R7.6 billion allocated to members in the last 5 years

PPS Financial Statements 2009

Professional Provident Society Limited (Limited by Guarantee)

Contents

INTRODUCTION

Good corporate governance is an integral part of the Group's operations. Accordingly, the Group is fully committed to the principles of the Code of Corporate Practices and Conduct set out in the King Report on Corporate Governance ("King 2", March 2002). King 3 was officially launched in September 2009 with some significant additional recommendations on enhanced governance and reporting for companies that subscribe to it. Management are in the process of analysing the additional recommendations contained in King 3 and will implement the additional recommendations where appropriate. In supporting King 2, the directors recognize the need to conduct the business of the Group with integrity and in accordance with generally accepted corporate practices.

The directors believe that the Group complies with and has implemented the applicable requirements of King 2 in all significant respects, with regard to the year under review. All entities within the Group are required to subscribe to the spirit and principles of King 2. All the business and governance structures in the Group are supported by the Group compliance function, however, it is the responsibility of each entity within the Group to ensure a coherent and consistent governance approach.

BOARD CHARTER

In accordance with the principles of sound corporate governance, the Board Charter – modeled on the charter principles recommended by King 2 – incorporates the powers of the board, providing a clear and concise overview of the division of responsibilities and accountability of the board members, collectively and individually, to ensure a balance of power and authority.

KEY GOVERNANCE AND LEGISLATIVE DEVELOPMENTS

During the year under review, there was a significant increase in the volume of new legislation or amendments to existing legislation. Key amongst these were:

- Amendment to the Financial Advisory and Intermediary Services Act;
- The Companies Act, 2008;
- The Consumer Protection Act;
- The Protection of Personal Information Bill;
- Amendments to the Competitions Act;
- Amendments to the Long Term Insurance Act; and on a non-legislative level,
- King 3 (non-legislative)

All of the above legislation/proposed legislation will impact on the governance and reporting of governance within the Group and has placed additional responsibilities on the Board and management to adhere to the new requirements and ensure compliance therewith.

PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT

PPS issues policies with a discretionary element of bonuses and it is required to establish and maintain a document setting out its 'Principles and Practices of Financial Management' (PPFM) and to provide this document to policyholders. This document outlines the PPS principles and practices of financial management in order that policyholders can better understand the profit distribution principles and practices in place for PPS, as well as the investment strategy adopted by the PPS board. The PPFM document is available to all policyholders on the PPS website.

BOARD OF DIRECTORS AND BOARD COMMITTEES

Board composition

The Group is governed by a unitary board of directors, assisted by the following Group committees:

- Executive Committee
- Remuneration Committee
- Audit Committee
- Risk Committee
- Nominations Committee

The members of the board receive timely, accurate and relevant information to enable them to fulfil their duties. All new directors undergo a formal induction process which includes meeting the Group's senior management and all directors are encouraged to undertake continuing professional development, training and education throughout their term of office.

The Chairman's key responsibilities are to provide leadership of the board, to oversee the setting of strategy, to guide the process to ensure a balance in the composition of the board and to promote effective communication between executive and independent non-executive directors. The Chief Executive has overall responsibility for the management of the Group's business and its operation in line with the policies and strategic objectives set and agreed by the board. The Chief Executive circulates to the board, at board meetings, a report on the performance of the Group and any other material matters. He reports on how the Group has performed against key indicators following the monthly meeting of the executive team which manages the Group's business on a day-to-day basis. The report is reviewed at the meetings of the board when the Chief Executive highlights the key issues and other executive and independent non-executive directors are invited to contribute, where appropriate. Additional papers on issues upon which the board is required to make a decision are submitted, where appropriate, and senior management are periodically invited to attend the meetings to present their papers and to deal with the points raised by the board.

All directors have direct access to the services of the Group Secretary who advises them on all corporate governance matters, on board procedures and on compliance with the Company's Articles of Association. In order to ensure good information flows, comprehensive papers are provided to the directors by the Group Secretary approximately four days before each meeting of the board, subsidiary board or board committees. The Group Secretary acts as Secretary to all subsidiary companies, excluding PPS Investments. The minutes of all board, subsidiary board and board committee meetings are produced by the Group Secretary and maintained in the appropriate Company records. The members of the board have access to independent professional advice at the Group's expense, where it is deemed necessary, in order to discharge their responsibilities as directors.

Each committee of the board acts within agreed terms of reference and the Chairman of each committee reports, where appropriate, to the board at its scheduled meetings. Where appropriate, the minutes of the committee are tabled at board meetings. The Group chairman of the board and the entire board are independent non-executive directors. The roles of Chairman and Chief Executive are separated, with a clear division of responsibility to ensure a clear distinction of duties and responsibilities between them. The Chairman has no executive functions. The role of all directors is to bring independent judgement and experience to the board's decision-making. Details on the directors appear on pages 6 to 7 of this annual report. There are twenty Group directors, all of whom are non-executive independent directors.

BOARD APPOINTMENTS AND SUCCESSION PLANNING

PPS members appoint the board of PPS Limited at its annual general meeting. In turn, this board appoints the board of PPS Insurance Limited. Independent non-executive directors on the PPS Limited board, who are not representative of a professional organisation or co-opted, are appointed for specific terms and re-appointment is not automatic. Under delegated authority of the board, the Nominations Committee, selects and submits to the Board for approval, candidates for appointment as independent non-executive directors. The Nominations Committee considers independent non-executive director succession planning and makes appropriate recommendations to the board.

This encompasses an evaluation of the skills, knowledge and experience required to add value to the Group, for both directors standing for re-election and new candidates standing for election for the first time. All appointments are made in terms of a formal and transparent procedure and are subject to confirmation by the members at the annual general meeting. The Group believes that the board's constitution, in terms of both the number and expertise, is sufficient and appropriate to meet the Group's needs.

BOARD PERFORMANCE ASSESSMENT

The Nominations Committee assesses individual directors against the following criteria:

- time, availability and commitment to performing the function of a director;
- strategic thought and specific skills, knowledge and experience brought to the board;
- the director's views on key issues and challenges facing the Group;
- the director's views on his/her own performance as a board member;
- any training needs; and
- other areas or roles where the director's specific skills could be utilised.

One-third of the directors, who are not representative of a professional organisation or co-opted, appointed in terms of clause 12.1.2.1 of the Articles of Association are subject, by rotation, to retirement and re-election at the annual general meeting. The directors eligible for re-election at the forthcoming annual general meeting are contained in this annual report in the notice of annual general meeting.

INTERESTS IN CONTRACTS AND CONFLICT OF INTEREST

Directors are required to inform the board timeously of conflicts or potential conflicts of interest that they may have in relation to particular items of business and are obliged to recuse themselves from discussions or decisions in relation to such matters. Directors are also required to disclose their shareholdings in other companies as well as their other directorships at least annually and to inform the board when any changes occur. During the year ended 31 December 2009, none of the directors had an interest in contracts or arrangements entered into by the Company or its subsidiaries.

INSURANCE

Adequate directors' and officers' insurance cover has been taken out by the Group. No claims under the relevant policy were lodged during the year under review.

The PPS Limited and PPS Insurance Company meetings held during the year and the attendance at these meetings are as follows:

PPS Limited	**8 Apr 2009**	**22 Jun 2009**	**21 Sep 2009**	**30 Nov 2009**
Adv T N Aboobaker	√	A	√	√
Dr J Adno *(Resigned June 2009)*	√	N/A	N/A	N/A
Dr D R Anderson	√	√	√	√
Dr V Bhagwandas	√	√	√	√
Dr N G Campbell	√	√	√	√
Mr Y Gordhan	√	√	√	√
Mr U Jivan *(Appointed June 2009)*	N/A	√	√	√
Mr I Kotze	√	√	√	√
Dr C M Kruger	A	√	√	√
Dr T K S Letlape	√	√	√	√
Mrs C N Mbili	A	√	√	√
Adv R Meyer *(Deceased June 2009)*	√	√	N/A	N/A
Mr E A Moolla	√	√	√	√
Dr J Patel	√	√	√	√
Dr D G C Presbury	A	√	√	√
Mr C D Reay	√	√	√	√
Dr S Seoka	√	√	√	√
Dr R D Sykes	√	√	√	√
Mr B Topham	√	√	A	√
Mr S Trikamjee *(Appointed June 2009)*	N/A	√	√	√
Dr J J Van Niekerk	√	√	√	√
Judge R Zulman	√	√	√	√

A = Apology
N/A = Not Applicable

PPS Insurance Company Limited	23 Feb 2009	30 Mar 2009	4 May 2009	18 May 2009	20 Jul 2009	27 Jul 2009	31 Aug 2009	7 Oct 2009	26 Oct 2009	23 Nov 2009
Dr D R Anderson	√	√	√	√	√	√	√	√	√	√
Dr V Bhagwandas *(Appointed September 2009)*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	√	√	√
Mrs T Boesch *(Appointed May 2009)*	N/A	N/A	√	√	√	√	A	√	√	√
Dr N G Campbell	√	√	√	√	√	√	A	√	√	√
Mr C Erasmus	√	√	√	√	√	√	√	√	√	√
Mr D Gnodde *(Resigned May 2009)*	√	√	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr M J Jackson	√	√	√	A	√	√	√	√	√	√
Mr I Kotze	√	√	√	√	√	√	√	A	√	√
Adv R Meyer *(Deceased June 2009)*	√	√	√	√	N/A	N/A	N/A	N/A	N/A	N/A
Mr E A Moolla	√	√	√	√	√	√	√	√	√	√
Mr W F Mthembu *(Deceased October 2009)*	√	√	√	√	√	√	A	N/A	N/A	N/A
Mr N Payne	√	√	√	√	√	√	√	A	√	√
Dr D G C Presbury	√	A	√	√	√	√	√	√	√	√
Dr S Seoka	√	√	√	√	√	√	√	√	√	√
Dr J J Van Niekerk	√	√	√	√	√	√	A	A	√	√
Prof H Wainer *(Appointed November 2009)*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	√

A = Apology
N/A = Not Applicable

BOARD COMMITTEES

A number of board-appointed committees have been established to assist the board in discharging its responsibilities. The membership and principal functions of these committees are set out below. Pages 8 to 12 reflect a list of the various committee members as well as their attendance at the relevant committee meetings.

EXECUTIVE COMMITTEE (EXCOM)

Members

Mr M Jackson (Chairman), Mr N Battersby (appointed September 2009), Mrs T Boesch, Mr L Caron, Mr S Clark, Mr C de Klerk, Mr D Gnodde (resigned May 2009), Dr J Goodwin, Mr R Govenden, Dr H Hoffman (appointed October 2009), Mr J Marsden, Mr T Simba, Dr D Stott.

Composition and meeting procedures

Excom is chaired by the CEO and has regular input from executives from operations, sales, finance, actuarial, IT, human resources, compliance, member relations, special projects and the subsidiary businesses of PPS Investments and Professional Medical Scheme Administrators. Meetings are normally held once a month. The committee is responsible for strategy and operations of the Group within the parameters defined by the board.

The Excom meetings held during the year and the attendance of these meetings are as follows:

Excom	26 Jan 2009	20 Feb 2009	27 Mar 2009	23 Apr 2009	5 Jun 2009	22 Jun 2009	20 Jul 2009	20 Aug 2009	22 Sep 2009	20 Oct 2009	23 Nov 2009
Mr M Jackson	√	√	√	√	√	√	√	√	√	√	√
Mr N Battersby *(Appointed September 2009)*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	√	√	√
Mr D Gnodde *(Resigned May 2009)*	√	√	√	√	√	N/A	N/A	N/A	N/A	N/A	N/A
Mr C de Klerk	√	√	√	√	√	√	√	√	√	√	√
Dr J Goodwin	√	√	√	√	A	√	√	√	A	√	√
Dr H Hoffman *(Appointed October 2009)*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	√	√
Mr J Marsden	√	√	A	√	√	√	√	√	√	√	√
Mr R Govenden	√	√	√	√	√	A	√	√	√	√	√
Mr S Clark	√	√	√	√	√	√	√	√	√	√	√
Mrs T Boesch	√	√	A	√	√	√	√	A	√	A	√
Mr L Caron	√	√	√	√	√	√	√	√	√	√	√
Mr T Simba	√	√	√	√	√	√	√	√	√	√	√
Dr D Stott	√	√	√	√	√	√	√	√	√	√	√

A = Apology
N/A = Not Applicable

GROUP REMUNERATION COMMITTEE (GRC)

Members

Dr D Anderson (Chairman), Mr E Moolla, Adv R Meyer (deceased June 2009), Mr C Erasmus and Mr W Mthembu (deceased October 2009). The GRC is chaired by an independent director and comprises solely of independent non-executive directors of PPS. The Group Chief Executive, who is the executive responsible for people management attends the meetings by invitation but does not participate in the committee's deliberations. Meetings are held at least three times a year.

The primary responsibilities of the GRC are the consideration and recommendation to the board on matters such as succession planning, remuneration and benefits, performance bonuses, executive remuneration, directors' remuneration and fees, the short-term incentive scheme and long-term incentive scheme and Group retirement funds. The GRC considers the level of salary and the principles of any variable element of the remuneration package and also considers other aspects of the remuneration package and associated matters in accordance with its published terms of reference. Execution of policy is delegated to management.

More detail on the incentive schemes for management and executives is contained on page 28 of this report. Where incentives are target based, most of the targets are related to budget achievement and, as such, are objectively monitored and measured. The targets that are more subjective are given considerable scrutiny by the GRC such that the members of the GRC have satisfied themselves that the GRC has exercised its judgement appropriately in these cases. The management team is assessed using a 'Balanced Scorecard' approach where the key drivers of the business, both financial and non-financial are measured. The objective in both the short and long term, is to align management performance with members' interest. Special care has been taken to ensure that excessive risk taking is not rewarded.

The GRC meetings held during the year and the attendance of these meetings are as follows:

Remuneration committee	**7 Apr 2009**	**12 Aug 2009**	**18 Nov 2009**
Dr D R Anderson	√	√	√
Mr C Erasmus	√	√	√
Mr M J Jackson	√	√	√
Adv R Meyer *(Deceased June 2009)*	√	N/A	N/A
Mr E A Moolla	√	√	√
Mr W F Mthembu *(Deceased October 2009)*	√	A	N/A

A = Apology
N/A = Not Applicable

AUDIT AND RISK COMMITTEE (GARC)

During the course of the year under review, it was recommended to the Board that due to the increase in responsibility and complexity in the risk management area, this committee be split into an audit committee and a separate risk committee. This committee was effectively split into the two separate committees in August 2009. The board agreed specific terms of reference for each committee.

MEMBERS (AUDIT & RISK COMMITTEE)

Prof H Wainer (Joint Chairman), Adv R Meyer (Joint Chairman) (deceased June 2009), Mr C Erasmus (appointed February 2009), Mr I Kotze, Mr E Moolla, Mr N Payne, Prof C Rabin.

This Committee includes six non-executive directors and one specialist, all of whom are independent. The board is satisfied that the members of this Committee have sufficient recent and relevant financial experience to enable them to carry out the duties of their role and that the members of the committee bring a wide range of relevant experience. The committee is scheduled to meet at least four times a year. The external and internal auditors are present at each meeting. These same criteria apply to the separate audit and risk committees.

In addition, it is the practice of the audit committee to meet both the external auditors and internal auditors separately in private sessions, without executive management being present. The Chief Executive, the Financial Director along with other members of management, attend committee meetings, as necessary, at the invitation of the Chairman of the committee.

The roles and responsibilities of the joint committee have now been allocated appropriately between the audit and risk committees and are detailed in note 2.1 on pages 60 and 61. To ensure that issues do not fall between the two committees and, as a consequence, are not dealt with, there is common membership between the two committees and, where there is doubt as to which committee should deal with an issue, all issues of a non-financial nature are brought before the risk committee. Where appropriate these issues may be referred to the audit committee.

The Group's policy on non-audit services, which is annually reviewed by the Audit Committee, sets out what services may or may not be provided to PPS by the external auditors. The Audit Committee conducts 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 Audit Committee keeps abreast of current and emerging trends in international accounting standards. Both committees are satisfied that they have met their mandate.

The GARC and subsequent audit and risk committee meetings held during the year and the attendance of these meetings is as follows:

Audit and risk	**22 Jan 2009**	**19 Mar 2009**	**18 Jun 2009**
Prof H E Wainer	√	√	√
Adv R Meyer *(Deceased June 2009)*	√	√	√
Mr C Erasmus *(Appointed February 2009)*	N/A	√	√
Mr I Kotze	√	√	√
Mr E A Moolla	√	√	√
Mr N Payne	√	√	√
Prof C E Rabin	√	√	√

A = Apology
N/A = Not Applicable

Audit	**12 Aug 2009**	**16 Nov 2009**
Prof H E Wainer	√	A
Mr C Erasmus *(Appointed February 2009)*	√	√
Mr I Kotze	√	A
Mr E A Moolla	√	√
Mr N Payne	A	√
Prof C E Rabin	√	√

A = Apology

Risk	**11 Aug 2009**	**26 Oct 2009**	**29 Nov 2009**
Mr N Payne	√	√	√
Mr C Erasmus *(Appointed February 2009)*	√	√	√

GROUP NOMINATIONS COMMITTEE (GNC)

Members

Dr D Presbury (Chairman), Dr D Anderson, Adv. R Meyer (Deceased 2009), Mr E Moolla

The GNC is chaired by an independent director and is comprised of independent, non-executive directors.

It is the responsibility of the GNC to ensure that plans are in place for appointments to the board that will maintain an appropriate balance of skills and experience. The GNC leads the process for appointment and re-election and makes recommendations to the board ensuring there is a formal, rigorous and transparent procedure for appointments. The board is satisfied that the range of expertise, experience and qualifications is appropriate for the current needs of the business, but keeps these matters under regular review. The board is responsible for ensuring that an effective system for succession planning and management development is in place which covers both directors and senior executives.

The GNC meetings held during the year and the attendance of these meetings are as follows:

Nominations Committee	12 Mar 2009
Dr D R Anderson	√
Dr D G C Presbury	√
Adv R Meyer *(Deceased June 2009)*	√
Mr E A Moolla	√

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 board and subsidiary boards. The GNC may appoint external consultants to help 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, that individual would recuse himself from the GNC for that item.

The GNC is satisfied that each non-executive director displays the time commitment required to properly discharge the role. Directors have continued to update their skills and knowledge, both within the Group and externally.

