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FOR PROFESSIONALS

SINCE 1941

2011 FINANCIAL STATEMENTS

NOTE: ACTION REQUIRED BY MEMBERS IN REGARD TO THE ANNUAL GENERAL MEETING

The annual general meeting of members of The Professional Provident Society Holdings Trust will be held at 18:00 on Monday, 4 June 2012 in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg to consider and, if deemed fit, approve the ordinary and special resolutions set out in the notice convening the annual general meeting, which is attached to and forms part of this Integrated Report. A form of proxy, enabling members to vote on the respective resolutions proposed has also been included in this Integrated Report.

On restructuring the former holding company of the PPS Group, namely Professional Provident Society Limited (Limited by Guarantee) ('PPS Limited') into a trust, the Trust Deed of The Professional Provident Society Holdings Trust was drafted to substantially replicate the articles of association of PPS Limited, which were drafted in 2001. Having successfully implemented the restructuring, it is now proposed that the Trust Deed be updated to reflect the current practices and direction of the PPS Group, to improve administrative efficiency and to align members' voting rights with participation in the core products of PPS Insurance.

The Notice of Annual General Meeting contained in these financial statements includes a special resolution for approval by members authorising the proposed amendment and restatement of the Trust Deed. The First Amended and Restated Trust Deed for The Professional Provident Society Holdings Trust, together with an annexure setting out the proposed salient amendments thereto, are enclosed with the Integrated Report and accompany the Notice of Annual General Meeting.

Please take careful note of the provisions relating to the action required by members regarding the annual general meeting. If you are in any doubt as to what action to take, please consult your professional advisor.

You may attend and vote at the annual general meeting in person or you may appoint a proxy to represent you by completing the form of proxy on page 95 of this annual report and forwarding it to one of the following addresses or via facsimile or email, to be received by the Trust Secretary by no later than 18:00 on Wednesday, 30 May 2012:

Marked for the attention of the Trust Secretary

Physical address	**Postal address**	**Telephone**	**Email**
6 Anerley Road	PO Box 1089	011 644 4200	VBarnard@pps.co.za
Parktown	Houghton	**Facsimile**	
Johannesburg	2041	011 644 4641	

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

The report was prepared by M Spies CA(SA) and reviewed by T A Boesch CA(SA). An audit was performed by PricewaterhouseCoopers Inc. in line with requirements set out in the Companies Act of 2008, and the trust deed.

Published: 28 March 2012

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

for the year ended 31 December 2011

The trustees accept responsibility for the fair presentation of the financial statements of The Professional Provident Society Holdings Trust, comprising of the financial statements of the trust itself and the consolidated financial statements of the trust and its subsidiaries. These financial statements have been prepared in accordance with International Financial Reporting Standards, and in the manner required by the Long-term Insurance Act of 1998, the South African Companies Act of 2008, and the trust deed. The trustees are of the opinion that the financial statements are fairly presented in the manner required. The independent auditors are responsible for reporting on these financial statements and were given unrestricted access to all financial records and related data including minutes of all meetings of members of the board of trustees and committees of the board. The trustees have no reason to believe that any representations made to the independent auditors during the audit were not valid and appropriate. The trustees accept responsibility for the maintenance of accounting records and systems of internal financial control.

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

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

The annual financial statements, which appear on pages 4 to 89, were approved by the board of trustees and are signed on its behalf by:

Dr D G C Presbury
Chairman
The Professional Provident
Society Holdings Trust

Johannesburg
28 March 2012

Mr M J Jackson
Chief Executive

Mrs T A Boesch
Financial Director

CERTIFICATE BY THE SECRETARY

In my capacity as the Secretary, I hereby certify in terms of section 88(2)(e), of the Companies Act of 2008, and the trust deed, that for the year ended 31 December 2011, the Group has lodged with the Companies and Intellectual Property Commission, all such returns as are required in terms of these Acts. I also confirm that all returns to the Master of the High Court's office, required for The Professional Provident Society Holdings Trust in terms of the Trust Property Control Act, are to the best of my knowledge and belief true, correct and up to date.

V E Barnard
Secretary
The Professional Provident
Society Holdings Trust

28 March 2012

INDEPENDENT AUDITORS' REPORT

To the members of The Professional Provident Society Holdings Trust

We have audited the consolidated and separate annual financial statements of The Professional Provident Society Holdings Trust, which comprise the statements of financial position as at 31 December 2011; the statements of comprehensive income; changes in equity and cash flows for the year then ended; a summary of significant accounting policies and other explanatory information, as set out on pages 22 to 89 (the 'financial statements').

Trustees' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan, and perform the audit to obtain reasonable assurance about 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 controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of The Professional Provident Society Holdings Trust as at 31 December 2011, 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 the requirements of the trust deed.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

A du Preez
Director
Registered Auditor

Sunninghill
28 March 2012

REPORT OF THE INDEPENDENT ACTUARY

for the year ended 31 December 2011

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 2011, 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

28 March 2012

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

PPS Insurance	Paragraph	2011 R'000	2010 R'000
Net assets	2	**15 847 026**	14 674 982
Policyholder liabilities	3	**15 655 547**	14 500 704
Apportionment and Special Benefit Accounts		**12 144 253**	11 301 883
Risk benefits		**3 053 473**	2 880 459
Investment contracts		**221 311**	131 755
Other insurance liabilities		**236 510**	186 607
Excess of assets over liabilities		**191 479**	174 278
Capital adequacy requirement	4	**71 655**	65 039
Ratio of excess assets to Capital Adequacy Requirement		**2,7**	2,7

PPS Namibia	Paragraph	2011 N$'000	2010 N$'000
Net assets	2	**453 265**	396 958
Policyholder liabilities	3	**448 042**	391 735
Apportionment and Special Benefit Accounts		**334 715**	297 326
Risk benefits		**113 327**	94 409
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 statement of financial position 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, of 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 decreased from the prior year and was R1,0 million at 31 December 2011 (2010: R8,3 million).

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 2010 to 31 December 2010. The morbidity investigation was conducted on the experience for 2010. The mortality experience related to the period 1 January 2010 to 31 December 2010.

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 5,4% (2010: 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 @ 31 December 2011	8,40%
Equity return	11,40%
Cash	6,90%
Property return	9,40%

The assumed future gross investment return is 9,00% p.a. (2010: 9,10% p.a.).

4. STATUTORY CAPITAL ADEQUACY REQUIREMENTS

The statutory capital adequacy requirement ('CAR') 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 (2010: 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 CAR, 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 CAR.

The impact of the assumed management action in the calculation of the capital adequacy requirement on profits allocated to policyholders is as follows:

- The impact of prescribed basis fluctuations in the mortality, morbidity and medical experience will be absorbed by a reduction in the profit allocation to Apportionment Accounts of R105 million. This is equivalent to a reduction in the current profit allocation of 12%.
- The impact of prescribed basis 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 R39 million, which is equivalent to a reduction in the current profit allocation of 4%.
- The impact of prescribed basis fluctuations in the level of maintenance expenses will be absorbed by a reduction in the profit allocation to Apportionment Accounts by R30 million, which is equivalent to a reduction in the current profit allocation of 3%.
- The allowance for operational risk in the CAR calculation is R74 million. We assume that should these operational risk events occur, 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 8%.
- The allowance for credit risk in the CAR calculation amounted to R81 million. The impact of these credit-risk events materialising will result in a reduction to Special Benefit Accounts. This is equivalent to removing 1% of the Special Benefit Account balances at 31 December 2011.
- The impact of the fall in the value of assets backing the policyholder liabilities equivalent to a 30% fall in equity values will be absorbed by reducing the special benefit accounts by R1,23 billion, which is equivalent to reducing the current special benefit accounts by 19%. These calculations do not include the potential direct impact of these risk events on assets backing the Surplus Rebate Accounts. The actual combined impact on the members' Surplus Rebate Accounts will thus be significantly higher than shown here.
- The impact of a fall in foreign assets is not applicable as none of the assets backing the risk reserves are 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 R815 million. This is equivalent to a reduction in the current level of Special Benefit Accounts of 12%. 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 PPS Insurance 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.

INTEREST AND PROFIT ALLOCATION TO POLICYHOLDERS' SURPLUS REBATE ACCOUNT

for the year ended 31 December 2011

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 or 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. This is over and above the cover enjoyed by them as policyholders.**

The Surplus Rebate Account represents an allocation of surplus and investment returns only. This account does not belong to the policyholders, or their nominated beneficiaries (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 in any year. Possible variations in the Surplus Rebate Accounts are set out in the accounting policies and notes to these financial statements. No guarantees can be given by PPS Insurance or PPS Namibia that the allocations of operating results or investment returns will always be positive, or that the 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 policyholders aged 60 or older, the full balance of the Surplus Rebate Accounts is paid out to such policyholders, with tax pre-paid on retirement, termination of cover or resignation, and to the policyholders' beneficiaries or the estates on death.

Allocation to Apportionment Accounts

The allocations at 31 December 2011 to policyholders' Apportionment Accounts referred to above, as approved by the respective boards, are set out as follows:

	2011		2010	
PPS Insurance	**Rates**	**R'000**	Rates	R'000
Investment income (Note 1)				
Flexible income option policyholders	**5,46%**	**7 120**	7,31%	9 086
Enhanced yield option policyholders	**4,67%**	**711**	4,61%	388
Conservative fund option policyholders	**1,59%**	**427**	1,82%	208
Moderate fund option policyholders	**0,31%**	**320**	0,94%	216
Other policyholders	**3,26%**	**143 246**	3,32%	131 651
Bonus allocation – per unit of benefit per month (Note 2)				
Full – ordinary	**34,50c**	**678 564**	30,54c	562 847
Reduced – ordinary	**21,50c**	**18 766**	17,54c	16 265
Supplementary A	**12,47c**	**44 440**	11,04c	40 074
Supplementary B	**71,16c**	**7 347**	62,98c	6 954
Deferred	**12,01c**	**17 159**	10,63c	15 700
Accident	**14,21c**	**5 340**	12,58c	4 801
Hospital benefits				
Full ordinary	**4,50c**	**60 946**	3,98c	50 436
Reduced ordinary	**3,20c**	**2 220**	2,68c	1 987
Supplementary A	**2,38c**	**4 116**	2,10c	3 730
Supplementary B	**15,60c**	**917**	13,80c	865
Accident	**8,43c**	**2 149**	7,46c	1 971
PPS Retirement Annuity special bonus	**0,48c**	**5 809**	0,48c	5 734

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.

