70th

PPS ANNIVERSARY

1941 - 2011

for professionals
since 1941

Financial Statements 2010

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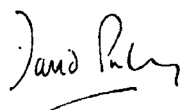
Statement of responsibility by the board of directors

for the year ended 31 December 2010

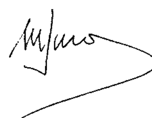
The directors accept responsibility for the integrity and fair presentation of the Group and Company financial statements. These financial statements have been prepared in accordance with International Financial Reporting Standards taking into account the nature of the business and in the manner required 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 4 to 84 were approved by the board of directors and are signed on its behalf by:



Dr D G C Presbury
Chairman
Professional Provident Society Limited
(Limited by guarantee)



Mr M J Jackson
Chief Executive

Mrs T Boesch
Financial Director

Johannesburg
6 April 2011

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 2010 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.

V E Barnard
Company Secretary
Professional Provident Society Limited (Limited by guarantee)
6 April 2011

Independent Auditors' report

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

We have audited the Group annual financial statements and annual financial statements of Professional Provident Society Limited (Limited by guarantee), which comprise the consolidated and separate statements of financial position as at 31 December 2010, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 4 to 84.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Group's directors are responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these annual 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 annual financial statements present fairly, in all material respects, the consolidated and separate financial position of Professional Provident Society Limited (Limited by guarantee), as at 31 December 2010, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc

Director: A du Preez
Registered Auditor

Sunninghill
6 April 2011

Report of the Independent Actuary
for the year ended 31 December 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 2010, 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
6 April 2011

The statutory basis balance sheet for each life company is shown below:

PPS Insurance	Paragraph	2010 R'000	2009 R'000
Net assets	2	**14 674 982**	12 685 621
Policyholder liabilities	3	**14 500 704**	12 526 020
Apportionment and Special Benefit Accounts		**11 301 883**	9 912 579
Risk benefits		**2 880 459**	2 452 822
Investment contracts		**131 755**	67 893
Other insurance liabilities		**186 607**	92 725
Excess of assets over liabilities		**174 278**	159 601
Capital Adequacy Requirement	4	**65 039**	59 397
Ratio of excess assets to Capital Adequacy Requirement		**2,7**	2,7

PPS Namibia	Paragraph	2010 N$'000	2009 N$'000
Net assets	2	**396 959**	310 288
Policyholder liabilities	3	**391 736**	305 065
Apportionment and Special Benefit Accounts		**297 325**	234 040
Risk benefits		**94 411**	71 025
Excess of assets over liabilities		**5 223**	5 223
Capital Adequacy Requirement	4	**4 000**	4 000
Ratio of excess assets to Capital Adequacy Requirement		**1,3**	1,3

2. STATUTORY BASIS ASSET VALUATION METHODS AND ASSUMPTIONS

The assets are valued at balance sheet values, i.e. at market or directors' values as described in the accounting policies.

3. STATUTORY BASIS LIABILITY VALUATION METHODS AND ASSUMPTIONS

The actuarial liabilities were valued on bases which were consistent with the asset values, using the Financial Soundness Valuation method in accordance with the

requirements of the Long-Term Insurance Act, 1998 and PGN104 of the Actuarial Society of South Africa (ASSA), as follows:

For sickness, permanent incapacity and death benefits (referred to in the notes to the accounts as the 'non-DPF component' of the liabilities), 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 to the accounts as the 'DPF component' of the policy liabilities.

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 was R8,7 million at 31 December 2010.

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 policyholder 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 investigation was for the period 1 January 2006 to 31 December 2009. The morbidity investigation was conducted on the experience for 2009. The mortality experience related to the period 1 January 2006 to 31 December 2009.

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 Company's current experience. Costs per unit of benefit are assumed to escalate at 5,5% per annum in future. The experience will be monitored and adjustments made as and when necessary.

The future tax outgo is based on the tax basis currently applicable to life insurers and includes provision for Capital Gains Tax.

The economic assumptions were based on the following:

Bond yield at 31 December 2010	8,50%
Equity return	11,50%
Cash	7,00%
Property return	9,50%

The assumed future gross investment return is 9,10% p.a. (2009: 10,10% p.a.).

4. STATUTORY CAPITAL ADEQUACY REQUIREMENTS

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 has been calculated in accordance with PGN104. This 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 for the life companies on the Statutory basis is 2,6 times (2009: 2,6 times) the combined 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% decrease in fixed-interest yields) will occur, in accordance with PGN104.

In the case of PPS Insurance 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 (CAR).

The impact of the assumed management action in the calculation of the Capital Adequacy Requirement on profits distributed to policyholders is as follows:

- The impact of fluctuations in the mortality, morbidity and medical experience will be absorbed by a reduction in the profit allocation to Apportionment Accounts of R73 million. This is equivalent to a reduction in the current profit allocation of 10%.
- The impact of fluctuations in the permanent incapacity benefit claims in payment mortality experience will be absorbed by a reduction in the profit allocation to Apportionment Accounts. This assumption reduces this component of the Capital Adequacy Requirements by R37 million, which is equivalent to a reduction in the current profit allocation of 5%.
- The impact of fluctuations in the level of maintenance expenses will be absorbed by a reduction in the profit allocation to Apportionment Accounts by R27 million, which is equivalent to a reduction in the current profit allocation of 4%.
- The allowance for operational risk in the CAR calculation is R97 million. We assume that should these operational risk events occur, that the impact of this will be absorbed by a reduction in the operating profit allocated to Apportionment Accounts. This is equivalent to a reduction in the aggregate profit allocation of 13%.
- The allowance for credit risk in the CAR calculation amounted to R97 million. The impact of these credit risk events materialising will result in a reduction to Special Benefit Accounts. This is equivalent to removing 2% of the Special Benefit Account balances at 31 December 2010.
- The impact of the fall in the value of assets backing the policyholder liabilities equivalent to a 26% fall in equity values will be absorbed by reducing the Special Benefit Accounts by R1,45 billion, which is equivalent to reducing the current Special Benefit Accounts by 23%.
- The impact of a fall in foreign assets is not applicable as none of the assets backing the risk reserves is deemed as 'foreign'.

The impact of losses arising from adverse policy terminations will be absorbed by a reduction in the profit allocation to Apportionment Accounts of R707 million. This is equivalent to a reduction in the current level of Special Benefit Accounts of 11%. The quantification of the exposure to policy terminations has been based on a less conservative measure than used to determine the Capital Adequacy Requirements for statutory reporting purposes.

The off-setting management actions assumed above have been approved by specific resolution by the board of directors, and I am satisfied that these actions would be taken if the corresponding risks were to materialise.

5. ALTERATIONS, NOTES AND QUALIFICATIONS

The actuarial assumptions will be reviewed from time to time to reflect changes in experience and/or expectations.

Directors' report

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 2010.

Principal activities

PPS Limited is incorporated as a company limited by guarantee under the Companies Act, 1973. PPS Limited is an investment holding company whose primary investment is 100% of the shares of Professional Provident Society Insurance Company Limited ('PPS Insurance'). PPS Limited is owned and controlled by its members. PPS Insurance conducts most of the business of the Group, but also undertakes business through its subsidiaries as set out on page 3 of the Annual Review, accompanying this report. 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 Life.

- **PPS Black Economic Empowerment SPV (Pty) Limited** ('PPS BEE SPV'), a special purpose vehicle, was 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. A reinsurance agreement with PPS Insurance is in place for PPS Namibia. In terms of this reinsurance arrangement PPS Namibia partially reinsures its obligations to the Namibian policyholders with PPS Insurance. This arrangement was put in place in order to protect the security and benefit expectations of the Namibian policyholders by effectively including Namibian policyholders in a risk pool of around 120 000 policyholders. Without this reinsurance arrangement, the Namibian subsidiary with approximately 4 100 Namibian policyholders would be exposed to higher volatility from participating in a significantly smaller risk pool.

  During 2011, PPS Namibia entered into a marketing agreement in terms of which Sanlam Namibia will launch a new white-labelled risk product exclusively for PPS members. PPS Namibia will share in the profits on the products and will have access to the Sanlam Namibia distribution channel.

- **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, acts as a distribution company for some of PPS Insurance's products, through its Member Relations Division ('MRD') and its short-term division markets short-term insurance to members, which is underwritten by Hollard Insurance Company Limited.

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

- **Plexus Properties (Pty) Limited,** a subsidiary of PPS Insurance, formerly owned and managed property belonging to the Group, but has been dormant since 2006.

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

Restructure of PPS Limited

The Companies Act, 2008, due to come into effect in 2011 will replace the Companies Act, 1973. The new Act does not provide for companies limited by guarantee, which is the type of company chosen by PPS in 2001 as its holding company, as it facilitated membership without the requirement to issue shares. In order to protect the interests of the members of PPS Limited and to retain its mutuality under the new Act, PPS Limited was required to restructure.

A specialist sub-committee of the board was mandated to research the possible solutions to satisfy the requirements for an alternative corporate structure as a consequence of the change in the Companies Act. In terms of this mandate, the committee held numerous meetings and considered all options through an extensive analysis and consultation process with internal and external legal and other experts, taking into account the preservation of mutuality, tax implications and regulatory issues, among others.

The trust structure, based on a trust deed which protects the rights currently enjoyed by PPS members, was found to be the structure best suited to the current business model. In order to enable PPS to proceed with the proposed trust structure, PPS faced and overcame considerable hurdles in obtaining the approval of the Financial Services Board for the use of a trust structure and to obtain a favourable tax ruling from SARS. The board considered the trust structure to offer the best possible means of protecting the core ethos of PPS.

A circular to members providing full particulars of the restructuring was sent to members on 22 February 2011 and the restructure of PPS Limited into a trust was approved by the requisite majority of members by means of special resolutions passed at a general meeting held on 30 March 2011. The implementation of the restructuring is currently in progress.