INTERNAL CONTROL ENVIRONMENT

The board has overall responsibility for the Group's systems of internal control and is accountable for reviewing their effectiveness. Internal control systems are designed to manage risks within the business rather than totally eliminate the potential failure to achieve the Group's objectives. Inevitably, they can provide only reasonable and not absolute assurance against material misstatement or loss. The board is extremely conscious of the importance of the Group's system of internal controls and attaches a high priority to monitoring their effectiveness and developing them in line with best practice.

The system of internal control

The board has delegated to executive management the requirement for oversight, establishment and implementation of appropriate systems of internal control. The internal control systems continue to be monitored at the audit committee and risk committee.

Risk management framework

Executive management and business units are responsible for the management of risks across the Group. Extensive work has been done and in-depth consultations have been held with internal auditors, statutory actuary and executive management, which has culminated in a risk matrix having been approved by the risk committee and ultimately for approval of the board. The risk matrix sets out the process for capturing all risks relevant through five key stages; identification, assessment, monitoring, mitigation and reporting. The executive management is responsible for the collation of this information and reporting through the risk committee, and where appropriate, the audit committee. Executive management is entrusted to ensure that the risk management framework is embedded at all levels and overseen, independently and objectively, at an appropriate level. The risk committee and the internal audit function, keep under continuous review the adequacy and effectiveness of the Group's risk management framework and systems of internal control. Internal Audit takes into consideration the risk matrix when planning their internal audits of the Group.

Risk-taking, in an appropriate manner, is an integral part of business. Success relies on optimising the trade-off between risk and reward. In the course of conducting its business, the Group is exposed to a variety of risks, including counterparty, credit, market, operational, strategic and reputational risk. The long-term sustained growth, continued success and reputation of the Group are critically dependent on the quality of risk management. Management is committed to applying best practice and standards. The Group's risk philosophy is underpinned by its objective of member value creation through sustainable profitable growth, in a manner that is consistent with members' expectations of the Group's risk bearing capacity and its risk appetite. The Group's objective in this regard is to ensure that a quality risk management culture is sustained throughout its operations. The culture is being built on the following main elements:

- Adherence to the value system of the Group;
- Proactive risk management;
- A risk awareness culture via management and 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;
- Regular monitoring of compliance by the compliance department; and
- Review of control measures by Internal Audit.

HUMAN RESOURCES POLICIES AND PRACTICES

Our people

The success of our business rests on the appointment and retention of the right people in the right positions.

Over the last 4 to 5 years, the group underwent significant change in migrating from a one product provider to a solutions-based financial services group. This has entailed major re-organisation in our vision and attendent systems, processes and product changes. This has demanded major re-adjustment and refocusing of our people to effect the changes required.

The current year together with the period above, attests to the resilience of our people in showing their commitment to the new vision.

The annual employee satisfaction survey conducted in 2009 showed an enhancement in employee satisfaction levels over the previous year, and also manifested an increase in productivity and efficiency levels.

Staff turnover and absenteeism levels have decreased over the previous year, representing the positive results of the impact of our progressive people management and development practices. This is also reflected in a significant decrease in overtime, together with a substantial and conscious drop in the use of temporary staff.

Employee wellbeing

The wellness programme commenced last year, specifically the employee assistance programme that offers counselling on a free basis to all staff for trauma and social, work-related, financial and other problems, and has been well received and utilised. The take up rate was close to 55%. A wellness day offered free health tests, *inter alia*, cholesterol testing, blood pressure and BMI to assist to diagnose individual problems in an attempt to influence employees to lead healthy lifestyles.

Performance management

To ensure optimum organisational performance, individual and team performance is paramount together with the contracting of departments and divisions to broader service level agreements.

The current performance management system, first implemented in 2004 and built upon the robust individual performance management ethic, was enhanced in 2009 by focusing on team performance and formulating of stringent criteria for proving superior performance via portfolios of evidence. All performance ratings are assessed by managers and reviewed by HR and EXCO to ensure consistency and equity across the organisation. This process is very robust and has been well received by staff, which is borne out by the high ratings given to performance management in the employee satisfaction surveys of the current year.

Training and development

The total spend on training was 3% of payroll and focused primarily on sales, service, system, product, FAIS fit and proper requirements, soft skills and leadership training.

A substantial thrust has been invested in sales training to increase and enhance our own sales force, member relations division (MRD). Significant investment has been made in providing internally accredited training to operations staff to ensure proficient processing of business. There was a companywide initiative to provide internally accredited product training to all staff to enable understanding of our range of products appropriate to their specific roles.

Dedicated managers, trainers and coaches in operations have ensured that systems, processes and people are aligned to deliver substantially enhanced customer service.

Transformation – Financial Services Charter (FSC) Scorecard

The group is committed to transformation as defined in the principles and objectives of the FSC and BBBEE Codes of Good Practice. Although the PPS 2009 scorecard has not been verified by an independent agency, the estimated individual scores in the various pillars of the FSC are as follows:

Category	Estimate PPS Score	FSC Points
Human resource development	15	20
Procurement	15	15
Access to financial services	Exemption granted by FSC Council	
Consumer education	0	2
Empowerment financing	0	22
Ownership and control	16	22
Corporate social investments	2	3
Total	**48**	**84**

The PPS scorecard has remained largely unchanged from last year.

The PPS overall aggregate score is 57% which is above the median within the financial services sector. The Financial Services Charter is currently the subject of protracted negotiations amongst the stakeholders which could result in the Charter being revised or abandoned in favour of the broader BBBEE Codes of Good Practice.

Statement of responsibility by the board of directors
for the year ended 31 December 2009

The directors accept responsibility for the integrity and fair presentation of the Group and Company financial statements. These financial statements have been prepared in accordance with International Financial Reporting Standards taking into account the nature of the business and in the manner required by the Long-Term Insurance Act 1998 and the South African Companies Act 1973. The directors are of the opinion that the financial statements fairly present the financial position of the Company and the Group. 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 directors and committees of the board. The directors have no reason to believe that all representations made to the independent auditors during the audit are not valid and appropriate. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors 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 18 to 126 were approved by the board of directors and are signed on its behalf by:

Dr DGC Presbury
Chairman
Professional Provident
Society Limited
(Limited by Guarantee)

Mr MJ Jackson
Chief Executive

Mrs T Boesch
Financial Director

Johannesburg
15 April 2010

Certificate by the Company Secretary

In my capacity as Company Secretary I hereby certify in terms of the Companies Act No 61 of 1973 (as amended) that for the year ended 31 December 2009 Professional Provident Society Limited (Limited by Guarantee) has lodged with the Registrar of Companies all such returns as are required in terms of this Act and that all such returns are to the best of my knowledge and belief true, correct and up to date.

LP Caron
Company Secretary
Professional Provident Society Limited (Limited by Guarantee)
15 April 2010

Independent Auditors' report

To the members of Professional Provident Society Limited (Limited by Guarantee)

We have audited the annual financial statements of Professional Provident Society Limited (Limited by Guarantee), which comprise the statement of financial position as at 31 December 2009, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 18 to 126.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Professional Provident Society Limited (Limited by Guarantee), as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.

Director: A du Preez
Registered Auditor

Sunninghill
15 April 2010

1. CERTIFICATION OF FINANCIAL POSITION

I have conducted actuarial reviews of Professional Provident Society Insurance Company Limited (PPS Insurance) and Professional Provident Society Insurance Company (Namibia) Limited (PPS Namibia) ('the insurance interests') in accordance with applicable Actuarial Society of South Africa Professional Guidance Notes. These principles require reasonable provision for the liability in respect of future benefit payments to policyholders, generally based on the assumption that current conditions will continue. Provision is therefore not made for all possible contingencies. I have accepted that the Financial Statements comply with the requirements of the Companies Act.

Based on these reviews, as at 31 December 2009, in my opinion, the insurance interests were financially sound on the statutory bases, and in my opinion are likely to remain financially sound for the foreseeable future.

C van der Riet

Statutory Actuary to PPS Insurance and PPS Namibia

15 April 2010

The consolidated balance sheet for the Group on the published reporting basis is shown below:

	Paragraph	**2009 R'000**	2008 R'000
Net assets	4	**13 459 477**	11 485 412
Insurance liabilities	5	**13 323 087**	11 332 589
Apportionment and special benefit accounts		**10 146 619**	8 071 614
Risk benefits and smoothing reserves		**2 706 247**	2 926 411
Investment contracts		**160 619**	50 177
Other insurance liabilities		**309 602**	284 387
Excess of assets over liabilities		**136 390**	152 823

2. ANALYSIS OF CHANGE IN EXCESS ASSETS

	2009 R'000	2008 R'000
Excess assets as at the end of the year	**136 390**	152 823
Excess assets as at the start of the year	**152 823**	118 850
Change in excess assets over the year	**(16 433)**	33 973
The change in excess was due to the following items		
Investment return on shareholder assets	**109 156**	(9 510)
Investment income	**102 014**	8 214
Capital appreciation	**7 142**	(17 724)
Tax on shareholders investment return	**(28 346)**	163
Balance of profits/(losses)	**(97 243)**	43 320
Total change in excess	**(16 433)**	33 973

The philosophy underlying the PPS insurance business is that profits emerging from the policyholder funds are retained in the fund and distributed to policyholders by means of annual bonus allocations to the non-vesting Apportionment and Special benefit accounts. Any undistributed profits at the end of each year are held in reserves for subsequent allocation to policyholders.

The impact of any changes to valuation methods and assumptions is offset by a corresponding change in the bonus declarations.

3. RECONCILIATION TO REPORTED EARNINGS

	2009 R'000	2008 R'000
Total earnings per above table	**(16 433)**	33 973
Reported (deficit)/surplus in the financial statements	**(16 433)**	33 973
Change in excess assets over the year	**–**	–

4. PUBLISHED REPORTING ASSET VALUATION METHODS AND ASSUMPTIONS

The assets are valued at statement of financial position values, i.e. at market or directors' values as described in the accounting policies. The assets relate to the consolidated assets of the Group.

5. PUBLISHED REPORTING LIABILITY VALUATION METHODS AND ASSUMPTIONS

The valuation of the policy liabilities in the life interests was performed using the Financial Soundness Valuation method for insurance contracts (including both the discretionary participation feature (DPF) and non-DPF components of the benefits) in accordance with the requirements of the Long-Term Insurance Act, 1998 and Professional Guidance Note (PGN) 104, as follows:

For sickness and permanent incapacity benefits (referred to in the notes as the non-DPF component of the benefits), the actuarial liabilities were stated at the present value of expected benefit payments and expenses less the present value of expected future premium receipts.

For benefits where the value is related to the return on an underlying investment portfolio (i.e. the Apportionment and Special Benefit accounts), the actuarial liabilities were stated at the value of the non-vesting account balances per the financial statements. These amounts are referred to in the notes as the DPF component of the policy liabilities.

In PPS Namibia, where cumulative investment returns and profits exceeded the bonuses and investment allocations to policyholder benefits, bonus smoothing reserves were established. The bonus smoothing reserves increased from the prior year and were R2,9 million at 31 December 2009.

The actuarial liability in respect of investment contracts was taken to be the fair value of the assets backing the contracts.

An allowance for future bonus payments has been made at a level consistent with assumed future experience, and our understanding of policy holder expectations.

The assumptions regarding future experience are based on best estimates suitably adjusted to provide safety margins according to the requirements of PGN104 of the Actuarial Society of South Africa.

In accordance with generally accepted practice, the best estimates of future expenses, mortality, morbidity and persistency are largely based on recent past experience rather than being an attempt to predict the future course of these variables. The most recent persistency investigations were for the period 1 January 2006 – 31 December 2008. The morbidity investigation was conducted on the experience for 2008. The mortality experience related to the period 1 January 2006 to 31 December 2008.

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.

The provision for expenses (before adding margins) is based on the Group's current experience. Costs per unit of benefit are assumed to escalate at 6,5% per annum in future. The experience will be monitored and adjustments made as and when necessary.

The future tax outgo is based on the four funds tax basis for the South African business and the applicable Namibian tax basis for the Namibian business.

The economic assumptions were based on the following:

	2009	2008
	%	%
Bond yield at 31 December	9,50	7,50
Equity return	12,50	10,50
Cash	8,00	6,00
Property return	10,50	8,50

The assumed future gross investment return is 10,10% pa (2008: 8,10% pa).

6. CAPITAL REQUIREMENTS AND POLICYHOLDER BENEFITS

The statutory capital adequacy requirement is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of a significant negative departure of actual future experience from the assumptions made in calculating actuarial liabilities and for significant fluctuations in the value of assets. The capital adequacy requirement for each of the life companies has been calculated in accordance with the Long Term Insurance Act, 1998. The guidance note prescribes various adverse scenarios that must be tested to determine the potential impact on the business of possible adverse experience. The combined excess of the assets over the liabilities is 2,6 times (2008: 2,5 times) the capital adequacy requirement.

In deriving the investment resilience requirement in the ordinary capital adequacy requirement (OCAR), it was assumed that a decline of 30% in equity asset values, 15% in property values, and a 15% increase in fixed interest asset values (as a result of a 25% reduction in fixed-interest yields) will occur, in accordance with statutory requirements.

In the case of PPS's insurance interests, all profits and losses arising are transferred to policyholders by means of the annual bonus declarations to Surplus Rebate Accounts. These annual declarations are non-vesting and may be positive or negative, depending on the experience of the business. When calculating the Capital Adequacy Requirement allowance may be made for the impact of management action. The management action assumed in PPS Insurance is the declaration of bonuses which reflect the experience each year. The impact of this management action is to reduce the Capital Adequacy Requirement.

The adverse scenarios considered (and the impact on benefits) include the following:

- The impact of specified fluctuations in the mortality, morbidity and medical experience will be absorbed by a reduction of R62 million in the operating profit allocated to Apportionment accounts. This is equivalent to a reduction in the aggregate profit allocation of 10%.
- The impact of specified fluctuations in the mortality experience on permanent incapacity benefit claims in payment will be absorbed by a reduction of R25 million in the operating profit allocated to Apportionment accounts. This is equivalent to a reduction in the aggregate profit allocation of 4%.

- The impact of specified fluctuations in the expense experience will be absorbed by a reduction of R24 million in the operating profits allocated to apportionment accounts. This is equivalent to a reduction in the aggregate profit allocation of 4%.
- The allowance for operational risk in the CAR calculation is R90,6 million. We assume that should these operational risk events occur, that the impact of this will be absorbed by a reduction of R90,6 million in the operating profit to Apportionment accounts. This is equivalent to a reduction in the aggregate profit allocation of 15%.
- The allowance for credit risk in the CAR calculation amounted to R73,5 million. The impact of these credit risk events materialising will result in a reduction to Special Benefit accounts of R73,5 million. This is equivalent to removing 1,0% of the special benefit account balances at 31 December 2009.
- The impact of a specified significant fall in asset values (equivalent to 30% of equity values) will result in a reduction to Special Benefit accounts of R1,9 billion. This is equivalent to removing in aggregate 34% of the special benefit account balances at 31 December 2009.

The scenarios set out above have been considered by the boards of the insurance companies. The boards have agreed that the impact of each adverse scenario would be reflected in policyholder benefits in the manner disclosed above were the scenarios to materialise.

Professional Provident Society Limited (Limited by Guarantee) ('PPS Limited') and its subsidiaries ('the Group')

The directors present their report, which forms parts of the audited annual financial statements of the Group for the year ended 31 December 2009.

Principal activities

PPS Limited is incorporated as a company limited by guarantee under the Companies Act. PPS Limited is an investment holding company whose sole investment is 100% of the shares of Professional Provident Society Insurance Company Limited ('PPS Insurance'). PPS Limited is owned and controlled by its members. The strategic intent of the PPS Limited Board is to acquire membership and to promote, protect and enhance the PPS brand. PPS Insurance conducts most of the business of the Group and has certain subsidiaries as set out on page 3 of the Annual Review. In terms of the Group structure:

- *PPS Insurance* is a long-term insurance company registered in South Africa 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.

  The PPS Group Life Assurance Scheme, which is closed to new business, is underwritten by Sanlam Life Insurance Limited ("Sanlam") in terms of a Group Life Master Policy contract with PPS Insurance. Those policyholders who participate in this policy receive participation certificates. The risks and rewards pertaining to these products are substantially reinsured back to PPS Insurance, in terms of a reinsurance agreement with Sanlam.

- *PPS Black Economic Empowerment SPV (Pty) Limited* ('PPS BEE SPV'), a special purpose vehicle, formed as part of the PPS Insurance BEE transaction in 2006. The sole asset of PPS BEE SPV is an endowment policy issued by PPS Insurance. PPS BEE SPV has issued cumulative redeemable preference shares to PPS Insurance. The redemption of these shares will be funded out of the proceeds of the endowment policy.

- *Professional Provident Society Insurance Company (Namibia) Limited* ('PPS Namibia') is a subsidiary of PPS Insurance and provides insurance products exclusively to the Namibian market. PPS Namibia has a reinsurance arrangement in place with PPS Insurance. This arrangement was put in place in order to protect the security and benefit expectations of the Namibian policyholders. This provides security as the Namibian policyholders are effectively included in a risk pool of approximately 124 000 policyholders. Without this reinsurance arrangement, the Namibian subsidiary with approximately 3 900 Namibian policyholders, would be exposed to significantly higher volatility from participating in a significantly smaller risk pool.

- *Professional Medical Scheme Administrators (Pty) Limited* ('Professional Medical Scheme Administrators'), a subsidiary of PPS Insurance, administers Profmed Medical Aid and other medical schemes.

- *Professional Provident Society Marketing Services (Pty) Limited* ('PMS'), a subsidiary of PPS Insurance, was formed to act as a distribution company for some of PPS Insurance and PPS Investments' products, through one of its divisions, namely, Member Relations division ('MRD'). PMS also has a short-term division which markets short-term insurance products to members. These products are underwritten by Hollard Insurance Company Limited.

- *Professional Provident Society Investments (Pty) Limited* ('PPS Investments') which provides, inter alia, savings and investment products exclusively to PPS members is jointly owned by PPS Insurance and Coronation Fund Managers Limited.

PPS Insurance provides certain administrative functions to all of the above subsidiary companies.

Financial results

The financial results on pages 34 to 126 clearly set out the consolidated results of the Group. The Company results reflect those of PPS Limited. The Group results reflect the consolidated results of PPS Limited and its subsidiaries.

Interest and profit allocations to policyholders' surplus rebate accounts

At the end of each year policyholders' surplus rebate accounts, comprising the apportionment accounts and the special benefit accounts, are allocated a share of the profit and loss net of movements in insurance policy liabilities earned over that year. The surplus rebate account accumulates from year to year until a policyholder reaches retirement age. On retirement, death or exit, policyholders receive a lump sum payment based on the balance accumulated in their surplus rebate accounts at that time.

