemic Management Policy and a Business Continuity Plan (BCP), which sets out its response to the management of epidemics. These were activated after the financial year end. If the level of risk associated with the pandemic reaches predefined levels in the Policy, appropriate responses set in the BCP are followed.

The Group's BCP was invoked, leading to the establishment of the associated control structures involving all business units. As a consequence, as the Covid-19 crisis evolved, an increasing proportion of our workforce were enabled to work from home, whilst arrangements for those who remained in the office were adjusted to ensure appropriate 'social distancing' to protect our employees.

Importantly, by the date of the initiation of the lockdown, we had already successfully migrated all of our operational teams to be capable of working from home, with well over 90% of our total workforce enabled to do so.

# ADMINISTRATIVE INFORMATION

## THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST AND PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY LIMITED

Principal place of business: 6 Anerley Road  
Parktown, Johannesburg, 2193  
Postal address: PO Box 1089  
Houghton, 2041  
Web address: www.pps.co.za

## PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY (NAMIBIA) LIMITED

Principal place of business: 18 Robert Mugabe Avenue  
Windhoek  
Namibia  
Postal address: PO Box 1407  
Windhoek, Namibia  
Web address: www.pps.com.na

### HEAD OF ACTUARIAL FUNCTION AND STATUTORY ACTUARY OF PPS INSURANCE AND PPS NAMIBIA

(in terms of the Insurance Act)  
Mr G T Waugh

### HEAD OF ACTUARIAL FUNCTION OF PPS SHORT-TERM INSURANCE

(in terms of the Insurance Act)  
Mr J van der Merwe

### EXTERNAL AUDITOR

PricewaterhouseCoopers Inc.  
4 Lisbon Lane  
Waterfall City, Jukskei View, 2090, South Africa

### INTERNAL AUDITOR

KPMG Services (Pty) Limited  
Wanooka Place, 1 Albany Road  
Parktown, 2193, South Africa

### LEGAL ADVISORS

Webber Wentzel  
90 Rivonia Road  
Sandton, Johannesburg, 2196, South Africa

### ACTUARIAL ADVISORS

Deloitte  
Deloitte Place, Building 33  
The Woodlands, 20 Woodlands Drive  
Woodmead, 2052, South Africa

### FUND MANAGERS

Coronation Fund Managers Limited  
7th Floor, MontClare Place  
Corner Camp Ground and Main Road  
Claremont, 7708, South Africa

### Ninety One (formerly Investec Asset Management (Pty) Limited)

36 Hans Strijdom Avenue, Foreshore  
Cape Town, 8001, South Africa

### Allan Gray South Africa (Pty) Limited

1 Silo Square, V&A Waterfront  
Cape Town, 8001, South Africa

### PPS Multi-Managers (Pty) Limited

PPS House, Boundary Terraces  
1 Mariendahl Lane  
Newlands, 7700, South Africa

### Namibia Asset Management Limited

1st Floor, KPMG House, 24 Orban Street  
Klein Windhoek, Windhoek, Namibia

### Old Mutual Investment Group (Pty) Limited

10th Floor, Mutual Tower,  
223 Independence Avenue  
Windhoek, Namibia

# ACTION REQUIRED BY MEMBERS IN REGARD TO THE 2020 ANNUAL GENERAL MEETING

The annual general meeting (AGM) of members of The Professional Provident Society Holdings Trust ('PPS Holdings Trust') will be held at 18:00 on Tuesday, 9 June 2020 in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg. This AGM will consider and, if deemed fit, approve the ordinary and special resolutions set out in the notice convening the AGM, which is attached to and forms part of this Integrated Report. A form of proxy, enabling members to vote on the respective resolutions proposed, has also been included in this Integrated Report.

In terms of the Trust Deed of PPS Holdings Trust, only Ordinary Members of PPS Holdings Trust have the right to vote at meetings of its members. The votes of Ordinary Members of PPS Holdings Trust are determined in the manner set out in clause 22.6.2.2 of the Trust Deed, which is available at [www.pps.co.za](http://www.pps.co.za).

Please take careful note of the provisions relating to the action required by members regarding the AGM. If you are in any doubt as to what action to take, please consult your professional advisor.