Financial results

The financial results on pages 15 to 84 clearly set out the consolidated results of the Group. The Company results reflect those of PPS Limited itself. 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 2010 to policyholders' Apportionment Accounts referred to above, as approved by the respective boards, are set out as follows:

PPS Insurance

	2010		2009	
	Rates	R'000	Rates	R'000
Interest				
Flexible income option policyholders	7,31%	9 086	6,36%	8 536
Enhanced cash option policyholders	4,61%	388	–	–
Conservative fund option policyholders	1,82%	208	–	–
Moderate fund option policyholders	0,94%	216	–	–
Other policyholders (note 1)	3,32%	131 651	6,40%	219 973
Bonus allocation – per unit of benefit per month				
Full – ordinary (note 2)	30,54c	562 847	25,36c	443 037
Reduced – ordinary	17,54c	16 265	12,36c	13 443
Supplementary A	11,04c	40 074	9,17c	33 925
Supplementary B	62,98c	6 954	52,31c	6 017
Deferred	10,63c	15 700	8,83c	13 501
Accident	12,58c	4 801	10,44c	4 060
Hospital benefits				
Full ordinary	3,98c	50 436	3,31c	39 536
Reduced ordinary	2,68c	1 987	2,01c	1 772
Supplementary A	2,10c	3 730	1,75c	3 191
Supplementary B	13,80c	865	11,46c	760
Accident	7,46c	1 971	6,20c	1 674
PPS Retirement Annuity special bonus	0,48c	5 734	0,40c	4 686

Note 1 – Investment income allocated to policyholders' 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

	2010		2009	
	Rates	N$'000	Rates	N$'000
Interest				
Flexible income option policyholders	**4,42%**	**171**	4, 49%	108
Other policyholders (note 1)	**4,08%**	**4 587**	7,11%	6 388
Bonus allocation – per unit of benefit per month				
Full – ordinary (note 2)	**30,70c**	**22 195**	25,49c	16 049
Reduced – ordinary	**17,70c**	**593**	12,49c	415
Supplementary A	**11,09c**	**909**	9,21c	746
Supplementary B	**63,31c**	**218**	52,58c	178
Deferred	**10,69c**	**379**	8,88c	313
Accident	**12,64c**	**137**	10,50c	108
Hospital benefits				
Full ordinary	**4,00c**	**2 519**	3,32c	1 805
Reduced ordinary	**2,70c**	**73**	2,02c	57
Supplementary A	**2,12c**	**115**	1,76c	93
Supplementary B	**13,87c**	**39**	11,52c	31
Accident	**7,50c**	**62**	6,23c	50
PPS Retirement Annuity special bonus	**1,32c**	**253**	0,58c	111

Note 1 – Investment income allocated to policyholders' 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 below) for 2010 were made to the Special Benefit Accounts:

- 6,50% (2009: 7,46%) for South African policyholders who chose to move to the flexible income option – this amounts to R22 million (2009: R27,5 million).
- 3,25% for South African policyholders who chose to move to the enhanced cash option – this amounts to R0,9 million.
- 5,65% for South African policyholders who chose to move to the conservative fund option – this amounts to R2 million.
- 7,42% for South African policyholders who chose to move to the moderate fund option – this amounts to R5,3 million.
- 12,21% (2009: 24,96%) for South African policyholders who did not qualify for, or did not choose to move to the pre-retirement option – this amounts to R1 082,5 million (2009: R1 742 million).
- 4,88% (2009: 3,31%) for Namibian policyholders who chose to move to the flexible income option – this amounts to N$0,5 million (2009: N$0,2 million).
- 14,72% (2009: 30,38%) for Namibian policyholders who did not qualify for, or did not choose to move to the pre-retirement option – this amounts to N$31,6 million (2009: N$46,2 million).

Note 3 – Investment return allocated to policyholders' Special Benefit Accounts as a percentage of the Surplus Rebate Accounts at the beginning of the year.

Directors of PPS Limited

Name	(Age)	Qualification	Classification	Term of office
Dr D G C Presbury, *Chairman* Independent Non-executive	(68)	MB, BS (London), MRCP (London), FRCP	Elected	Appointed 27 August 2001 Ends June 2013
Mr E A Moolla, *Deputy Chairman* Independent Non-executive	(60)	B Iuris	Elected	Appointed 11 March 2002 Ends June 2013
Adv T N Aboobaker Independent Non-executive	(57)	BA LLB	Nominated annually[(1)]	Appointed 4 December 2006 Ends N/A

Directors of PPS Limited continued

Name	(Age)	Qualification	Classification	Term of office
Dr D R Anderson Independent Non-executive	(64)	BDS, Dip POM, FCD (SA) OMP	Elected	Appointed 27 August 2001 Ends June 2012
Dr V K S Bhagwandas Independent Non-executive	(42)	MB ChB	Elected	Appointed 4 June 2007 Ends June 2013
Dr N G Campbell Independent Non-executive	(60)	BDS	Elected	Appointed 9 March 2002 Ends June 2011
Mr J A B Downie Independent Non-executive	(52)	B Sc, MBA, CFP	Co-opted annually	Appointed 15 April 2010 Ends N/A
Mr Y N Gordhan Independent Non-executive	(60)	B Com (Hons), CA(SA), MSc	Elected	Appointed 17 June 2008 Ends June 2011
Mr U D Jivan Independent Non-executive	(48)	BA LLB	Elected	Appointed 8 June 2009 Ends June 2012
Mr I Kotzé Independent Non-executive	(54)	B Pharm	Nominated annually(2)	Appointed 27 August 2001 Ends N/A
Dr C M Krüger Independent Non-executive	(45)	MB ChB, M Prax Med, M Pharm Med	Elected	Appointed 21 June 2004 Ends June 2013
Dr T K S Letlape Independent Non-executive	(51)	MB ChB, FRCS (Oph) Ed, FCS (Oph) SA, SA FRCO phth (UK)	Nominated annually(3)	Appointed 13 October 2003 Resigned 27 September 2010
Dr M N Mabasa Independent Non-executive	(51)	MB ChB	Nominated annually(3)	Appointed 27 September 2010 Ends N/A
Mrs C N Mbili Independent Non-executive	(38)	B Com, CA(SA)	Nominated annually(4)	Appointed 4 December 2006 Resigned 14 January 2011
Dr J Patel Independent Non-executive	(58)	BChd	Nominated annually(5)	Appointed 8 June 2009 Ends N/A
Mr C D Reay Independent Non-executive	(68)	Pr Eng BSc (Mech)	Nominated annually(6)	Appointed 10 February 2003 Ends N/A
Dr S N E Seoka Independent Non-executive	(55)	B Pharm, PhD	Co-opted annually	Appointed 15 August 2005 Ends N/A
Dr R D Sykes Independent Non-executive	(71)	B Sc, MBA	Nominated annually(7)	Appointed 27 August 2001 Resigned 11 July 2010
Mr B R Topham Independent Non-executive	(39)	B Compt (Hons), B Proc LLM, CA(SA), CA(UK)	Elected	Appointed 4 June 2007 Ends June 2013
Mr S Trikamjee Independent Non-executive	(32)	B Com (Hons), CA(SA)	Elected	Appointed 8 June 2009 Ends June 2012
Dr J J van Niekerk Independent Non-executive	(74)	MB ChB, M Med Surgery	Elected	Appointed 27 August 2001 Ends June 2011
Judge R H Zulman Independent Non-executive	(72)	B Com LLB, LLM (Tulane University)	Elected	Appointed 13 May 2005 Ends June 2011

N/A = Not Applicable
Nominated by:
(1) The General Council of the Bar of South Africa
(2) The Pharmaceutical Society of South Africa
(3) The South African Medical Association
(4) The South African Institute of Chartered Accountants
(5) The South African Dental Association
(6) The Society of Professional Engineers
(7) The South African Veterinary Association

PPS Insurance board

Director	Status
Dr D R Anderson (Chairman)	Independent Non-executive
Dr V Bhagwandas	Independent Non-executive
Dr N G Campbell	Independent Non-executive
Mr C Erasmus	Independent Non-executive
Mr I Kotzé	Independent Non-executive
Mr E A Moolla	Independent Non-executive
Mr N G Payne	Independent Non-executive
Dr D G C Presbury	Independent Non-executive
Dr S N E Seoka	Independent Non-executive
Dr J J van Niekerk	Independent Non-executive
Prof H E Wainer	Independent Non-executive
Mr M J Jackson (Chief Executive Officer)	Executive
Mrs T Boesch (Financial Director)	Executive

Executive of PPS

Member	Status
Mr M J Jackson	Chief Executive Officer
Mrs T Boesch	Financial Director
Mr V E Barnard *(appointed 1 October 2010)*	Group Company Secretary
Mr N J Battersby	CEO PPS Investments
Mr L P Caron *(resigned 31 August 2010)*	Group Company Secretary
Mr S R Clark	Head of Life Administration and Systems
Mr C K de Klerk	Company Actuary
Dr P J P Goodwin	Group Medical Officer
Mr R Govenden	Group Human Resources Manager
Dr H P D Hoffman	CEO Professional Medical Scheme Administrators
Mr E G Joubert *(appointed 1 November 2010)*	Head of Marketing and Stakeholder Relations
Mr J N Marsden	National Sales Executive
Mr T T Simba *(resigned 31 May 2010)*	Group Membership Relations Manager
Dr D Stott	Business Development Executive

Directors of subsidiaries

PPS Namibia

Director
Dr E Maritz (Chairman)
Mr E H T Angula
Mr M J Jackson
Mr J N Marsden
Dr O J Oosthuizen
Mr W A V J Vermeulen (Chief Executive) *(appointed as a director 15 November 2010)*

Professional Medical Scheme Administrators

Director
Mr M J Jackson (Chairman)
Dr C M Krüger
Dr J J van Niekerk

PPS BEE SPV

Director
Dr T K S Letlape (Chairman)
Mr E A Moolla
Dr S N E Seoka

PPS Marketing Services

Director
Mr M J Jackson (Chairman)
Mr C K de Klerk
Mr C Erasmus
Mr J N Marsden

PPS Investments

Director
Mr E A Moolla (Chairman)
Mr N J Battersby
Mr C K de Klerk
Mr M J Jackson
Mr P J Koekemoer
Mr H A Nelson
Mr A C Pillay