INTEREST AND PROFIT ALLOCATION TO POLICYHOLDERS' SURPLUS REBATE ACCOUNTS...Continued

for the year ended 31 December 2011

	2011		2010	
PPS Namibia	**Rates**	**N$'000**	Rates	N$'000
Investment income (Note 1)				
Flexible income option policyholders	**5,17%**	**221**	4,42%	171
Other policyholders	**3,77%**	**5 266**	4,08%	4 587
Bonus allocation – per unit of benefit per month (Note 2)				
Full – ordinary	**34,68c**	**28 949**	30,70c	22 195
Reduced – ordinary	**21,68c**	**662**	17,70c	593
Supplementary A	**12,53c**	**1 039**	11,09c	909
Supplementary B	**71,53c**	**249**	63,31c	218
Deferred	**12,07c**	**426**	10,69c	379
Accident	**14,28c**	**170**	12,64c	137
Hospital benefits				
Full ordinary	**4,52c**	**3 301**	4,00c	2 519
Reduced ordinary	**3,22c**	**72**	2,70c	73
Supplementary A	**2,39c**	**131**	2,12c	115
Supplementary B	**15,68c**	**45**	13,87c	39
Accident	**8,47c**	**76**	7,50c	62
PPS Retirement Annuity special bonus	**0,47c**	**128**	1,32c	253

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) for 2011 were made to the special benefit accounts:

	2011		2010	
South African policyholders	**%**	**R million**	%	R million
Flexible income option	**6,69%**	**23,3**	6,50%	22,0
Enhanced yield option	**3,90%**	**1,9**	3,25%	0,9
Conservative fund option	**5,19%**	**4,5**	5,65%	2,0
Moderate fund option	**4,87%**	**15,5**	7,42%	5,3
Policyholders who did not move to the pre-retirement option	**5,56%**	**542,2**	12,21%	1 082,5

	2011		2010	
Namibian policyholders	**%**	**N$ million**	%	N$ million
Flexible income option	**2,99%**	**0,3**	4,88%	0,5
Policyholders who did not move to the pre-retirement option	**4,90%**	**13,2**	14,72%	31,6

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

TRUSTEES' REPORT

Restructure of PPS Limited during the year

The PPS Group was formerly controlled by Professional Provident Society Limited ('PPS Limited'), registered as a company limited by guarantee in terms of the Companies Act of 1973. The Companies Act of 2008, came into effect on 1 May 2011, replacing the former Companies Act of 1973. The new Act does not provide for companies limited by guarantee. In order to preserve the mutuality model and to protect the interests of the members of PPS Limited under the new Act, PPS Limited was required to restructure.

After thorough consideration and consultation with internal and external legal and tax experts, the board determined that the trust structure, based on a trust deed, which protects the rights enjoyed by PPS members under the company limited by guarantee structure, was the structure best suited to PPS' business model and ethos, taking into account the preservation of mutuality, tax implications and regulatory issues. PPS overcame considerable hurdles in obtaining the approval of the Financial Services Board for the use of the trust structure, and in obtaining a tax ruling from SARS for the restructuring. The restructure of PPS Limited into a trust was approved by the requisite majority of the members by means of special resolutions passed at a general meeting held on 30 March 2011, pursuant to which control of PPS Insurance and its intellectual property and all other assets were transferred by PPS Limited to The Professional Provident Society Holdings Trust ('PPS Holdings Trust'). The restructure was implemented during the course of 2011 and the now dormant PPS Limited was converted into a not-for-profit company, pursuant to the provisions of the Companies Act of 2008, and is in the process of being deregistered. The name of PPS Limited changed to Professional Provident Society NPC as a result of this conversion.

The restructuring did not have any effect on the rights and interests of the former members of PPS Limited and was undertaken purely as a consequence of the changed company legislation.

Special resolution

During the year a special resolution was passed by the members of PPS Limited, approving the conclusion and implementation of the agreement, in terms of which PPS Limited disposed of all its assets, including the entire issued share capital of Professional Provident Society NPC and all the company's intellectual property to The Professional Provident Society Holdings Trust, as well as the restructure of the Group.

Principal activities

PPS Holdings Trust is a trust registered by the Master of the High Court in terms of the Trust Property Control Act. PPS Holdings Trust's sole investment is 100% of the shares of Professional Provident Society Insurance Company Limited ('PPS Insurance'). The beneficiaries of PPS Holdings Trust are the PPS Group companies. The members of PPS Holdings Trust control the Group and elect the trustees. Membership of PPS Holdings Trust is acquired through participation in PPS Group products. PPS members control the PPS Group as members elect the trustees. Members participate in all the profits of the PPS Group through their participation in the policyholder Surplus Rebate Account.

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

  During 2011 PPS introduced new life and disability rates under the PPS Provider, to allow it to charge differential premiums based on gender and smoking status. Existing policyholders may elect to pay these differentiated premium rates. Alternatively, policyholders may elect to remain on the current group rate that does not differentiate between gender and smoking status. The PPS Group Life Assurance Scheme, which is closed to new business, is underwritten by Sanlam Life Insurance Limited ('Sanlam') in terms of a Group Life Master Policy contract with PPS Insurance. Those policyholders who participate in this policy, receive participation certificates. The risks and rewards pertaining to these products are substantially reinsured back to PPS Insurance, in terms of a reinsurance agreement with Sanlam.

- **PPS Black Economic Empowerment SPV (Pty) Limited** ('PPS BEE SPV'), a special purpose vehicle, was formed as part of PPS Insurance's 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. Black policyholders of PPS Insurance at the time of implementation of the transaction in 2006 will ultimately benefit from an increased allocation to their Surplus Rebate Accounts in terms of the BEE transaction.

TRUSTEES' REPORT...Continued

- **Professional Provident Society Insurance Company (Namibia) Limited** ('PPS Namibia') is a wholly-owned subsidiary of PPS Insurance and provides insurance products exclusively to the Namibian market. A reinsurance agreement with PPS Insurance is in place for PPS Namibia. In terms of this reinsurance arrangement, PPS Namibia partially reinsures its obligations to the Namibian policyholders with PPS Insurance. This arrangement was put in place in order to protect the security and benefit expectations of the Namibian policyholders by effectively including Namibian policyholders in a risk pool of around 114 816 (2010: 118 101) policyholders. Without this reinsurance arrangement, the Namibian subsidiary with approximately 4 321 (2010: 4 106) Namibian policyholders would be exposed to higher volatility from participating in a significantly smaller risk pool.
- **Professional Medical Scheme Administrators (Pty) Limited** ('Professional Medical Scheme Administrators'), a wholly-owned subsidiary of PPS Insurance, administers Profmed Medical Scheme and other medical schemes.
- **Professional Provident Society Marketing Services (Pty) Limited** ('PMS'), a wholly-owned subsidiary of PPS Insurance, houses PPS' Short-term Division, which markets short-term insurance products to members, which are underwritten by Hollard Insurance Company Limited. PMS formerly also acted as a distribution company for certain PPS Insurance products, through its Member Relations Division ('MRD'). MRD was incorporated into PPS Insurance as a division during the course of 2011.
- **Professional Provident Society Investments (Pty) Limited** ('PPS Investments'), which provides, *inter alia*, savings and investment products to PPS members, is a subsidiary of PPS Insurance and is jointly owned with Coronation Fund Managers Limited.
- **Professional Provident Society Multi-Managers (Pty) Limited** ('PPS Multi-Managers') is a wholly-owned subsidiary of PPS Investments which provides multi-manager services to PPS Investments.

Financial results

The financial results on pages 4 to 89 set out the results of the Trust and the Group (comprising PPS Holdings Trust and all its subsidiaries).

Trustees of The Professional Provident Society Holdings Trust

Trustee	Age	Qualification	Classification	Term of office
Dr D G C Presbury, *Chairman* Independent Non-executive	69	MB, BS (London), MRCP (London), FRCP	Elected	Appointed 27 August 2001 Ends June 2013
Mr E A Moolla, *Deputy Chairman* Independent Non-executive	61	B Iuris	Elected	Appointed 11 March 2002 Ends June 2013
Adv T N Aboobaker Independent Non-executive	58	BA LLB	Nominated annually[(1)]	Appointed 4 December 2006 Ends N/A
Dr D R Anderson Independent Non-executive	65	BDS, Dip POM, FCD (SA) OMP	Elected	Appointed 27 August 2001 Ends June 2012
Dr V K S Bhagwandas Independent Non-executive	43	MB ChB	Elected	Appointed 4 June 2007 Ends June 2012
Ms U Botha Independent Non-executive	43	B Proc, LLM, MBA	Elected	Appointed 6 June 2011 Ends June 2014
Dr N G Campbell Independent Non-executive	60	BDS	Elected	Appointed 9 March 2002 Ends June 2014
Ms D L T Dondur Independent Non-executive	45	B Compt, B Acc (Hons), CA(SA), MBA	Nominated annually[(2)]	Appointed 6 July 2011 Ends N/A
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	BCom(Hons), CA(SA), M Sc	Elected	Appointed 17 June 2008 Ends June 2014
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[(3)]	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 M N Mabasa (see note below) Independent Non-executive	51	MB ChB	Nominated annually[(4)]	Appointed 27 September 2010 Ends N/A
Dr J Patel Independent Non-executive	58	B ChD	Nominated annually[(5)]	Appointed 8 June 2009 Ends N/A
Mr P Ranchod Independent Non-executive	56	B Compt(Hons), CA(SA), MBL	Elected	Appointed 6 June 2011 Ends June 2014
Mr C D Reay Independent Non-executive	68	Pr Eng B Sc (Mech)	Nominated annually[(6)]	Appointed 10 February 2003 Retired 6 June 2011
Mr V P Rimbault Independent Non-executive	47	B Sc Eng (Mech)	Nominated annually[(6)]	Appointed 12 September 2011 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

TRUSTEES' REPORT...Continued

Trustee	Age	Qualification	Classification	Term of office
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 Retired 6 June 2011
Dr M W Sonderup (See note below)	43	B Pharm, MB ChB, FCP (SA)	Nominated annually[4]	Appointed 29 March 2012 Ends N/A

N/A = Not applicable

Nominated by:
(1) The General Council of the Bar of South Africa.
(2) The South African Institute of Chartered Accountants.
(3) The Pharmaceutical Society of South Africa.
(4) The South African Medical Association.
(5) The South African Dental Association.
(6) The Society of Professional Engineers.

Note: Dr M W Sonderup was nominated by the South African Medical Association to serve on the Board of Trustees of PPS Holdings Trust in place of Dr N M Mabasa. Dr Sonderup's appointment and Dr Mabasa's resignation will take effect on approval by the Master of the High Court.

PPS Insurance Board

Director	Status
Dr D R Anderson (Chairman)	Independent Non-executive
Mr C Erasmus (Deputy Chairman)	Independent Non-executive
Adv T N Aboobaker (Appointed 13 June 2011)	Independent Non-executive
Dr V K S Bhagwandas	Independent Non-executive
Dr N G Campbell	Independent Non-executive
Mr J A B Downie (Appointed 13 June 2011)	Independent Non-executive
Mr I Kotzé (Resigned 13 June 2011)	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 (Resigned 6 June 2011)	Independent Non-executive
Prof H E Wainer	Independent Non-executive
Mr M J Jackson (Chief Executive)	Executive
Mrs T A Boesch (Financial Director)	Executive
Mr C K de Klerk (Director: Actuarial and Technical) (Appointed 13 June 2011)	Executive

Directors of subsidiaries

PPS Namibia	Professional Medical Scheme Administrators
Director	**Director**
Dr E Maritz (Chairman) Mr E H T Angula (Resigned 30 August 2011) Mr M J Jackson Mr J N Marsden Dr O J Oosthuizen Mr W A V J Vermeulen	Mr M J Jackson (Chairman) Dr C M Krüger Dr J J van Niekerk (Retired 6 June 2011) Mrs T A Boesch (Appointed 27 June 2011) Dr N G Campbell (Appointed 27 June 2011)

PPS BEE SPV	PPS Marketing Services	PPS Investments	Plexus Properties
Director	**Director**	**Director**	**Director**
Dr S N E Seoka (Chairman) Mr E A Moolla Mr E G Joubert (Appointed 27 June 2011) Dr T K S Letlape (Chairman) (Resigned 27 June 2011)	Mr M J Jackson (Chairman) Mr C K de Klerk Mr C Erasmus Mr J N Marsden Mr N Hoosen (Appointed 27 June 2011)	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	Mr M J Jackson (Chairman) Mrs T A Boesch Mr C K de Klerk