The surplus rebate account represents an allocation of surplus and investment returns only. This account does not belong to the policyholders (or become a 'vested benefit') until retirement, death or exit. The total assets backing the surplus rebate accounts 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 surplus rebate account may increase or decrease each year. Possible variations in the surplus rebate accounts are set out in the accounting policies and notes to these financial statements. There are no guarantees given by PPS Insurance or PPS Namibia that the allocations of operating results or investment returns will always be positive, or that the surplus rebate accounts will not reduce in any year.

The net operating income is allocated in proportion to the number of units of benefit held by each policyholder during that year. The investment returns are allocated in proportion to the quantum of the policyholders' surplus rebate accounts.

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 surplus rebate accounts at the time. For all other policyholders aged 60 or older, the full balance of the surplus rebate accounts is paid out to the policyholders, with tax pre-paid on retirement, termination of cover or resignation, and to beneficiaries or the estate on death.

The allocation at 31 December 2009 to policyholders' apportionment accounts referred to above, as approved by the respective boards, are set out as follows:

PPS Insurance

	2009		2008	
	Rates	**R'000**	Rates	R'000
Interest				
Pre-retirement option policyholders (note 1)	**6,36%**	**8 536**	6,21%	8 317
Other policyholders (note 1)	**6,40%**	**219 973**	5,09%	152 369
Bonus allocation – per unit of benefit per month				
Full – ordinary (note 2)	**25,36c**	**443 037**	24,92c	410 081
Reduced – ordinary	**12,36c**	**13 443**	11,92c	16 742
Supplementary A	**9,17c**	**33 925**	9,01c	34 516
Supplementary B	**52,31c**	**6 017**	51,39c	6 292
Deferred	**8,83c**	**13 501**	8,68c	13 759
Accident	**10,44c**	**4 060**	10,26c	4 051
Hospital benefits				
Full ordinary	**3,31c**	**39 536**	3,25c	36 735
Reduced ordinary	**2,01c**	**1 772**	1,95c	2 230
Supplementary A	**1,75c**	**3 191**	1,72c	3 275
Supplementary B	**11,46c**	**760**	11,26c	795
Accident	**6,20c**	**1 674**	6,09c	1 688
PPS Retirement Annuity special bonus	**0,40c**	**4 686**	0,53c	6 287

Note 1 – Investment income allocated to policyholders' notional apportionment account balances.

Note 2 – Bonus rates for PPS Insurance and PPS Namibia would have been the same had it not been for the impact of the BEE funding requirements in PPS Insurance.

PPS Namibia

	2009		2008	
	Rates	**N$'000**	Rates	N$'000
Interest				
Pre-retirement option policyholders (note 1)	**4,49%**	**108**	6,21%	116
Other policyholders (note 1)	**7,11%**	**6 388**	3,26%	2 421
Bonus allocation – per unit of benefit per month				
Full – ordinary (note 2)	**25,49c**	**16 049**	25,05c	14 199
Reduced – ordinary	**12,49c**	**415**	12,05c	453
Supplementary A	**9,21c**	**746**	9,05c	732
Supplementary B	**52,58c**	**178**	51,66c	175
Deferred	**8,88c**	**313**	8,72c	305
Accident	**10,50c**	**108**	10,31c	104
Hospital benefits				
Full ordinary	**3,32c**	**1 805**	3,26c	1 578
Reduced ordinary	**2,02c**	**57**	1,96c	65
Supplementary A	**1,76c**	**93**	1,73c	90
Supplementary B	**11,52c**	**31**	11,32c	28
Accident	**6,23c**	**50**	6,12c	47
PPS Retirement Annuity special bonus	**0,58c**	**111**	0,47c	111

Note 1 – Investment income allocated to policyholders' notional apportionment account balances.

Note 2 – Bonus rates for PPS Insurance and PPS Namibia would have been the same had it not been for the impact of the BEE funding requirements in PPS Insurance.

Allocation to special benefit accounts

The following interest allocations (note 3) for 2009 were made to the special benefit accounts:

- 7,46% (2008: 4,45%) for South African policyholders who chose to move to the pre-retirement option – this amounts to R27,5 million (2008: R17,6 million).
- 24,96% (2008: (13,15)%) for South African policyholders who did not qualify for, or did not choose to move to the pre-retirement option – this amounts to R1 742 million (2008: R(1 029) million).
- 3,31% (2008: 5,59%) for Namibian policyholders who chose to move to the pre-retirement option – this amounts to N$0,2 million (2008: N$0,3 million).
- 30,38% (2008: (20,84)%) for Namibian policyholders who did not qualify for, or did not choose to move to the pre-retirement option – this amounts to N$46,2 million (2008: N$(36,8) million).

Note 3 – Investment return allocated to policyholders' notional special benefit accounts as a percentage of the notional surplus rebate accounts at the beginning of the year.

Senior management incentive schemes

The senior management incentive schemes, as far as possible, are aligned with, linked to and influenced by:

- The interests of the members;
- The financial performance of the Group as a whole based on balanced scorecard agreed with management and approved by GRC;
- The performance of any business unit or support function; and
- The employee's own contribution.

Short Term Scheme

The objective of the short-term scheme is to ensure senior management drives the operating surplus to optimum levels over the financial year (one year). The key drivers of the scheme are operating surplus after actuarial adjustment and individual performance based on key performance areas and indicators that are pre-set for each manager. The pool is capped at a maximum of 2% of bonus allocations to members. The allocation of the pool is recommended by the CEO and ratified by the remuneration committee. The scheme participants are all Executive Committee Members.

The management group participates in a management bonus scheme, which is primarily based on individual key performance areas and targets. There are two schemes in this regard – the one that could be granted the maximum of four multiples of the individual's monthly package and the other a discretionally multiple of package based on out-performance of the targets mentioned above.

Long Term Incentive Scheme

A Long Term Incentive Scheme was introduced in 2007. The key driver of this scheme is the appreciation of the total balance of the apportionment account. This scheme is totally aligned to the member interest, as the individual participant is rewarded for growing the composite apportionment account.

The scheme has 23 participants, made up of executives and key senior staff that make a vital contribution to PPS' growth.

Allocations are made to individuals based on tiers linked to importance of role and quantum of annual package. A hurdle rate of growth of apportionment account is set at two percent above inflation. Participants receive the benefit of the growth above the hurdle rate. It is a five year scheme with a third of each allocation vesting after the third year, a third after the fourth year and the last third after the fifth year. Participants need to be in employment to exercise their vested portion, hence the retention character of the scheme. Allocations are discretionary and are made annually to certain executives and staff. During the current year additional once off allocations were made to certain key staff as a retention mechanism.

The remuneration committee exercises discretion in the rules of the scheme, the hurdle rate, types and quanta of allocations to the relevant individuals.

The total compensation, which includes guaranteed package, short term and long term incentives of the executives and key staff are benchmarked to similar size and type of company to ensure competitiveness and retention.

Directors of PPS Limited

Director	Status	Classification	Term of office
Dr D Presbury	Independent Chairman	Elected	Ends June 2010
Mr E Moolla	Independent Deputy Chairman	Elected	Ends June 2010
Dr D Anderson	Independent Non-executive	Elected	Ends June 2012
Dr V Bhagwandas	Independent Non-executive	Elected	Ends June 2010
Dr N Campbell	Independent Non-executive	Elected	Ends June 2011
Mr Y Gordhan	Independent Non-executive	Elected	Ends June 2011
Mr U Jivan	Independent Non-executive	Elected	Ends June 2012
Dr C Kruger	Independent Non-executive	Elected	Ends June 2010
Adv R Meyer	Independent Non-executive	Elected	Deceased June 2009
Dr J Patel	Independent Non-executive	Elected	Ends June 2011
Dr J van Niekerk	Independent Non-executive	Elected	Ends June 2011
Judge R Zulman	Independent Non-executive	Elected	Ends June 2011
Mr B Topham	Independent Non-executive	Elected	Ends June 2010
Mr S Trikamjee	Independent Non-executive	Elected	Ends June 2012
Adv T Aboobaker	Appointed by General Council of the Bar of South Africa	Nominated	N/A
Mr I Kotze	The Pharmaceutical Society of South Africa	Nominated	N/A
Dr T Letlape	The South African Medical Association	Nominated	N/A
Ms C Mbili	The South African Institute of Chartered Accountants	Nominated	N/A
Mr C Reay	The Society of Professional Engineers	Nominated	N/A
Dr S Seoka	Independent Non-executive	Co-opted	N/A
Dr R Sykes	The South African Veterinary Association	Representative	N/A

PPS Insurance Board

Director	Status
Dr D Anderson (Chairman)	Independent Non-executive
Mr E Moolla	Independent Non-executive
Dr D Presbury	Independent Non-executive
Adv R Meyer *(deceased June 2009)*	Independent Non-executive
Dr V Bhagwandas *(appointed September 2009)*	Independent Non-executive
Dr N Campbell	Independent Non-executive
Mr C Erasmus	Independent Non-executive
Mr W Mthembu *(deceased October 2009)*	Independent Non-executive
Dr J van Niekerk	Independent Non-executive
Mr Kotze	Independent Non-executive
Dr S Seoka	Independent Non-executive
Mr N Payne	Independent Non-executive
Prof H Wainer *(appointed November 2009)*	Independent Non-executive
Mr M Jackson (Chief Executive)	Executive
Mr D Gnodde (Chief Operating Officer) (resigned May 2009)	Executive
Mrs T Boesch (Financial Director) *(appointed May 2009)*	Executive

Executive of PPS

Member	Status
Mr M Jackson	Chief Executive
Mr D Gnodde *(resigned May 2009)*	Chief Operating Officer
Mrs T Boesch	Financial Director
Mr C de Klerk	Company Actuary
Mr L Caron	Company Secretary
Mr J Marsden	National Sales Executive
Dr J Goodwin	Chief Medical Officer
Mr R Govenden	Human Resources Executive
Mr T Simba	Stakeholder Relations Executive
Mr S Clark	Head of Business Applications
Dr D Stott	Business Development Executive
Mr N Battersby *(appointed September 2009)*	CE: PPS Investments
Dr H Hoffman *(appointed October 2009)*	CE: PMSA

Directors of subsidiaries

PPS Namibia	*PPS Medical Scheme Administrators*
Director	**Director**
Dr E Maritz (Chairman)	Mr M Jackson (Chairman)
Ms M Bennett *(resigned November 2009)*	Mr D Gnodde *(resigned April 2009)*
Mr E Angula	Dr J van Niekerk
Dr O Oosthuizen	Dr C Kruger *(appointed July 2009)*
Mr M Jackson	
Mr J Marsden	

PPS BEE SPV	*PPS Marketing Services*	*PPS Investments*	*Plexus Properties*
Director	**Director**	**Director**	**Director**
Dr T Letlape (Chairman)	Mr M Jackson (Chairman)	Mr E Moolla (Chairman)	Mr M Jackson (Chairman)
Mr E Moolla	Mr C Erasmus	Mr H Nelson	Mrs T Boesch
Dr S Seoka	Mr D Gnodde *(resigned April 2009)*	Mr A Pillay	Mr C de Klerk
	Mr J Marsden	Mr P Koekemoer	
	Mr C de Klerk *(appointed June 2009)*	Mr N Battersby	
		Mr M Jackson	
		Mr C de Klerk	

Trustees

PPS Retirement Annuity Fund	*PPS Beneficiaries Trust*
Dr D Presbury (Chairman)	Dr R Sykes (Chairman)
Mr E Huggett	Judge R Zulman
Mr M Eustace	Mr B Topham
Adv R Meyer *(deceased June 2009)*	
Mr G Richardson	
Dr S Seoka	
Dr J van Niekerk	
Dr V Bhagwandas *(appointed July 2009)*	
Adv T Ferreira	
Mrs R Govender *(appointed November 2009)*	

PPS Limited directors' emoluments
(Including subsidiaries and committees)

Director	**PPS Limited (Incl committees) R**	**Subsidiary companies (Incl committees) R**	**Total emoluments R**
Adv T Aboobaker	96 800	–	96 800
Dr J Adno *(resigned June 2009)*	43 450	–	43 450
Dr D Anderson	28 050	488 400	516 450
Dr V Bhagwandas	101 750	29 700	131 450
Dr N Campbell	24 750	166 100	190 850
Mr U Jivan *(appointed June 2009)*	58 300	–	58 300
Mr I Kotze	24 750	192 500	217 250
Dr C Kruger	96 800	9 900	106 700
Dr T Letlape	101 750	–	101 750
Ms C Mbili	91 850	–	91 850
Adv. R Meyer *(deceased June 2009)*	56 650	172 700	229 350
Mr E Moolla	194 425	151 800	346 225
Dr J Patel	101 750	–	101 750
Dr D Presbury	277 200	89 100	366 300
Mr C Reay	101 750	–	101 750
Dr S Seoka	134 750	99 000	233 750
Dr R Sykes	123 200	–	123 200
Mr B Topham	103 400	–	103 400
Mr S Trikamjee *(appointed June 2009)*	58 300	–	58 300
Mr Y Gordhan	96 800	–	96 800
Dr J van Niekerk	24 750	169 400	194 150
Judge R Zulman	110 000	–	110 000
Total	**2 051 225**	**1 568 600**	**3 619 825**

Business address

Principal place of business	6 Anerley Road Parktown, 2193
Postal address	PO Box 1089 Houghton, 2041
Web address	www.pps.co.za

Statutory actuary of PPS Insurance and PPS Namibia

(in terms of the Long-Term Insurance Act)

Carl van der Riet

External auditor

PricewaterhouseCoopers Inc

Internal auditor

KPMG Services (Pty) Limited

Fund managers

Coronation Fund Managers Limited
Investec Asset Management (Pty) Limited
Namibia Asset Management Limited
PPS Investments (Pty) Limited

Group accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

1. BASIS OF PRESENTATION

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, except for:

- Owner occupied property carried at fair value;
- Financial assets designated to be carried at fair value through profit and loss;
- Investment property carried at fair value;
- Policy liabilities under insurance contracts that are valued in terms of the financial soundness valuation (FSV) basis outlined in accounting policy 4;
- Investment contract liabilities which are carried at fair value through profit and loss; and
- Post-employment employee benefit obligations valued using the projected unit credit method.

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 1 of the notes to the consolidated financial statements.

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

The following pages set out the details of the accounting policies.

2. CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of PPS Limited and its subsidiaries ('the Group').

Subsidiaries

Subsidiaries are all entities over which the Group directly or indirectly has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

Subsidiaries are fully 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. There is no goodwill arising on consolidation.

The Group consolidates a special purpose entity ('SPE') when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

Unit trusts, in which the Group has greater than 50% economic interest resulting in effective control, are consolidated. The consolidation principles applied to these unit trusts are consistent with those applied to consolidated subsidiary companies.

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 Company's annual financial statements, the interests in subsidiaries are accounted for at cost. A provision for impairment is created if there is evidence of impairment.

3. FINANCIAL INSTRUMENTS

3.1 General

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

Financial instruments carried on the statement of financial position include financial assets – investments, other receivables, cash and cash equivalents, investment contract liabilities, borrowings, accruals and other payables.

3.2 Financial assets

The Group has the following financial asset categories: financial assets at fair value through profit and loss, as well as loans and receivables. The Group currently does not hold any held to maturity or available-for-sale assets.

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

3. FINANCIAL INSTRUMENTS continued

3.2 Financial assets continued

Financial instruments at fair value through profit and loss

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

Financial instruments are designated on initial recognition as "At fair value through profit and loss" to the extent that they produce more relevant information because they either:

- result in the reduction of measurement inconsistency (for accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- are managed as a group of financial assets and/or financial liabilities and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel.

Financial assets designated at fair value through profit and 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. Realised and unrealised gains and losses arising from changes in fair value are included in the statement of 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 exchange quoted closing prices at the close of business on the last trading day on or before the reporting date.

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include receivables as well as cash and cash equivalents.

Loans and receivables are initially measured at fair value and subsequently at amortised cost less impairment adjustments (accounting policy note 11).

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 and investment contract liabilities (accounting policy note 4.2.2) and third party financial liabilities arising on consolidation of unit trusts (accounting policy note 2).

Financial liabilities are initially measured at fair value less transaction costs that are directly attributable to the raising of the funds, and are subsequently carried at amortised cost. Any difference between the proceeds, net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of borrowing.

Liabilities to unit trust holders are effectively demand deposits and are consequently 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 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.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or have expired.

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.

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 pool of assets.

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 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:
  - (a) The performance of a specified pool of contracts or a specified type of contract;
  - (b) Realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - (c) The profit and 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 necessitates a change in classification.

4. INSURANCE AND INVESTMENT CONTRACTS continued

4.1 Classification of contracts continued

Insurance contracts

The Group issues contracts that transfer insurance risk and include a discretionary participation feature ('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 comprehensive income.

4.2 Valuation and recognition

4.2.1 Insurance contracts

Principles of valuation and profit recognition

Liabilities in respect of insurance contracts are valued according to the requirements of the professional guidance notes ('PGNs') issued by the Actuarial Society of South Africa (ASSA). Of particular relevance to the insurance liability calculations, are the following actuarial guidance notes:

PGN 104: Life Offices – Valuation of Long-Term Insurers
PGN 102: Life Offices – HIV/Aids
PGN 105: Recommended Aids extra mortality bases

4. INSURANCE AND INVESTMENT CONTRACTS continued

4.2 Valuation and recognition continued

4.2.1 Insurance contracts continued

Valuation

The insurance contracts are valued in terms of the financial soundness valuation ('FSV') basis contained in PGN 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 bonus declarations to policyholders. The bonuses provided for are in line with past declarations and the Group's interpretation of policyholder reasonable benefit expectations.

Compulsory margins for adverse deviations are included in the assumptions as required in terms of PGN 104. Allowance is also made for discretionary margins which are at the discretion of the statutory actuary. For certain newer products a part of the negative reserves have been eliminated on a per policy basis to allow for the appropriate recognition of future profit in line with product design. This discretionary margin will be released in line with services rendered and risks borne. This increases the policy liabilities. There are no other discretionary margins in the policy liabilities.

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

The Group has an obligation to pay to contract holders the DPF component of their benefits (the members' apportionment and special benefit account) on exit, 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

Premiums are recognised as revenue on inception of the policy, and on a monthly basis thereafter. Premiums are shown 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.