Plexus Properties

Director
Mr M J Jackson (Chairman)
Mrs T Boesch
Mr C K de Klerk

Trustees

PPS Retirement Annuity Fund	PPS Beneficiaries Trust
Dr D G C Presbury (Chairman)	Dr R D Sykes (Chairman) *(resigned 27 September 2010)*
Dr V Bhagwandas	Mr B Topham
Mr J A B Downie *(appointed 27 September 2010)*	Mr S Trikamjee *(appointed 27 September 2010)*
Mr M D Eustace	Judge R H Zulman
Adv T J Ferreira	
Mrs R G Govender	
Mr E Huggett	
Mr G F Richardson	
Dr S N E Seoka	
Dr J J van Niekerk	

PPS Limited directors' emoluments from the Group

Director	PPS Limited (including committees) R	Subsidiary companies (including committees) R	Total emoluments R
Adv T N Aboobaker	94 990	–	94 990
Dr D R Anderson	25 500	588 540	614 040
Dr V Bhagwandas	58 940	184 140	243 080
Dr N G Campbell	18 685	170 550	189 235
Mr J A B Downie *(appointed 15 April 2010)*	79 260	14 060	93 320
Mr Y N Gordhan	99 940	–	99 940
Mr U Jivan	105 210	–	105 210
Mr I Kotzé	15 490	223 330	238 820
Dr C M Krüger	105 210	13 630	118 840
Dr T K S Letlape *(resigned 27 September 2010)*	99 940	6 600	106 540
Dr M N Mabasa *(appointed 27 September 2010)*	26 661	–	26 661
Ms C N Mbili *(resigned 14 January 2011)*	94 670	–	94 670
Mr E A Moolla	193 165	132 600	325 765
Dr J Patel	105 210	–	105 210
Dr D G C Presbury	286 215	202 030	488 245
Mr C D Reay	105 210	–	105 210
Dr S N E Seoka	133 940	166 890	300 830
Dr R D Sykes *(resigned 27 September 2010)*	68 630	–	68 630
Mr B Topham	106 540	–	106 540
Mr S Trikamjee	105 210	–	105 210
Dr J J van Niekerk	20 440	249 690	270 130
Judge R H Zulman	104 785	–	104 785
Total	2 053 841	1 952 060	4 005 901

Administrative information

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)
C van der Riet

External auditor

PricewaterhouseCoopers Inc
2 Eglin Road
Sunninghill
South Africa

Internal auditor

KPMG Services (Pty) Limited
Wanooka Place
1 Albany Road
Parktown, 2193
South Africa

Legal advisers

Werksmans Inc.
155 – 5th Street
Sandton, 2196
South Africa

Bowman Gilfillan Inc.
165 West Street
Sandton, 2196
South Africa

Actuarial and insurance solutions

Deloitte & Touche
Deloitte Place, Building 33
The Woodlands, 20 Woodlands Drive
Woodmead
South Africa

Fund managers

Coronation Fund Managers Limited
7th Floor, Montclare Place
Cnr Camp Ground and Main Road
Claremont, 7708
South Africa

Investec Asset Management (Pty) Limited
36 Hans Strijdom Ave
Foreshore
Cape Town, 8001
South Africa

PPS Investments (Pty) Limited
1st Floor, Travers House
Boundary Terraces
1 Mariendahl Lane
Newlands, 7700
South Africa

Namibia Asset Management Limited
1st Floor, KPMG House
24 Orban Street
Klein Windhoek
Windhoek
Namibia

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.

2. CONSOLIDATION continued

Subsidiaries continued

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.

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.

Third-party financial liabilities arising on consolidation of unit trusts 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 or cancelled or expire.

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.

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

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 has 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 Accounts) 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.

4. INSURANCE AND INVESTMENT CONTRACTS continued

4.2 Valuation and recognition continued

4.2.1 Insurance contracts continued

Valuation continued

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.

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. INSURANCE AND INVESTMENT CONTRACTS continued

4.2 Valuation and recognition continued

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.

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.

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.

Changes to the carrying amount arising on revaluation of land and buildings are dealt with through other 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 8 years

8. PROPERTY AND EQUIPMENT continued

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 the 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 ASSET

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 contribution pension and provident fund. The assets are held in separate funds controlled by trustees appointed by the Group and employees. In prior years a defined benefit pension fund was available to employees, but this has since been closed.

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.

Defined benefit fund

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. Surplus assets are recognised in the employer surplus account.

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.

13.7 Defined benefit employer surplus

The Company recognised the surplus from the defined benefit fund into the employer surplus account during the year it was received. This asset is amortised monthly through a cash reduction in employer contributions to the defined contribution fund.

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 being 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 are disclosed under accounting policy 4.2.1

18.2 Fee commission and other 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.

Fees are recognised as services are rendered.

Administration fees include fees charged to Profmed Medical 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 investment management services rendered.

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

The defined benefit fund employer surplus is described in note 18 of the financial statements. This surplus is recognised in the accounting period it was transferred from the fund to the employer surplus account.

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 comprise gains and losses on disposal or revaluation of assets to fair values and are 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. EXPENSES FOR 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 2010

		Group		Company	
	Note	2010 R'000	2009 R'000	2010 R'000	2009 R'000
ASSETS					
Property and equipment	4	84 727	74 852	–	–
Investment in subsidiary company	5	–	–	10 000	10 000
Intangible asset	6	32 015	39 203	–	–
Defined benefit fund employer surplus	18	6 422	–		
Deferred tax	17	44 912	33 016	–	–
Financial assets – Investments	7	14 106 198	11 894 456	–	–
Reinsurance assets	8,13	217 927	305 608	–	–
Insurance and other receivables	9	119 026	178 276	1 303	847
Current income tax asset		14 838	5 754	–	–
Cash and cash equivalents	10	1 530 245	1 402 325	112	405
Total assets		16 156 310	13 933 490	11 415	11 252
EQUITY					
Capital and accumulated funds					
Share capital	11	–	–	–	–
Accumulated funds	12	96 858	136 390	10 500	10 500
Total equity		96 858	136 390	10 500	10 500
LIABILITIES					
Insurance policy liabilities	13	15 267 029	13 162 468	–	–
Investment contract liabilities	14	131 755	160 619	–	–
Third-party financial liabilities arising on consolidation of unit trusts	15	295 277	184 619	–	–
Borrowings	16	18 808	14 648	–	–
Deferred tax	17	136 209	73 963	–	–
Retirement benefit obligations	18	32 949	29 571	–	–
Employee related obligations	19	41 298	28 915	–	–
Insurance and other payables	20	136 127	139 456	915	752
Current income tax liabilities		–	2 841	–	–
Total liabilities		16 059 452	13 797 100	915	752
Total equity and liabilities		16 156 310	13 933 490	11 415	11 252

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	Note	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Net insurance premium revenue	21	**1 731 383**	1 579 759	**–**	–
Fee, commission and other income	22	**139 862**	90 507	**10 856**	7 628
Investment income	24	**945 244**	1 192 406	**–**	–
Net fair value profits on financial assets held at fair value through profit and loss	23	**1 147 376**	855 347	**–**	–
Revenue		**3 963 865**	3 718 019	**10 856**	7 628
Net insurance benefits and claims	25	**977 307**	1 050 652	**–**	–
Fair value of policyholder liabilities under investment contracts	14	**8 586**	11 230	**–**	–
Expenses	26	**676 809**	605 242	**10 856**	7 628
Profit before movement in insurance policy liabilities		**2 301 163**	2 050 895	**–**	–
Movement to insurance policy liabilities	13.2	**2 125 126**	1 859 942	**–**	–
Tax	28	**169 396**	204 620	**–**	–
Surplus/(deficit) after tax		**6 641**	(13 667)	**–**	–
Other comprehensive income:					
Revaluation of owner occupied property net of tax		**(2 713)**	(2 897)	**–**	–
Total comprehensive income/(deficit) for the year		**3 928**	(16 564)	**–**	–
Surplus/(deficit) after tax attributable to:					
Members		**(39 532)**	(16 433)	**–**	–
Unit trust holders		**46 173**	2 766	**–**	–
		6 641	(13 667)	**–**	–
Total comprehensive income/(deficit) attributable to:					
Members		**(42 245)**	(19 330)	**–**	–
Unit trust holders		**46 173**	2 766	**–**	–
		3 928	(16 564)	**–**	–

The mutual nature of PPS should be noted. The allocation to policyholders – described above as 'movement to insurance policy liabilities' – is in effect the positive or negative return to 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 2010

	Note	Accumulated funds R'000	Revaluation reserve R'000	Total R'000
Group				
Balance at 1 January 2009		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	13.2	–	2 897	2 897
Deficit for the year		(16 433)	–	(16 433)
Balance at 31 December 2009	12	136 390	–	136 390
		–	–	–
Revaluation of owner-occupied property		–	(2 960)	(2 960)
Deferred tax on revaluation of owner-occupied property		–	247	247
Movement in insurance policy liabilities	13.2	–	2 713	2 713
Deficit for the year		(39 532)	–	(39 532)
Balance at 31 December 2010	12	**96 858**	**–**	**96 858**
Company				
Balance at 1 January 2009		10 500	–	10 500
Profit for the year		–	–	–
Balance at 31 December 2009	12	10 500	–	10 500
Profit for the year		–	–	–
Balance at 31 December 2010	12	**10 500**	**–**	**10 500**

Consolidated statement of cash flows

for the year ended 31 December 2010

	Note	Group		Company	
		2010 R'000	2009 R'000	2010 R'000	2009 R'000
Cash flows from operating activities					
Cash generated from/(used in) operations	29	340 907	198 128	(293)	405
Interest received		426 486	423 318	–	–
Dividend received		174 569	275 686	–	–
Tax paid	30	(130 724)	(161 596)	–	–
Net cash from/(used in) operating activities		811 238	735 536	(293)	405
Cash flows from investing activities					
Purchases of property and equipment	4	(24 783)	(22 401)	–	–
Software development	6	(6 734)	(9 554)	–	–
Purchase of financial assets		(8 743 013)	(11 408 441)	–	–
Proceeds from sale of furniture and equipment		38	238	–	–
Proceeds from disposal of financial assets		8 087 014	10 712 708	–	–
Net cash used in investing activities		(687 478)	(727 450)	–	–
Cash flows from financing activities					
Increase in borrowings	16	4 160	5 967	–	–
Net cash used in financing activities		4 160	5 967	–	–
Net increase/(decrease) in cash and bank		127 920	14 053	(293)	405
Cash and bank at beginning of year		1 402 325	1 388 272	405	–
Cash and bank at end of year	10	1 530 245	1 402 325	112	405

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 13.1.