Trustees of affiliates

PPS Retirement Annuity Fund	PPS Beneficiaries Trust
Trustees	**Trustees**
Dr D G C Presbury (Chairman) Dr V K S Bhagwandas Mr J A B Downie Mr M D Eustace Mrs R G Govender Mr E Huggett Mr G F Richardson Dr S N E Seoka Mr B R Topham (Appointed 13 June 2011) Dr J J van Niekerk (Retired 6 June 2011)	Mr B R Topham (Chairman) Mr Y N Gordhan (Appointed 13 June 2011) Mr S Trikamjee Judge R H Zulman (Retired 6 June 2011)

TRUSTEES' REPORT...Continued

The PPS Holdings Trust trustees' remuneration from the Group

Trustees	The PPS Holdings Trust (including committees) Rands	Subsidiary companies (including committees) Rands	Total remuneration Rands
Adv T N Aboobaker	105 650	43 850	149 500
Dr D R Anderson	25 115	563 110	588 225
Dr V K S Bhagwandas	21 600	206 500	228 100
Ms U Botha (Appointed 6 June 2011)	48 580	–	48 580
Dr N G Campbell	25 115	189 130	214 245
Ms D L T Dondur (Appointed 6 July 2011)	48 580	–	48 580
Mr J A B Downie	141 500	101 900	243 400
Mr Y N Gordhan	109 340	–	109 340
Mr U D Jivan	105 650	–	105 650
Mr I Kotzé	64 650	85 860	150 510
Dr C M Krüger	105 650	14 410	120 060
Dr M N Mabasa	100 380	–	100 380
Mr E A Moolla	204 015	178 155	382 170
Dr J Patel	105 650	–	105 650
Dr D G C Presbury	302 480	137 200	439 680
Mr P Ranchod (Appointed 6 June 2011)	54 110	–	54 110
Mr C D Reay (Retired 6 June 2011)	46 270	–	46 270
Mr V P Rimbault (Appointed 12 September 2011)	48 580	–	48 580
Dr S N E Seoka	77 730	181 500	259 230
Mr B R Topham	116 545	7 380	123 925
Mr S Trikamjee	112 855	–	112 855
Dr J J van Niekerk (Retired 6 June 2011)	5 270	97 255	102 525
Judge R H Zulman (Retired 6 June 2011)	48 030	–	48 030
Total	**2 023 345**	**1 806 250**	**3 829 595**

AUDIT COMMITTEES' REPORT

Introduction

The PPS Holdings Trust Audit Committee ('Trust AC') and the PPS Group Audit Committee ('PPS AC') are statutory committees of the respective boards. The responsibilities of these committees are prescribed by the Act and outlined in their written terms of reference, which is in line with King III, and reviewed annually. The committees have an independent role with accountability to both the board and members in terms of the Companies Act and trust deed.

The Trust AC has oversight over PPS Holdings Trust and the Group, while the PPS AC has oversight over PPS Insurance and its subsidiaries.

This report of these committees is presented to the members in terms of section 94(f) of the Companies Act, No 71 of 2008 ('the Companies Act').

Composition of the PPS Holdings Trust Audit Committee

Members:

Independent non-executive Trustees of PPS Holdings Trust:
Dr D R Anderson, BDS, Dip POM, FCD (SA) OMP, Member of Trust AC since 2011
Ms D L T Dondur, B Acc(Hons), B Compt, CA(SA), MBA, appointed as member of the Trust AC from 28 March 2012
Mr E A Moolla, B Iuris, Member of Trust AC since 2011
Dr D G C Presbury, MB, BS (London), FRCP, Member of Trust AC from 2011 to 28 March 2012

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

The recently constituted Trust AC held its inaugural meeting in March 2012 to, *inter alia*, consider the PPS Group integrated report.

Composition of the PPS Group Audit Committee

Members:

Independent non-executive directors of PPS Insurance:
Prof H E Wainer (Chairman), B Acc, CA(SA), Member of PPS AC since 2001
Mr C Erasmus, B Sc, FIA, Member of PPS AC since 2009
Mr I Kotzé, B Pharm, Member of PPS AC since 2001 (Resigned 27 June 2011)
Mr E A Moolla, B Iuris, Member of PPS AC since 2003
Mr N G Payne, B Com(Hons), CA(SA), MBL, Member of PPS AC since 2007

Specialist Consultant:

Prof C E Rabin, M Com, CA (SA), Specialist Consultant to the PPS AC since 2011, formerly a member of the PPS AC from 2005 to 2011.

AUDIT COMMITTEES' REPORT...Continued

Meetings held during the year and the attendance:

PPS Audit Committee	**9 February 2011**	**18 March 2011**	**23 June 2011**	**10 October 2011**
Prof H E Wainer	✓	✓	✓	✓
Mr C Erasmus	✓	✓	✓	√
Mr I Kotzé	✓	✓	N/A	N/A
Mr E A Moolla	✓	✓	✓	✓
Mr N G Payne	✓	✓	✓	✓
Prof C E Rabin	✓	✓	✓	✓

N/A = Not applicable

The boards are satisfied that the members of these committees (which include two financial specialists), have sufficient recent and relevant financial experience to enable them to carry out their duties and responsibilities, and that the members of the committees bring a wide range of relevant experience. The PPS AC meets at least four times a year, while the Trust AC is scheduled to meet at least twice a year. The Chairman of the Group Risk Committee and a member of the Actuarial Committee are also members of the PPS AC. One member of the PPS AC is also a member of the Trust AC. The external and internal auditors and other assurance providers are present at each meeting of the committee.

The Trust AC and PPS AC meet both the external auditors and internal auditors separately in private sessions, without executive management being present. The Chief Executive, the Financial Director, along with other members of management, attend committee meetings, as necessary, at the invitation of the Chairmen of the committee.

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

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

Role of the audit committees

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

In respect of the year ended 31 December 2011, the committees performed their functions required in terms of the Companies Act and executed their responsibilities in accordance with their terms of reference. The committees performed, among others, the following functions:

- Reviewed and recommended for approval the annual financial statements.
- Considered the factors and risks that might affect the financial reporting.
- Confirmed the going concern basis of preparation of the annual financial statements.
- Reviewed and recommended for approval the integrated report.
- Assessed the effectiveness of internal controls systems and formed the opinion that there were no material breakdowns in internal control.
- Reviewed the internal audit charter in line with King III recommendations, and recommended the approval thereof to the board.

- Approved the internal audit plan for the 2011 financial year on a twelve-month rolling basis.
- Reviewed and evaluated reports relating to internal audit and risk management.
- Nominated PricewaterhouseCoopers Inc. ('PwC') as the Group's registered external auditors for the financial year ended 31 December 2011.
- Approved the external audit engagement letter and the budgeted audit fees payable to the external auditors.
- Reviewed the quality and effectiveness of the external audit process and the audit plan.
- Obtained a statement from the independent auditors confirming that its independence was not impaired.
- Confirmed that no reportable irregularities had been identified or reported by the independent auditors under the Auditing Professions Act.
- Ensured no limitations were imposed on the scope of the external audit.
- Determined the nature and extent of non-audit services performed by the external auditors and pre-approved any such services.
- Considered whether there were any concerns or complaints whether from within or outside the Group relating to the accounting practices and internal audit of the Group, the content or auditing of the Group's financial statements, the internal financial controls of the Group or any related matter.
- Made submissions to the board on matters concerning the Group's accounting policies, financial control, records and reporting.

External auditors

PricewaterhouseCoopers Inc. ('PwC') served as the Group's external auditors for the 2011 financial year.

The auditors' terms of engagement were approved prior to the audit. The committees satisfied themselves that the external auditors' appointment complies with the Companies Act and the Auditing Profession Act.

The audit committees are satisfied that both PwC and the audit partner are independent as defined by the Companies Act, and as per the standards in the audit profession. The external auditors provided assurance that their internal governance processes within their audit firm support and demonstrate their claim to independence.

The committees have established a policy, in terms of which the nature and extent of all non-audit services provided by PwC are reviewed and approved in advance. These services were relatively immaterial for the current year and are mainly tax compliance fees.

Expertise and experience of the financial director and the finance team

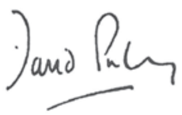
The committees are satisfied that the expertise and experience of the financial director is appropriate to meet the responsibilities of the position.

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

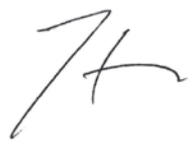
Approval of the report

The Trust AC and PPS AC confirm for the 2011 financial year they have functioned in accordance with their terms of reference and as required by the Companies Act and the trust deed, and that their reports have been approved by the board and trustees.

On behalf of the audit committees:



Dr D G C Presbury
Chairman of Trust AC



Prof H E Wainer
Chairman of PPS AC

28 March 2012

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, 2157
South Africa

INTERNAL AUDITOR

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

LEGAL ADVISORS

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

ACTUARIAL AND INSURANCE SOLUTIONS

Deloitte
Deloitte Place, Building 33
The Woodlands, 20 Woodlands Drive
Woodmead, 2052
South Africa

FUND MANAGERS

Coronation Fund Managers Limited
7th Floor, Montclaire Place
Corner Camp Ground and Main Road
Clairemont, 7708
South Africa

Investec Asset Management (Pty) Limited
36 Hans Strijdom Avenue
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 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 or 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 or 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 31 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.

2. CONSOLIDATION

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

Subsidiaries

Subsidiaries are 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.

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

Financial instruments at fair value through profit or loss

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

Financial instruments are designated on initial recognition as 'At fair value through profit or 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 or loss, consist of local and foreign equities, money market instruments, government bonds, corporate bonds and unit trusts. Subsequent to initial recognition, these financial assets are accounted for at fair value. 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 contractholder 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 or loss of the company, fund or other entity that issues the contract.

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

4. INSURANCE AND INVESTMENT CONTRACTS...Continued

4.1 Classification of contracts...Continued

Insurance contracts

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

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

4.2 Valuation and recognition

4.2.1 Insurance contracts

Principles of valuation and profit recognition

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

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

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 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. For certain products, negative reserves have been eliminated in line with local regulatory requirements. This increases the policy liabilities. This margin will be released in line with the growth in policy liabilities. There are no 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.

The premium component relating to the DPF element can not 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.

4. INSURANCE AND INVESTMENT CONTRACTS...Continued

4.2 Valuation and recognition

4.2.1 Insurance contracts

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 or 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.

Profit Share

The Group has entered into profit share agreements with various companies. These agreements stipulate that no insurance risk is transferred to the Group and profits are reported as other income.

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

All investment contracts issued by the Group are designated by the Group on initial recognition as at fair value through profit or loss. This designation eliminates or significantly reduces a measurement inconsistency that would otherwise arise if these financial liabilities were not measured at fair value since the assets held to back the investment contract liabilities are measured at fair value.

Changes in the fair value of investment contracts are included in profit or loss in the period in which they arise. The change in fair value represents a change in the fair value of the assets linked to these investment contracts. 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 rands using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

5.2 Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that entity's most recent statement of financial position;
- income and expenses for each statement of 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 a fair value through profit or 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

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 or 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 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 employees' rights to annual leave entitlement in respect of past service accumulated at reporting date.

13.5 Management bonuses

Management bonuses are recognised as an expense in staff costs as incurred when it is probable that the economic benefits will be paid and the amount can be reliably measured. Management bonuses arise as a result of a contractual obligation but the amount of the bonus is at the discretion of the employer.