You may attend and vote at the AGM in person or you may appoint a proxy to represent you by completing the form of proxy on page 203 of this Integrated Report (please also refer to the notes to the form of proxy) and forwarding it to one of the following addresses or via facsimile or email, to be received by the Trust Secretary by no later than 18:00 on Thursday, 4 June 2020, marked for the attention of the Trust Secretary:

**Physical address**

6 Anerley Road  
Parktown  
Johannesburg

**Postal address**

PO Box 1089  
Houghton  
2041

**Telephone**

011 644 4200

**Facsimile**

011 644 4641

**Email**

[companysecretary@pps.co.za](mailto:companysecretary@pps.co.za)

# NOTICE TO THE MEMBERS OF THE **ANNUAL GENERAL MEETING**

## THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST

(Registration number: IT312/2011)  
(‘the Trust’)

Notice is hereby given that the tenth annual general meeting (‘the meeting’) of the members of the Trust will be held on Tuesday, 9 June 2020 at 18:00, in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg, for the following purposes:

1. To adopt, by ordinary resolution, the annual financial statements for the year ended 31 December 2019, including the reports of the trustees and the auditors of the Trust.
2. To re-appoint, by ordinary resolution, PricewaterhouseCoopers Inc. as the auditors of the Trust.
3. To elect and appoint trustees, by ordinary resolutions, in place of those trustees retiring in accordance with the trust deed which established and governs the Trust (‘Trust Deed’).

Ms P Natesan, Mr P Ranchod and Mr S Trikamjee retire by rotation at the meeting in terms of the Trust Deed.

The following Trustees, being eligible for re-election and appointment, offer themselves for re-election and appointment as trustees of the Trust:

- 3.1 Ms P Natesan
- 3.2 Mr P Ranchod
- 3.3 Mr S Trikamjee

In addition, the following candidates have been nominated for election and appointment as trustees of the Trust in terms of the Trust Deed:

- 3.4 Dr S Batohi
- 3.5 Dr G Goolab
- 3.6 Ms J K Myburgh
- 3.7 Ms U Pala
- 3.8 Mr L Pillay
- 3.9 Mr R K Singh
- 3.10 Mr R Strydom
- 3.11 Mr R N Theunissen

(Abbreviated biographical details of the persons referred to above are set out on pages 191 to 201 of this Integrated Report).

### **EXPLANATORY NOTE ON THE APPOINTMENT OF THE TRUSTEES**

The Trust Deed provides for a maximum of 20 Trustees, all of whom are appointed in accordance with the Trust Deed. There are currently 10 elected Trustees, of whom three are required to retire by rotation in terms of clause 7.2.1 of the Trust Deed. Following these retirements by rotation, there will be seven elected trustees in office. In terms of clause 5.3.1 of the Trust Deed, a maximum of ten Trustees may be appointed by the members in general meeting. There are therefore three vacancies and there are eleven nominees for these vacant positions (including the three Trustees who retire by rotation and who offer themselves for re-election and appointment). The Trust Deed provides that:

- I. Each candidate will be voted upon by a separate election resolution and if the election resolution is not approved then that candidate is not appointed.
- II. If the number of candidates whose election resolutions are approved exceeds the abovementioned number of vacancies, the result of the voting shall be determined in accordance with the number of votes cast in favour of each approved election resolution so that the vacancies will be filled by those candidates whose approved election resolutions received the highest number of favourable votes.

# NOTICE TO THE MEMBERS OF THE ANNUAL GENERAL MEETING CONTINUED

4. To elect the Audit Committee of the Trust by ordinary resolution. The following trustees, who meet the requirements of paragraph 26.1 of the Trust Deed, nominated by the Group Nominations Committee and recommended by the Board, have offered themselves for election:
  - 4.1 Ms D L T Dondur
  - 4.2 Mr P Ranchod
  - 4.3 Prof H E Wainer
5. To approve, by special resolution, the following remuneration of the trustees (exclusive of VAT) for the period commencing 1 July 2020 until such time as this remuneration is amended by a further special resolution:
  - remuneration of the chairman, comprising an annual retainer of R472 500 and an attendance fee of R20 412 per meeting;
  - remuneration of the deputy chairman, comprising an annual retainer of R315 000 and an attendance fee of R15 309 per meeting;
  - remuneration of the co-opted members of the Board of Trustees, comprising an annual retainer of R236 250 and an attendance fee of R10 206 per meeting;
  - remuneration of the remainder of the members of the Board of Trustees, comprising an annual retainer of R157 500 and an attendance fee of R10 206 per meeting;
  - remuneration of the chairman of the Trust Audit Committee, being an attendance fee of R25 515 per meeting;
  - remuneration of the members of the Trust Audit Committee, being an attendance fee of R12 758 per meeting;
  - remuneration of the chairman of the Group Nominations Committee, being an attendance fee of R25 515 per meeting;
  - remuneration of the deputy chairman of the Group Nominations Committee, being an attendance fee of R19 136 per meeting; and
  - remuneration of the members of the Group Nominations Committee, being an attendance fee of R12 758 per meeting.

## VOTING

In voting or passing any resolution:

- **Associate Members** (as defined in clause 18 of the Trust Deed) do not have any votes; and
- **Ordinary Members** (as defined in clause 18 of the Trust Deed) shall have 100 (one hundred) votes each, plus 1 (one) additional vote for each completed R200 (two hundred Rand) standing to his/her credit in his/her Apportionment Account (as defined in the Trust Deed), as at the most recent date prior to the meeting when the Apportionment Accounts of Ordinary Members were adjusted, provided that an Ordinary Member who is at the date of the vote 3 (three) months or more in arrears with the payment of his/her premiums (payable in terms of the Master Contract (as defined in clause 1.2.25 of the Trust Deed)) shall only have 1 (one) vote at the meeting.