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 policyholders' 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 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 liability. 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% (2009: 9,5%), the average rentals for office space in the area (R90 per square metre) (2009: R95 per square metre), and estimated annual expenses relating to the building of R1 145 000 (2009: R1 054 000). 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 14,8% (2009: 14,00%), 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 proactively 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 PPS.

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 to safeguard the assets of PPS and to ensure timely and reliable monitoring and reporting. These controls encompass suitable policies, processes, tasks and behaviours with the aim of ensuring compliance with applicable laws and regulations to meet the needs of an ever changing business environment. The **Audit Committee's** mandate from the board is to, *inter alia:*

- 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 Company and the Group and ensure compliance with relevant legislation and, where appropriate, the King Code; make submissions to the board on any matter concerning the Group's accounting policies;
- oversee and monitor financial and internal control, reporting and regulatory compliance;
- 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.

2. MANAGEMENT OF RISKS continued

2.1 General continued

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

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.

Compliance

- monitors and reports on compliance with regulatory requirements;
- 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;
- coordinates the Group's relationship with its regulators;
- evaluates the impact of forthcoming legislative regulatory changes and provides advice on potential process and control changes required and whether the proposed control will be adequate;
- reports on Risk Committee on the status of compliance of the Group;
- operates in accordance with an approved compliance plan.

Internal Audit

- provides independent and objective assurance on, and evaluation of, the overall effectiveness of the Group's systems of internal financial control;
- develops a risk-based annual audit plan based on a three-year testing rotation of the control environment for review at the 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.

2.2 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.

Type of contract	Terms and conditions
Professional Life Provider and old Generation PPS Life & Disability Assurance Scheme	The Professional Life Provider policy, launched in 2007, offers lump sum life and disability cover for a specified term or whole life. The premiums are payable monthly and are age rated. For this new generation of life and disability policies, PPS Insurance is the risk carrier. The previous generation of policies (PPS Life & Disability Assurance Scheme) is 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. Additional business is still permitted. The reinsurance to PPS transfers insurance risk only, and is accounted for as reinsurance inwards, and does not contain a DPF component. The premiums under both generations of policies 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.
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 the previous generation product, launched in 2004). PHP is closed to new business. These products pay a lump sum benefit according to severity levels on assessment of standard dread disease conditions and physical impairment events. The premiums are payable monthly and are age rated. 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.
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 diagnosis of a severe dread disease (such as a stage 3 or 4 cancer). The premiums are payable monthly and are age rated. 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.
Business Provider	In 2007, PPS introduced two products 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 pay out 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 DPF components.

2. MANAGEMENT OF RISKS continued

2.2 Insurance product risk management continued

Type of contract	Terms and conditions
PPS Endowment	The PPS Endowment was launched in 2007 and 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. This product is available to corporates and individuals.
PPS Living Annuity	The PPS Living Annuity was launched in 2007. It is a compulsory purchase linked living annuity and does not offer risk benefits or investment guarantees. The underlying investments are unit trusts. The policies do not transfer insurance risk and do not contain a DPF component.

The 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.

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 widespread 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
2010	**4 032 750**	**35 824**
2009	3 984 019	32 333

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 13).

(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 table exists, 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.

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:

2010 R'000	Non-DPF component of insurance liabilities	DPF component of insurance liabilities	Total
South Africa			
Gross	3 011 205	11 590 662	14 601 867
Net of reinsurance	2 801 502	11 590 662	14 392 164
Namibia			
Gross	100 321	297 325	397 646
Net of reinsurance	93 265	297 325	390 590

2. MANAGEMENT OF RISKS continued

2.2 Insurance product risk management continued

Risk exposure and concentrations of risk continued

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

Risk management relating to investment contracts

The Group commenced selling investment products during 2007 through its subsidiary PPS Investments (Pty) Limited ('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.

In monitoring credit risk, amounts receivable are grouped according to their credit characteristics. The Group also limits its exposure to credit risk by only investing in liquid debt securities and only with counterparties that have a credit rating as set out below as well as only investing with reputable banks which are assessed quarterly.

The Group only enters into insurance contracts with eligible professional individuals. PPS Group operates a credit control policy regarding outstanding 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 have 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	2010	2009
Debt securities	**4 600 417**	4 456 468
Reinsurance assets	**217 927**	305 608
Insurance receivables	**36 300**	97 971
Cash and cash equivalents	**1 637 236**	1 798 354
Other receivables	**30 936**	29 147
Reinsurance receivables	**51 142**	50 238
Total	**6 573 958**	6 737 786

2. MANAGEMENT OF RISKS continued

2.3 Financial risk management continued

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 R4 600 million (2009: R4 456 million) at 31 December 2010. The following represent the major industry sectors to which the Group is exposed as at 31 December 2010:

Group Rm	2010	2009
Government	1 615	2 785
Banks	2 329	1 141
Utilities	491	298
Corporate	165	232
Total	4 600	4 456

Concentrations of credit risk

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

Group R'000	AAA and Government	Below AAA but no lower than AA-	Below AA but no lower than A	Below A but no lower than BBB-	Unrated	Total
2010						
Debt securities	1 798 387	2 315 180	439 680	47 170	–	4 600 417
Reinsurance assets	–	–	217 927	–	–	217 927
Insurance receivables	–	–	–	–	36 300	36 300
Cash and cash equivalents	142 586	1 426 516	68 134	–	–	1 637 236
Other receivables	–	–	–	–	30 936	30 936
Reinsurance receivables	–	–	51 142	–	–	51 142

Group R'000	AAA and Government	Below AAA but no lower than AA-	Below AA but no lower than A	Below A but no lower than BBB-	Unrated	Total
2009						
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

Ageing of financial assets

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

Group R'000	Neither past due nor impaired	Financial assets that are past due 0 – 2 months	3 – 5 months	More than 5 months	Financial assets that have been impaired	Carrying value
2010						
Insurance receivables	**4 975**	**1 600**	**2 038**	**27 687**	**8 571**	**36 300**
Reinsurance assets	**217 927**	**–**	**–**	**–**	**–**	**217 927**
Reinsurance receivables	**40 181**	**–**	**–**	**10 961**	**–**	**51 142**
Other receivables	**26 005**	**4 619**	**231**	**81**	**–**	**30 936**
Cash and cash equivalents	**1 637 236**	**–**	**–**	**–**	**–**	**1 637 236**

Group R'000	Neither past due nor impaired	Financial assets that are past due 0 – 2 months	3 – 5 months	More than 5 months	Financial assets that have been impaired	Carrying value
2009						
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

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

2.3 Financial risk management 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:

	2010			2009		
Group R'000	Gross	Net	Impairment losses	Gross	Net	Impairment losses
Contract holder receivable	44 871	36 300	8 571	56 223	39 901	16 322

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.

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

			Contractual cash flows				
Group R'000	Carrying amount	Total cash flows	Within 1 year	2 – 5 years	6 – 10 years	11 – 20 years	Over 20 years
2010							
Insurance contract liabilities – DPF	11 887 900	11 887 987	672 126	1 647 541	2 512 832	4 223 631	2 831 857
Insurance contract liabilities – non-DPF	2 894 767	(15 839 900)	282 044	200 447	(1 230 411)	(4 243 211)	(10 848 769)
Reinsurance liabilities	16 138	16 138	16 138	–	–	–	–
Third-party financial liabilities arising on consolidation of unit trusts	295 277	295 277	295 277	–	–	–	–
Investment contract liabilities	131 755	131 755	131 755	–	–	–	–
Other financial liabilities	89 430	89 430	89 430	–	–	–	–

Group 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
2009							
Insurance contract liabilities – DPF	10 146 619	10 146 618	1 223 505	1 351 337	2 061 293	3 672 085	1 838 398
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	–	–	–	–

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 rates, 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.

2. MANAGEMENT OF RISKS continued

2.3 Financial risk management continued

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 31 December 2010	Non-pre-retirement option benefits R'000	%	Pre-retirement option benefits R'000	%
Local				
Equity	6 528 775	54,9	52 316	10,0
Fixed interest	2 140 148	18,0	167 676	32,0
Cash	1 064 991	8,9	287 079	54,8
International				
Equity	2 166 185	18,2	16 942	3,2
Total	11 900 099	100,0	524 013	100,0

Group 31 December 2009	Non-pre-retirement option benefits R'000	%	Pre-retirement option benefits 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

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.

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

	2010		2009	
Group	R'000	%	R'000	%
Local				
Equity	**579 493**	**20,0**	571 011	23,7
Fixed interest	**2 206 248**	**76,2**	1 433 114	59,5
Cash	**104 065**	**3,6**	402 948	16,8
International				
Equity	**4 961**	**0,2**	–	–
Total	**2 894 767**	**100,0**	2 407 073	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.

2. MANAGEMENT OF RISKS continued

2.3 Financial risk management continued

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.

The market risk sensitivity is shown below:

Group	Contracts with non-DPF Impact on profit/(loss) before movement in insurance policyholder liabilities 2010 R'000	 2009 R'000
Interest rate risk		
Lower limit: 7,5% yield	**(517 380)**	(707 458)
Upper limit: 9,5% yield	**432 268**	562 024

The effect of changes in the net capital value of non-DPF contracts due to market movements are fully absorbed by adjusting the net capital value of DPF contracts resulting in a zero impact on total net capital of the Group.

Assumptions, methodology and limitations of sensitivity analysis

The effects of the specified changes in factors are determined using actuarial and statistical models, as relevant. The level of movements in market factors on which the sensitivity analysis is based were determined based on economic forecasts and historical experience of variations in these factors.

The sensitivity table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the sensitivity analysis is based on the Group's financial position at the reporting date and may vary at the time that any actual market movement occurs. As investment markets move past pre-determined trigger points, management action would be taken which would alter the Group's position.

Underwriting risk

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

Underwriting risk is controlled by underwriting principles. The underwriting process takes into account actual and prospective mortality and morbidity experience. To mitigate underwriting risk PPS has a clearly documented underwriting policy in respect of all of its risk products, against which the underwriters are trained and monitored. This policy is updated from time to time based on PPS's mortality and morbidity experience as well as where medical developments and experience require a change in underwriting policy.