13.6 Long-term incentive scheme

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

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

14. PERMANENT CAPITAL

Shares are classified as equity when there is no obligation to transfer cash or other assets. The contributed capital to register The Professional Provident Society Holdings Trust is classified as equity.

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 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 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. REVENUE RECOGNITION...Continued

18.2 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 it accrues.

The defined benefit fund employer surplus is described in note 16 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 or loss.

Interest is recognised as income on the effective interest method. Interest income on financial assets at fair value through profit or loss is recognised as part of the fair value movement.

Dividends are recognised as income on the last day to register in respect of listed shares. Dividends include shares received in terms of capitalisation issues, irrespective of whether there is an option to receive cash in lieu of shares.

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

21. COMMON CONTROL TRANSACTION – GROUP

At a consolidated level, predecessor accounting has been followed resulting in no changes in essence to the Group financial statements, as the business continued, the only change being the change in 'vehicle'.

The comparative for 2010 is the Group in the old structure and is directly comparable to 2011.

22. PARENT

The parent entity of the Group is The Professional Provident Society Holdings Trust, effective from 29 April 2011. Before that date, Professional Provident Society NPC (formerly Professional Provident Society Limited (Limited by Guarantee)) was the parent company. Parent financials in this report represent the combined results of Professional Provident Society NPC and The Professional Provident Society Holdings Trust.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2011

		Group		Parent	
		2011	2010	**2011**	2010
	Note	**R'000**	R'000	**R'000**	R'000
ASSETS					
Property and equipment	2	**110 445**	84 727	**–**	–
Intangible asset	3	**32 892**	32 015	**–**	–
Investment in subsidiary company	4	**–**	–	**10 000**	10 000
Defined benefit fund employer surplus	16	**–**	6 422	**–**	–
Deferred tax	15	**51 134**	44 912	**–**	–
Financial assets – Investments at fair value through profit or loss	5	**16 192 763**	14 106 198	**–**	–
Reinsurance assets	6,11	**36 324**	217 927	**–**	–
Insurance and other receivables	7	**85 629**	119 026	**1 350**	1 303
Current income tax asset		**20 541**	14 838	**–**	–
Cash and cash equivalents	8	**1 152 810**	1 530 245	**30**	112
Total assets		**17 682 538**	16 156 310	**11 380**	11 415
EQUITY					
Capital and accumulated funds					
Permanent capital	9	**–**	–	**–**	–
Accumulated funds	10	**89 488**	96 858	**(894)**	10 500
Total equity		**89 488**	96 858	**(894)**	10 500
LIABILITIES					
Insurance policy liabilities	11	**16 278 928**	15 267 029	**–**	–
Investment contract liabilities	12	**221 311**	131 755	**–**	–
Third-party financial liabilities arising on consolidation of unit trusts	13	**711 633**	295 277	**–**	–
Borrowings	14	**20 946**	18 808	**–**	–
Deferred tax	15	**127 183**	136 209	**–**	–
Retirement benefit obligations	16	**40 261**	32 949	**–**	–
Employee related obligations	17	**57 639**	41 298	**–**	–
Insurance and other payables	18	**134 997**	136 127	**12 122**	915
Current income tax liabilities		**152**	–	**152**	–
Total liabilities		**17 593 050**	16 059 452	**12 274**	915
Total equity and liabilities		**17 682 538**	16 156 310	**11 380**	11 415

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

		Group		Parent	
		2011	2010	**2011**	2010
	Note	**R'000**	R'000	**R'000**	R'000
Net insurance premium revenue	19	**1 914 399**	1 731 383	**–**	–
Other income	20	**197 654**	139 862	**10 941**	10 856
Investment income	21	**654 435**	945 244	**1 874**	–
Net fair value profits on financial assets held at fair value through profit or loss	22	**494 825**	1 147 376	**–**	–
Revenue		**3 261 313**	3 963 865	**12 815**	10 856
Net insurance benefits and claims	23	**1 172 620**	977 307	**–**	–
Movement in fair value of policyholder liabilities under investment contracts	12	**8 876**	8 586	**–**	–
Expenses	24	**793 554**	676 809	**19 936**	10 856
Profit/(Loss) before movement in insurance policy liabilities		**1 286 263**	2 301 163	**(7 121)**	–
Movement to insurance policy liabilities	11.2	**1 125 824**	2 125 126	**–**	–
Tax	26	**113 818**	169 396	**2 400**	–
Surplus/(Deficit) after tax		**46 621**	6 641	**(9 521)**	–
Other comprehensive income:					
Revaluation of owner-occupied property net of tax		**(4 390)**	(2 713)	**–**	–
Total comprehensive income/(deficit) for the year		**42 231**	3 928	**(9 521)**	–
Surplus/(Deficit) after tax attributable to:					
Members		**(7 370)**	(39 532)	**–**	–
Unit trust holders		**53 991**	46 173	**–**	–
		46 621	6 641	**–**	–
Total comprehensive income/(deficit) attributable to:					
Members		**(11 760)**	(42 245)	**–**	–
Unit trust holders		**53 991**	46 173	**–**	–
		42 231	3 928	**–**	–

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 2011

	Note	Accumulated funds R'000	Revaluation reserve R'000	Non-distributable reserves R'000	Total R'000
Group					
Balance at 1 January 2010		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	11.2	–	2 713	–	2 713
Deficit for the year		(39 532)	–	–	(39 532)
Balance at 31 December 2010	10	96 858	–	–	96 858
		–	**–**	**–**	**–**
Revaluation of owner-occupied property		**–**	**(4 778)**	**–**	**(4 778)**
Deferred tax on revaluation of owner-occupied property		**–**	**388**	**–**	**388**
Movement in insurance policy liabilities	11.2	**–**	**4 390**	**–**	**4 390**
Deficit for the year		**(7 370)**	**–**	**–**	**(7 370)**
Balance at 31 December 2011	10	**89 488**	**–**	**–**	**89 488**

	Note	Accumulated funds R'000	Revaluation reserve R'000	Non-distributable reserves R'000	Total R'000
Parent					
Balance at 1 January 2010		10 500	–	–	10 500
Profit for the year		–	–	–	–
Balance at 31 December 2010	10	10 500	–	–	10 500
Loss for the year		**(9 521)**	**–**	**–**	**(9 521)**
Loss on acquisition of financial assets		**–**	**–**	**(1 873)**	**(1 873)**
Transfer between reserves		**(1 873)**	**–**	**1 873**	**–**
Balance at 31 December 2011	10	**(894)**	**–**	**–**	**(894)**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2011

		Group		Parent	
		2011	2010	**2011**	2010
	Note	**R'000**	R'000	**R'000**	R'000
Cash flows from operating activities					
Cash generated from/(used in) operations	27	**389 036**	340 907	**2 166**	(293)
Interest received		**442 786**	426 486	**–**	–
Dividend received		**201 368**	174 569	**–**	–
Tax paid	28	**(134 229)**	(130 724)	**(2 248)**	–
Net cash from/(used in) operating activities		**898 961**	811 238	**(82)**	(293)
Cash flows from investing activities					
Purchases of property and equipment	2	**(53 933)**	(24 783)	**–**	–
Software development	3	**(13 978)**	(6 734)	**–**	–
Purchase of financial assets		**(5 987 918)**	(8 743 013)	**–**	–
Proceeds from sale of furniture and equipment		**6 300**	38	**–**	–
Proceeds from disposal of financial assets		**4 770 995**	8 087 014	**–**	–
Net cash used in investing activities		**(1 278 534)**	(687 478)	**–**	–
Cash flows from financing activities					
Increase in borrowings	14	**2 138**	4 160	**–**	–
Net cash used in financing activities		**2 138**	4 160	**–**	–
Net (decrease)/increase in cash and bank		**(377 435)**	127 920	**(82)**	(293)
Cash and bank at beginning of year		**1 530 245**	1 402 325	**112**	405
Cash and bank at end of year	8	**1 152 810**	1 530 245	**30**	112

1. 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 contract per category as well as provide their fair values, where applicable.

Group 2011 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	5	7 238 421	–	–	–	–	7 238 421	7 238 421
International listed	5	40 225	–	–	–	–	40 225	40 225
Debt securities								
Government bonds	5	4 932 754	–	–	–	–	4 932 754	4 932 754
International listed	5	65 814	–	–	–	–	65 814	65 814
Unit trusts and pooled funds	5	3 915 549	–	–	–	–	3 915 549	3 915 549
Reinsurance assets	6	–	–	–	36 324	–	36 324	N/A
Insurance receivables	7	–	–	–	15 385	–	15 385	N/A
Prepayments	7	–	–	–	–	1 200	1 200	1 200
Other receivables	7	–	32 073	–	–	–	32 073	32 073
Reinsurance receivables	7	–	–	–	36 971	–	36 971	N/A
Cash and cash equivalents	8	1 034 499	118 311	–	–	–	1 152 810	1 152 810
Insurance contract liabilities	11	–	–	–	16 278 928	–	16 278 928	N/A
Investment contract liabilities	12	221 311	–	–	–	–	221 311	221 311
Liabilities to unit trust holders	13	711 633	–	–	–	–	711 633	711 633
Borrowings	14	–	–	20 946	–	–	20 946	20 946
Reinsurance payables	18	–	–	–	9 680	–	9 680	N/A
Insurance payables	18	–	–	–	38 982	–	38 982	N/A
Accruals and sundry creditors	18	–	–	86 335	–	–	86 335	86 335

1. FINANCIAL INSTRUMENT AND INSURANCE CONTRACT ANALYSIS...Continued

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	5	6 840 765	–	–	–	–	6 840 765	6 840 765
International listed	5	450 779	–	–	–	–	450 779	450 779
Debt securities								
Government bonds	5	4 437 725	–	–	–	–	4 437 725	4 437 725
International listed	5	67 230	–	–	–	–	67 230	67 230
Unit trusts and pooled funds	5	2 309 699	–	–	–	–	2 309 699	2 309 699
Reinsurance assets	6	–	–	–	217 927	–	217 927	N/A
Insurance receivables	7	–	–	–	36 300	–	36 300	N/A
Prepayments	7	–	–	–	–	648	648	N/A
Other receivables	7	–	30 936	–	–	–	30 936	30 936
Reinsurance receivables	7	–	–	–	51 142	–	51 142	N/A
Cash and cash equivalents	8	1 392 284	137 961	–	–	–	1 530 245	1 530 245
Insurance contract liabilities	11	–	–	–	15 267 029	–	15 267 029	N/A
Investment contract liabilities	12	131 755	–	–	–	–	131 755	131 755
Liabilities to unit trust holders	13	295 277	–	–	–	–	295 277	295 277
Borrowings	14	–	–	18 808	–	–	18 808	18 808
Reinsurance payables	18	–	–	–	16 138	–	16 138	N/A
Insurance payables	18	–	–	–	30 559	–	30 559	N/A
Accruals and sundry creditors	18	–	–	89 430	–	–	89 430	89 430

2. PROPERTY AND EQUIPMENT

Group	Owner-occupied property R'000	Computer hardware R'000	Vehicles, office furniture & equipment R'000	Leasehold improvements R'000	Total R'000
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 relating to revaluation	(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	6 953	136 584
Accumulated depreciation	(7 488)	(24 992)	(18 072)	(1 305)	(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
Year ended 31 December 2011					
Opening net book amount	**39 300**	**17 744**	**22 035**	**5 648**	**84 727**
Revaluation deficit	**(4 643)**	**–**	**–**	**–**	**(4 643)**
Depreciation relating to revaluation reserve	**(135)**	**–**	**–**	**–**	**(135)**
Additions	**19 069**	**18 487**	**12 813**	**3 564**	**53 933**
Disposals: Cost	**–**	**(9 804)**	**(7 865)**	**–**	**(17 669)**
Disposals: Accumulated depreciation	**–**	**8 107**	**3 330**	**–**	**11 437**
Depreciation charge	**(391)**	**(9 166)**	**(6 117)**	**(1 531)**	**(17 205)**
Closing net book amount	**53 200**	**25 368**	**24 196**	**7 681**	**110 445**
At 31 December 2011					
Cost or valuation	**61 214**	**51 419**	**45 055**	**10 517**	**168 205**
Accumulated depreciation	**(8 014)**	**(26 051)**	**(20 859)**	**(2 836)**	**(57 760)**
Net book amount	**53 200**	**25 368**	**24 196**	**7 681**	**110 445**
Non-current	**53 200**	**25 368**	**24 196**	**7 681**	**110 445**

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 2011 and 2010, 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.