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.

Insurance benefits

Insurance benefits and claims are recorded as an expense gross of any reinsurance recovery when they are incurred on 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')

IBNR is 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 estimated 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 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.

4. INSURANCE AND INVESTMENT CONTRACTS continued

4.2 Valuation and recognition continued

4.2.1 Insurance contracts continued

Claims payable

A claims payable liability is held in respect of sickness and permanent incapacity policies, and the professional health 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.

Reinsurance premiums

Reinsurance premiums paid are recognised as an expense in the statement of 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 comprehensive income in the same period as the related claim at the undiscounted amount receivable in terms of the contracts.

Expenses for the acquisition of insurance contracts

Expenses for the acquisition of insurance contracts consists 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, as well as investment income from the assets backing such liabilities, are used. Since the insurance policy liabilities are calculated in terms of the financial soundness valuation (‘FSV’) basis as described in PGN104, which meets the minimum requirements of the liability adequacy test, it is not necessary to perform an additional liability adequacy test.

Reinsurance contracts held

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. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are recognised as reinsurance contracts.

The benefits to which the Group 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 reporting 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 consist of premiums payable for reinsurance contracts and are recognised as an expense when due.

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 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 and loss but are accounted for as deposits. Amounts paid to policyholders are recorded as deductions from the investment contract liabilities.

4. INSURANCE AND INVESTMENT CONTRACTS continued

4.2 Valuation and recognition continued

4.2.2 Investment contracts continued

All investment contracts issued by the Group are designated by the Group on initial recognition as at fair value through profit and 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 and 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. Investment contract liabilities are set equal to the fair value 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 unmatured 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

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

Translation differences on non-monetary items, such as equities held at fair value through profit and 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 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.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

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 four-fund method applicable to life insurance companies.

Value Added Tax is netted off the underlying expense/income or capital item in the statement of comprehensive income or statement of financial position.

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 and with original maturities of less than three months. Cash at bank and in hand is measured at amortised cost. Cash on call is designated at fair value through profit and loss.

8. PROPERTY AND EQUIPMENT

Owner-occupied property represents property held for administrative purposes and for capital appreciation for the benefit of policyholders and are offices occupied by the Group. Owner-occupied property is initially recorded at cost and is subsequently shown at fair value, based on annual valuations by external independent appraisers, less subsequent depreciation for buildings. Any accumulated depreciation 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. All other equipment is 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 the statement of comprehensive income during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation reserve. Decreases that offset previous increases of the same asset are charged against revaluation reserves; all other decreases are charged to the statement of comprehensive income.

Land is not depreciated. Depreciation on other assets 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 5 years

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 the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are included in the statement of comprehensive income and are determined by comparing sales proceeds with the carrying amount.

9. LEASES

Operating leases where a Group company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

10. 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 intangible assets 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 are measured at amortised cost

Computer software development costs recognised as assets are amortised, from the date the asset is brought into 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.

Management reviews the carrying value wherever objective evidence of impairment exists. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

11. IMPAIRMENT OF ASSETS

Financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as default or delinquency in payments;
- adverse changes in the payment status of issuers or debtors in the Group; or
- national or local economic conditions that correlate with defaults on assets in the Group.

If there is objective evidence that an impairment loss has been incurred on receivables, including those related to insurance contracts, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced directly against the asset or through the use of an allowance account for impairment losses. The amount of the loss is recognised in the statement of 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 (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the impairment provision account. The amount of the reversal is recognised in the statement of comprehensive income.

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 directly against the asset or through the use of an impairment provision account. The amount of the loss is recognised in the statement of 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 comprehensive income.

12. DEFERRED TAX

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. 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. The principal temporary differences arise from the revaluation of financial assets held at fair value through profit and loss, provisions and tax losses carried forward.

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.

13. EMPLOYEE BENEFITS

13.1 Pension/retirement obligations

The Group provides for retirement benefits of employees by means of a defined benefit pension fund and a defined contribution pension and provident fund. The assets are held in separate funds controlled by trustees appointed by the Group and employees.

Defined contribution fund

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund.

All employees employed after July 2004 belong to the defined contribution pension and provident fund. All other employees were transferred to the defined contribution pension and provident fund effective on 1 March 2005.The plan is funded by contributions from employees and the Group. Group contributions to the fund are based on a percentage of payroll and are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

13. EMPLOYEE BENEFITS continued

13.1 Pension/retirement obligations continued

Defined benefit fund

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The fund is governed by the Pensions Fund Act, 1956. The pension plan is funded by payments from employees and the Group, taking account of the recommendations of independent actuaries. Statutory actuarial valuations are required every three years. An independent actuary also performs interim valuations of the defined benefit obligation, annually at reporting date, using the projected unit credit method to determine the present value of its defined benefit obligations and related current and past service costs.

All non-pensioner members on the defined benefit fund have been transferred from the defined benefit pension fund to the defined contribution pension and provident fund effective on 1 March 2005. As there were only retired members in the fund in 2005 and part of 2006, all past service cost adjustments and actuarial gains and losses were recognised immediately.

13.2 Post-retirement medical obligations

The Group provides for the unfunded post-retirement healthcare benefits of those employees and 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. For existing employees, the expected post-retirement costs of these benefits are accrued over the period of employment, using the projected unit credit method. 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.

An independent actuary performs interim 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.

The Group's current service costs to the post-retirement medical fund are recognised as expenses in the current year. Past service costs are recognised as expenses in the current year to the extent that they relate to retired employees. Past service costs are recognised as an expense over the average period until the benefits become vested for existing employees. Cumulative actuarial gains and losses at the beginning of the period in excess of 10% of the fund liabilities are recognised in the statement of comprehensive income over the expected average remaining service lives of participating employees.

The liability recognised in the statement of financial position in respect of the post-retirement medical obligation is the present value of the post-retirement medical obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates with reference to the market yield of interest-bearing bonds at reporting date.

13.3 Termination benefits

Termination benefits are recognised as an expense in the statement of comprehensive income and a liability in the statement of financial position when the Group has a present obligation relating to termination.

13.4 Leave pay provision

The Group recognises in full, employee's rights to annual leave entitlement in respect of past service accumulated at reporting date.

13.5 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.

13.6 Long-term incentive scheme

A long-term incentive scheme for certain employees is in place. The expected costs of these benefits are accrued over the period of employment. The entitlement to these benefits is based on the employee remaining in service of the Group for at least three years.

The present value of the long-term incentive scheme is determined by discounting the estimated cash flows using an appropriate market-related yield curve as at the reporting date, applying the projected unit credit method.

14. SHARE CAPITAL

Shares are classified as equity when there is no obligation to transfer cash or other assets. As a company limited by guarantee, each member of the Company is liable for a maximum amount of R1 in the event of the Company being wound up while a member or within one year thereafter.

15. ACCUMULATED FUNDS

Accumulated funds are the excess of the net assets over the insurance policy liabilities.

16. BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

17. OFFSETTING FINANCIAL INSTRUMENTS

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

18. REVENUE RECOGNITION

18.1 Net insurance premium revenue

Details of net insurance premium revenue is disclosed under accounting policy 4.2.1.

18.2 Fee and commission income

Policy administration and collection services fee income are fees arising from services rendered in conjunction with the administration of the life assurance policy underwritten by Sanlam.

Administration fees include fees charged to Profmed Medical Aid Scheme and PPS Beneficiaries Trust, for administration services rendered to these entities. Also included are royalties received as well as fees from members when changing their risk profiles.

Investment management fees include services fees earned in respect of services rendered for the provision of investment management services.

Commission received is recognised in the accounting period in which the policy is sold.

18.3 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 and loss.

Interest is recognised as income on the effective interest method. Interest income on financial assets at fair value through profit and 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.

Net fair value gains/losses on financial assets held at fair value through profit and loss comprises of gains and losses on disposal or revaluation of assets to fair values and is recognised in the statement of comprehensive income.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and carrying values at the beginning of the year or cost if acquired during the year. Unrealised gains and losses are calculated as the difference between the carrying values at the end of the year and the carrying values at the beginning of the year or cost if acquired during the year.

19. EXPENSES FOR MARKETING AND ADMINISTRATION

Administration expenses include head office and branch administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

20. COSTS INCURRED FOR PROVIDING INVESTMENT MANAGEMENT SERVICES

Investment management expenses include expenditure incurred in the provision of asset management services.

Consolidated statement of financial position

as at 31 December 2009

		Group		Company	
	Note	**2009 R'000**	2008 R'000	**2009 R'000**	2008 R'000
ASSETS					
Property and equipment	4	**74 852**	64 921	**–**	–
Investment in subsidiary company	5	**–**	–	**10 000**	10 000
Intangible assets	6	**39 203**	42 089	**–**	–
Deferred tax	17	**33 016**	12 083	**–**	–
Financial assets – Investments	7	**11 894 456**	9 878 511	**–**	–
Reinsurance assets	8,14	**305 608**	312 153	**–**	–
Insurance and other receivables	9	**178 276**	172 546	**847**	785
Current income tax asset		**5 754**	5 413	**–**	–
Cash and cash equivalents	10	**1 402 325**	1 388 272	**405**	–
Total assets		**13 933 490**	11 875 988	**11 252**	10 785
EQUITY					
Capital and accumulated funds					
Share capital	11	**–**	–	**–**	–
Accumulated funds	12	**136 390**	152 823	**10 500**	10 500
Total equity		**136 390**	152 823	**10 500**	10 500
LIABILITIES					
Insurance policy liabilities	14	**13 162 468**	11 282 412	**–**	–
Investment contract liabilities	15	**160 619**	50 177	**–**	–
Liabilities to unit trust holders	16	**184 619**	209 032	**–**	–
Borrowings	13	**14 648**	8 681	**–**	–
Deferred tax	17	**73 963**	1 868	**–**	–
Retirement benefit obligations	18	**29 571**	26 346	**–**	–
Employee related obligations	19	**28 915**	19 605	**–**	–
Insurance and other payables	20	**139 456**	114 142	**752**	285
Current income tax liabilities		**2 841**	10 902	**–**	–
Total liabilities		**13 797 100**	11 723 165	**752**	285
Total equity and liabilities		**13 933 490**	11 875 988	**11 252**	10 785

Consolidated statement of comprehensive income

for the year ended 31 December 2009

		Group		Company	
	Note	**2009 R'000**	2008 R'000	**2009 R'000**	2008 R'000
Net insurance premium revenue	21	**1 579 759**	1 410 142	**–**	–
Fee and commission income	22	**90 507**	91 543	**7 628**	5 668
Investment income	24	**1 192 406**	837 252	**–**	–
Net fair value profits on financial assets held at fair value through profit and loss		**855 347**	–	**–**	–
Revenue		**3 718 019**	2 338 937	**7 628**	5 668
Net insurance benefits and claims	25	**1 050 652**	1 071 127	**–**	–
Net fair value losses on financial assets held at fair value through profit and loss		**–**	1 408 818	**–**	–
Fair value of policyholder liabilities under investment contracts	15	**11 230**	(1 059)	**–**	–
Expenses	26	**605 242**	531 588	**7 628**	5 668
Profit/(loss) before movement in insurance policy liabilities		**2 050 895**	(671 537)	**–**	–
Movement to/(from) insurance policy liabilities	14.2	**1 859 942**	(736 464)	**–**	–
Tax	28	**204 620**	30 954	**–**	–
(Deficit)/surplus after tax		**(13 667)**	33 973	**–**	–
Other comprehensive income:					
Revaluation of property net of deferred tax		**(2 897)**	2 005	**–**	–
Total comprehensive (deficit)/income for the year		**(16 564)**	35 978	**–**	–
Deficit/(surplus) after tax attributable to:					
Members		**(16 433)**	33 973	**–**	–
Unit trust holders		**2 766**	–	**–**	–
		(13 667)	33 973	**–**	–
Total comprehensive (deficit)/income attributable to:					
Members		**(19 330)**	35 978	**–**	–
Unit trust holders		**2 766**	–	**–**	–
		(16 564)	35 978	**–**	–

The mutuality nature of PPS should be noted – every member is a policyholder. The allocation to policyholders (described above as 'movement to insurance policy liabilities') is in effect the positive or negative return of the members in their capacity as policyholders. The surplus/(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 2009

	Note	Accumulated funds R'000	Revaluation reserve R'000	Total R'000
Group				
Balance at 1 January 2008		118 850	–	118 850
Revaluation of owner-occupied property		–	2 140	2 140
Deferred tax on revaluation of owner-occupied property		–	(135)	(135)
Movement in insurance policy liabilities	14.2	–	(2 005)	(2 005)
Surplus for the year		33 973	–	33 973
Balance at 31 December 2008	12	152 823	–	152 823
Revaluation of owner-occupied property		–	(3 160)	(3 160)
Deferred tax on revaluation of owner-occupied property		–	263	263
Movement in insurance policy liabilities	14.2	–	2 897	2 897
Deficit for the year		(16 433)	–	(16 433)
Balance at 31 December 2009	12	**136 390**	**–**	**136 390**

The land and buildings revaluation reserve represents the capital appreciation on the owner-occupied property which is allocated to the policyholders and has been included in the insurance policy liabilities.

Deferred tax has been provided on the revaluation difference arising on owner-occupied property in 2009 and 2008, based on the amounts and at the rate applicable to capital gains.

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 in equity.

	Note	Accumulated funds R'000	Revaluation reserve R'000	Total R'000
Company				
Balance at 1 January 2008		10 500	–	10 500
Profit for the year		–	–	–
Balance at 31 December 2008	12	10 500	–	10 500
Profit for the year		–	–	–
Balance at 31 December 2009	12	**10 500**	–	**10 500**

Consolidated statement of cash flows

for the year ended 31 December 2009

		Group		Company	
	Note	**2009 R'000**	2008 R'000	**2009 R'000**	2008 R'000
Cash flows from operating activities					
Cash generated from operations	29	**198 128**	60 242	**406**	–
Interest received		**423 318**	412 809	**–**	–
Dividend received		**275 686**	381 333	**–**	–
Tax paid	30	**(161 596)**	(157 347)	**–**	–
Net cash from operating activities		**735 536**	697 037	**406**	–
Cash flows from investing activities					
Purchases of property and equipment	4	**(22 401)**	(11 801)	**–**	–
Software development	6	**(9 554)**	(14 785)	**–**	–
Purchase of financial assets		**(11 408 441)**	(16 020 024)	**–**	–
Proceeds from sale of furniture and equipment		**238**	256	**–**	–
Proceeds from disposal of financial assets		**10 712 708**	15 663 395	**–**	–
Net cash used in investing activities		**(727 450)**	(382 959)	**–**	–
Cash flows from financing activities					
Increase in borrowings	13	**5 967**	5 081	**–**	–
Net cash used in financing activities		**5 967**	5 081	**–**	–
Net increase in cash and bank		**14 053**	319 159	**406**	–
Cash and bank at beginning of year		**1 388 272**	1 069 113	**–**	–
Cash and bank at end of year	10	**1 402 325**	1 388 272	**406**	–

1. 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.

1.1 Valuation of 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 14.1.

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.

1.2 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. The Group has four separate tax funds, the individual policyholders' fund (taxed at 30%), the company policyholder' fund (taxed at 28%), the corporate fund (taxed at 28%) and the untaxed fund (taxed at 0%).

1.3 Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds and post-retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to the statement of comprehensive income arising from these obligations include the expected long-term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to the statement of comprehensive income and may affect planned funding of the pension plans.

The assumptions relating to the expected return on plan assets are determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The Group 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 pension and 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 pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales. Additional information is provided in Note 18 of these financial statements.

1.4 Valuation of owner-occupied property

The value of the owner-occupied property depends on a number of factors that are determined using a number of assumptions. The assumptions used in determining the value include the expected yield 9,5% (2008: 8,5%), the average rentals for office space in the area (R95 per square metre) (2008: R90 per square metre), and estimated annual expenses relating to the building of R1 054 000 (2008: R905 000). Any change in these assumptions will impact the value of the building.

1.5 Valuation of investment contract liabilities

The Group issues investment contracts, with no investment management services, that are recognised and measured as financial liabilities and designated at fair value through profit and loss. These financial liabilities are not quoted in an active market and therefore, the fair value is determined using a valuation technique.

The investment contracts sold by the Group are unit linked. Consequently, there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. For valuation purposes the policy liability is taken to be equal to the market value of the underlying linked assets.

1.6 Valuation of long-term incentive scheme

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 comprehensive income arising from these obligations include the expected growth in the apportionment account (rolling five-year average historical growth 14,0% (2008: 12,0%)), the turnover of staff participating in the scheme (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 comprehensive income.

2. MANAGEMENT OF RISKS

2.1 General

The Board has overall responsibility for the Group's systems of internal control and risk management policy. The chief executive and executive management are responsible for the management and implementation of the risk management framework.

To assist the Board in the execution of its risk management accountabilities, the **Risk Committee** has been charged with the following responsibilities:

- to assist 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;
- to assist the Board in overseeing the Group's compliance with applicable legal and regulatory requirements, industry standards and the Group's code of conduct;
- to review and assess the quality, integrity and effectiveness of the risk management systems and ensure that the risk policies and strategies are effectively managed;
- to review and assess the nature, role, responsibility and authority of the risk management function within the Group and outline the scope of risk management work;
- to ensure that the Group 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 pro-actively manage these risks, and to recommend to the Board the Group's appetite or tolerance for risk;
- to ensure that a systematic, documented assessment of the processes and outcomes surrounding key risks is undertaken at least annually for the purpose of making its public statement on risk management including internal control;
- to oversee formal reviews of activities associated with the effectiveness of risk management and internal control processes. A comprehensive system of control has been established to ensure that risks are mitigated and that the Group's objectives are attained;
- to review processes and procedures to ensure the effectiveness of internal systems of control so that decision-making capability and accuracy of reporting and financial results are always maintained at an optimal level;
- to monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risk, including emerging and prospective impacts; and

- to provide 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 and the Audit Committee to the Board on all categories of identified risks facing the Group.

The Board has delegated to the **Audit Committee** the requirement for oversight, establishment and implementation of appropriate systems of internal control. The internal control systems continue to be enhanced and developed and 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 Audit Committee's mandate from the Board is to:

- ensure compliance with all aspects of the Companies Act and, where appropriate, the recommendations of the King Code with regard to the auditors of the Group;
- deal with all aspects of the annual financial statements of 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, financial control, records and reporting;
- review the quality and effectiveness of the audit process and assess whether the external auditors have performed the audit as planned;
- 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; 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.