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 lump sum mortality, disability and critical illness liabilities in excess of specified monetary limits are reinsured. A sickness experience report is annually presented to the statutory actuary analysing claim patterns and trends. The latest report indicated no material change in claim patterns.

2. MANAGEMENT OF RISKS continued

2.3 Financial risk management continued

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

Proactive 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. A comprehensive claims policy for PPS serves to ensure consistency of claims decisions and criteria, as well as significantly reduce the risk of fraud. 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 on to the 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. Consideration will also then be 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.

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.

Lapse risk

There is a risk that the lapse experience of PPS policies differs significantly from that assumed in the original pricing basis. Lapses are monitored monthly by management, and quarterly and annual detailed lapse experience investigations are prepared. Where trends of increased lapses of policies are detected, further management action is taken to address such trends.

An established dedicated retentions function is in place and fully staffed; this function places a significant role in reducing churn of policies to other companies as well as in retention of policies at risk of lapsing due to non-payment. Active engagement with contracted advisers regarding retention of existing business and comprehensive training on PPS's product offering also plays an important role in mitigating lapse risk.

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 while 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.

	2010		2009	
R'000	South Africa	Namibia	South Africa	Namibia
Capital held	**174 278**	5 223	189 428	5 223
Regulatory capital	**65 039**	4 000	59 397	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 13) as the policyholders 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.

2. MANAGEMENT OF RISKS continued

2.3 Financial risk management continued

Capital management continued

Capital management policies and objectives continued

There have been no material changes in the Group's management of capital during the period.

The Group has maintained its level of CAR cover at 2,6 times (2009: 2,6 times). This decision has resulted in R18,6 million (2009: R5,7 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.

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 for 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 Investment 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 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 managers invest in income-yielding instruments such as money market, bonds and preference shares.

Risk exposure

A flexible income fund exposed to credit risk and interest rate risk.

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 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.

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 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.

2. MANAGEMENT OF RISKS continued

2.3 Financial risk management continued

Consolidated unit trusts continued

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 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.

Group 2010 R'000	Note	Financial assets and liabilities designated at fair value through profit or loss on initial recognition	Loans and receivables	Financial liabilities at amortised cost	Insurance contract assets and liabilities	Pre-payments	Total carrying amount	Fair value
Equity securities								
Local listed	7	6 840 765	–	–	–	–	6 840 765	6 840 765
International listed	7	450 779	–	–	–	–	450 779	450 779
Debt securities								
Government bonds	7	4 437 725	–	–	–	–	4 437 725	4 437 725
International listed	7	67 230	–	–	–	–	67 230	67 230
Unit trusts and pooled funds	7	2 309 699	–	–	–	–	2 309 699	2 309 699
Reinsurance assets	8	–	–	–	217 927	–	217 927	N/A
Insurance receivables	9	–	–	–	36 300	–	36 300	N/A
Prepayments	9	–	–	–	–	648	648	648
Other receivables	9	–	30 936	–	–	–	30 936	30 936
Reinsurance receivables	9	–	–	–	51 142	–	51 142	N/A
Cash and cash equivalents	10	1 392 291	137 954	–	–	–	1 530 245	1 530 245
Insurance contract liabilities	13	–	–	–	15 267 029	–	15 267 029	N/A
Investment contract liabilities	14	131 755	–	–	–	–	131 755	131 755
Liabilities to unit trust holders	15	295 277	–	–	–	–	295 277	295 277
Borrowings	16	–	–	18 808	–	–	18 808	18 808
Reinsurance payables	20	–	–	–	16 138	–	16 138	N/A
Insurance payables	20	–	–	–	30 559	–	30 559	N/A
Accruals and sundry creditors	20	–	–	89 430	–	–	89 430	89 430

3. FINANCIAL INSTRUMENT AND INSURANCE CONTRACT ANALYSIS continued

Group 2009 R'000	Note	Financial assets and liabilities designated at fair value through profit or loss on initial recognition	Loans and receivables	Financial liabilities at amortised cost	Insurance contract assets and liabilities	Pre-payments	Total carrying amount	Fair value
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	13	–	–	–	13 162 468	–	13 162 468	N/A
Investment contract liabilities	14	160 619	–	–	–	–	160 619	160 619
Liabilities to unit trust holders	15	184 619	–	–	–	–	184 619	184 619
Borrowings	16	–	–	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

4. PROPERTY AND EQUIPMENT

	Owner-occupied property R'000	Computer hardware R'000	Vehicles, office furniture and equipment R'000	Leasehold improve-ments R'000	Total R'000
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	10 012	4 122	22 401
Disposals: Cost	–	(517)	(154)	–	(671)
Disposals: Accumulated depreciation	–	319	154	–	473
Depreciation charge	(340)	(4 264)	(4 178)	(330)	(9 112)
Closing net book amount	42 600	10 729	17 731	3 792	74 852
At 31 December 2009					
Cost or valuation	49 529	75 449	30 622	4 122	159 722
Accumulated depreciation	(6 929)	(64 720)	(12 891)	(330)	(84 870)
Net book amount	42 600	10 729	17 731	3 792	74 852
Non-current	42 600	10 729	17 731	3 792	74 852
Year ended 31 December 2010					
Opening net book amount	**42 600**	**10 729**	**17 731**	**3 792**	**74 852**
Revaluation deficit	**(2 741)**	**–**	**–**	**–**	**(2 741)**
Depreciation charge on revaluation reserve	**(219)**	**–**	**–**	**–**	**(219)**
Additions	**–**	**12 466**	**9 485**	**2 832**	**24 783**
Disposals: Cost	**–**	**(45 179)**	**–**	**–**	**(45 179)**
Disposals: Accumulated depreciation	**–**	**45 179**	**–**	**–**	**45 179**
Depreciation charge	**(340)**	**(5 451)**	**(5 181)**	**(976)**	**(11 948)**
Closing net book amount	**39 300**	**17 744**	**22 035**	**5 648**	**84 727**
At 31 December 2010					
Cost or valuation	**46 788**	**42 736**	**40 107**	**6 954**	**136 584**
Accumulated depreciation	**(7 488)**	**(24 992)**	**(18 072)**	**(1 306)**	**(51 857)**
Net book amount	**39 300**	**17 744**	**22 035**	**5 648**	**84 727**
Non-current	**39 300**	**17 744**	**22 035**	**5 648**	**84 727**

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 2010 and 2009, 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.

4. PROPERTY AND EQUIPMENT continued

The Group's owner-occupied property was revalued at 31 December 2010 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	
	2010 R'000	2009 R'000
Cost	**20 870**	20 870
Accumulated depreciation	**(6 037)**	(5 697)
Net book amount as at 31 December	**14 833**	15 173

	Company	
	2010 R'000	2009 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	
	2010 R'000	2009 R'000
6. INTANGIBLE ASSET – SOFTWARE DEVELOPMENT COSTS		
At 1 January		
Cost	**105 930**	96 376
Accumulated amortisation	**(66 727)**	(54 287)
Net book amount	**39 203**	42 089
Non-current	**39 203**	42 089
Year ended 31 December		
Opening net book amount	**39 203**	42 089
Additions	**6 734**	9 554
Disposals: Cost	**(26 757)**	–
Disposals: Accumulated amortisation	**26 757**	–
Amortisation charge	**(13 922)**	(12 440)
Closing net book amount	**32 015**	39 203
At 31 December		
Cost	86 179	105 930
Accumulated amortisation	(54 164)	(66 727)
Net book amount	32 015	39 203
Non-current	32 015	39 203

	Group	
	2010 R'000	2009 R'000

7. FINANCIAL ASSETS – INVESTMENTS

Analysis of financial assets held at fair value through profit or loss

	2010 R'000	2009 R'000
Level 1 fair value financial assets		
Equity securities:		
– local listed	6 840 765	5 678 789
– international listed	450 779	342 201
	7 291 544	6 020 990
Debt securities – fixed interest rate:		
– government bonds and local listed	4 019 137	3 973 563
– international listed	67 230	114 256
	4 086 367	4 087 819
Total level 1 fair value financial assets	11 377 911	10 108 809

At 31 December, investments classified as level 1 comprise approximately 80,6% 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.

	2010 R'000	2009 R'000
Level 2 fair value financial assets		
Debt securities – fixed interest rate:		
– government bonds and local listed	418 588	14 812
Unit trusts and pooled funds:		
– local pooled funds and unit trusts	592 997	224 818
– international equity unit trusts	945 385	900 947
– international fixed interest unit trusts	233	248
– international balanced	771 084	644 822
	2 309 699	1 770 835
Total level 2 fair value financial assets	2 728 287	1 785 647
Total financial assets at fair value through profit or loss	14 106 198	11 894 456
The investment in local pooled funds and unit trusts comprises mainly:		
Debt securities	95 462	17 747
Cash and cash equivalents	106 991	60 608
Equities	311 531	124 434
International	79 013	22 029

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

$1 = R6,63 (2009: $1 = R7,38)

N$1 = R1,00 (2009: N$1 = R1,00)

At 31 December 2010, investments classified as level 2 comprise approximately 19,3% (2009: 14,9%) 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 2010, no investments are classified as level 3 (2009: nil).