2. PROPERTY AND EQUIPMENT...Continued

The Group's owner-occupied property was revalued at 31 December 2011 by CB Richard Ellis (Pty) Limited, an independent valuator. Valuations were performed using the discounted cash flow of future income stream method. The discounted cash flow method takes projected cash flows and discount them at a rate which is consistent with comparable market transactions. Refer to note 31.4 for valuation assumptions. The opening carrying value is depreciated and then adjusted to reflect the 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 has been extended in 2011 and is revalued annually. If land and buildings were stated on a historical cost basis, the amounts would be as follows:

	Group	
	2011	2010
	R'000	R'000
Cost	**39 939**	20 870
Accumulated depreciation	**(6 428)**	(6 037)
Net book amount as at 31 December	**33 511**	14 833

3. INTANGIBLE ASSET

Software development costs		
At 1 January		
Cost	**86 179**	105 930
Accumulated amortisation	**(54 164)**	(66 727)
Net book amount	**32 015**	39 203
Non-current	**32 015**	39 203
Year ended 31 December		
Opening net book amount	**32 015**	39 203
Additions	**13 978**	6 734
Amortisation	**(13 101)**	(13 922)
Closing net book amount	**32 892**	32 015
At 31 December		
Cost	**97 616**	86 179
Accumulated amortisation	**(64 724)**	(54 164)
Net book amount	**32 892**	32 015
Non-current	**32 892**	32 015

4. INVESTMENT IN SUBSIDIARY COMPANY

	Parent	
	2011	2010
	R'000	R'000
Professional Provident Society Insurance Company Limited		
Shares issued at cost (2010: cost)	**10 000**	10 000
The investment in the subsidiary company is accounted for at original cost of shares issued in the subsidiary company.		
A list of the subsidiaries of the Trust is set out in note 30.		

5. FINANCIAL ASSETS – INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	R'000	R'000
Analysis of financial assets held at fair value through profit or loss		
Level 1 fair value financial assets		
Equity securities:		
– local listed	**7 238 421**	6 840 765
– international listed	**40 225**	450 779
	7 278 646	7 291 544
Debt securities – fixed interest rate:		
– government bonds and local listed	**4 932 754**	4 019 137
– international listed	**65 814**	67 230
	4 998 568	4 086 367
Total Level 1 fair value financial assets	**12 277 214**	11 377 911

At 31 December, investments classified as Level 1 comprise approximately 75,8% (2010: 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.

5. FINANCIAL ASSETS – INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS...Continued

	Group	
	2011	2010
	R'000	R'000
Level 2 fair value financial assets		
Debt securities – fixed interest rate:		
– government bonds and local listed	**–**	418 588
Unit trusts and pooled funds:		
– local pooled funds and unit trusts	**1 228 983**	592 997
– international equity unit trusts	**1 528 483**	945 385
– international fixed interest unit trusts	**300**	233
– international balanced	**1 157 783**	771 084
	3 915 549	2 309 699
Total Level 2 fair value financial assets	**3 915 549**	2 728 287
Total financial assets at fair value through profit or loss	**16 192 763**	14 106 198
The investment in local pooled funds and unit trusts comprises mainly of:		
Debt securities	**183 062**	95 462
Cash and cash equivalents	**249 995**	106 991
Equities	**610 787**	311 531
International	**185 139**	79 013

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

$1 = R8,07 (2010: $1 = R6,63)

N$1 = R1,00 (2010: N$1 = R1,00)

At 31 December, investments classified as Level 2 comprise approximately 24,2% (2010: 19,3%) 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 2011, no investments are classified as Level 3 (2010: nil).

5. FINANCIAL ASSETS – INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS...Continued

	Group	
	2011	2010
	R'000	R'000
Analysis of movements in financial assets held at fair value through profit or loss:		
Opening balance	**14 106 198**	11 894 456
Additions	**6 695 870**	8 883 091
Disposals at carrying value	**(5 104 272)**	(7 808 994)
Fair value net gains excluding net realised gains	**494 825**	1 147 376
Accrued interest movements	**142**	(9 731)
Closing balance	**16 192 763**	14 106 198
The spread of investments by sector:		
Industrial (%)	**37,3**	44,8
Financial (%)	**28,5**	21,9
Resources (%)	**34,2**	33,3
Maturity profile of fixed interest investments:		
Due in 1 year or less	**756 009**	511 286
Due between 1 year and 5 years	**2 438 585**	2 074 217
Due between 5 years and 10 years	**852 181**	1 012 739
Due after 10 years	**951 793**	906 713
	4 998 568	4 504 955

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.

6. REINSURANCE ASSETS

Total assets arising from reinsurance contracts at beginning of the year	**217 927**	305 608
Reinsurers' share of insurance policy liabilities	**(181 603)**	(87 681)
Total assets arising from reinsurance contracts at end of the year (note 11)	**36 324**	217 927
Non-current	**36 324**	217 927

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in insurance and other receivables (note 7).

7. INSURANCE AND OTHER RECEIVABLES

	Group		Parent	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Receivables arising from insurance and reinsurance contracts:	**52 356**	87 442	**–**	–
– due from contract holders	**27 890**	44 871	**–**	–
– less allowance for impairment losses from receivables from contract holders	**(12 505)**	(8 571)	**–**	–
– due from reinsurers	**36 971**	51 142	**–**	–
Other receivables:	**32 073**	30 936	**1 329**	1 281
– accrued interest	**3 978**	6 149	**–**	–
– receivables from related parties	**–**	–	**1 329**	1 281
– administration fee receivable	**17 679**	8 938	**–**	–
– other receivables	**10 416**	15 849	**–**	–
Prepayments	**1 200**	648	**21**	22
Total receivables including insurance receivables and prepayments	**85 629**	119 026	**1 350**	1 303
Current	**85 629**	119 026	**1 350**	1 303
Fair value of other receivables held at amortised cost	**32 073**	30 936	**1 329**	1 281
Allowances for impairment losses of receivables from contract holders				
Specific allowances for impairment				
At beginning of period	**8 571**	16 322	**–**	–
Impairment loss recognised	**6 872**	–	**–**	–
Impairment loss reversals	**(2 938)**	(7 751)	**–**	–
At end of year	**12 505**	8 571	**–**	–

8. CASH AND CASH EQUIVALENTS

	Group 2011 R'000	Group 2010 R'000	Parent 2011 R'000	Parent 2010 R'000
Cash at bank and in hand	**118 311**	137 961	**30**	112
Level 2 fair value cash and cash equivalents				
Cash on call	**1 034 499**	1 392 284	**–**	–
Total Level 2 fair value cash and cash equivalents	**1 034 499**	1 392 284	**–**	–
Total cash and cash equivalents	**1 152 810**	1 530 245	**30**	112

8. CASH AND CASH EQUIVALENTS...Continued

The proportion of cash held to fund the working capital of the Group as part of the investment portfolio is 6,0% (2010: 6,0%) 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 4,8% (2010: 4,9%).

At 31 December, cash and cash equivalents classified as Level 2 comprise 100% (2010: 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.

9. PERMANENT CAPITAL

The Professional Provident Society Holdings Trust:
An amount of R100 was contributed to the trust fund of the beneficiaries on formation of The Professional Provident Society Holdings Trust during 2011.

Professional Provident Society (Non-profit Company):
As a company 'limited by guarantee', each member of The Professional Provident Society (Non-profit Company) is liable for a maximum amount of R1 in the event of the Company being wound up whilst being a member or within one year thereafter.

10. ACCUMULATED FUNDS

	Group		Parent	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Accumulated funds	**89 488**	96 858	**(894)**	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 statutory capital adequacy requirement ('CAR'). This Group has maintained its level of CAR cover at 2,6 times (2010: 2,6 times). This has resulted in R17,2 million being allocated to accumulated funds in the current year.

11. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS

11.1 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 risks 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.

11. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS Continued

11.1 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity...Continued

(a) Process used to decide on assumptions...Continued

- ***Mortality...Continued***
  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 01/01/2010 to 31/12/2010 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 01/01/2010 to 31/12/2010 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 8,4% (2010: 8,5%) 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% (2010: 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% (2010: 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 9,0% gross of tax in 2011 (2010: 9,1%). 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% (2010: 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.

11. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS...Continued

11.1 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity...Continued

(a) *IBNR*

The IBNR liability calculation is based on run-off tables using historical data from 2007 to 2011. 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 R88,3 million (2010: R292,0 million increase). The non-economic changes amounted to a R0,8 million decrease (2010: R2,8 million increase) in liabilities.

(c) *Sensitivity analysis*

The following tables present the sensitivity in the key valuation assumptions of the value of the non-DPF component of 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.

Group Variable	Change in variable %	**Change in liability 2011 R'000**	**Change %**	Change in liability 2010 R'000	Change %
Liability per note 11.2		**3 072 034**		2 894 767	
Worsening in mortality	10	**493 323**	**16,06**	365 252	12,62
Worsening of morbidity rates	10	**365 274**	**11,89**	268 042	9,26
Worsening in PI inception rate	10	**344 456**	**11,21**	320 611	11,08
Lowering of investment returns	(1)	**633 989**	**20,64**	516 152	17,83
Lowering of terminations	(10)	**233 614**	**7,61**	210 528	7,27
Worsening of maintenance expense level	10	**316 214**	**10,29**	320 858	11,08
Worsening of expense inflation rate	10	**203 390**	**6,62**	180 853	6,25

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.

11. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS...Continued

11.1 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity...Continued

(d) ***Compulsory margins***

PGN104 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 2010 and 2011:

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

11. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS...Continued

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

	Group					
	2011			2010		
	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)	**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 beginning of the year	**15 267 029**	**217 927**	**15 049 102**	13 162 468	305 608	12 856 860
Change in insurance policy liabilities per statement of comprehensive income	**944 221**	**(181 603)**	**1 125 824**	2 037 445	(87 681)	2 125 126
Change in insurance policy liabilities per statement of changes in equity	**(4 390)**	**–**	**(4 390)**	(2 713)	–	(2 713)
Transfer from investment policyholder liabilities	**–**	**–**	**–**	92 725	–	92 725
Movement in claims liabilities						
– arising from current year claims	**73 445**	**–**	**73 445**	(17 585)	–	(17 585)
– arising from prior year claims	**(1 377)**	**–**	**(1 377)**	(5 311)	–	(5 311)
Total movement in insurance policy liabilities	**1 011 899**	**(181 603)**	**1 193 502**	2 104 561	(87 681)	2 192 242
Total movement allocated	**1 011 899**	**(181 603)**	**1 193 502**	2 104 561	(87 681)	2 192 242
Sickness and disability policies						
– Claims payable (notified claims)	**(6 208)**	**–**	**(6 208)**	6 424	–	6 424
– Unintimated claims (IBNR)	**2 098**	**–**	**2 098**	(6 086)	–	(6 086)
– Non-DPF liability	**(5 688)**	**(182 955)**	**177 267**	405 279	(82 415)	487 694
– Cessation benefits (notified claims)	**75 848**	**–**	**75 848**	1 916	–	1 916
– DPF liability	**949 569**	**–**	**949 569**	1 648 643	–	1 648 643
Life policies						
– Claims payable (notified claims)	**1 400**	**–**	**1 400**	(27 130)	–	(27 130)
– Unintimated claims (IBNR)	**79**	**–**	**79**	(472)	–	(472)
– Life Assurance Policy reserve	**(6 923)**	**1 352**	**(8 275)**	(14 283)	(5 266)	(9 017)
Transfer from investment policyholder liabilities	**–**	**–**	**–**	92 725	–	92 725
Other benefits and liabilities	**1 724**	**–**	**1 724**	(2 455)	–	(2 455)

11. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS...Continued

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

	Group					
	2011			2010		
	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)	**8 202**	**–**	**8 202**	14 410	–	14 410
– Unintimated claims (IBNR)	**34 331**	**–**	**34 331**	32 233	–	32 233
– Non-DPF liability	**3 105 838**	**33 804**	**3 072 034**	3 111 526	216 759	2 894 767
– Cessation benefits (notified claims)	**235 263**	**–**	**235 263**	159 415	–	159 415
– DPF liability	**12 837 556**	**–**	**12 837 556**	11 887 987	–	11 887 987
Life policies						
– Claims payable (notified claims)	**4 746**	**–**	**4 746**	3 346	–	3 346
– Unintimated claims (IBNR)	**5 631**	**–**	**5 631**	5 552	–	5 552
– Life assurance policy reserve	**10 856**	**2 520**	**8 336**	17 779	1 168	16 611
Other benefits and liabilities	**36 505**	**–**	**36 505**	34 781	–	34 781
Total at the end of the year	**16 278 928**	**36 324**	**16 242 604**	15 267 029	217 927	15 049 102
Current	**324 678**	**–**	**324 678**	249 737	–	249 737
Non-current	**15 954 250**	**36 324**	**15 917 926**	15 017 292	217 927	14 799 365
Total	**16 278 928**	**36 324**	**16 242 604**	15 267 029	217 927	15 049 102

11. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS...Continued

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

	Group	
	2011 R'000	2010 R'000
The non-DPF liabilities developed as follows:		
Liabilities at start of year	**2 894 767**	2 407 073
Unwinding of discount rate	**216 791**	200 952
Expected cash flows	**240 570**	302 469
Expected risk liability at year-end	**3 352 128**	2 910 494
Impact of movements	**(155 756)**	(137 469)
Change in valuation assumptions	**87 319**	289 818
Asset value adjustments	**(17 100)**	33 703
Risk benefit liability for new business issued	**(194 557)**	(201 779)
Liabilities at end of year	**3 072 034**	2 894 767
The DPF liabilities developed as follows:		
Liabilities at start of year	**11 887 987**	10 146 619
Claims paid during the year	**(669 320)**	(500 281)
Allocation of interest and dividends	**1 651 731**	2 041 601
Transfer from investment policyholder liabilities	**–**	92 725
Asset value adjustments	**(25 531)**	101 962
Bonus stabilisation reserve	**(7 311)**	5 361
Liabilities at end of year	**12 837 556**	11 887 987
Analysis of total insurance policy liabilities, net of reinsurance:		
Non-DPF liabilities	**3 072 034**	2 894 767
DPF liabilities	**12 837 556**	11 887 987
Life assurance policy reserve	**8 336**	16 611
Current liabilities	**324 678**	249 737
Liabilities at end of year	**16 242 604**	15 049 102

12. INVESTMENT CONTRACT LIABILITIES

	Group	
	2011 R'000	2010 R'000
Level 2 fair value investment contract liabilities		
Linked investment contracts	**221 311**	131 755
Non-current	**221 311**	131 755

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

Movement table for investment contract liabilities

	2011 R'000	2010 R'000
Linked contracts		
Balance at 1 January	**131 755**	160 619
Contributions received during the year	**98 836**	62 072
Fair value of policyholder liabilities under investment contracts	**8 876**	8 586
Net investment return debited to account balances	**(1 882)**	(1 322)
Net fees and charges deducted from account balances	**10 758**	9 908
Benefit payments	**(18 156)**	(6 797)
Transfer to insurance policyholder liabilities	**–**	(92 725)
Balance at 31 December	**221 311**	131 755

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 prior year opening policyholder liabilities to members who exercised this option.

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

	Group	
	2011 R'000	2010 R'000
Level 2 fair value third-party liabilities arising on consolidation of unit trusts		
Balance at 1 January	**295 277**	184 619
Third-party interest in unit trusts acquired during the year	**707 952**	140 078
Third-party interest in unit trusts redeemed during the year	**(345 587)**	(75 593)
Third-party interest in revaluation of unit trusts	**53 991**	46 173
Balance at 31 December	**711 633**	295 277
Current	**711 633**	295 277

Third party financial liabilities arising on consolidation of unit trusts are classified as Level 2, as the fair value of the unit trust funds is derived from unit prices published by the unit trust fund managers.

14. BORROWINGS

	Carrying amount and fair value	
Group	**2011 R'000**	2010 R'000
Unsecured – at amortised cost		
Outside shareholder loan in PPS Investments	**20 946**	18 808
Total borrowings	**20 946**	18 808
Current	**20 946**	18 808
Balance at 1 January	**18 808**	14 648
Advances	**2 138**	4 160
Balance at 31 December	**20 946**	18 808

Outside shareholder loan in PPS Investments carries interest at Nedbank deposit rates.

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.

15. DEFERRED TAX

	Group 2011 R'000	2010 R'000
Deferred tax assets:		
Provisions and impairments	**7 635**	7 369
Tax losses carried forward	**43 499**	37 543
End of year	**51 134**	44 912
Deferred tax liabilities:		
Unrealised gains on investments	**126 349**	134 987
Unrealised gains on land and buildings revaluation	**834**	1 222
End of year	**127 183**	136 209
Current asset	**7 635**	7 369
Non-current asset	**43 499**	37 543
Non-current liability	**127 183**	136 209

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 2010	33 016
Credited to the statement of comprehensive income	11 896
At 31 December 2010	44 912
Credited to the statement of comprehensive income	**6 222**
At 31 December 2011	**51 134**

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 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. Deferred tax has not been recognised in respect of certain assessed losses totalling R8,6 million (2010: R nil).

(b) Deferred tax liabilities

Group	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 2010	72 494	1 469	73 963
Debited to the statement of comprehensive income	62 493	–	62 493
Credited to equity	–	(247)	(247)
At 31 December 2010	134 987	1 222	136 209
Credited to the statement of comprehensive income	**(8 638)**	**–**	**(8 638)**
Credited to equity	**–**	**(388)**	**(388)**
At 31 December 2011	**126 349**	**834**	**127 183**

16. DEFINED BENEFIT FUND EMPLOYER SURPLUS AND RETIREMENT BENEFIT OBLIGATIONS

16.1 Defined benefit fund employer surplus

	Group	
	2011 R'000	2010 R'000
Balance at the beginning of the year	**6 422**	–
Trustee agreed allocation	**–**	9 246
Investment gains	**162**	1 088
Agreed contribution to fund	**(6 584)**	(3 912)
Balance at the end of the year	**–**	6 422
Current	**–**	6 422

The remaining assets in the defined benefit fund were transferred to the employer surplus account on 6 April 2010. Section 14 approval for this transfer was 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.

16.2 Retirement benefit obligations

	2011 R'000	2010 R'000
Statement of financial position obligation for:		
– post-retirement medical benefits	**40 261**	32 949
	40 261	32 949
Statement of comprehensive income charge for (note 24):		
– pension benefits	**–**	(57)
– post-retirement medical benefits	**9 145**	4 995
	9 145	4 938

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.

16. DEFINED BENEFIT FUND EMPLOYER SURPLUS AND RETIREMENT BENEFIT OBLIGATIONS...Continued

16.2 Retirement benefit obligations...Continued

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

	Group	
	2011 R'000	2010 R'000
Present value of unfunded obligations	**58 117**	46 208
Unrecognised actuarial losses	**(17 856)**	(13 259)
Liability in the statement of financial position	**40 261**	32 949
The latest actuarial valuation of the Group's post-employment benefits, carried out at 31 December 2011 indicated a present value of projected future benefits amounting to R40,3 million (2010: R33,0 million).		
The movement in the post-employment medical benefit obligation was as follows:		
Post-employment medical benefit obligation at beginning of year (1 January)	**46 208**	43 203
Current service cost	**1 426**	1 246
Interest cost	**3 765**	3 195
Benefits paid	**(1 833)**	(1 617)
Actuarial loss	**8 551**	181
Post-employment medical benefit obligation at end of year (31 December)	**58 117**	46 208
The amounts recognised in the statement of comprehensive income are as follows:		
Current service cost	**1 426**	1 246
Interest cost	**3 765**	3 195
Actuarial losses recognised during the year	**3 954**	554
Total included in staff costs (note 25)	**9 145**	4 995
The principal actuarial assumptions used were as follows:		
Discount rate based on the Long-term Bond Index (%)	**8,25**	8,50
Medical cost inflation (%)	**7,50**	7,00

16. DEFINED BENEFIT FUND EMPLOYER SURPLUS AND RETIREMENT BENEFIT OBLIGATIONS...Continued

16.2 Retirement benefit obligations...Continued

The assumed rates of mortality are as follows:

During employment: SA85-90 (Light) ultimate table.

Post-employment: PA(90) ultimate table rated down two years plus 1% improvement per annum (from a base year of 2006).

No explicit assumption was made about additional mortality or healthcare costs due to AIDS. Theoretically, increased mortality rates before retirement would reduce the employer's retirement benefits liability all else being equal. However, allowance should also be made for expected increases in medical scheme claims payable due to HIV infection, and for the corresponding increases in medical scheme contributions payable, which would increase the employer's liability all else being equal.

To the extent that actual future rates of withdrawal or mortality exceed those assumed, the liability set out in this report may be overstated, and *vice versa*.