The following functions within the Group are responsible for discharging the operations of risk management:

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 Risk Committee and approval at the Audit Committee;
- provides the independent assessment of the effectiveness of management's implementation of the risk management framework to the Risk Committee;

2. MANAGEMENT OF RISKS continued

2.1 General continued

Compliance

- monitors and reports on compliance with regulatory requirements across the Group;
- monitors that systems and controls are in place to ensure that the Group's exposure is minimised;
- has a risk based compliance monitoring plan/risk matrix which has now been enhanced with the implementation of a risk based application for monitoring and reporting on compliance within the Group;
- coordinates the Group's relationship with its regulators;
- evaluates the impact of forthcoming legislative and regulatory changes and provides advice on potential process and control changes required.

Risk Management

- maintain and update the risk matrix and risk maps for the Group. This includes the identification, assessment, monitoring, mitigation and reporting around the key risks;
- monitor and report progress on action plans for risks that require mitigating actions;
- promote awareness of risk management to both management and staff within the Group;
- assist management with the embedding of risk management within the daily operations of all levels of staff;
- ensure that risk management is considered when setting strategic goals and objectives;
- ensuring the balance between minimising exposures and maximising benefits.

2.2 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 possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. 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 plan	The sickness and permanent incapacity plan offers a variety of sickness and permanent incapacity benefit options with differing premium rates and benefit levels. The premium rates and benefits are not guaranteed and may be revised at the discretion of the insurer. To qualify for sickness and permanent incapacity benefits, the applicant must apply for cover units. Such a benefit entitles a policyholder to claim an amount determined by the units of cover for sickness and incapacity, held by a policyholder. The amount of cover units obtainable are limited by the applicant's annual gross professional income and maximum limits applied by the Group. The non-DPF component of this product is the sickness and incapacity cover. The DPF component of this product is the Surplus Rebate Accounts. These policies are sold to individuals.
Professional Life Provider and old Generation Life & Disability Assurance	The policy offers lump sum life and disability cover for a specified term or whole life. The premiums are payable monthly and are age rated. The premium increases after the policyholder's birthday. For this new generation of life and disability policies, PPS Insurance is the risk carrier. The previous generation of policies are classified as being part of a grouped individual policy. For these policies Sanlam is the insurer with significant reinsurance back to PPS Insurance. This class is closed for new business. A reinsurance policy to reduce the variability of the claims expenses is in place. These policies transfer insurance risk only, are accounted for as reinsurance inwards, and do not contain a DPF component.

2. MANAGEMENT OF RISKS continued

2.2 Insurance product risk management continued

Type of contract	Terms and conditions
Professional Health Provider and Professional Health Preserver	The Professional Health Provider (Provider PHP) was launched in 2007, as an enhanced product based on the Professional Health Preserver (PHP) (which was launched in 2004). These products pay a lump sum benefit according to severity levels upon assessment of standard dread disease conditions and physical impairment events. The premiums increase annually with age. The premiums are not guaranteed and may be revised at the discretion of the insurer. Professional Health Preserver (PHP) is the previous generation product which pays a lump sum benefit, according to severity levels, upon assessment of standard dread disease conditions and physical impairment events. PHP is closed to new business. The premiums for this cover are determined according to age, and increase annually held to individuals. Reinsurance policies are in place to reduce the variability of the claims experience. The policies transfer insurance risk only, and do not contain a DPF component.
Professional Disability Provider	In 2009, PPS launched the Professional Disability Provider which 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 once off lump sum benefit on diagnoses of a severe dread disease (like a stage 3 or 4 cancer, or advanced Alzheimer's). The premiums are payable monthly and are age rated. The premium increase on the 1st of the month following the life insured's birthday. Reinsurance policies are in place to reduce the variability of the claims experience. The policies transfer insurance risk only, and do not contain a DPF component.

Type of contract	Terms and conditions
Business Provider	These two products are tailored for the business insurance market, namely 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 for both products increase annually with age. The premiums are not guaranteed and may be revised at the discretion of the insurer. Reinsurance policies are in place to reduce the variability of the claims experience. The policies transfer insurance risk only and do not contain a DPF component.
PPS Endowment	The PPS Endowment affords 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 this product. The policies do not transfer insurance risk and do not contain a DPF component.
PPS Living Annuity	The PPS Living Annuity is a compulsory purchase linked 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 sickness and disability contracts include 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 maximise the benefits available to policyholders.

2. MANAGEMENT OF RISKS continued

2.2 Insurance product risk management continued

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 diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Insurance contracts

(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 SARS), economic conditions, abnormal weather conditions, quality of healthcare or wide spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

The Group has a claims assessing process where all claims received are assessed. Repetitive and large claims are investigated further before being paid. The Group also conducts regular morbidity investigations to monitor experience.

Further, undue concentration of risks by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Group manages these risks through its underwriting strategy. The underwriting strategy ensures that the risks underwritten are drawn from specified professions only. Medical selection is also included in the Group's underwriting procedures where premium loadings or benefit exclusions may be imposed which reflect the health condition and family medical history of the applicants. 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 over insured. These limits are increased annually in line with expected salary inflation for professionals.

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 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
2009	**3 984 019**	**32 333**
2008	3 769 107	29 196

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 14).

(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 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 tables exist, tables are developed specifically on PPS historic experience.

The Group maintains voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates. An allowance is then made for any trends in the data to arrive at a best estimate of future termination rates.

2. MANAGEMENT OF RISKS continued

2.2 Insurance product risk management continued

Risk exposure and concentrations of risk

The following table shows the Group's exposure to insurance risk (based on the carrying value of the 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:

2009 R'000	**Non-DPF component of insurance liabilities**	**DPF component of insurance liabilities**	**Total**
South Africa			
Gross	**2 632 581**	**9 912 579**	**12 545 160**
Net of reinsurance	**2 338 732**	**9 912 579**	**12 251 311**
Namibia			
Gross	**73 666**	**234 040**	**307 706**
Net of reinsurance	**68 341**	**234 040**	**302 381**

2008 R'000	Non-DPF component of insurance liabilities	DPF component of insurance liabilities	Total
South Africa			
Gross	2 843 865	7 905 861	10 749 726
Net of reinsurance	2 537 317	7 905 861	10 443 178
Namibia			
Gross	82 545	165 752	248 297
Net of reinsurance	76 942	165 752	242 694

Risk management relating to investment contracts

The Group commenced selling investment products during 2007 through its subsidiary PPS Investments (Pty) Ltd ('PPS Investments'). For these policies 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 policyholders' 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 products underwritten by PPS Insurance are the PPS Endowment and the PPS Living Annuity.

2.3 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 risk that the Group primarily 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 an annual review of the assets held to back the insurance policy liabilities using asset liability modelling techniques. The asset-liability risk management framework allows for asset liability modelling 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 discussed on a monthly 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; and
- amounts due from reinsurers in respect of payments already made to policyholders.

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.

2. MANAGEMENT OF RISKS continued

2.3 Financial risk management continued

In monitoring credit risk, amounts receivable are grouped according to their credit characteristics. The Group also limits it 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. The Group operates a Credit Control Policy regarding outstanding premiums, which is formulated on the Long Term Insurance Act (In terms of section 52), recommendations supported by the LOA Ombudsman and agreed in contracts with our members. In terms of this policy, 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 are ceased and all benefits are suspended. In the event of default on the part of the individual, where the apportionment accounts have 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 Financial Services Board. 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+.

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 in Schedule 1 of the Long Term Insurance Act. 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:

Group R'000	2009	2008
Debt securities	**4 456 468**	3 273 698
Reinsurance assets	**305 608**	312 153
Insurance receivables	**97 971**	111 831
Cash and cash equivalents	**1 798 354**	1 416 583
Other receivables	**29 147**	22 173
Reinsurance receivables	**50 238**	37 916
Total	**6 737 786**	5 174 354

Corporate and government debt

Included in the category designated at fair value through profit and loss is 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 Fitch Ratings ('Fitch'), an industry accepted credit ratings agent. The following tables set out the credit exposure restrictions as utilised by the Group:

Group Bond Investments in aggregate	Inclusion Limit per Instrument and Issuer as a % of the Market Value of Assets comprising the portfolio
AAA, sovereign and government guaranteed bonds, but no lower than AA-	30%
A+ but no lower than A-	20%
BBB+ but no lower than BBB-	5%

The Group's total exposure to government and corporate debt amounted to R 4 456 million (2008: R3 273 million) at 31 December 2009. The following represent the major industry sectors to which the Group is exposed as at 31 December 2009:

Group Rm	2009	2008
Government	**2 785**	2 591
Banks	**1 141**	439
Utilities	**298**	207
Corporate	**232**	37
Total	**4 456**	3 274

2. MANAGEMENT OF RISKS continued

Concentrations of credit risk

The maximum exposure to credit risk for its financial assets at the reporting date by credit rating category was as follows:

Group 2009 R'000	**AAA and govern-ment**	**Below AAA but no lower than AA-**	**Below AA- but no lower than A**	**Below A- but no lower than BBB-**	**Unrated**	**Total**
Debt securities	**2 835 135**	**1 228 628**	**287 905**	**104 800**	**–**	**4 456 468**
Reinsurance assets	**–**	**–**	**305 608**	**–**	**–**	**305 608**
Insurance receivables	**–**	**–**	**–**	**–**	**97 971**	**97 971**
Cash and cash equivalents	**331 790**	**980 485**	**486 079**	**–**	**–**	**1 798 354**
Other receivables	**–**	**–**	**–**	**–**	**29 147**	**29 147**
Reinsurance receivables	**–**	**–**	**50 238**	**–**	**–**	**50 238**

Group 2008 R'000	AAA and govern-ment	Below AAA but no lower than AA-	Below AA- but no lower than A	Below A- but no lower than BBB-	Unrated	Total
Debt securities	2 677 539	536 016	60 143	–	–	3 273 698
Reinsurance assets	–	–	312 153	–	–	312 153
Insurance receivables	–	–	–	–	111 831	111 831
Cash and cash equivalents	219 067	1 086 814	110 702	–	–	1 416 583
Other receivables	–	–	–	–	22 173	22 173
Reinsurance receivables	–	–	37 916	–	–	37 916

Ageing of financial assets

The following table provides information regarding the credit quality of assets which expose the Group to credit risk:

Group 2009 R'000	**Neither past due nor impaired**	**Financial assets that are past due but not impaired**			**Financial assets that have been impaired**	**Total**
		0 – 2 months	**3 – 5 months**	**More than 5 months**		
Insurance receivables	**7 686**	**4 003**	**3 725**	**82 557**	**16 322**	**97 971**
Reinsurance assets	**305 608**	**–**	**–**	**–**	**–**	**305 608**
Reinsurance receivables	**39 131**	**–**	**–**	**11 107**	**–**	**50 238**
Other receivables	**28 117**	**87**	**63**	**880**	**–**	**29 147**
Cash and cash equivalents	**1 798 354**	**–**	**–**	**–**	**–**	**1 798 354**

Group 2008 R'000	Neither past due nor impaired	Financial assets that are past due but not impaired			Financial assets that have been impaired	Total
		0 – 2 months	3 – 5 months	More than 5 months		
Insurance receivables	7 600	3 717	8 249	92 265	13 097	111 831
Reinsurance assets	312 154	–	–	–	–	312 153
Reinsurance receivables	37 916	–	–	–	–	37 916
Other receivables	20 953	–	11	1 209	–	22 173
Cash and cash equivalents	1 416 583	–	–	–	–	1 416 583

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.

2. MANAGEMENT OF RISKS continued

Individually impaired assets

The analysis of overall credit risk exposure indicates that the Group has contract receivables that are impaired at the reporting date. The assets are analysed below:

	2009			2008		
Group R'000	**Gross**	**Net**	**Impairment losses**	Gross	Net	Impairment losses
Contract holder receivable	**56 223**	**39 901**	**16 322**	54 777	41 680	13 097

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:

- All policyholder funds are invested in assets that 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.
- All policyholder funds are 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.
- 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.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities and insurance contract liabilities, including interest payments and excluding the impact of netting agreements:

Group 2009 R'000	Carrying amount	Total cash flows	Contractual cash flows Within 1 year	2 – 5 years	6 – 10 years	11 – 20 years	Over 20 years
Insurance contract liabilities – DPF	**10 146 619**	**10 146 619**	**1 223 505**	**1 351 337**	**2 061 293**	**3 672 085**	**1 838 399**
Insurance contract liabilities – non-DPF	**2 407 073**	**(29 434 092)**	**394 485**	**750 844**	**(639 229)**	**(4 132 394)**	**(25 807 798)**
Reinsurance liabilities	**23 936**	**23 936**	**23 936**	**–**	**–**	**–**	**–**
Third-party financial liabilities arising on consolidation of unit trusts	**184 619**	**184 619**	**184 619**	**–**	**–**	**–**	**–**
Investment contract liabilities	**160 619**	**160 619**	**160 619**	**–**	**–**	**–**	**–**
Other financial liabilities	**91 435**	**91 435**	**91 435**	**–**	**–**	**–**	**–**

Group 2008 R'000	Carrying amount	Total cash flows	Contractual cash flows Within 1 year	2 – 5 years	6 – 10 years	11 – 20 years	Over 20 years
Insurance contract liabilities – DPF	8 071 613	8 071 613	920 547	1 032 470	1 653 568	2 828 091	1 636 937
Insurance contract liabilities – non-DPF	2 614 259	(15 533 112)	259 383	189 149	(1 288 041)	(4 920 686)	(9 772 917)
Reinsurance liabilities	28 425	28 425	28 425	–	–	–	–
Third-party financial liabilities arising on consolidation of unit trusts	209 032	209 032	209 032	–	–	–	–
Investment contract liabilities	50 177	50 177	50 177	–	–	–	–
Other financial liabilities	53 095	53 095	53 095	–	–	–	–

2. MANAGEMENT OF RISKS continued

Exposure to liquidity risk

For obligations with non-DPF components, the amounts in the table represent the estimated cashflows, 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 cashflows are shown gross of reinsurance. Nominal cashflows are shown and the effect of discounting is 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).

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 risk. 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 rigour has been applied to these in light of current market conditions and volatility. Refer below for more detail.

Management of market risks

The management of each of these market components of major risk and the exposure of the Group at the reporting date to each major risk are addressed below.

Interest rate risk

Interest rate risk arises primarily from the Group's investments in debt securities 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.

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	**Non-pre-retirement option benefits**		**Pre-retirement option benefits**	
31 December 2009	**R'000**	**%**	**R'000**	**%**
Local				
Equity	**6 223 144**	**60,7**	**–**	**–**
Fixed interest	**2 087 030**	**20,4**	**246 399**	**55,9**
Cash	**447 579**	**4,4**	**194 692**	**44,1**
International				
Equity	**1 494 845**	**14,5**	**–**	**–**
Cash	**1 114**	**–**	**–**	**–**
Total	**10 253 712**	**100,0**	**441 091**	**100,0**

Group	Non-pre-retirement option benefits		Pre-retirement option benefits	
31 December 2008	R'000	%	R'000	%
Local				
Equity	4 691 782	58,3	–	–
Fixed interest	1 755 724	21,8	99 883	25,2
Cash	304 293	3,8	296 261	74,8
International				
Equity	1 192 355	14,8	–	–
Cash	103 194	1,3	–	–
Total	8 047 348	100,0	396 144	100,0

The assets held to back the non-DPF component of the liabilities similarly reflect the Group's understanding of the risk appetite of the policyholders and the results of an asset liability modelling exercise undertaken during the year. 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 were thus given a voluntary option to switch to a more conservative investment portfolio from age 55, i.e. one where there is no exposure to equities.

2. MANAGEMENT OF RISKS continued

The assets held to back the non-DPF component of the policy liabilities are as follows:

Group	2009 R'000	%	2008 R'000	%
Equity	**571 011**	**23,7**	631 044	24,1
Fixed interest	**1 433 114**	**59,5**	1 387 431	53,1
Cash	**402 948**	**16,8**	595 784	22,8
Total	**2 407 073**	**100,0**	2 614 259	100,0

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 investment returns are shown in Dollars and the effect of the trading in different currencies are reflected in the investment performance which is measured against an internal benchmark. In terms of legislation, up to 20% of the Group's investments may be invested in foreign currency and hence the Group has less than 20% exposure to currency risk.

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.

External, independent consultants are employed by the board to independently assess and provide quarterly feedback to the board on the performance of the appointed asset managers.

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.

Market risk sensitivity analysis

The table below shows the results of sensitivity testing on the Group's profit and 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 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 comprehensive income. Therefore a market risk sensitivity analysis has not been included for this component of the business.

2. MANAGEMENT OF RISKS continued

The market risk sensitivity on the first year's cash flow is shown below:

	Contracts with non-DPF	
Group R'000 31 December 2009	Impact on profit/(loss) before movement in insurance policyholder liabilities	Impact on capital and accumulated funds
Interest rate risk		
Local and government debt		
Lower limit: 7% yield	(35 724)	(31 192)
Upper limit: 9% yield	(4 341)	(3 444)
Local cash		
Lower limit: 8,5% return	3 829	3 767
Upper limit: 10,5% return	15 992	15 683
International and government debt		
No exposure to international assets	–	–
International cash		
No exposure to international assets	–	–
Currency risk		
International equity		
No exposure to international assets	–	–
International debt securities		
No exposure to international assets	–	–
Equity price risk		
Local		
Lower limit: 14% increase in equity prices	(131 917)	(132 733)
Upper limit: 20% increase in equity prices	(91 292)	(95 375)
International		
No exposure to international assets	–	–

Group R'000 31 December 2008	Contracts with non-DPF Impact on profit/(loss) before movement in insurance policyholder liabilities	Impact on capital and accumulated funds
Interest rate risk		
Local and government debt		
Lower limit: 8% yield	(19 040)	(19 693)
Upper limit: 8,5% yield	(14 027)	(15 657)
Local cash		
Lower limit: 9% return	(1 720)	(2 052)
Upper limit: 11% return	807	254
International and government debt		
No exposure to international assets	–	–
International cash		
No exposure to international assets	–	–
Currency risk		
International equity		
No exposure to international assets	–	–
International debt securities		
No exposure to international assets	–	–
Equity price risk		
Local		
Lower limit: 8% increase in equity prices	312 146	313 241
Upper limit: 12% increase in equity prices	369 613	368 584
International		
No exposure to international assets	–	–

2. MANAGEMENT OF RISKS continued

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

Underwriting risk is the risk that the actual exposure to mortality, disability and medical risks in respect of policyholder benefits will exceed prudent exposure.