	Group 2010 R'000	Group 2009 R'000
7. FINANCIAL ASSETS – INVESTMENTS continued		
Analysis of movements in financial assets held at fair value through profit or loss:		
Opening balance	11 894 456	9 878 511
Additions	8 883 091	11 618 636
Disposals at carrying value	(7 808 994)	(10 474 172)
Fair value net gains excluding net realised gains	1 147 376	855 347
Accrued interest movements	(9 731)	16 134
Closing balance	14 106 198	11 894 456
The spread of investments by sector:		
Industrial (%)	44,8	51,1
Financial (%)	21,9	30,0
Resources (%)	33,3	18,9
Maturity profile of fixed interest investments:		
Due in 1 year or less	511 286	114 941
Due between 1 year and 5 years	2 074 217	1 230 334
Due between 5 years and 10 years	1 012 739	1 558 446
Due after 10 years	906 713	1 198 910
	4 504 955	4 102 631

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

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

	Group 2010 R'000	Group 2009 R'000
8. REINSURANCE ASSETS		
Total assets arising from reinsurance contracts at beginning of the year	305 608	312 153
Reinsurers' share of insurance policy liabilities	(87 681)	(6 545)
Total assets arising from reinsurance contracts at end of the year (note 13)	217 927	305 608
Non-current portion	217 927	305 608

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	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000

9. INSURANCE AND OTHER RECEIVABLES

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Receivables arising from insurance and reinsurance contracts:	**87 442**	148 209	**–**	138
– due from contract holders	**44 871**	56 223	**–**	138
– less allowance for impairment losses from receivables from contract holders	**(8 571)**	(16 322)	**–**	–
– due from contract holders – life assurance policy	**–**	58 070	**–**	–
– due from reinsurers	**51 142**	50 238	**–**	–
Other receivables:	**30 936**	29 147	**1 281**	679
– accrued interest	**6 149**	5 836	**–**	–
– accrued dividends	**–**	6	**–**	–
– receivables from related parties	**–**	–	**1 281**	679
– administration fee receivable	**8 938**	14 943	**–**	–
– other receivables	**15 849**	8 362	**–**	–
Prepayments	**648**	920	**22**	30
Total receivables including insurance receivables and prepayments	**119 026**	178 276	**1 303**	847
Current portion	**119 026**	178 276	**1 303**	847
Fair value of other receivables held at amortised cost	**30 936**	29 147	**1 281**	679
Allowances for impairment losses of receivables from contract holders				
Specific allowances for impairment				
At beginning of period	**16 322**	13 097	**–**	–
Impairment loss recognised	**–**	9 916	**–**	–
Impairment loss reversals	**(7 751)**	(6 691)	**–**	–
At end of year	**8 571**	16 322	**–**	–

10. CASH AND CASH EQUIVALENTS

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Cash at bank and in hand	**137 954**	47 381	**112**	405
Level 2 fair value cash and cash equivalents				
Cash on call, unit trusts and pooled funds	**1 392 291**	1 354 944	**–**	–
Total level 2 fair value cash and cash equivalents				
Total cash and cash equivalents	**1 530 245**	1 402 325	**112**	405

The proportion of cash held to fund the working capital of the Group as part of the investment portfolio is 6,0% (2009: 3,4%) 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 4,9% (2009: 6,4%).

At 31 December, 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 while being a member or within 1 year thereafter.

	Group		Company	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
12. ACCUMULATED FUNDS				
Accumulated funds	**96 858**	136 390	**10 500**	10 500

The accumulated funds balance represents the amount of reserves which is not distributable. This is part of the amount the Group must retain to cover the Capital Adequacy Requirement (CAR). This Group has maintained its level of CAR cover at 2,6 times (2009: 2,6 times).This has resulted in R18,6 million being allocated to accumulated funds in the current year.

13. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS

13.1 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 sources of uncertainty are epidemics such as Aids and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits. These uncertainties could result in future mortality being significantly worse than in the past. However, continuing improvements in medical care and social conditions could result in improvements in longevity.

  An investigation into the Group's experience over the most recent year is performed to calibrate the base table to the PPS experience. The estimates of future mortality are based on standard industry and national mortality tables that reflect historical mortality experience, adjusted where appropriate to reflect the Group's own experience. The base table currently in use is SA85-90.

- *Morbidity*

  Estimates are made as to the expected number of temporary and permanent incapacity claims for each of the years in which the Group is exposed to risk. These estimates are based on morbidity tables that reflect the 2005 to 2009 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.

- *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 2009 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 rate is 8,5% (2009: 9,5%) per annum effective.

  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% (2009: 3%).

  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% (2009: 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 9,1% gross of tax in 2010 (2009: 10,1%). 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% (2009: 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 and tax relief.

- *Future profit allocations*

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

(a) *IBNR*

The IBNR liability calculation is based on run-off tables using historical data from 2005 to 2010. 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 an increase in liabilities of R419 million (2009: R379 million decrease). The non-economic changes amounted to a R30,7 million increase (2009: R5,53 million decrease) in liabilities.

13. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS continued

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

(a) Process used to decide on assumptions continued

- *Future profit allocations continued*

(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.

Variable	Change in variable %	Change in liability 2010 R'000	% change	Change in liability 2009 R'000	% change
Liability per note 13.2		2 894 767		2 407 073	
Worsening in mortality	10	365 252	12,62	381 632	15,85
Worsening of morbidity rates	10	268 042	9,26	288 591	11,99
Worsening in PI inception rate	10	320 611	11,08	356 131	14,80
Lowering of investment returns	(1)	516 152	17,83	695 456	28,89
Lowering of terminations	(10)	210 528	7,27	142 989	5,94
Worsening of maintenance expense level	10	320 858	11,08	367 855	15,28
Worsening of expense inflation rate	10	180 853	6,25	368 824	15,32

To the extent the non-DPF liability above increases, the profit allocation for the year to the DPF would be correspondingly lower and vice versa.

The above analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values; change in lapses and future mortality.

The size of the sensitivities were chosen to illustrate the impacts for changes in key variables that would have a significant impact on the non-DPF liabilities, as well as mainly chosen to facilitate comparison with the sensitivities disclosed by other major insurers.

(d) Compulsory margins

PGN 104 specifies the compulsory margins that need to be added to the best estimate margins. The following compulsory margins which have not changed since 2005 were added for both 2009 and 2010:

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

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

	Group					
	2010			2009		
	Gross R'000	Re-insurance R'000	Net R'000	Gross R'000	Re-insurance R'000	Net R'000
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	37 236	–	37 236	52 906	–	52 906
Total at beginning of the year	13 162 468	305 608	12 856 860	11 282 412	312 153	10 970 259
Change in insurance policy liabilities per statement of comprehensive income	2 037 445	(87 681)	2 125 126	1 853 397	(6 545)	1 859 942
Change in insurance policy liabilities per statement of changes in equity	(2 713)	–	(2 713)	(2 897)	–	(2 897)
Transfer from investment policyholder liabilities	92 725	–	92 725	–	–	–
Movement in claims liabilities						
– arising from current year claims	(17 585)	–	(17 585)	41 769	–	41 769
– arising from prior year claims	(5 311)	–	(5 311)	(12 213)	–	(12 213)
Total movement in insurance policy liabilities	2 104 561	(87 681)	2 192 242	1 880 056	(6 545)	1 886 601
Total movement allocated	2 104 561	(87 681)	2 192 242	1 880 056	(6 545)	1 886 601
Sickness and disability policies						
– Claims payable (Notified claims)	6 424	–	6 424	7 297	–	7 297
– Unintimated claims (IBNR)	(6 086)	–	(6 086)	(5 562)	–	(5 562)
– Non-DPF liability	405 279	(82 415)	487 694	(220 165)	(12 979)	(207 186)
– Cessation benefits (notified claims)	1 916	–	1 916	21 749	–	21 749
– DPF liability	1 648 643	–	1 648 643	2 075 006	–	2 075 006
Life policies						
– Claims payable (notified claims)	(27 130)	–	(27 130)	14 133	–	14 133
– Unintimated claims (IBNR)	(472)	–	(472)	1 840	–	1 840
– Life assurance policy reserve	(14 283)	(5 266)	(9 017)	1 428	6 434	(5 006)
Transfer from investment policyholder liabilities	92 725	–	92 725	–	–	–
Other benefits and liabilities	(2 455)	–	(2 455)	(15 670)	–	(15 670)

13. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS continued

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

	Group					
	2010			2009		
	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 end of the year:						
Sickness and disability policies						
– Claims payable (notified claims)	14 410	–	14 410	7 986	–	7 986
– Unintimated claims (IBNR)	32 233	–	32 233	38 319	–	38 319
– Non-DPF liability	3 111 526	216 759	2 894 767	2 706 247	299 174	2 407 073
– Cessation benefits (notified claims)	159 415	–	159 415	157 499	–	157 499
– DPF liability	11 887 987	–	11 887 987	10 146 619	–	10 146 619
Life policies						
– Claims payable (notified claims)	3 346	–	3 346	30 476	–	30 476
– Unintimated claims (IBNR)	5 552	–	5 552	6 024	–	6 024
– Life assurance policy reserve	17 779	1 168	16 611	32 062	6 434	25 628
Other benefits and liabilities	34 781	–	34 781	37 236	–	37 236
Total at the end of the year	15 267 029	217 927	15 049 102	13 162 468	305 608	12 856 860
Current	249 737	–	249 737	277 540	–	277 540
Non-current	15 017 292	217 927	14 799 365	12 884 928	305 608	12 579 320
Total	15 267 029	217 927	15 049 102	13 162 468	305 608	12 856 860

	Group	
	2010 R'000	2009 R'000
The non-DPF liabilities developed as follows:		
Liabilities at start of year	2 407 073	2 614 259
Unwinding of discount rate	200 952	173 162
Expected cash flows	302 469	357 112
Expected risk liability at year-end	2 910 494	3 144 533
Impact of movements	(137 469)	(88 049)
Change in valuation assumptions	289 818	(384 570)
Asset value adjustments	33 703	–
Risk benefit liability for new business issued	(201 779)	(264 841)
Liabilities at end of year	2 894 767	2 407 073
The DPF liabilities developed as follows:		
Liabilities at start of year	10 146 619	8 071 613
Claims paid during the year	(500 281)	(564 394)
Allocation of interest and dividends	2 041 601	2 636 489
Transfer from investment policyholder liabilities	92 725	–
Asset value adjustments	101 962	–
Bonus stabilisation reserve	5 361	2 911
Liabilities at end of year	11 887 987	10 146 619
Analysis of total insurance policy liabilities, net of reinsurance		
Non-DPF liabilities	2 894 767	2 407 073
DPF liabilities	11 887 987	10 146 619
Life assurance policy reserve	16 611	25 628
Current liabilities	249 737	277 540
Liabilities at end of year	15 049 102	12 856 860

	Group 2010 R'000	Group 2009 R'000
14. INVESTMENT CONTRACT LIABILITIES		
Level 2 fair value investment contract liabilities		
Linked investment contracts	131 755	160 619
Non-current portion	131 755	160 619

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 is derived from the unit prices published by the unit trust fund managers.