Group	2007 R'000	2008 R'000	2009 R'000	2010 R'000	**2011** **R'000**
Trend information					
Present value of obligations	36 471	40 568	43 203	46 208	**58 117**

Sensitivity results

	Healthcare cost inflation		
Group	**Central assumption 7,50%**	**(1,00%)**	**1,00%**
Accrued liability 31 December 2011 (R'000)	**58 117**	**48 964**	**69 851**
Percentage change (%)	**–**	**(15,8)**	**20,2**
Current service cost plus interest cost 2011/2012 (R'000)	**6 502**	**5 381**	**7 953**
Percentage change (%)	**–**	**(17,2)**	**22,3**
Group	**Central assumption 7,00%**	**5,00% for 5 years**	**10,00% for 5 years**
Accrued liability 31 December 2011 (R'000)	**58 117**	**71 711**	**87 873**
Percentage change (%)	**–**	**23,4**	**51,2**

	Discount rate		
Group	**Central assumption 8,50%**	**(1,00%)**	**1,00%**
Accrued liability 31 December 2011 (R'000)	**58 117**	**70 174**	**48 892**
Percentage change (%)	**–**	**20,7**	**(15,9)**

	Expected retirement age		
Group	**Central assumption 65 years**	**1 year younger**	**1 year older**
Accrued liability 31 December 2011 (R'000)	**58 117**	**60 576**	**55 859**
Percentage change (%)	**–**	**4,2**	**(3,9)**

17. EMPLOYEE RELATED OBLIGATIONS

	Group	
	2011 R'000	2010 R'000
Leave pay accrual		
Opening balance	**8 692**	6 417
Charged to the statement of comprehensive income		
– additional provisions	**4 765**	5 143
Used during the year	**(786)**	(2 868)
Closing balance	**12 671**	8 692
Current	**12 671**	8 692
Provision for performance related incentives		
Opening balance	**32 606**	22 498
Charged to the statement of comprehensive income		
– additional provisions (executive directors and employees)	**36 794**	30 877
Used during the year	**(24 432)**	(20 769)
Closing balance	**44 968**	32 606
Total provisions	**57 639**	41 298
Current	**26 777**	20 606
Non-current	**18 191**	12 000

18. INSURANCE AND OTHER PAYABLES

	Group		Parent	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Payables arising from insurance and reinsurance contracts:				
– due to contract holders	**22 725**	20 686	**–**	–
– due to contract holders – life assurance policy	**15 593**	9 025	**–**	–
– reinsurance payables	**9 680**	16 138	**–**	–
– subscriptions received in advance	**664**	848	**–**	–
Other payables				
– accruals	**68 217**	73 088	**851**	579
– employees tax	**5 941**	4 629	**–**	–
– sundry creditors	**12 177**	11 713	**11 271**	336
Total insurance and other payables	**134 997**	136 127	**12 122**	915
Current	**134 997**	136 127	**12 122**	915

19. NET INSURANCE PREMIUM REVENUE

	Group		Parent	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Individual premiums from policyholders	**1 808 069**	1 591 656	**–**	–
Group reinsurance premiums inwards	**217 556**	237 960	**–**	–
Premium revenue arising from insurance contracts issued	**2 025 625**	1 829 616	**–**	–
Individual premium revenue ceded to reinsurers on insurance contracts issued	**(111 226)**	(98 233)	**–**	–
Net insurance premium revenue	**1 914 399**	1 731 383	**–**	–

20. OTHER INCOME

	Group 2011 R'000	Group 2010 R'000	Parent 2011 R'000	Parent 2010 R'000
Policy administration and collection services	**24 615**	23 673	**–**	–
Administration fees	**128 030**	81 585	**10 941**	10 856
Investment management services	**22 864**	10 144	**–**	–
Commission	**20 682**	14 126	**–**	–
Profit share	**1 463**	–	**–**	–
Defined benefit fund employer surplus	**–**	10 334	**–**	–
Other income	**197 654**	139 862	**10 941**	10 856

21. INVESTMENT INCOME

	Group 2011 R'000	Group 2010 R'000	Parent 2011 R'000	Parent 2010 R'000
Net gains and losses on financial assets held at fair value through profit or loss consist of the following components:				
– Interest income	**440 757**	417 068	**–**	–
– Dividend income	**201 368**	174 563	**–**	–
– Net realised (losses)/gains on disposal of financial assets	**(7 526)**	354 175	**1 874**	–
– Net realised foreign exchange gains/(losses)	**19 836**	(562)	**–**	–
Total investment income	**654 435**	945 244	**1 874**	–

Investment management fees paid to the fund managers amounting to R52,0 million (2010: R49,7 million) are included in expenses for marketing and administration (note 24).

22. 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		Parent	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Designated at fair value through profit or loss on initial recognition				
Interest income	**440 757**	417 068	**–**	–
Dividend income	**201 368**	174 563	**–**	–
Net (losses)/gains on disposal of financial assets	**(7 526)**	354 175	**1 874**	–
Net unrealised gains on revaluation of financial assets	**494 825**	1 147 376	**–**	–
Net foreign exchange gains/(losses)	**19 836**	(562)	**–**	–
Total net gains recognised in the statement of comprehensive income	**1 149 260**	2 092 620	**1 874**	–

23. NET INSURANCE BENEFITS AND CLAIMS

	Group		Parent	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Gross				
Long-term insurance contracts with and without DPF				
– Individual sickness and incapacity benefits: current year	**448 145**	405 074	**–**	–
– Individual sickness and incapacity benefits: overprovision for prior year	**(1 377)**	(5 311)	**–**	–
– Group non-DPF component of death benefits	**285 036**	234 817	**–**	–
– Individual DPF component of death, retirement and resignation benefits	**522 350**	398 407	**–**	–
Total gross insurance benefits and recoveries	**1 254 154**	1 032 987	**–**	–
Reinsurance recoveries				
Long-term insurance contracts with and without DPF				
– Individual sickness and incapacity benefits	**(17 533)**	(12 682)	**–**	–
– Death benefits	**(64 001)**	(42 998)	**–**	–
Total reinsurance recoveries	**(81 534)**	(55 680)	**–**	–
Total net insurance benefits and claims	**1 172 620**	977 307	**–**	–

24. EXPENSES

	Group		Parent	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Costs incurred for the acquisition of insurance contracts expensed in the year	**141 132**	152 536	**–**	–
– Sickness and incapacity policies	**89 026**	64 485	**–**	–
– Whole life policies	**52 106**	88 051	**–**	–
Costs incurred for providing investment management services	**25 654**	15 125	**–**	–
Marketing and administrative expenses include:				
– Amortisation of intangible asset (note 3)	**13 101**	13 922	**–**	–
– Auditors' remuneration	**3 665**	2 922	**–**	–
– Audit fees – current year provision	**3 505**	2 946	**–**	–
– Audit fees – prior year under/(over)	**105**	(167)	**–**	–
– Tax services	**55**	143	**–**	–
– Data processing and information technology systems maintenance	**59 053**	46 545	**–**	–
– Depreciation on property and equipment (note 2)	**17 205**	11 948	**–**	–
– Directors/Trustees and executive remuneration	**19 229**	15 394	**2 025**	2 054
– Directors/Trustees	**3 830**	4 019	**2 025**	2 054
– Directors of subsidiaries	**1 862**	1 766	**–**	–
– Executive directors of PPS Insurance	**13 537**	9 609	**–**	–
– Employee benefit expenses (note 25)	**334 352**	277 853	**62**	20
– Fees for services	**13 155**	9 817	**10 562**	600
– Actuarial	**4 947**	3 126	**–**	–
– Legal	**4 056**	2 666	**2 610**	600
– Internal audit	**1 162**	1 056	**–**	–
– IT consulting	**2 990**	2 969	**–**	–
– Company restructure costs	**–**	–	**7 952**	–
– Investment management fees	**52 002**	49 751	**–**	–
– Maintenance, product development and other administration expenses	**86 481**	71 907	**7 287**	8 182
– Operating lease rentals	**24 591**	16 840	**–**	–
– Impairment/(Reversal) of insurance and other receivables (note 7)	**3 934**	(7 751)	**–**	–
Total expenses	**793 554**	676 809	**19 936**	10 856

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

25. EMPLOYEE BENEFIT EXPENSES

	Group	
	2011 R'000	2010 R'000
Salaries and related costs	**264 102**	218 908
Pension costs – defined contribution plans	**26 563**	22 567
Pension costs – defined benefit plans (note 16)	**–**	(57)
Other post-employment benefits (note 16)	**9 145**	4 995
Performance related incentives	**34 542**	31 440
Total employee benefit expenses	**334 352**	277 853

26. TAX

	Group		Parent	
	2011 R'000	2010 R'000	**2011**	2010
Current tax				
– Current year tax	**128 785**	121 696	**2 400**	–
– Prior year over provision	**(107)**	(2 897)	**–**	–
Deferred tax	**(14 860)**	50 597	**–**	–
Total tax	**113 818**	169 396	**2 400**	–
Tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to South African/Namibian companies as follows:				
Profit/(Loss) before movement in policy liabilities	**1 286 263**	2 301 163	**(7 121)**	–
Tax calculated at domestic tax rates applicable to profits in South Africa/Namibia	**357 995**	637 164	**(1 617)**	–
Tax effect of income not subject to tax	**(713 052)**	(864 915)	**–**	–
Tax effect of non-deductible expenses	**460 134**	393 110	**4 017**	–
Prior year under/(over) provision	**1 072**	(2 897)	**–**	–
Tax effect of tax rate on the individual policyholder fund being different to tax rate on the corporate fund ('CF')	**7 669**	6 934	**–**	–
Total tax per statement of comprehensive income	**113 818**	169 396	**2 400**	–

The applicable tax rate was 28% (2010: 28%) for South African companies and 34% (2010: 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 policyholders' fund (taxed at 28%), the untaxed policyholders' fund (not taxed) and the corporate fund (taxed at 28%). The tax reconciliation is done on total tax on all funds. The Professional Provident Society Holdings Trust is taxed at 40%.

The Group has accumulated losses of R167,0 million (2010: R138,0 million) available for offset against future taxable income.

27. CASH GENERATED FROM OPERATIONS

	Group		Parent	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Reconciliation of profit before movement in insurance policy liabilities to cash generated by operations:				
Profit/(Loss) before movement in policy liabilities	**1 286 263**	2 301 163	**(7 121)**	–
Investment contract receipts	**98 836**	62 072	**–**	–
Investment contract surrenders	**(18 156)**	(6 797)	**–**	–
Adjustments for:				
– Depreciation	**17 205**	11 948	**–**	–
– Fair value of policyholder liabilities under investment contracts	**8 876**	8 586	**–**	–
– Amortisation of intangible asset	**13 101**	13 922	**–**	–
– Realised profit on disposal of property and equipment	**(68)**	(38)	**–**	–
– Investment income	**(654 435)**	(945 244)	**(1 874)**	–
– Net fair value gains on financial assets held at fair value through profit or loss	**(494 825)**	(1 147 376)	**–**	–
Changes in working capital:				
– Insurance and other receivables	**37 648**	53 135	**(47)**	(437)
– Insurance and other payables	**22 523**	12 432	**11 208**	144
– Insurance policy liabilities	**72 068**	(22 896)	**–**	–
Cash generated from operations	**389 036**	340 907	**2 166**	(293)

28. TAX PAID

	Group 2011	Group 2010	Parent 2011	Parent 2010
Tax receivable at beginning of year	**(14 838)**	(2 913)	**–**	–
Current tax as per statement of comprehensive income	**128 678**	118 799	**2 248**	–
Tax receivable at end of year	**20 389**	14 838	**–**	–
Total tax paid	**134 229**	130 724	**2 248**	–

29. COMMITMENTS

	Group		Parent	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
(a) Capital commitments				
Capital expenditure contracted for at the reporting date but not yet incurred is as follows:				
– Committed but not contracted for	**51 076**	55 160	**–**	–
(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 24.				
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:				
Due in 1 year or less	**18 185**	14 438	**–**	–
Due between 1 year and 5 years	**45 287**	43 361	**–**	–
Due after 5 years	**3 078**	4 398	**–**	–

30. RELATED PARTIES

Holding company

The Professional Provident Society Holding Trust is the holding entity of the group effective from 26 April 2011. The Professional Provident Society Holdings Trust is a trust incorporated in South Africa and has its sole investment in 100% of the shares of Professional Provident Society Insurance Company Limited, which it acquired from Professional Provident Society NPC during the year. Professional Provident Society NPC was formerly a company 'limited by guarantee' and is currently dormant. This company will be deregistered.