Underwriting risk is controlled by underwriting principles. The underwriting process takes into account actual and prospective mortality, morbidity and the expense experience.

The statutory actuary reports annually on the financial 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 statutory actuary 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 by the statutory actuary analysing claim patterns and trends. The latest report indicated no material change in claim patterns.

Reinsurance

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 as on their global credit rating.

Claims risk

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

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 allow 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 expense losses compared to expected expenses will respectively result in a higher or lower profit allocation to the policyholders.

2. MANAGEMENT OF RISKS continued

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

Capital management policies and objectives

The Group's capital management objectives are to:

- comply with the insurance regulatory capital requirements in the countries where the Group operates;
- safeguard the entity's ability to continue as a going concern; and
- 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 Long Term Insurance Act, 52 of 1998 together with the Group's licence requirements as well as the relevant Namibian legislation (Act 5 of 1998). It is thus dependent on the country in which the Group operates, namely South Africa and Namibia.

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.

	2009		2008	
Rm	**South Africa**	**Namibia**	South Africa	Namibia
Capital held	**189 428**	**5 223**	183 682	5 223
Regulatory capital	**59 397**	**4 000**	60 893	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 14) as the policy holders are also the members of the Group. A detailed asset liability matching (ALM) investigation is conducted on an annual basis to better understand the potential impact on the capital of the Group of different market conditions, such as 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 Risk Committee and 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 increased its level of CAR cover to 2,6 times (2008: 2,5 times). This decision has resulted in a further R5,7 million (2008: R51,2 million) being allocated to accumulated funds.

The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the period.

2. MANAGEMENT OF RISKS continued

Consolidated unit trusts

The Group invests in various registered unit trusts in order to match obligations provided in policyholder contracts.

Certain of these unit trust investments exceed 50% of the total value of the underlying net assets within the fund. Consequently, these funds are defined as subsidiaries in terms of the Group's accounting policies and consolidated into the Group results.

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, 45 of 2001, in South Africa prescribes maximum limits to concentration risks exposures.

Each fund's trustees or 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 breach they are obligated to immediately bring it to the attention of the fund's trustees/board and management of the administrators 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 subsidiaries can be grouped under one manager, namely Professional Provident Society Investments (Pty) Limited ("PPS Investments"), a fellow Group subsidiary.

Described below is the unit trust subsidiary and its respective mandate and objective.

Funds managed by PPS Investments

PPS Multi-Managers employs a multi-manager investment approach that is designed to generate acceptable levels of returns at lower than average levels of risk. This is achieved by:

- A thorough and ongoing quantitative and qualitative research process of potential managers in the domestic universe.

- 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.
- Continual monitoring of the portfolio risk and return characteristics of each selected manager as well as of the overall portfolio.
- Making manager changes where PPS Investments feel 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.

- **PPS Conservative Fund of Funds**

  Investment objective

  To maximise total portfolio return while outperforming a conservative real 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 limited to not more than 40% of the portfolio value.

  Typical investments

  The managers invest in fixed instruments such as money market and bonds, 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.

2. MANAGEMENT OF RISKS continued

Consolidated unit trusts continued

- **PPS Flexible Income Fund**

  Investment objective

  To provide a total return with a strong income bias in excess of a broad fixed income market index, as well as some capital growth.

  Investment mandate

  This multi-managed flexible 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.

  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 and interest rate risk.

- **PPS Moderate Fund of Funds**

  Investment objective

  To maximise total portfolio return while outperforming a moderate real 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 limited to not more than 65% of the portfolio value.

Typical investments

The managers invest in fixed instruments such as money market and bonds, 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.

- **PPS Managed Flexible Fund**

  Investment objective

  To maximise total portfolio return while outperforming an aggressive real return target of CPI + 6% per annum over the long term.

  Investment mandate

  This multi-managed fund invests in a number of underlying managers with the specific mandate to employ real return strategies, combining flexible asset allocation with value-based security selection processes to meet the benchmark.

  Typical investments

  The managers invest in fixed instruments such as money market and bonds, local and international equities.

  Risk exposure

  A moderately aggressive fund exposed to credit risk, interest rate risk, local and international equity price risk and currency risk.

3. FINANCIAL INSTRUMENT AND INSURANCE CONTRACT ANALYSIS

IFRS 7 as amended 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 readily available in the market and are normally obtainable from multiple sources.

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

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

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 and loss on initial recognition	Loans and receivables	Financial liabilities at amortised cost	Insurance contract assets and liabilities	Prepay-ments	Total carrying amount	Fair value
Group 2009								
Equity securities								
Local listed	7	5 678 789	–	–	–	–	5 678 789	5 678 789
International listed	7	342 201	–	–	–	–	342 201	342 201
Debt securities								
Government bonds	7	3 988 375	–	–	–	–	3 988 375	3 988 375
International listed	7	114 256	–	–	–	–	114 256	114 256
Unit trusts and pooled funds	7	1 770 835	–	–	–	–	1 770 835	1 770 835
Reinsurance assets	8	–	–	–	305 608	–	305 608	N/A
Insurance receivables	9	–	–	–	97 971	–	97 971	N/A
Prepayments	9	–	–	–	–	920	920	N/A
Other receivables	9	–	29 147	–	–	–	29 147	29 147
Reinsurance receivables	9	–	–	–	50 238	–	50 238	N/A
Cash and cash equivalents	10	1 354 944	47 381	–	–	–	1 402 325	1 402 325
Insurance contract liabilities	14	–	–	–	13 162 468	–	13 162 468	N/A
Investment contract liabilities	15	160 619	–	–	–	–	160 619	160 619
Liabilities to unit trust holders	16	184 619	–	–	–	–	184 619	184 619
Borrowings	13	–	–	14 648	–	–	14 648	14 648
Reinsurance payables	20	–	–	–	23 936	–	23 936	N/A
Insurance payables	20	–	–	–	24 085	–	24 085	N/A
Accruals and sundry creditors	20	–	–	91 435	–	–	91 435	91 435

R'000	Note	Financial assets and liabilities designated at fair value through profit and loss on initial recognition	Loans and receivables	Financial liabilities at amortised cost	Insurance contract assets and liabilities	Prepay-ments	Total carrying amount	Fair value
Group 2008								
Equity securities								
Local listed	7	5 206 350	–	–	–	–	5 206 350	5 206 350
International listed	7	39 142	–	–	–	–	39 142	39 142
Debt securities								
Government bonds	7	3 214 682	–	–	–	–	3 214 682	3 214 682
International listed	7	56 511	–	–	–	–	56 511	56 511
Unit trusts and pooled funds	7	1 361 826	–	–	–	–	1 361 826	1 361 826
Reinsurance assets	8	–	–	–	312 153	–	312 153	N/A
Insurance receivables	9	–	–	–	111 831	–	111 831	N/A
Prepayments	9	–	–	–	–	626	626	N/A
Other receivables	9	–	22 173	–	–	–	22 173	22 173
Reinsurance receivables	9	–	–	–	37 916	–	37 916	N/A
Cash and cash equivalents	10	1 346 391	41 881	–	–	–	1 388 272	1 388 272
Insurance contract liabilities	14	–	–	–	11 282 412	–	11 282 412	N/A
Investment contract liabilities	15	50 177	–	–	–	–	50 177	50 177
Liabilities to unit trust holders	16	209 032	–	–	–	–	209 032	209 032
Borrowings	13	–	–	8 681	–	–	8 681	8 681
Reinsurance payables	20	–	–	–	28 425	–	28 425	N/A
Insurance payables	20	–	–	–	32 622	–	32 622	N/A
Accruals and sundry creditors	20	–	–	53 095	–	–	53 095	53 095

4. PROPERTY AND EQUIPMENT

	Owner-occupied property R'000	Computer hardware R'000	Vehicles, office furniture and equipment R'000	Total R'000
Year ended 31 December 2008				
Opening net book amount	44 300	7 028	6 999	58 327
Revaluation surplus	2 140	–	–	2 140
Additions	–	4 389	7 412	11 801
Disposals at carrying value	–	–	(143)	(143)
Depreciation charge	(340)	(4 493)	(2 371)	(7 204)
Closing net book amount	46 100	6 924	11 897	64 921
At 31 December 2008				
Cost or valuation	52 382	67 699	20 763	140 844
Accumulated depreciation	(6 282)	(60 775)	(8 866)	(75 923)
Net book amount	46 100	6 924	11 897	64 921
Non-current	46 100	6 924	11 897	64 921
Year ended 31 December 2009				
Opening net book amount	**46 100**	**6 924**	**11 897**	**64 921**
Revaluation deficit	**(2 853)**	**–**	**–**	**(2 853)**
Depreciation charge on revaluation reserve	**(307)**	**–**	**–**	**(307)**
Additions	**–**	**8 267**	**14 134**	**22 401**
Disposals: Cost	**–**	**(517)**	**(154)**	**(671)**
Disposals: Accumulated depreciation	**–**	**319**	**154**	**473**
Depreciation charge	**(340)**	**(4 264)**	**(4 508)**	**(9 112)**
Closing net book amount	**42 600**	**10 729**	**21 523**	**74 852**
At 31 December 2009				
Cost or valuation	**49 529**	**75 449**	**34 743**	**159 721**
Accumulated depreciation	**(6 929)**	**(64 720)**	**(13 220)**	**(84 869)**
Net book amount	**42 600**	**10 729**	**21 523**	**74 852**
Non-current	**42 600**	**10 729**	**21 523**	**74 852**

The Group's owner-occupied property was revalued at 31 December 2009 by CB Richard Ellis (Pty) Limited an independent valuator. Valuations were done using the discounted cash flow of future income stream method. The discounted cash flow method takes projected cash flow and discounts them at a rate which is consistent with comparable market transactions. Refer to note 1.4 for valuation assumptions. The opening carrying value is depreciated and then adjusted to reflect market value at year-end. The property consists of an office block situated at 6 Anerley Road, Parktown which is occupied by the Group. The property is revalued annually. If land and buildings were stated on a historical cost basis, the amounts would be as follows:

	Group	
	2009	2008
	R'000	R'000
Cost	**20 870**	20 870
Accumulated depreciation	**(5 697)**	(5 357)
Net book amount as at 31 December	**15 173**	15 513

	Company	
	2009	2008
	R'000	R'000
5. INVESTMENT IN SUBSIDIARY COMPANY		
Professional Provident Society Insurance Company Limited		
Shares issued at cost	**10 000**	10 000

The investment in the subsidiary company is accounted for at cost established when the Group was restructured in 2001.

A list of the subsidiaries of the Company is set out in the PPS Group structure.

	Group	
	2009	2008
	R'000	R'000
6. INTANGIBLE ASSETS – SOFTWARE DEVELOPMENT COSTS		
At 1 January		
Cost or revaluation	**96 376**	81 591
Accumulated amortisation	**(54 287)**	(34 012)
Net book amount	**42 089**	47 579
Year ended 31 December		
Opening net book amount	**42 089**	47 579
Additions	**9 554**	14 785
Amortisation charge	**(12 440)**	(20 275)
Closing net book amount	**39 203**	42 089
At 31 December		
Cost or valuation	**105 930**	96 376
Accumulated amortisation	**(66 727)**	(54 287)
Net book amount	**39 203**	42 089

	Group	
	2009	2008
	R'000	R'000

7. FINANCIAL ASSETS – INVESTMENTS

Analysis of financial assets held at fair value through profit and loss		
Level 1 fair value financial assets		
Equity securities:		
– local listed	**5 678 789**	5 206 350
– international listed	**342 201**	39 142
	6 020 990	5 245 492
Debt securities – fixed interest rate:		
– government bonds and local listed	**3 973 563**	3 214 682
– international listed	**114 256**	56 511
	4 087 819	3 271 193
Total level 1 fair value financial assets	**10 108 809**	8 516 685

At 31 December, investments classified as level 1 comprise approximately 84,9% of financial assets measured at fair value. Fair value measurements classified as level 1 include listed equity securities and certain debt security instruments that are traded.

Level 2 fair value financial assets		
Debt securities – fixed interest rate:		
– government bonds and local listed	**14 812**	–
Unit trusts and pooled funds:		
– local pooled funds and unit trusts	**224 818**	166 992
– international equity unit trusts	**900 947**	573 353
– international fixed interest unit trusts	**248**	296
– international balanced	**644 822**	621 185
	1 770 835	1 361 826
Total level 2 fair value financial assets	**1 785 647**	1 361 826
Total financial assets at fair value through profit and loss	**11 894 456**	9 878 511

	Group	
	2009	2008
	R'000	R'000
7. FINANCIAL ASSETS – INVESTMENTS continued		
The investment in local pooled funds and unit trusts comprises mainly:		
Debt securities	**17 747**	2 208
Cash and cash equivalents	**60 608**	28 308
Equities	**124 434**	136 433
International	**22 029**	43

International investments denominated in foreign currencies were translated to Rand at the closing exchange rates at 31 December 2009 of:

$1 = R7,38 (2008: $1 = R9,53)

N$1 = R1,00 (2008: N$1 = R1,00)

At 31 December 2009, investments classified as level 2 comprise approximately 15,1% of financial assets measured at fair value. Debt securities classified as level 2 include bonds that have not been traded in the last six months of the financial year. 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 2009, no investments are classified as level 3 (2008: nil).

Analysis of movements in financial assets held at fair value through profit and loss:		
Opening balance	**9 878 511**	10 658 828
Additions	**11 618 636**	16 229 056
Disposals at carrying value	**(10 474 172)**	(15 575 695)
Fair value net gains/(losses) excluding net realised gains	**855 347**	(1 408 818)
Accrued interest movements	**16 134**	(416)
Accrued dividends	**–**	(24 444)
Closing balance	**11 894 456**	9 878 511

	Group	
	2009 R'000	2008 R'000
The spread of investments by sector:		
Industrial (%)	**51,1**	50,3
Financial (%)	**30,0**	26,8
Resources (%)	**18,9**	22,9

Maturity profile of fixed interest investments:		
Due in 1 year or less	**114 941**	62 337
Due between 1 year and 5 years	**1 230 334**	1 291 715
Due between 5 years and 10 years	**1 558 446**	1 209 784
Due after 10 years	**1 198 910**	707 357
	4 102 631	3 271 193

There is no maturity profile for equity securities and unit trusts as management are unable to provide a reliable estimate given the volatility of equity markets.

No investments have been pledged as collateral for liabilities or contingent liabilities.

	Group	
	2009 R'000	2008 R'000
8. REINSURANCE ASSETS		
Total assets arising from reinsurance contracts at beginning of the year	**312 153**	205 033
Reinsurers' share of insurance policy liabilities	**(6 545)**	107 120
Total assets arising from reinsurance contracts at end of the year (note 14.2)	**305 608**	312 153
Non-current portion	**305 608**	312 153

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 9).

	Group		Company	
	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000
9. INSURANCE AND OTHER RECEIVABLES				
Receivables arising from insurance and reinsurance contracts:	**148 209**	149 747	**138**	–
– due from contract holders	**56 223**	54 777	**138**	–
– less allowance for impairment losses from receivables from contract holders	**(16 322)**	(13 097)	**–**	–
– due from contract holders – Life assurance policy	**58 070**	70 151	**–**	–
– due from reinsurers	**50 238**	37 916	**–**	–
Other receivables:	**29 147**	22 173	**679**	785
– accrued interest	**5 836**	4 354	**–**	–
– accrued dividends	**6**	132	**–**	–
– receivables from related parties	**–**	–	**679**	785
– value added tax	**–**	1 024	**–**	–
– other receivables	**23 305**	16 663	**–**	–
Prepayments	**920**	626	**30**	–
Total receivables including insurance receivables and prepayments	**178 276**	172 546	**847**	785
Current portion	**178 276**	172 546	**847**	785
Fair value of other receivables held at amortised cost	**29 147**	22 173	**679**	785
Allowances for impairment losses of receivables from contract holders				
Specific allowances for impairment				
At beginning of year	**13 097**	20 026	**–**	–
Impairment loss recognised	**9 916**	160	**–**	–
Impairment loss reversals	**(6 691)**	(7 089)	**–**	–
At end of year	**16 322**	13 097	**–**	–

	Group		Company	
	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000
10. CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	**47 381**	41 881	**405**	–
Level 2 fair value cash and cash equivalents				
Cash on call	**1 354 944**	1 346 391	**–**	–
Total cash and cash equivalents	**1 402 325**	1 388 272	**405**	–

The proportion of cash held to fund the working capital of the Group as part of the investment portfolio is 3,4% (2008: 6,4%) 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 6,4% (2008: 11,0%).

Cash and cash equivalents classified as level 2 comprise 100% of cash and cash equivalents measured at fair value. Observable inputs used to determine the fair value of cash and cash equivalents as part of unit trusts and pooled funds are the unit prices published by the unit trust fund managers. For cash on call the observable input used to determine fair value are quoted prices for money market instruments as reported by investment managers.

11. SHARE CAPITAL

As a company limited by guarantee each member of the Company is liable for a maximum amount of R1 in the event of the Company being wound up whilst being a member or within one year thereafter.

	Group		Company	
	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000
12. ACCUMULATED FUNDS				
Accumulated funds	**136 390**	152 823	**10 500**	10 500

The accumulated funds balance represents the amount of reserves which is not distributable. The Group must retain this amount to cover the capital adequacy requirement (CAR). This Group has increased its level of CAR cover to 2,6 times (2008: 2,5 times). This has resulted in a further R5,7 million being allocated to accumulated funds in the current year.

	Group			
	Carrying amount		Fair value	
	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000
13. BORROWINGS				
Unsecured – at amortised cost				
Shareholder loan	**14 648**	8 681	14 648	8 681
Total borrowings (current)	**14 648**	8 681	14 648	8 681
Current	**14 648**	8 681		
Balance at 1 January	**8 681**	3 600		
Loans granted during the year	**5 967**	5 081		
Balance at 31 December	**14 648**	8 681		

The shareholder loan carries interest at Nedbank deposit rates from 1 January 2009. Until that date, the loan was interest free.

The loan bears no fixed repayment term and is classified as short term. As a result of this classification, the fair value is deemed to approximate the carrying value.

14. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS

14.1 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity

(a) Process used to decide on assumptions

The sickness and disability contracts issued by the Group include a non-DPF and a DPF component. The non-DPF component includes sickness and disability benefits. The DPF component includes the surplus rebate 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 Statutory Actuary. 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 source of uncertainty is 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. 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 are based on morbidity tables that reflect the 2006 to 2008 morbidity experience of the Group. The main source of uncertainty is epidemics such as Aids, SARS, 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 claims are derived from the experience of the Group over the preceding two years.

14. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS continued

14.1 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity continued

(a) Process used to decide on assumptions continued

- *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 2006 to 2008 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 yields to redemption of a benchmark government security. For the current valuation, this effective rate is 9,5% (2008: 7,5%) per annum.

Equity investments: the expected long-term return (dividends and capital growth) is derived by adding to the risk-free rate of return an equity risk premium of 3,0% (2008: 3,0%).

Cash investments: the expected long-term return on cash and money market investments is derived by subtracting from the risk-free rate of return a margin of 1,5% (2008: 1,5%).

Overall investment return: A weighted average rate of investment return is derived by combining different proportions of the above financial assets in a model portfolio, which is assumed to back the liabilities. The overall investment return was 10,1% gross of tax in 2009 (8,1% in 2008). These model portfolios are consistent with the asset allocation strategies as set out by the Group.

- *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 3,0% (2008: 3,0%) below the current return on risk-free interest securities.

- *Tax*

It has been assumed that current tax legislation and rates continue unaltered. Allowance is made for future tax.

- *Future profit allocations*

  The assumed future profit allowance on the non-DPF portion of the liabilities is in line with the Company's past practice and members' reasonable expectations.

(a) IBNR

The IBNR liability calculation is based on run-off tables using historical data from 2005 to 2009. 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.

(b) 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 R379 million (2008: R309 million increase), which included the change in the investment return assumption amounting to a decrease of R1 123 million (2008: R465 million increase). The non-economic changes amounted to a R5,53 million decrease (2008: R1,3 million increase) in liabilities.

(c) 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.

14. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS continued

14.1 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity continued

Variable	Change in variable %	Change in liability 2009 R'000	% change	Change in liability 2008 R'000	% change
Liability per note 14.2		**2 407 073**		2 614 259	
Worsening in mortality	**10**	**381 632**	**15,85**	247 832	9,48
Worsening of morbidity rates	**10**	**288 591**	**11,99**	259 466	9,92
Worsening in PI inception rate	**10**	**356 131**	**14,80**	357 024	13,66
Lowering of investment returns	**(1)**	**695 456**	**28,89**	614 737	23,50
Lowering of terminations	**(10)**	**142 989**	**5,94**	134 335	5,14
Worsening of maintenance expense level	**10**	**367 855**	**15,28**	274 610	10,50
Worsening of expense inflation rate	**10**	**368 824**	**15,32**	162 627	6,22

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 to facilitate comparison with the sensitivities disclosed by other major insurers.

- *Compulsory margins*

  PGN 104 specifies the compulsory margins that need to be added to the best estimate margins. The following compulsory margins were added for both 2008 and 2009:

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

14.2 Movements in insurance policy liabilities and reinsurance assets – Long-term insurance contracts with and without DPF

	Group					
	2009			2008		
	Gross R'000	Re-insurance R'000	Net R'000	Gross R'000	Re-insurance R'000	Net R'000
Analysis of balance at the beginning of the year:						
Sickness and disability policies						
– Claims payable (notified claims)	**689**	**–**	**689**	6 762	–	6 762
– Unintimated claims (IBNR)	**43 881**	**–**	**43 881**	31 122	–	31 122
– Non-DPF liability	**2 926 412**	**312 153**	**2 614 259**	2 510 994	205 033	2 305 961
– Cessation benefits (notified claims)	**135 750**	**–**	**135 750**	38 516	–	38 516
– DPF liability	**8 071 613**	**–**	**8 071 613**	9 116 732	–	9 116 732
Life policies						
– Claims payable (notified claims)	**16 343**	**–**	**16 343**	24 483	–	24 483
– Unintimated claims (IBNR)	**4 184**	**–**	**4 184**	–	–	–
– Life assurance policy reserve	**30 634**	**–**	**30 634**	25 000	–	25 000
Other benefits and liabilities						
– Other benefits and liabilities	**52 906**	**–**	**52 906**	60 614	–	60 614
Total at beginning of the year	**11 282 412**	**312 153**	**10 970 259**	11 814 223	205 033	11 609 190
Change in insurance policy liabilities per statement of comprehensive income	**1 853 397**	**(6 545)**	**1 859 942**	(629 344)	107 120	(736 464)
Change in insurance policy liabilities per statement of changes in equity	**(2 897)**	**–**	**(2 897)**	2 005	–	2 005
Movement in claims liabilities						
– arising from current year claims	**41 769**	**–**	**41 769**	96 853	–	96 853
– arising from prior year claims	**(12 213)**	**–**	**(12 213)**	(1 543)	–	(1 543)
Total movement in insurance policy liabilities	**1 880 056**	**(6 545)**	**1 886 601**	(532 029)	107 120	(639 149)

14. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS continued

14.2 Movements in insurance policy liabilities and reinsurance assets – Long-term insurance contracts with and without DPF continued

	Group					
	2009			2008		
	Gross R'000	Re-insurance R'000	Net R'000	Gross R'000	Re-insurance R'000	Net R'000
Total movement allocated	**1 880 056**	**(6 545)**	**1 886 601**	(532 029)	107 120	(639 149)
Sickness and disability policies						
– Claims payable (notified claims)	**7 297**	**–**	**7 297**	(6 073)	–	(6 073)
– Unintimated claims (IBNR)	**(5 562)**	**–**	**(5 562)**	12 759	–	12 759
– Non-DPF liability	**(220 165)**	**(12 979)**	**(207 186)**	415 419	107 120	308 299
– Cessation benefits (notified claims)	**21 749**	**–**	**21 749**	97 234	–	97 234
– DPF liability	**2 075 006**	**–**	**2 075 006**	(1 045 119)	–	(1 045 119)
Life policies						
– Claims payable (notified claims)	**14 133**	**–**	**14 133**	(8 140)	–	(8 140)
– Unintimated claims (IBNR)	**1 840**	**–**	**1 840**	4 184	–	4 184
– Life assurance policy reserve	**1 428**	**6 434**	**(5 006)**	5 634	–	5 634
Other benefits and liabilities						
– Other benefits and liabilities	**(15 670)**	**–**	**(15 670)**	(7 927)	–	(7 927)
Analysis of balance at the end of the year:						
Sickness and disability policies						
– Claims payable (notified claims)	**7 986**	**–**	**7 986**	689	–	689
– Unintimated claims (IBNR)	**38 319**	**–**	**38 319**	43 881	–	43 881
– Non-DPF liability	**2 706 247**	**299 174**	**2 407 073**	2 926 412	312 153	2 614 259
– Cessation benefits (notified claims)	**157 499**	**–**	**157 499**	135 750	–	135 750
– DPF liability	**10 146 619**	**–**	**10 146 619**	8 071 613	–	8 071 613
Life policies						
– Claims payable (notified claims)	**30 476**	**–**	**30 476**	16 343	–	16 343
– Unintimated claims (IBNR)	**6 024**	**–**	**6 024**	4 184	–	4 184
– Life assurance policy reserve	**32 062**	**6 434**	**25 628**	30 634	–	30 634
Other benefits and liabilities						
– Other benefits and liabilities	**37 236**	**–**	**37 236**	52 906	–	52 906
Total at the end of the year	**13 162 468**	**305 608**	**12 856 860**	11 282 412	312 153	10 970 259
Current	**277 540**	**–**	**277 540**	253 753	–	253 753
Non-current	**12 884 928**	**305 608**	**12 579 320**	11 028 659	312 153	10 716 506
Total	**13 162 468**	**305 608**	**12 856 860**	11 282 412	312 153	10 970 259

	Group	
	2009 **R'000**	2008 R'000
The non-DPF liabilities developed as follows:		
Liabilities at start of year	**2 614 259**	2 305 961
Unwinding of discount rate	**173 162**	207 999
Expected cash flows	**357 112**	246 469
Expected risk liability at year-end	**3 144 533**	2 760 429
Impact of movements	**(88 049)**	(316 804)
Change in valuation assumptions	**(384 570)**	310 360
Risk benefit liability for new business issued	**(264 841)**	(139 726)
Liabilities at end of year	**2 407 073**	2 614 259
The DPF liabilities developed as follows:		
Liabilities at start of year	**8 071 613**	9 116 732
Claims paid during the year	**(564 394)**	(714 777)
Allocation of interest and dividends	**2 636 489**	(330 342)
Bonus stabilisation reserve	**2 911**	–
Liabilities at end of year	**10 146 619**	8 071 613
Analysis of total insurance policy liabilities, net of reinsurance:		
Non-DPF liabilities	**2 407 073**	2 614 259
DPF liabilities	**10 146 619**	8 071 613
Life assurance policy reserve	**25 628**	30 634
Current liabilities	**277 540**	253 753
Liabilities at end of year	**12 856 860**	10 970 259

	Group	
	2009 R'000	2008 R'000
15. INVESTMENT CONTRACT LIABILITIES		
Level 2 fair value investment contract liabilities		
Linked investment contracts	**160 619**	50 177
Non-current portion	**160 619**	50 177

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 2009 R'000	Group 2008 R'000
Movement table for investment contract liabilities		
Linked contracts		
Balance at 1 January	**50 177**	6 922
Contributions received during the year	**112 258**	51 216
Fair value of policyholder liabilities under investment contracts	**11 230**	(1 059)
Net investment return credited/(debited) to account balances	**12 107**	(505)
Net fees and charges deducted from account balances	**(877)**	(554)
Benefit payments	**(13 046)**	(6 902)
Balance at 31 December	**160 619**	50 177

	Group 2009 R'000	Group 2008 R'000
16. LIABILITIES TO UNIT TRUST HOLDERS		
Level 2 fair value liabilities to unit trust holders		
Balance at 1 January	**209 032**	–
Third-party interest acquired during the year	**210 197**	209 032
Third-party interest redeemed during the year	**(237 376)**	–
Third-party interest in revaluation of unit trusts	**2 766**	–
Balance at 31 December	**184 619**	209 032
Current portion	**184 619**	209 032

Liabilities to 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	
	2009 R'000	2008 R'000
17. DEFERRED TAX		
Deferred tax assets:		
Provisions and impairments	**6 437**	2 423
Tax losses carried forward	**26 579**	9 660
Assets at end of year	**33 016**	12 083
Deferred tax liabilities:		
Unrealised gains on investments	**72 494**	135
Unrealised gains on land and buildings revaluation	**1 469**	1 733
Liabilities at end of year	**73 963**	1 868
Current asset	**6 437**	2 423
Non-current asset	**26 579**	9 660
Non-current liability	**73 963**	1 868

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

	R'000
At 1 January 2008	9 644
Debited to the statement of comprehensive income	2 439
At 31 December 2008	12 083
Credited to the statement of comprehensive income	**20 933**
At 31 December 2009	**33 016**

The utilisation of the deferred tax asset in respect of the provision for leave pay is dependent on the taking of leave and/or payment or forfeiture of amounts due in respect of leave accrued by employees. The utilisation of the deferred tax asset in respect of the assessed losses is dependent on the respective companies making future profits.

(b) Deferred tax liabilities

	Deferred tax liability on unrealised gains on investments R'000	**Deferred tax liability on land and buildings revaluation R'000**	**Total R'000**
At 1 January 2008	137 641	1 597	139 238
Charged to the statement of comprehensive income	(137 505)	–	(137 505)
Charged to equity	–	135	135
At 31 December 2008	136	1 732	1 868
Charged to the statement of comprehensive income	**72 358**	–	**72 358**
Charged to equity	–	**(263)**	**(263)**
At 31 December 2009	**72 494**	**1 469**	**73 963**

	Group	
	2009	2008
	R'000	R'000
18. RETIREMENT BENEFIT OBLIGATIONS		
Statement of financial position obligations for:		
– post-retirement medical benefits	**29 571**	26 346
	29 571	26 346
Statement of comprehensive income charge for (note 27):		
– pension benefits	**(568)**	(369)
– post-retirement medical benefits	**4 618**	4 775
	4 050	4 406

Pension benefits

The Group has two retirement schemes, a defined benefit scheme and a defined contribution scheme. The latter consists of a pension fund and a provident fund. The defined benefit scheme covered all employees employed before July 2004. The assets of the scheme were held in an independent trustee administered fund, administered in terms of the Pension Funds Act of 1956, as amended. A full statutory valuation has been performed at 31 December 2005, which had been approved by the Registrar. Since there are no members or pensioners remaining in the fund, no further valuations have been done.

All non-pensioner members of the defined benefit pension fund were transferred to the defined contribution pension and provident fund, with effect from 1 March 2005. The bulk of the assets were transferred out of the fund during 2006. Since all active members have been transferred out and the pensioners have had insurance pension policies purchased for them from a registered insurer, there are no further liabilities remaining in the fund.

The pensions payable by the fund have been outsourced to Old Mutual. The insured pension policies were purchased as at 1 November 2006. Pensions were purchased from Old Mutual by utilising the assets held in the fund.

The defined contribution and provident fund scheme does not give rise to any additional liabilities for the Group as the liabilities match the assets, in terms of the rules of the fund.

The amounts recognised in the statement of financial position are determined as follows:

	Group	
	2009	2008
	R'000	R'000
Present value of funded obligations	**–**	–
Fair value of plan assets	**(9 476)**	(8 569)
	(9 476)	(8 569)
Unrecognised surplus	**9 476**	8 569
Liability in the statement of financial position	**–**	–
No asset is recognised in respect of the surplus as there was no surplus available for distribution as at 1 January 2003 per the actuarial valuation of the pension fund. A nil apportionment scheme was submitted to the Registrar of Pension Funds in terms of the Pension Fund Second Amendment Act, 39 of 2001.		
The movement in the defined benefit obligation was as follows:		
Defined benefit obligation at beginning of year (1 January)	**–**	1 065
Contingency reserves	**–**	(1 065)
Defined benefit obligation at end of year (31 December)	**–**	–
The movement in plan assets was as follows:		
Market value of assets at beginning of year (1 January)	**8 569**	9 617
Expected return on plan assets	**686**	819
Actuarial gain/(loss)	**789**	(1 498)
Benefits paid	**–**	(30)
Settlements	**–**	(273)
Expenses	**(168)**	(66)
Allowance for late claims	**(400)**	–
Market value of assets at end of year (31 December)	**9 476**	8 569
Actual return on plan assets (Expected return plus (less) actuarial gain (loss))	**1 475**	(679)

	Group	
	2009	2008
	R'000	R'000
18. RETIREMENT BENEFIT OBLIGATIONS continued		
The assets of the plan were held in an administered fund separate from the Group's assets. All the assets were invested in a cash fund.		
The amounts recognised in the statement of comprehensive income are as follows:		
Expected return on plan assets	**(686)**	(819)
Net actuarial (gain)/loss recognised during the year	**(789)**	1 498
Contingency reserves	**–**	(1 065)
Movement in unrecognised surplus	**907**	17
Total included in staff costs (note 27)	**(568)**	(369)
Post-employment medical benefits		
The Group provides for the unfunded post-retirement healthcare benefits of those employees and 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 method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes. The amounts recognised in the statement of financial position were determined as follows:		
Present value of unfunded obligations	**43 203**	40 568
Unrecognised actuarial losses	**(13 632)**	(14 222)
Liability in the statement of financial position	**29 571**	26 346

	Group 2009 R'000	Group 2008 R'000
The latest actuarial valuation of the Group's post-employment benefits, carried out at 31 December 2009 indicated a present value of projected future benefits amounting to R29,571 million (2008: R26,346 million).		
The movement in the post-employment medical benefit obligation was as follows:		
Post-employment medical benefit obligation at beginning of year (1 January)	**40 568**	36 471
Current service cost	**1 276**	1 380
Interest cost	**2 777**	2 873
Benefits paid	**(1 393)**	(1 117)
Actuarial (gain)/loss	**(25)**	961
Post-employment medical benefit obligation at end of year (31 December)	**43 203**	40 568
The amounts recognised in the statement of comprehensive income are as follows:		
Current service cost	**1 276**	1 380
Interest cost	**2 777**	2 873
Actuarial losses recognised during the year	**565**	522
Total included in staff costs (note 27)	**4 618**	4 775

	2009	**2008**
The principal actuarial assumptions used were as follows:		
Discount rate based on the Long-term Bond Index (%)	**9,50**	6,89
Medical cost inflation (%)	**8,00**	5,67

	2004 R'000	2005 R'000	2006 R'000	2008 R'000	**2009 R'000**
Trend information					
Present value of obligations	21 234	33 513	36 471	40 568	**43 203**
Experience adjustments (actuarial (loss)/ gain before changes in assumptions) in respect of present value of obligations	1 759	296	(1 040)	(636)	**(2 320)**

18. RETIREMENT BENEFIT OBLIGATIONS continued

Sensitivity results

	Healthcare cost inflation		
	Central assumption 8,00%	**(1,00%)**	**1,00%**
Accrued liability 31 December 2009 (R'000)	34 151	48 858	51 454
Percentage change (%)		(15,0%)	19,1%
Current service cost plus interest cost 2009/2010 (R'000)	3 328	5 006	6 564
Percentage change (%)		(16,7%)	21,5%

	Central assumption 9,50%	**(1,00%)**	**1,00%**
Current service cost plus interest cost 2008/2009 (R'000)	3 456	5 305	5 006
Percentage change (%)		(17,9%)	(23,5%)

	Central assumption 8,00%	**5,00% for 5 years**	**10,00% for 5 years**
Accrued liability 31 December 2009 (R'000)	43 203	53 084	64 813
Percentage change (%)		22,9%	50,0%

	Discount rate		
	Central assumption 9,50%	**(1,00%)**	**1,00%**
Accrued liability 31 December 2009 (R'000)	43 203	51 623	36 710
Percentage change (%)		19,5%	(15,0%)

	Expected retirement age		
	Central assumption 65 years	**1 year younger**	**1 year older**
Accrued liability 31 December 2009 (R'000)	43 203	44 984	41 575
Percentage change (%)		4,1%	(3,8%)

	Group	
	2009 R'000	2008 R'000

19. EMPLOYEE-RELATED OBLIGATIONS

	2009 R'000	2008 R'000
Leave pay accrual		
Opening balance	**4 618**	4 219
Charged to the statement of comprehensive income		
– additional provisions	**4 725**	1 935
Used during the year	**(2 926)**	(1 536)
Closing balance	**6 417**	4 618
Current	**6 417**	4 618
Provision for performance-related incentives		
Opening balance	**14 987**	13 677
Charged to the statement of comprehensive income		
– additional provisions (executive directors and employees)	**24 069**	17 186
Used during the year	**(16 558)**	(15 876)
Closing balance	**22 498**	14 987
Current	**16 838**	14 458
Non-current	**5 660**	529
Total provisions	**28 915**	19 605