Movement table for investment contract liabilities

Linked contracts	2010 R'000	2009 R'000
Balance at 1 January	160 619	50 177
Contributions received during the year	62 072	112 258
Fair value of policyholder liabilities under investment contracts	8 586	11 230
Net investment return credited to account balances	9 908	12 107
Net fees and charges deducted from account balances	(1 322)	(877)
Benefit payments	(6 797)	(13 046)
Transfer to insurance policyholder liabilities	(92 725)	—
Balance at 31 December	131 755	160 619

The transfer to insurance policyholder liabilities is as a result of the reclassification of the surplus rebate account retention option to insurance policyholder liabilities in 2010. The R92,7 million represents the current year opening policyholder liabilities to members who exercised this option.

	Group	
	2010 R'000	2009 R'000

15. THIRD-PARTY FINANCIAL LIABILITIES ARISING ON CONSOLIDATION OF UNIT TRUSTS

Level 2 fair value third-party liabilities arising on consolidation of unit trusts

	2010 R'000	2009 R'000
Balance at 1 January	**184 619**	209 032
Third-party interest in unit trusts acquired during the year	**140 078**	210 197
Third-party interest in unit trusts redeemed during the year	**(75 593)**	(237 376)
Third-party interest in revaluation of unit trusts	**46 173**	2 766
Balance as 31 December	**295 277**	184 619
Current portion	**295 277**	184 619

Third-party financial liabilities arising on consolidation of unit trusts 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.

	Carrying amount and fair value	
	2010 R'000	2009 R'000

16. BORROWINGS

Unsecured – at amortised cost

	2010 R'000	2009 R'000
Outside shareholder loan	**18 808**	14 648
Total borrowings	**18 808**	14 648
Current portion	**18 808**	14 648
Balance at 1 January	**14 648**	8 681
Loans granted during the year	**4 160**	5 967
Balance at 31 December	**18 808**	14 648

Outside shareholder loan carries interest at Nedbank deposit rates from 1 January 2009.

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 be equal to the carrying value.

	Group	
	2010 R'000	2009 R'000

17. DEFERRED TAX

	2010 R'000	2009 R'000
Deferred tax assets:		
On provisions and impairments	**7 369**	6 437
On tax losses carried forward	**37 543**	26 579
End of year	**44 912**	33 016
Deferred tax liabilities:		
On revaluation of investments	**134 987**	72 494
On cumulative revaluation of land and buildings	**1 222**	1 469
End of year	**136 209**	73 963
Current asset	**7 369**	6 437
Non-current asset	**37 543**	26 579
Non-current liability	**136 209**	73 963

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

	Group R'000
At 1 January 2009	12 083
Debited to the statement of comprehensive income	20 933
At 31 December 2009	33 016
Debited to the statement of comprehensive income	**11 896**
At 31 December 2010	**44 912**

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 revaluation of investments R'000	Deferred tax liability on cumulative revaluation of land and buildings R'000	Total R'000
At 1 January 2009	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
Charged to the statement of comprehensive income	**62 493**	–	**62 493**
Charged to equity	–	**(247)**	**(247)**
At 31 December 2010	**134 987**	**1 222**	**136 209**

	Group	
	2010 R'000	2009 R'000

18. DEFINED BENEFIT EMPLOYER SURPLUS AND RETIREMENT BENEFIT OBLIGATIONS

18.1 Defined benefit employer surplus

	2010 R'000	2009 R'000
Balance at the beginning of the year	–	–
Trustee agreed allocation	9 246	–
Investment gains	1 088	–
Agreed contribution to member benefit enhancements	(3 912)	–
Balance at the end of the year	6 422	–
Current	6 422	–
Non-current	–	–

The remaining assets in the defined benefit fund have been transferred to the employer surplus account on 6 April 2010. Section 14 approval for this transfer has been obtained from the FSB on 18 January 2010. Surplus assets were identified during the process of transferring assets from the defined benefit scheme to the defined contribution scheme as described below.

18.2 Retirement benefit obligations

	2010 R'000	2009 R'000
Statement of financial position obligations for:		
– post-retirement medical benefits	32 949	29 571
	32 949	29 571
Statement of comprehensive income charge for (Note 27):		
– pension benefits	(57)	(568)
– post-retirement medical benefits	4 995	4 618
	4 938	4 050

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 had 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. The remaining assets in the fund can be transferred as Section 14 approval has been received from the FSB on 18 January 2010. 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.

18. DEFINED BENEFIT EMPLOYER SURPLUS AND RETIREMENT BENEFIT OBLIGATIONS continued

18.2 Retirement benefit obligations continued

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

	Group	
	2010 R'000	2009 R'000
Present value of funded obligations	–	–
Fair value of plan assets	–	(9 476)
	–	(9 476)
Unrecognised surplus	–	9 476
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.

	2010 R'000	2009 R'000
The movement in the defined benefit obligation was as follows:		
Defined benefit obligation at beginning of year (1 January)	–	–
Contingency reserves	–	–
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)	9 476	8 569
Expected return on plan assets	230	686
Transfers paid	(9 897)	–
Actuarial loss	(173)	789
Benefits paid	–	–
Settlements	–	–
Expenses	(36)	(168)
Allowance for late claims	400	(400)
Market value of assets at end of year (31 December)	–	9 476
Actual return on plan assets (Expected return less actuarial loss)	57	1 475

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.

	2010 R'000	2009 R'000
The amounts recognised in the statement of comprehensive income are as follows:		
Expected return on plan assets	(230)	(686)
Net actuarial losses recognised during the year	173	(789)
Contingency reserves	–	–
Movement in unrecognised surplus	–	907
Total included in staff costs (Note 27)	(57)	(568)

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.

Post-employment medical benefits continued

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:

	Group	
	2010 R'000	2009 R'000
Present value of unfunded obligations	**46 208**	43 203
Unrecognised actuarial losses	**(13 259)**	(13 632)
Liability in the statement of financial position	**32 949**	29 571

The latest actuarial valuation of the Group's post-employment benefits, carried out at 31 December 2010 indicated a present value of projected future benefits amounting to R32 949 million (2009: R29 571 million).

	2010 R'000	2009 R'000
The movement in the post-employment medical benefit obligation was as follows:		
Post-employment medical benefit obligation at beginning of year (1 January)	**43 203**	40 568
Current service cost	**1 246**	1 276
Interest cost	**3 195**	2 777
Benefits paid	**(1 617)**	(1 393)
Actuarial loss/(gain)	**181**	(25)
Post-employment medical benefit obligation at end of year (31 December)	**46 208**	43 203
The amounts recognised in the statement of comprehensive income are as follows:		
Current service cost	**1 246**	1 276
Interest cost	**3 195**	2 777
Actuarial losses recognised during the year	**554**	565
Total included in staff costs (note 27)	**4 995**	4 618
The principal actuarial assumptions used were as follows:		
Discount rate based on the Long-term Bond Index (%)	**6,89**	6,89
Medical cost inflation (%)	**5,67**	5,67

	2006 R'000	2007 R'000	2008 R'000	2009 R'000	**2010 R'000**
Trend information					
Present value of obligations	33 513	36 471	40 568	43 203	**46 208**
Experience adjustments (actuarial (loss)/gain before changes in assumptions) in respect of present value of obligations	296	(1 040)	(636)	(2 320)	**(96)**

18. DEFINED BENEFIT EMPLOYER SURPLUS AND RETIREMENT BENEFIT OBLIGATIONS continued

18.2 Retirement benefit obligations continued

Sensitivity results

	Healthcare cost inflation		
	Central assumption 8,00%	R'000 (1,00%)	R'000 1,00%
Accrued liability 31 December 2010	46 208	39 378	54 961
Percentage change (%)		(14,8)	18,9
Current service cost plus interest cost 2010/2011	5 192	4 830	5 835
Percentage change (%)		(7,0)	12,4
	Central assumption 9,50%	R'000 (1,00%)	R'000 (1,00%)
Current service cost plus interest cost 2010/2011	4 442	4 149	5 045
Percentage change (%)		(6,6)	13,6
	Central assumption 8,00%	5,00% for 5 years	10,00% for 5 years
Accrued liability 31 December 2010	46 208	54 685	64 342
Percentage change (%)		18,4	39,2
	Discount rate		
	Central assumption 9,50%	R'000 (1,00%)	R'000 1,00%
Accrued liability 31 December 2010	46 208	55 144	39 354
Percentage change (%)		19,3	(14,8)
	Expected retirement age		
	Central assumption 65 years	R'000 1 year younger	R'000 1 year older
Accrued liability 31 December 2010	46 208	48 210	44 377
Percentage change (%)		4,3	(4,0)

	Group	
	2010 R'000	2009 R'000

19. EMPLOYEE-RELATED OBLIGATIONS

	Group 2010 R'000	Group 2009 R'000
Leave pay accrual		
Opening balance	6 417	4 618
Charged to the statement of comprehensive income		
– additional provisions	5 143	4 725
Used during the year	(2 868)	(2 926)
Closing balance	8 692	6 417
Current	8 692	6 417
Provision for performance-related incentives		
Opening balance	22 498	14 987
Charged to the statement of comprehensive income		
– additional provisions (executive directors and employees)	30 877	24 069
Used during the year	(20 769)	(16 558)
Closing balance	32 606	22 498
Current	20 606	16 838
Non-current	12 000	5 660
Total provisions	41 298	28 915

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000

20. INSURANCE AND OTHER PAYABLES

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Payables arising from insurance and reinsurance contracts:				
– due to contract holders	20 686	18 886	–	–
– due to contract holders – life assurance policy	9 025	3 545	–	–
– reinsurance payables	16 138	23 936	–	–
– subscriptions received in advance	848	1 654	–	–
Other payables				
– accruals	73 088	78 269	579	232
– employees tax	4 629	4 370	336	520
– sundry creditors	11 713	8 796	–	–
Total insurance and other payables	136 127	139 456	915	752
Current	136 127	139 456	915	752