A member who has more than 1 (one) vote may not split votes to exercise his/her votes in voting on any particular resolution but shall exercise all his/her votes either for or against the resolution or the member may abstain from voting on it. An ordinary resolution is a resolution approved by a majority of votes exercised on that resolution. A special resolution is a resolution approved by 75% of the votes exercised on that resolution.

## PROXIES

Any member who is entitled to attend and vote at the meeting may appoint a proxy (who need not be a member of the Trust) to attend, speak and on a poll to vote or abstain from voting in his/her stead.

A form of proxy is included in this Integrated Report on pages 203 to 204 and is also available for downloading from [www.pps.co.za](http://www.pps.co.za). **The form of proxy is accompanied by notes indicating the requirements for its completion. Forms of proxy which do not comply with these requirements will be rejected.**

Forms of proxy must be delivered at one of the following addresses physically or via facsimile or email, to be received by, and marked for the attention of, the Trust Secretary, by no later than 18:00 on Thursday, 4 June 2020 (please note that additional requirements apply to proxies submitted in terms of a Power of Attorney or Order of Court, as set out in the notes to the Proxy Form):

- Physical address: 6 Anerley Road, Parktown, Johannesburg
- Postal address: PO Box 1089, Houghton, 2041
- Facsimile: 011 644 4641
- Email: [Companysecretary@pps.co.za](mailto:Companysecretary@pps.co.za)

By order of the Board of Trustees



V E Barnard

*Trust Secretary*

The Professional Provident Society Holdings Trust

6 April 2019



# ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE

## MS PARMESVARI NATESAN

### DATE OF BIRTH

6 August 1979

### PROFESSION

Chartered Accountant (SA)

Chartered Director (SA)

### TERTIARY QUALIFICATIONS

- B Com (Acc) (2002)
- B Com (Acc) (Hons) (2003)



### CURRENT POSITIONS

- Chief Executive Officer at the Institute of Directors in South Africa (2019 - to date)
- Chief Executive Officer Elect at the Institute of Directors in Southern Africa (IoDSA) (2018 - 2019)
- Executive: Centre for Corporate Governance at the IoDSA (2014 -2018)
- Senior Governance Specialist at the IoDSA (2010 -2014)
- Trustee of the PPS Holdings Trust (2017 - to date)
- Independent non-Executive Director, LID Independent Director and Chairman of Audit and Risk Committee of Alviva Holdings Limited (2017 - to date)
- Member of Executive Committee at the IoDSA (2015 - to date)
- Member of Board of Directors at the IoDSA (2015 - to date)
- Member of the Social and Ethics at the IoDSA (2015 - current)
- Member of the Investment Committees at the IoDSA (2015 - 2019)
- Permanent invitee to Audit and Risk, Nominations and Remuneration Committees at the IoDSA (since 2015)
- Member of the Nominations Committee of the South African Institute of Professional Accountants (2013 - 2018)
- Member of the South African Institute of Chartered Accountants (since 2006)
- Member of the IoDSA (since 2010)
- Member of the King Committee on Corporate Governance (since 2011)
- Member of the King IV Task team (since 2014)
- Member of the Code for Responsible Investing in South Africa (CRISA) Committee (since 2014)
- Member of the Global Network of Director Institutes Policy Committee (since 2012)
- Member of the Institute of Directors UK (since 2015)
- Member of the IoDSA Corporate Governance Network (since 2011)
- Member of the IoDSA Sustainable Development Forum (since 2011)
- Member of the IoDSA Remuneration Committee Forum (since 2014)
- Member of the IoDSA Audit Committee Forum (since 2008)
- Member of the Public Sector Audit Committee Forum (since 2012)
- Member of the Anti-Intimidation and Ethical Practices Forum (since 2014)
- Member of the Integrated Reporting Committee of South Africa (since 2014)
- Member of the Chartered Director (SA) Exam Committee (since 2014)
- Member of the 30 Percent Club Steering Committee (since 2016)

### FORMER POSITIONS

- Senior Governance Specialist at the IoDSA (2010 to 2014)
- Senior Manager Technical at KPMG (2007 to 2010)
- Audit Manager at KPMG (2005 to 2006)
- Audit Trainee at KPMG (2003 to 2005)

# ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATES

## MR PANKAJKUMAR RANCHOD

### DATE OF BIRTH

4 January 1956

### PROFESSION

Chartered Accountant (SA)