	Group		Company	
	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000

20. INSURANCE AND OTHER PAYABLES

	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000
Payables arising from insurance and reinsurance contracts:				
– due to contract holders	**18 886**	27 415	**–**	–
– due to contract holders – life assurance policy	**3 545**	2 712	**–**	–
– reinsurance payables	**23 936**	28 425	**–**	–
– subscriptions received in advance	**1 654**	2 495	**–**	–
Other payables:				
– accruals	**78 269**	41 389	**232**	120
– sundry creditors	**13 166**	11 706	**520**	165
Total insurance and other payables	**139 456**	114 142	**752**	285
Current	**139 456**	114 142	**752**	285

21. NET INSURANCE PREMIUM REVENUE

	Group		Company	
	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000
Individual premiums from policyholders	**1 354 288**	1 127 238	**–**	–
Group reinsurance premiums inwards	**305 755**	349 533	**–**	–
Premium revenue arising from insurance contracts issued	**1 660 043**	1 476 771	**–**	–
Individual premium revenue ceded to reinsurers on insurance contracts issued	**(80 284)**	(66 629)	**–**	–
Net insurance premium revenue	**1 579 759**	1 410 142	**–**	–

22. FEE AND COMMISSION INCOME

	Group		Company	
	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000
Policy administration and collection services	**24 619**	21 392	**–**	–
Administration fees	**53 842**	60 702	**7 628**	5 668
Investment management services	**4 130**	4 079	**–**	–
Commission	**7 916**	5 370	**–**	–
Fee and commission income	**90 507**	91 543	**7 628**	5 668

23. GAINS AND LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES PER CATEGORY

The following table presents the total net gains or losses for each category of financial assets and financial liabilities:

Group 2009	**Designated at fair value through profit and loss on initial recognition R'000**	**Loans and receivables R'000**	**Total R'000**
Interest income	**442 050**	**(1 116)**	**440 934**
Dividend income	**275 560**	**–**	**275 560**
Net gains on disposal of financial assets	**476 036**	**–**	**476 036**
Net unrealised gains on revaluation of financial assets	**855 347**	**–**	**855 347**
Net foreign exchange losses	**(124)**	**–**	**(124)**
Total net gains/(losses) recognised in the statement of comprehensive income	**2 048 869**	**(1 116)**	**2 047 753**

Group 2008	Designated at fair value through profit and loss on initial recognition R'000	Loans and receivables R'000	Total R'000
Interest income	395 600	391	395 991
Dividend income	353 561	–	353 561
Net gains on disposal of financial assets	1 508	–	1 508
Net unrealised losses on revaluation of financial assets	(1 408 818)	–	(1 408 818)
Net foreign exchange gains	86 192	–	86 192
Total net (losses)/gains recognised in the statement of comprehensive income	(571 957)	391	(571 566)

	Group		Company	
	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000
24. INVESTMENT INCOME				
Net gains and losses on financial assets held at fair value through profit or loss consist of the following components:				
– Interest income	**440 934**	395 991	**–**	–
– Dividend income	**275 560**	353 561	**–**	–
– Net realised gains on disposal of financial assets	**476 036**	1 508	**–**	–
– Net realised foreign exchange (losses)/ gains	**(124)**	86 192	**–**	–
Total investment income	**1 192 406**	837 252	**–**	–
Investment management fees paid amounting to R44,4 million (2008: R43,7 million) are included in expenses for marketing and administration (note 26).				
25. INSURANCE BENEFITS AND CLAIMS				
Gross				
Long-term insurance contracts with and without DPF				
– Individual sickness and incapacity benefits: current year	**363 216**	322 054	**–**	–
– Individual Sickness and incapacity benefits: overprovision for prior year	**(12 213)**	(1 543)	**–**	–
– Group non-DPF component of death benefits	**354 925**	317 439	**–**	–
– Individual DPF component of death, retirement and resignation benefits	**451 042**	492 518	**–**	–
Total gross insurance benefits and recoveries	**1 156 970**	1 130 468	**–**	–
Reinsurance recoveries				
Long-term insurance contracts with and without DPF				
– Individual sickness and incapacity benefits	**(11 716)**	(20 573)	**–**	–
– Death benefits	**(94 602)**	(38 768)	**–**	–
Total reinsurance recoveries	**(106 318)**	(59 341)	**–**	–
Total net insurance benefits and claims	**1 050 652**	1 071 127	**–**	–
26. EXPENSES				
Costs incurred for the acquisition of insurance contracts expensed in the year	**156 128**	135 415	**–**	–
– Sickness and incapacity policies	**40 303**	46 844	**–**	–
– Whole life policies	**115 825**	88 571	**–**	–
Membership fees	**1 779**	43	**2 507**	43
Costs incurred for providing investment management services	**7 125**	5 553	**–**	–

	Group		Company	
	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000

26. EXPENSES continued

	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000
Marketing and administrative expenses include:				
Auditors remuneration	**2 902**	2 941	**–**	113
– Audit fees – current year provision	**2 739**	2 826	**–**	113
– Audit fees – prior year under/(over)	**41**	(175)	**–**	–
– Tax consulting services	**122**	290	**–**	–
Directors fees	**13 524**	13 263	**2 051**	2 070
– Non-executive directors' and committee members' fees	**3 620**	3 712	**2 051**	2 070
– Subsidiary non-executive directors' and committee members' fees	**1 295**	1 300	**–**	–
– Executive directors' remuneration (salaries and bonuses)	**8 609**	8 251	**–**	–
Fees for services	**8 343**	18 405	**–**	–
– Actuarial	**2 186**	2 238	**–**	–
– Legal	**1 327**	948	**–**	–
– Internal audit	**878**	811	**–**	–
– Medical Scheme Administrator infrastructure outsourcing fee	**–**	6 070	**–**	–
– IT consulting	**1 952**	1 555	**–**	–
– Medical Scheme Administration contractual milestone costs	**–**	3 700	**–**	–
– Other (Primarily management consulting)	**2 000**	3 083	**–**	–
– Employee benefit expenses (note 27)	**231 986**	191 604	**50**	18
– Depreciation on property and equipment (note 4)	**9 112**	7 204	**–**	–
– Realised profit on disposal of property and equipment	**(40)**	(113)	**–**	–
– Amortisation of intangible asset (note 6)	**12 440**	20 275	**–**	–
– Impairment/(Reversal) of insurance and other receivables (note 9)	**3 225**	(6 929)	**–**	–
– Operating lease rentals	**13 498**	10 663	**–**	–
– Data processing and information technology systems maintenance	**41 228**	39 661	**–**	–
– Maintenance, product development and other administration expenses	**59 608**	49 946	**3 020**	3 424
– Investment management fees	**44 384**	43 657	**–**	–
Total expenses	**605 242**	531 588	**7 628**	5 668

VAT which cannot be recovered from the relevant taxation authority are expensed together with the related expense.

	Group	
	2009	2008
	R'000	R'000
27. EMPLOYEE BENEFIT EXPENSES		
Salaries and related costs	**185 784**	156 460
Pension costs – defined contribution plans	**19 600**	16 850
Pension costs – defined benefit plans (note 18)	**(568)**	(369)
Other post-employment benefits (note 18)	**4 618**	4 775
Performance-related incentives (excluding executive directors)	**22 552**	13 888
Total employee benefit expenses	**231 986**	191 604
28. TAX		
Current tax		
– Current year tax	**142 754**	170 946
– Prior year under/(over) provision	**10 441**	(48)
Deferred tax	**51 425**	(139 944)
Total tax	**204 620**	30 954
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	**2 050 895**	(671 537)
Tax calculated at domestic tax rates applicable to profits in South Africa/Namibia	**578 257**	(188 370)
Tax effect of income not subject to tax	**(806 935)**	(210 415)
Tax effect of non-deductible expenses	**414 719**	419 954
Prior year under/(over) provision	**10 441**	(48)
Tax effect of tax rate on the individual policyholder fund being different to tax rate on the corporate fund ('CF')	**8 138**	9 752
Tax effect of rate change	**–**	81
Total tax per statement of comprehensive income	**204 620**	30 954

The applicable tax rate was 28% (2008: 28%) for South African entities and 35% (2008: 35%) for Professional Provident Society Insurance Company (Namibia) Limited. Professional Provident Society Insurance Company Limited has four separate tax funds: the individual policyholders' fund (taxed at 30%), the company policyholder' fund (taxed at 28%), the untaxed policyholder's fund (not taxed) and the corporate fund (taxed at 28%). The tax reconciliation is done on total tax on all funds.

	Group		Company	
	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000

29. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before movement in insurance policy liabilities to cash generated by operations:				
Profit/(loss) before movement in policy liabilities	**2 050 895**	(671 537)	**–**	–
Investment contract receipts	**112 258**	51 216	**–**	–
Investment contract surrenders	**(13 046)**	(6 902)		
Adjustments for:				
Depreciation	**9 112**	7 204	**–**	–
Fair value of policyholder liabilities under investment contracts	**11 230**	(1 059)	**–**	–
Amortisation of intangible asset	**12 440**	20 275	**–**	–
Realised profit on disposal of property and equipment	**(40)**	(113)	**–**	–
Investment income	**(1 192 406)**	(837 252)	**–**	–
Net fair value (gains)/losses on financial assets held at fair value through profit or loss	**(855 347)**	1 408 818	**–**	–
Changes in working capital:				
– Insurance and other receivables	**(4 374)**	(16 745)	**(62)**	(285)
– Insurance and other payables	**37 849**	10 808	**468**	285
– Insurance policy liabilities	**29 557**	95 529	**–**	–
Cash generated from operations	**198 128**	60 242	**406**	–

30. TAX PAID

Tax payable/(receivable) at beginning of year	**5 489**	(8 062)	**–**	–
Current tax as per statement of comprehensive income (note 28)	**153 195**	170 898	**–**	–
Tax receivable/(payable) at end of year	**2 913**	(5 489)	**–**	–
Total tax paid	**161 597**	157 347	**–**	–

	Group		Company	
	2009 R'000	2008 R'000	**2009 R'000**	2008 R'000
31. COMMITMENTS				
(a) Capital commitments				
Capital expenditure contracted for at the statement of financial position date but not yet incurred is as follows:				
– Committed but not contracted for	**39 304**	34 487	**–**	–
(b) Operating lease commitments – where a Group company is the lessee				
The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.				
The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 26.				
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:				
Due in 1 year or less	**10 290**	6 389	**–**	–
Due between 1 year and 5 years	**21 348**	21 125	**–**	–
Due after 5 years	**165**	1 100	**–**	–

32. RELATED PARTIES

Holding company

Professional Provident Society Limited (Limited by Guarantee) is a company limited by guarantee and is an investment holding company.

Its sole investment is 100% of the shares of Professional Provident Society Insurance Company Limited.

Subsidiaries

Professional Provident Society Limited's (Limited by Guarantee) related parties are its subsidiary company Professional Provident Society Insurance Company Limited, as well as Professional Provident Society Insurance Company (Namibia) Limited, Plexus Properties (Pty) Limited, Professional Medical Scheme Administrators (Pty) Limited, Professional Provident Society Marketing Services (Pty) Limited, Professional Provident Society Investments (Pty) Limited and PPS Black Economic Empowerment SPV (Pty) Limited which are subsidiary companies of Professional Provident Society Insurance Company Limited.

32. RELATED PARTIES continued

Professional Provident Society Insurance Company Limited owes Professional Provident Society Limited (Limited by Guarantee) a fee for services rendered by Professional Provident Society Limited (Limited by Guarantee).

The transactions and balances with Professional Provident Society Insurance Company Limited, are listed below:

	Company	
	2009	2008
	R'000	R'000
Fees	**8 356**	5 668
Receivable from Professional Provident Society Insurance Company Limited:		
Balance at the beginning of the year	**793**	541
Fees	**(7 628)**	(5 668)
Paid by Professional Provident Society Insurance Company Limited on behalf of Professional Provident Society Limited (Limited by Guarantee)	**7 513**	5 920
Balance at the end of the year	**678**	793

The amount receivable from Professional Provident Society Insurance Company Limited has no written terms for repayment or ongoing interest charge.

Payable to Professional Provident Society Marketing Services (Pty) Limited:		
Balance at the beginning of the year	**–**	–
Fees	**728**	–
Paid to Professional Provident Society Marketing Services (Pty) Limited	**(502)**	–
Balance at the end of the year	**226**	–

The amount payable to Professional Provident Society Marketing Services (Pty) Limited has no written terms for repayment or ongoing interest charge.

Key management information

Key management personnel have been defined as all directors of Professional Provident Society Limited (Limited by Guarantee) and executive members of Professional Provident Society Insurance Company Limited, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management personnel. A complete list of directors of Professional Provident Society Limited (Limited by Guarantee) and executive committee members of Professional Provident Society Insurance Company Limited is disclosed in the Directors' Report.

32. RELATED PARTIES continued

The aggregate compensation of the Professional Provident Society Limited (Limited by Guarantee) directors and Professional Provident Society Insurance Company Limited executive committee members paid by the Group is set out below:

	Group	
	2009 R'000	2008 R'000
Salaries and other short-term employee benefits	**13 654**	12 572
Performance payments	**8 770**	9 584
Directors' fees	**3 633**	3 712
	26 057	25 868
Aggregate details of insurance between Professional Provident Society Limited (Limited by Guarantee), 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:		
Life and disability cover	**109 338**	105 644
Premiums	**466**	579
Claims	**14 619**	–
Sickness benefit cover	**3 018**	2 652
Premiums	**569**	589
Claims	**133**	5
Surplus rebate accounts (policy liabilities)	**3 908**	5 732
Motor and household cover	**23 229**	17 090
Premiums	**223**	172
Claims	**68**	7
Investment contracts	**7 347**	3 938

The transactions above were made on terms equivalent to those that prevail in arm's length transactions.

33. STANDARDS AND INTERPRETATIONS ISSUED

Amendments to published standards mandatory for the Group's accounting periods beginning on or after 1 January 2009:

- FRS 7: *'Financial Instruments disclosures'* (Amended) (effective 1 January 2009). The amendment required enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosures of fair value measurements by level of fair value hierarchy.
- IAS 1 (Revised): *'Presentation of financial statements'* (effective 1 January 2009). The revised standard resulted in a revised income statement and 'comprehensive income' disclosure. Comparative information has been presented so that it also is in conformity with the revised standard.

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, and the Group has not early adopted them:

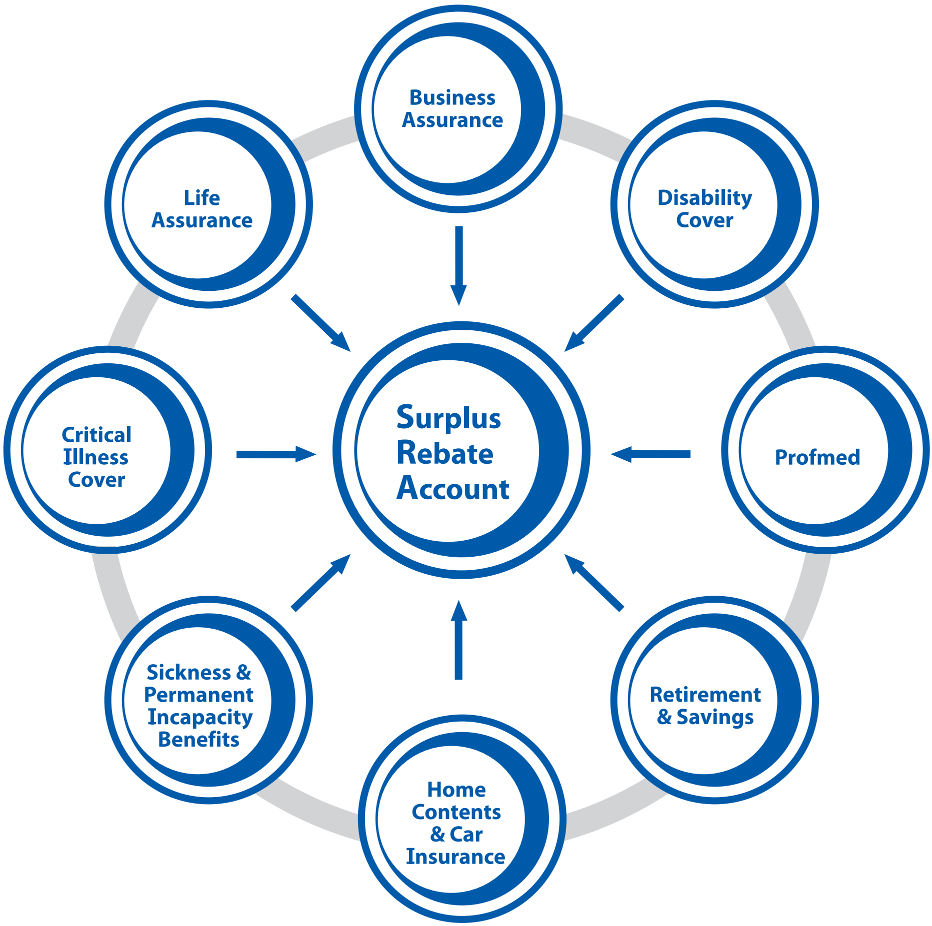
- IAS 27 (Revised): *'Consolidated and Separate Financial Statements'* (effective 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit and loss.

33. STANDARDS AND INTERPRETATIONS ISSUED continued

- IFRS 3 (Revised), *'Business Combinations'* (effective 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with certain significant changes. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.
- IAS 38: *'Intangible assets'* (Amendment). The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's financial statements.
- IFRS 5: *'Measurement of non-current assets classified as held-for-sale'* (Amendment) (effective 1 January 2010). The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.
- IAS 1: *'Presentation of financial statements'* (Amendment) (effective 1 January 2010). The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current notwithstanding the fact that the entity could be required by the counterparty to settle shares at any time.
- IFRS 17: *'Distribution of non-cash assets to owners'* (effective on or after 1 July 2009). The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution or reserves or as dividends.

There are numerous other new standards or amendments to existing standards that are not yet effective for the Group. Each of these has been assessed, and will not have an impact on the Group's financial statements.

The PPS Inner Circle of BENEFITS helps GROW the Surplus Rebate Account



With over 200,000 graduate professionals worldwide,
PPS remains the circle of choice for professionals since 1941.

Professional Provident Society Limited (Limited by Guarantee) Reg. No. 2001/011016/09