	Group		Company	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
21. NET INSURANCE PREMIUM REVENUE				
Individual premiums from policyholders	**1 591 656**	1 354 288	**–**	–
Group reinsurance premiums inwards	**237 960**	305 755	**–**	–
Premium revenue arising from insurance contracts issued	**1 829 616**	1 660 043	**–**	–
Individual premium revenue ceded to reinsurers on insurance contracts issued	**(98 233)**	(80 284)	**–**	–
Net insurance premium revenue	**1 731 383**	1 579 759	**–**	–
22. FEE, COMMISSION AND OTHER INCOME				
Policy administration and collection services	**23 673**	24 619	**–**	–
Administration fees	**81 585**	53 842	**10 856**	7 628
Investment management services	**10 144**	4 130	**–**	–
Commission	**14 126**	7 916	**–**	–
Defined benefit fund employer surplus	**10 334**	–	**–**	–
Fee, commission and other income	**139 862**	90 507	**10 856**	7 628

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 2010	**Designated at fair value through profit or loss on initial recognition R'000**
Interest income	**417 068**
Dividend income	**174 563**
Net gains on disposal of financial assets	**354 175**
Net unrealised gains on revaluation of financial assets	**1 147 376**
Net foreign exchange losses	**(562)**
Total net gains recognised in the statement of comprehensive income	**2 092 620**

Group 2009	Designated at fair value through profit or loss on initial recognition R'000
Interest income	440 934
Dividend income	275 560
Net gains on disposal of financial assets	476 036
Net unrealised losses on revaluation of financial assets	855 347
Net foreign exchange losses	(124)
Total net gains recognised in the statement of comprehensive income	2 047 753

	Group		Company	
	2010 R'000	2009 R'000	**2010 R'000**	2009 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:

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
– Interest income	**417 068**	440 934	**–**	–
– Dividend income	**174 563**	275 560	**–**	–
– Net realised gains on disposal of financial assets	**354 175**	476 036	**–**	–
– Net realised foreign exchange losses	**(562)**	(124)	**–**	–
Total investment income	**945 244**	1 192 406	**–**	–

Investment management fees paid to the fund managers amounting to R49,8 million (2009: R44,4 million) are included in expenses for marketing and administration (Note 26).

25. INSURANCE BENEFITS AND CLAIMS

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Gross				
Long-term insurance contracts with and without DPF				
– Individual sickness and incapacity benefits: current year	**405 074**	363 216	**–**	–
– Individual sickness and incapacity benefits: overprovision for prior year	**(5 311)**	(12 213)	**–**	–
– Group non-DPF component of death benefits	**234 817**	354 925	**–**	–
– Individual DPF component of death, retirement and resignation benefits	**398 407**	451 042	**–**	–
Total gross insurance benefits and recoveries	**1 032 987**	1 156 970	**–**	–
Reinsurance recoveries				
Long-term insurance contracts with and without DPF				
– Individual sickness and incapacity benefits	**(12 682)**	(11 716)	**–**	–
– Death benefits	**(42 998)**	(94 602)	**–**	–
Total reinsurance recoveries	**(55 680)**	(106 318)	**–**	–
Total net insurance benefits and claims	**977 307**	1 050 652	**–**	–

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
26. EXPENSES				
Costs incurred for the acquisition of insurance contracts expensed in the year	152 536	156 128	–	–
– Sickness and incapacity policies	64 485	40 303	–	–
– Whole life policies	88 051	115 825	–	–
Membership fees	3 185	1 779	3 995	2 507
Costs incurred for providing investment management services	15 125	7 125	–	–
Marketing and administrative expenses include:				
– Amortisation of intangible asset (Note 6)	13 922	12 440	–	–
– Auditors remuneration	2 922	2 902	–	–
– Audit fees – current year provision	2 946	2 739	–	–
– Audit fees – prior year (over)/under	(167)	41	–	–
– Tax consulting services	143	122	–	–
– Data processing and information technology systems maintenance	46 545	41 228	–	–
– Depreciation on property and equipment (Note 4)	11 948	9 112	–	–
– Directors and executive remuneration	15 394	13 524	2 054	2 051
– Directors of PPS Limited	4 019	3 620	2 054	2 051
– Directors of subsidiaries, not directors of PPS Limited	1 766	1 295	–	–
– Executive directors	9 609	8 609	–	–
– Employee benefit expenses (Note 27)	277 853	231 986	20	50
– Fees for services	11 962	8 343	600	–
– Actuarial	3 126	2 186	–	–
– Legal	2 666	1 327	600	–
– Internal audit	1 056	878	–	–
– IT consulting	2 969	1 952	–	–
– Other (Primarily management consulting)	2 145	2 000	–	–
– Investment management fees	49 751	44 384	–	–
– Maintenance, product development and other administration expenses	66 615	59 608	4 187	3 020
– Operating lease rentals	16 840	13 498	–	–
– Realised profit on disposal of property and equipment	(38)	(40)	–	–
– (Reversal)/Impairment of insurance and other receivables (Note 9)	(7 751)	3 225	–	–
Total expenses	676 809	605 242	10 856	7 628

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

	Group	
	2010 R'000	2009 R'000

27. EMPLOYEE BENEFIT EXPENSES

	2010 R'000	2009 R'000
Salaries and related costs	**218 908**	185 784
Pension costs – defined contribution plans	**22 567**	19 600
Pension costs – defined benefit plans (Note 18)	**(57)**	(568)
Other post-employment benefits (Note 18)	**4 995**	4 618
Performance related incentives	**31 440**	22 552
Total employee benefit expenses	**277 853**	231 986

28. TAX

	2010 R'000	2009 R'000
Current tax		
– Current year tax	**121 696**	142 754
– Prior year (over)/under provision	**(2 897)**	10 441
Deferred tax	**50 597**	51 425
Total tax	**169 396**	204 620
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 before movement in policy liabilities	**2 301 163**	2 050 895
Tax calculated at domestic tax rates applicable to profits in South Africa/Namibia	**637 164**	578 257
Tax effect of income not subject to tax	**(864 915)**	(806 935)
Tax effect of non-deductible expenses	**393 110**	414 719
Prior year (over)/under provision	**(2 897)**	10 441
Tax effect of tax rate on the individual policyholder fund being different to tax rate on the corporate fund ('CF')	**6 934**	8 138
Total tax per statement of comprehensive income	**169 396**	204 620

The applicable tax rate was 28% (2009: 28%) for South African entities and 34% (2009: 34%) 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	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
29. CASH GENERATED FROM OPERATIONS				
Reconciliation of profit before movement in insurance policy liabilities to cash generated by operations:				
Profit before movement in policy liabilities	**2 301 163**	2 050 895	**–**	–
Investment contract receipts	**62 072**	112 258	**–**	–
Investment contract surrenders	**(6 797)**	(13 046)	**–**	–
Adjustments for:				
– Depreciation	**11 948**	9 112	**–**	–
– Fair value of policyholder liabilities under investment contracts	**8 586**	11 230	**–**	–
– Amortisation of intangible asset	**13 922**	12 440	**–**	–
– Realised profit on disposal of property and equipment	**(38)**	(40)	**–**	–
– Investment income	**(945 244)**	(1 192 406)	**–**	–
– Net fair value gains on financial assets held at fair value through profit or loss	**(1 147 376)**	(855 347)	**–**	–
Changes in working capital:				
– Insurance and other receivables	**53 135**	(4 374)	**(437)**	(62)
– Insurance and other payables	**12 432**	37 849	**144**	467
– Insurance policy liabilities	**(22 896)**	29 557	**–**	–
Cash generated from operations	**340 907**	198 128	**(293)**	405
30. TAX PAID				
Tax (receivable)/payable at beginning of year	**(2 913)**	5 489	**–**	–
Current tax as per statement of comprehensive income	**118 799**	153 195	**–**	–
Tax receivable at end of year	**14 838**	2 913	**–**	–
Total tax paid	**130 724**	161 597	**–**	–

	Group		Company	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
31. COMMITMENTS				
(a) Capital commitments				
Capital expenditure contracted for at the reporting date but not yet incurred is as follows:				
– Committed but not contracted for	**55 160**	39 304	**–**	–
(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	**14 438**	10 290	**–**	–
Due between 1 year and 5 years	**43 361**	21 348	**–**	–
Due after 5 years	**4 398**	165	**–**	–

32. RELATED PARTIES

Holding company

Professional Provident Society Limited (Limited by guarantee) ('PPS') 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

PPS's related parties are its subsidiary company Professional Provident Society Insurance Company Limited, as well as Professional Provident Society Insurance Company (Namibia) Limited, Plexus Properties (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.

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 and Professional Provident Society Marketing Services (Pty) Limited, are listed below:

	Company	
	2010 R'000	2009 R'000
Fees	**11 666**	8 356
Receivable from Professional Provident Society Insurance Company Limited		
Balance at the beginning of the year	**678**	793
Fees	**(10 856)**	(7 628)
Paid by Professional Provident Society Insurance Company Limited on behalf of Professional Provident Society Limited (Limited by guarantee)	**11 459**	7 513
Balance at the end of the year	**1 281**	678
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	**226**	–
Fees	**810**	728
Paid to Professional Provident Society Marketing Services (Pty) Limited	**(955)**	(502)
Balance at the end of the year	**81**	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 directors 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.

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	
	2010 R'000	2009 R'000
Salaries and other short-term employee benefits	**15 028**	13 654
Performance payments	**9 790**	8 770
Directors fees	**4 032**	3 633
	28 850	26 057
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	**87 218**	109 338
Premiums	**431**	466
Claims	**–**	14 619
Sickness benefit cover	**2 914**	3 018
Premiums	**594**	569
Claims	**–**	133
Surplus Rebate Accounts (policy liabilities)	**6 566**	3 908
Motor and household cover	**38 658**	23 229
Premiums	**344**	223
Claims	**176**	68
Investment contracts	**11 605**	7 347

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 2010:

- 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. The revised standard did not have a material impact on the Group's financial statements.

- 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. The revised standard did not have a material impact on the Group's financial statements.

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

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

- 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. The interpretation did not result in a material impact on the Group's financial statements.

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:

- IFRS 9: '*Financial instruments*' (effective 1 January 2013). This standard is the first step in the process to replace IAS 39, '*Financial instruments: recognition and measurement*'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU. The Group is yet to assess IFRS 9's full impact. However, initial indications are that it will not have a material effect on the Group's accounting for its financial assets.

- IAS 24: '*Related party disclosures*' (Revised) (Effective 1 January 2011). The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. Revised standard will not result in a material impact on the Group's financial statements.

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.

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