### TERTIARY QUALIFICATIONS

- B Compt (Hons) (1980)
- CA(SA) (1981)
- H Dip Business Data Processing (1983)
- MBL (cum laude) (1988)
- Certified Director (Institute of Directors South Africa) (2010)



### CURRENT POSITIONS

- Independent Business and Management Consultant
- Trustee and Audit Committee Member of the Board of PPS Holdings Trust (since 2011)
- Director and Audit Committee Member of the Board of PPS Insurance Company Ltd (since 2013)
- Director and Chairman of the Risk and Audit Committee of the Board of PPS Short-Term Insurance Company Ltd (since 2016)
- Trustee of the PPS Foundation Trust (since 2016)
- Independent Non-executive Chairman and Member of the Enterprise Risk & Capital management Committee, Member of the Remuneration Committee, Chairman of the Director's Affairs Committee and Chairman of Social, Ethics and Transformation Committee of Grobank Limited
- Non-executive Director, Chairman of the Audit Committee and Member of the Social and Ethics, Risk and Capital Committees, Member of the Remuneration Committee of AIG South Africa Limited and AIG Life South Africa Ltd
- Member of the South African Institute of Chartered Accountants
- Member of the Institute of Directors South Africa

### FORMER POSITIONS

- Non-executive Director and Chairman of the Audit and Risk Committee of Juta and Company Ltd (2008 to 2012)
- Non-executive Director and Member of the Audit and Risk Committee of Huysamer International Holdings (2007 to 2011)
- Non-executive Director of The South African National Youth Orchestra (2009 to 2015)
- Executive Director and Chairperson of the Audit and Risk Committee of Visual International Holdings (2014 to 2016)
- Director: Strategy and Finance (Home Loans) at Standard Bank of South Africa Ltd (2001 - 2003)
- Executive Head: Insurance Services at Santam (2003 - 2008)
- Acting Managing Director and Co-Founder of BOE Insurance Ltd (1997 - 2001)
- Director of ProSelVer Investments (Pty) Ltd (1997)
- General Manager Finance and Administration and Alternate to the Managing Director of Compass Insurance Company Ltd (1994 - 1996)
- Manager Finance and Administration, JCI Platinum (Angloplats) (1986 - 1984)
- Assistant Group Financial Accountant of Anglo Alfa Ltd (1983 - 1986)
- Senior Auditor Manager of Coopers and Lybrand (PWC) (1981 - 1982)
- Senior Auditor Manager of Zev, Buch and Co. (Levenstein and Partner) (1978 - 1981)

# ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE

## MR SHAYLEN TRIKAMJEE

### DATE OF BIRTH

9 November 1978

### PROFESSION

Chartered Accountant (SA)

### TERTIARY QUALIFICATIONS

- B Com (Acc) (2000)
- B Com (Acc) (Hons) (2001)
- CA(SA) (2005)



### CURRENT POSITIONS

- Principal, Corporate Coverage, Absa Bank (2017 to date)
- Non-executive Director of the PPS Insurance Company Ltd (since 2015)
- Non-executive Trustee of the PPS Retirement Annuity Fund (since 2015)
- Non-executive Chairman of the PPS Beneficiaries Trust (since 2013)
- Non-executive Trustee of the PPS Holdings Trust (since 2011)
- Member of the South African Institute of Chartered Accountants

### FORMER POSITIONS

- Vice President, CIB Risk, Barclays Africa Group (2013 to 2016)
- Business Manager/Chief of Staff CIB Risk at Barclays Africa Group (2014 to 2016)
- Credit Analyst Mining and Project Finance at Barclays Africa Group (2013 to 2014)
- Vice President of South African Resources at Merrill Lynch South Africa (2005 to 2010)
- Chairman of the Saxonwold Body Corporate (2011 to 2013)
- Vice-Chairman - Durban and District Society, (2003 to 2004)
- District Commissioner at the Durban Central Scouts Association (2002 to 2005)
- Owner Manager of Business in the Hospitality Industry (2010 to 2012)
- Audit Clerk at Grant Thornton (2002 to 2005)

# ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE

**DR SHANIL BATOHI**

**DATE OF BIRTH**

22 May 1966

**PROFESSION**

Engineer/Consultant/Businessman

**TERTIARY QUALIFICATIONS**

- Doctorate in Business Administration, Gordon Institute of Business Science (2012)
- MBA (1999)
- B Sc (Eng) Electronic (1987)

**CURRENT POSITIONS**

- Founding Director, Batohi Strategy and Design (since 2015)

**FORMER POSITIONS**

- Lead: Product Strategy, Lead Strategist, Outsource Strategy Manager, Bytes Systems Integration/Bytes Connect/Bytes Outsource/Altech Autopage (2004 - 2015)
- Head of IT Effectiveness Business, CS Holdings (2001 - 2004)
- Technical Director, Technical Manager, Sinesonics (Industrial Electronics Company) (1995 - 2001)
- Hardware and Software Design Engineer, Andronics (Industrial Electronics Company) (1989 - 1995)
- Engineer in Training, Durban Electricity Department (1988 - 1989)



# ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE

**DR GUNVANT GOOLAB**

**DATE OF BIRTH**

20 October 1961

**PROFESSION**

Medical Practitioner

**TERTIARY QUALIFICATIONS**

- MBA (1988)
- Diploma in Business Management (1987)
- MB BCh (1985)

**MOST RECENT FORMER POSITION**

- Principal Officer of the Government Employees Medical Scheme (2013 – Jan 2020)

**FORMER POSITIONS**

- Chief Executive Officer, AstraZeneca SA (Pty) Limited (2004 – 2013)
- Sales and Marketing Director – All Divisions, AstraZeneca SA (Pty) Limited (2003 – 2004)
- Sales and Marketing Director – Primary Care Division, AstraZeneca SA (Pty) Limited (2000 – 2003)
- Marketing and Sales Director, Novartis SA (Pty) Limited (2000)
- Marketing Director, Novartis SA (Pty) Limited (1999)
- Joint Medical and Marketing Director, Novartis SA (Pty) Limited (1998)
- Medical Director, Novartis SA (Pty) Limited (merger of Sandoz and Ciba) (1997)
- Medical Director, Sandoz (Pty) Limited (1996)
- Locum at Medical Practice, Eden Park (1994 –1995)
- Head of Product Management, Sandoz Products (Pty) Limited (1991 – 1994)
- Deputy Medical Director, Sandoz Products (Pty) Limited (1991 – 1992)
- Head of Scientific Development Dept., Sandoz Products (Pty) Limited (1991)
- Project Manager of Scientific Development Dept., Sandoz Products (Pty) Limited (1990 – 1991)
- Locum at Medical Practice, Krugersdorp, Bethal and Kliptown (1987 – 1989)
- Senior House Officer in the Dept. of Paediatrics, Baragwanath Hospital (1987)
- Internship in the Dept. of Medicine, Surgery and O&G, Baragwanath Hospital (1986)



# ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE

## MS JANINE KIM MYBURGH

### DATE OF BIRTH

19 October 1968

### PROFESSION

Practicing Attorney, Mediator and Facilitator

### TERTIARY QUALIFICATIONS

- B Proc (1994)
- Admission as Attorney (1996)

### CURRENT POSITIONS

- Managing Director at Myburgh Attorneys Incorporated Accredited Mediator and Facilitator
- Legal Practice Council member (the national regulatory body of the legal profession) (since 2018)
- Immediate Past President/Chairperson and Board member of the Cape Regional Chamber of Commerce and industry
- Independent Chairperson of the Metrorail (PRASA) Safety and Security Advisory Board (since 2008)
- Board member of the International Women's Entrepreneurs Challenge (IWEC) for RSA (since 2014)
- Board member of the Law School (Western Cape) Executive Committee (since 2014)
- Honorary Consul to Canada (since 2019)
- Member of the Risk and Audit Committee, Disciplinary Oversight Committee and the Fee Assessments for the Legal Practice Council (since 2018)
- Honorary Membership to the United Nations bestowed in 2007

### FORMER POSITIONS

- President for the Tygerberg Region of the Chamber of Commerce and Industry (2003 - 2004)
- National President for the South African Council of Business Women (2003 - 2004)
- Deputy President of the Cape Regional Chamber of Commerce and Industry (2004 - 2005)
- National Executive Member of the AHI (2003 - 2005)
- Small Claims Court Commissioner (2006)
- President and Chairperson of the Board of the Cape Regional Chamber of Commerce and Industry (2005-2007)
- Independent Trustee for the Black Staff Prudential Investment Managers (Pty) Ltd and Black Staff Trusts (2005 - 2012)
- Founding Chairperson of the National Accredited Chambers of Commerce (2006)
- Chairperson of CHAMSA WC (2008)
- Council member of the Cape Law Society (2010 - 2018)
- Council Member of the Law Society of South Africa 2014 alternate (2013, 2015, 2018)
- Member of the Cape Law Society Disciplinary Committee (2012 - 2017)
- Member of the Mediation Panel of the Land Rights facility of the Department of Rural Development and Land Reform (2010 - 2011)
- Member of the Western Cape Education Council (2015 - 2017)
- National Forum Member as appointed by the Minister of Justice (2015-2018)
- Representative at BUSA and NEDLAC (2013-2019)
- Chairperson of the Cape Law Society's Benevolent Fund Committee (2012-2014)
- Board member of Mosaic (Training, Service and Healing Centre for Women) (2013)
- Convenor of Business at the Provincial Development Council for two consecutive terms as elected by two Premiers by two different political parties
- Member of the Audit Committee for the Provincial Development Council
- Chairperson and Vice Chairperson of the Northlink FET College Board for 9 years
- Board member for Healing Memories and Trauma Centre for Survivors of Violence and Torture
- Chairperson of Common Purpose leadership Institute Advisory Board



# ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE

**MS UGEETA PALA**

**DATE OF BIRTH**

30 April 1983

**PROFESSION**

Attorney/Mediator

**TERTIARY QUALIFICATIONS**

- LLB (2011)
- Admitted Attorney (2012)
- Mediation Course Accredited by the Law Society (2014)

**CURRENT POSITIONS**

- Director, Ugeeta Pala and Associates (since 2012)
- Member of the Alternate Dispute Resolution National Committee of the Legal Practice Council (since 2015)
- Member of the South African Woman's Lawyer's Association (SAWLA) (since 2015)
- E-Tutor for UNISA – Civil Procedure (since 2015)
- Prescribed Attorney on Fee Assessment Committee (KZNLPC) (since 2015)
- Prescribed Attorney on Legal Panel for debt recovery (KZNLPC) (since 2017)
- Prescribed Attorney on Investigative Committee (KZNLPC) (since 2019)
- Prescribed Attorney on Disciplinary Committee (KZNLPC) (since 2019)

**FORMER POSITIONS**

- Legal Advisor, Prem Pala Financial Services CC (2011 - 2012)
- Legal Advisor/Key Individual/Director, Prem Pala Financial Services CC (2017 - 2019)



# ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE

## MR LOGAN PILLAY

### DATE OF BIRTH

7 August 1977

### PROFESSION

Chartered Accountant

### TERTIARY QUALIFICATIONS

- CA(SA) (2005)
- SAICA training assessor (2006)
- B Acct (Hons) (2000)
- B Acct (1999)

### CURRENT POSITION

- Director, Umthonya Consulting (Pty) Limited (2019 to current)

### FORMER POSITIONS

- Associate Director, Ernst and Young Incorporated (2014 - 2019)
- Assistant Manager, Manager and Senior Manager, Ernst and Young Incorporated (2004 - 2014)
- Training Contract, Ernst and Young Incorporated (2001 - 2004)





# ABBREVIATED CURRICULUM A VITAE FOR NOMINATED CANDIDATE

**MR RAJIV KUMAR SINGH**

**DATE OF BIRTH**

28 March 1986

**PROFESSION**

Actuarial/Risk

**TERTIARY QUALIFICATIONS**

- B Sc (Actuarial Science) (2006)
- B Sc (Hons) (Actuarial Science) (2007)

**CERTIFICATIONS**

- Postgraduate Diploma in Actuarial Techniques, (Institute and Faculty of Actuaries -UK) (2010)
- Registered Persons Examinations (RPE) (SA Institute of Financial Markets) (2015)
- Change Management & Managing Successful Programmes (AXELOS & APMG International) (2019)

**CURRENT POSITION**

- Product Owner & CIB Change Manager: Africa Risk, ABSA Group Limited (2013- present)
- Actuarial Society of South Africa Vice-Chair (System & Technology Committee) (2017- present)

**FORMER POSITIONS**

- Director, Brightest Young Minds NPO (2016 - 2018)
- Counterparty Credit Risk Analyst, Standard Bank Group, CIB division (2010 - 2013)
- Actuarial Analyst, FirstRand Group Limited, FNB Home Loans Division (2008 - 2010)



# ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE

## MR RIAN STRYDOM

### DATE OF BIRTH

25 February 1966

### PROFESSION

- General Manager Risk, Compliance and Assurance
- General Manager Finance

### TERTIARY QUALIFICATIONS

- B Com (Accounting) (1986)
- B Com (Hons) (Accounting) (1988)
- Certificate in the Theory of Accounting (1989)
- Chartered Accountant (SA) (1990)



### CURRENT POSITIONS

- Trustee of Iscor Unclaimed Benefit Provident Fund (since 2017)
- Trustee of Iscor Retirement Fund

### FORMER POSITIONS

- General Manager Risk, Compliance and Assurance, Exxaro Resources Limited (fulfilling the roles of Chief Audit Executive, Chief Risk and Compliance Officer, and Chief Ethics Officer) (2016 to 2019)
- Director of Exxaro Insurance Company Limited (2012 to 2020)
- General Manager Governance, Risk and Compliance, Exxaro Resources Limited (2012 to 2015)
- Trustee of the Iscor Employees Umbrella Provident Fund (2012 to 2020) and chairman of the Risk, Audit, Investment and Compliance committee of the board (2017 to 2020)
- General Manager Finance, Exxaro Resources Limited (2006 to 2011)
- General Manager Finance, Kumba Resources Limited (served as member of the Executive Committee) (2001 to 2006)
- Manager Finance, Sishen Iron Ore (1999 to 2001)
- Manager Finance Iscor Limited Steel mill, Vereeniging (1998)
- Manager Taxation, Iscor Limited (1997)
- Manager Taxation, Denel Limited (1994 to 1997)
- Legal interpreter of VAT at SARS (1992 to 1994)
- Audit manager IJ Coetzee and PWC, respectively (1988 to 1991)

# ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE

## MR ROBIN NEILL THEUNISSEN

### DATE OF BIRTH

26 May 1954

### PROFESSION

Chartered Accountant (SA)

### TERTIARY QUALIFICATIONS

- B Acc (1981)
- Diploma in Criminal Justice and Forensic Auditing (2004)

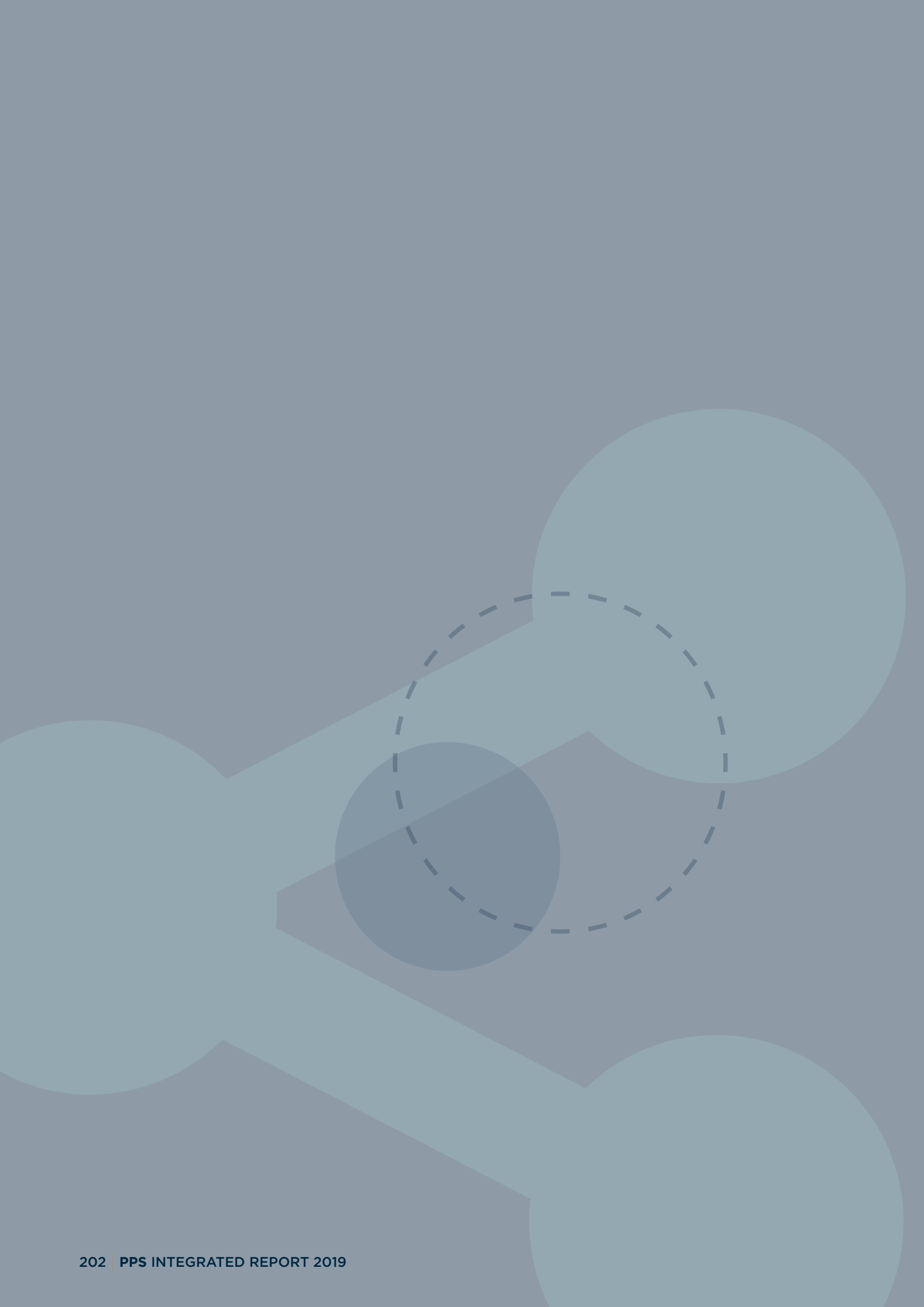


### CURRENT POSITIONS

- Non-Executive Director of the SA National Blood Services NPC (SANBS)
- Chairman of the SANBS Audit Committee and a Trustee of the SANBS Provident Fund
- Independent member of the Audit Committee of Profmed Medical Aid Scheme
- Member of The South African Institute of Chartered Accountants (since 1982)
- Member of The Institute of Directors in Southern Africa (since 2014)

### FORMER POSITIONS

- Chairman of the Audit Committee of the Financial Intelligence Centre (2016 -2018)
- Chairman of the SA National Blood Services NPC (2015 -2016)
- Trustee of Profmed Medical Aid Scheme/Chairman (2009 - 2018)
- Senior Executive of the SA Institute of Chartered Accountants (SAICA) (1994 - 2005)
- Registered Auditor (1986 - 2019)



# FORM OF PROXY

## THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST

(Registration number IT312/2011) (the Trust)

**PPS Member's details:**

Full name:

Identity number:

Membership number:

Email address:

Postal address:

Cellphone number:

I, the above member of the Trust, hereby appoint:

Proxy's name:

Proxy's identity number:

or failing him/her, the Chairman of the meeting, as my proxy to attend, speak and on a poll vote for me and on my behalf at the annual general meeting of the Trust to be held at 18:00 on Tuesday, 9 June 2020 in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg, and at any adjournment thereof, as follows:

No.	Business	In favour of	Against	Abstain
1.	Ordinary resolution for the adoption of the annual financial statements of the Trust for the year ended 31 December 2019			
2.	Ordinary resolution for the reappointment of the auditors of the Trust			
3.	Ordinary resolutions for the election and appointment of trustees#:			
	3.1 Ms P Natesan*			
	3.2 Mr P Ranchod*			
	3.3 Mr S Trikamjee*			
	3.4 Dr S Batohi			
	3.5 Dr R Goolab			
	3.6 Ms J K Myburgh			
	3.7 Ms U Pala			
	3.8 Mr L Pillay			
	3.9 Mr R K Singh			
	3.10 Mr R Strydom			
	3.11 Mr R N Theunissen			
4.	Ordinary resolution for the appointment of the members of the Trust Audit Committee			
5.	Special resolution for the approval of trustees' remuneration for the period commencing 1 July 2020 as set out in the notice of the annual general meeting**			

# There will be three vacancies on the Board of Trustees to be filled by elected Trustees. These three vacancies will be filled by the three candidates receiving the highest number of favourable votes. Refer to the Notice of the Annual General meeting for an explanation in this regard.

\* Trustees who will retire by rotation at the meeting, in accordance with the Trust Deed and, being eligible, offer themselves for re-election.

\*\* Authorisation of at least seventy-five (75) per cent of the votes cast by members present (in person or represented by proxy) at the meeting is required.

Signed this

day of

2020

Signature

# NOTES TO FORM OF PROXY

Instructions and requirements for completion of the form of proxy

1. The form of proxy must be signed, dated and returned so as to be received at the registered office of the Trust by 18:00 on Thursday, 4 June 2020.
2. Forms of proxy are required to be completed and signed by the Member appointing the proxy, or by his attorney or agent duly authorised in terms of a court order, or a power of attorney which was signed by the Member. If the form of proxy is completed in terms of a power of attorney or authority, the ORIGINAL, OR A CERTIFIED COPY of such power of attorney or authority has to be lodged with the form of proxy by 18:00 on Monday, 1 June 2020.
3. The signatory may insert the name of any person whom the signatory wishes to appoint as his/her proxy in the blank space provided for that purpose. If no name is inserted, the chairman of the meeting shall be appointed as the member's proxy.
4. By completing and lodging of the form of proxy, it will not preclude the member who is appointing the proxy from attending the annual general meeting and speaking and voting in person thereat, to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.
5. If the member does not indicate in the appropriate places on the face hereof how he/she wishes to vote in respect of any resolutions, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution. In regard to the ordinary resolutions for the election of trustees, any indication of how the member wishes to vote in regard to the candidates will be deemed to be the entire vote of the member, i.e. if the member has only indicated a vote for, or against, or to abstain for one or more candidate(s), the proxy holder shall not be entitled to exercise additional votes in respect of candidates for whom no votes were indicated by the member.
6. In respect of the election of Trustees, each candidate will be voted upon by a separate resolution, either 'For', 'Against' or 'Abstain'. In terms of the Trust Deed, if the number of persons approved by such resolutions exceeds the number of vacancies (being three), the result of the voting shall be determined in accordance with the number of votes cast in favour of each resolution so that the vacancies will be filled by the elected candidates receiving the highest number of favourable votes, as set out in the Notice of the Annual General Meeting.

## RETURN OPTIONS

Either:

- Deliver to: The Trust Secretary  
6 Anerley Road  
Parktown, 2193  
Johannesburg
- or Post to: The Trust Secretary  
PO Box 1089  
Houghton  
2041
- or Fax to: The Trust Secretary at  
011 644 4641
- or Email to: [companysecretary@pps.co.za](mailto:companysecretary@pps.co.za)





THERE'S MORE **FOR YOU**

PPS is an authorised FSP