Subsidiaries

PPS's related parties are its subsidiary company Professional Provident Society Insurance Company Limited, as well as Professional Provident Society Insurance Company (Namibia) Limited, Plexus Properties (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 to PPS Holdings Trust (previously to Professional Provident Society Limited NPC) a fee for member services rendered.

The transactions and balances with Professional Provident Society Insurance Company Limited and Professional Provident Society Marketing Services (Pty) Limited are listed below:

	Parent	
	2011 R'000	2010 R'000
Professional Provident Society (Non-profit Company)		
Fees	**1 789**	11 666
Receivable from Professional Provident Society Insurance Company Limited		
Balance at the beginning of the year	**1 281**	678
Fees	**(1 789)**	(10 856)
Paid by Professional Provident Society Insurance Company Limited on behalf of Professional Provident Society NPC	**508**	11 459
Balance at the end of the year	**–**	1 281
The amount receivable from Professional Provident Society Insurance Company Limited has no written terms for repayment or ongoing interest charge.		
The Professional Provident Society Holding Trust		
Fees	**9 638**	–
Receivable from Professional Provident Society Insurance Company Limited		
Balance at the beginning of the year	**–**	–
Fees	**(9 638)**	–
Paid by Professional Provident Society Insurance Company Limited on behalf of PPS Holdings Trust	**21 311**	–
Balance at the end of the year	**11 673**	–
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	**1 036**	–
Fees	**81**	226
Paid to Professional Provident Society Marketing Services (Pty) Limited	**182**	810
Balance at the end of the year	**1 299**	1 036

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

30. RELATED PARTIES...Continued

Key management information

Key management personnel have been defined as all directors of Professional Provident Society NPC, trustees of The Professional Provident Society Holdings Trust and group executive committee members, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management personnel. A complete list of trustees of The Professional Provident Society Holdings Trust is disclosed in the trustees' report.

The aggregate compensation of The Professional Provident Society Holdings Trust trustees and Professional Provident Society Insurance Company Limited executive committee members paid by the Group is set out below:

	Group	
	2011	2010
	R'000	R'000
Salaries and other short-term employee benefits	**18 502**	15 028
Performance payments	**10 995**	9 790
Trustee remuneration	**3 847**	4 032
	33 344	28 850
Aggregate details of insurance between The Professional Provident Society Holdings Trust, any of its subsidiaries, and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management personnel are set out below:		
Life and disability cover	**135 165**	87 218
– Premiums	**603**	431
– Claims	**–**	–
Sickness benefit cover	**4 283**	2 914
– Premiums	**721**	594
– Claims	**24**	–
Surplus Rebate Accounts (policy liabilities)	**8 338**	6 566
Motor and household cover	**48 539**	38 658
– Premiums	**396**	344
– Claims	**110**	176
Investment contracts	**16 180**	11 605

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

31. 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.

31.1 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 11.1.

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.

31.2 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 policyholders' fund (taxed at 0%).

31.3 Employee benefit liabilities

The cost of the benefits and the present value of post-retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions.

The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the post-retirement medical obligations. In determining the appropriate discount rate, the Group considers the interest rate on high quality corporate bonds and Government bonds that have terms to maturity approximating the terms of the related liability. Additional information is provided in Note 17 of these financial statements.

31.4 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 of 9,5% (2010: 9,5%), the average rentals for office space in the area (R100 per square metre) (2010: R90 per square metre), and estimated annual expenses relating to the building of R1 349 000 (2010: R1 145 000). Any change in these assumptions will impact the value of the building.

31.5 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 or 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.

31. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES...Continued

31.6 Valuation of long-term incentive scheme

The cost of the benefits of the long-term incentive scheme depends on a number of assumptions used in calculating the present value under the projected unit credit method. The assumptions used in determining the charge to the statement of comprehensive income arising from these obligations include the expected growth in the apportionment account (rolling five-year average historical growth 14,0% (2010: 14,8%), 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.

32. MANAGEMENT OF RISKS

32.1 General

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

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

- to assist the board in setting risk strategy policies in liaison with management and in the discharge of its duties relating to corporate accountability and associated risk in terms of management assurance and reporting;
- to assist the board in overseeing the Group's compliance with applicable legal and regulatory requirements, industry standards and the Group's code of conduct;
- to review and assess the quality, integrity and effectiveness of the risk management systems and ensure that the risk policies and strategies are effectively managed;
- to review and assess the nature, role, responsibility and authority of the risk management function within the Group and outline the scope of risk management work;
- to ensure that the Group has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to activate what is necessary to pro-actively manage these risks, and to recommend to the board the Group's appetite or tolerance for risk;
- to ensure that a systematic, documented assessment of the processes and outcomes surrounding key risks is undertaken at least annually for the purpose of making its public statement on risk management including internal control;
- to oversee formal reviews of activities associated with the effectiveness of risk management and internal control processes. A comprehensive system of control has been established to ensure that risks are mitigated and that the Group's objectives are attained;
- to review processes and procedures to ensure the effectiveness of internal systems of control so that decision-making capability and accuracy of reporting and financial results are always maintained at an optimal level;
- to monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risk, including emerging and prospective impacts; and
- to provide an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk, also taking account of reports by management and the Audit Committee to the board on all categories of identified risks facing PPS.

The board has delegated to the PPS Group 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 PPS Group **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;

32. MANAGEMENT OF RISKS...Continued

32.1 General...continued

- 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.

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

32.2 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 and the timing thereof, is not certain.

The table on pages 71 and 72 provides an overview of the types of products and the terms and conditions of life insurance contracts written by the Group:

32. MANAGEMENT OF RISKS...Continued

32.2 Insurance product risk management...Continued

Type of contract	Terms and conditions
Sickness and permanent incapacity benefit (PPS Provider Policy)	The sickness and permanent incapacity plan offers a variety of sickness and incapacity benefit options. 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. Sickness and incapacity cover is a non-DPF benefit.
Professional Life Provider (PPS Provider Policy) Old Generation PPS Life and Disability Assurance Scheme	The Professional Life Provider policy, 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 and 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. The reinsurance to PPS transfers insurance risk only, and is accounted for as reinsurance inwards. The premiums and benefits 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. The Life and disability benefits are non-DPF benefits.
Professional Health Provider (PPS Provider Policy) Professional Health Preserver	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 Professional Health Preserver is closed to new business. The premiums and benefits 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. The dread disease and physical impairment benefits are non-DPF benefits.
Professional Disability Provider (PPS Provider Policy)	The Professional Disability Provider offers lump sum disability cover for a specified term. At age 66, or earlier retirement (if this is over the age of 60), the Professional Disability Provider converts automatically into a severe illness benefit. This is a benefit that pays a 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 and benefits 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 disability benefits are non-DPF benefits.
PPS Provider Policy	The PPS Provider Policy contains a DPF component, being the Surplus Rebate Account.

32. MANAGEMENT OF RISKS...Continued

32.2 Insurance product risk management...Continued

Type of contract	Terms and conditions
Business Provider Policy	The Business Provider Policy provides for the Business Life Provider and the Business Health Provider. The Business Life Provider product provides benefits very similar to those of the Professional Life Provider. The Business Health Provider product provides benefits similar to those of the Professional Health Provider, but tailored to payout for the more severe critical illness and physical impairment conditions only. The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer. Reinsurance policies are in place to reduce the variability of the claims experience. The policies transfer insurance risk only and do not contain a DPF component.
PPS Endowment	The PPS Endowment affords policyholders the ability to save in a cost effective, transparent and flexible manner. The underlying investments are unit trusts, and no guarantees are offered on this product. The policies do not transfer insurance risk and do not contain a DPF component. This product is available to corporates and individuals.
PPS Living Annuity	The PPS Living Annuity is a compulsory purchase linked living annuity and does not offer risk benefits or investment guarantees. The underlying investments are unit trusts. The policies do not transfer insurance risk and do not contain a DPF component.

The PPS Provider Policy includes a DPF element. The participating nature of these contracts results in the insurance risk being carried by the insured parties. All variations in claims, persistency or termination rates are carried by the insured parties by means of variations in the amounts allocated to the DPF element. However, the Group continues to manage the insurance risk in order to sustainably provide for the insurance benefits and to grow the DPF benefits available to policyholders.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the allowance made for the payments of these benefits. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to appropriately charge for the insurance risks accepted.

Insurance contracts

(a) Frequency and severity of claims

For contracts where morbidity is the insured risk, the most significant factors that could increase the overall frequency of claims are diseases (such as AIDS), epidemics (such as Cholera and SARS), economic conditions, abnormal weather conditions, quality of healthcare or wide spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

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

32. MANAGEMENT OF RISKS...Continued

32.2 Insurance product risk management...Continued

Insurance contracts...Continued

(a) Frequency and severity of claims...Continued

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. Where appropriate, reinsurance contracts are in place to limit the Group's ultimate liability. 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.

In some instances, maximum exposures are not increased annually where not appropriate.

Where appropriate, reinsurance contracts are in place to limit the Group's liability. There is a board approved reinsurance strategy in place, which is regularly reviewed 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 Rands
2011	**4 279 972**	**39 203**
2010	4 032 750	35 824

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 11).

(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.

Lapse experience can have a significant impact on the Group. To manage lapse risk, the Group conducts monthly lapse analyses for each of the product lines. Where experience is worse than long term valuation expected lapse experience management intervention is taken, over and above normal ongoing retention efforts to reduce overall lapse and exits.

Risk exposure and concentrations of risk

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

32. MANAGEMENT OF RISKS...Continued

32.2 Insurance product risk management...Continued

Group 2011 R'000	Non-DPF component of insurance liabilities	DPF component of insurance liabilities	Total
South Africa			
Gross	**2 988 371**	**12 502 841**	**15 491 212**
Net of reinsurance	**2 960 003**	**12 502 841**	**15 462 844**
Namibia			
Gross	**117 467**	**334 715**	**452 182**
Net of reinsurance	**112 031**	**334 715**	**446 746**

Group 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

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.

32.3 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.

32. MANAGEMENT OF RISKS...Continued

32.3 Financial risk management...Continued

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 it exposure to credit risk by only investing in liquid debt securities and only with counterparties that have a credit rating as set out below as well as only investing with reputable banks which are assessed quarterly.

The Group only enters into insurance contracts with eligible professional individuals. 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 Long-term 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**	**2011**	2010
Debt securities	**5 181 629**	4 600 417
Reinsurance assets	**36 324**	217 927
Insurance receivables	**15 385**	36 300
Cash and cash equivalents	**1 402 806**	1 637 236
Other receivables	**32 072**	30 936
Reinsurance receivables	**36 971**	51 142
Total	**6 705 187**	6 573 958

32. MANAGEMENT OF RISKS...Continued

32.3 Financial risk management...Continued

Corporate and government debt

Included in the category designated at fair value through profit or loss are interest instruments of corporate and government debt. Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt. To mitigate this risk, management has formulated guidelines based on ratings from 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 percentage of the Market Value of Assets comprising the portfolio
AAA, sovereign and government guaranteed bonds, but no lower than AA-	30%
A+ but no lower than A-	20%
BBB+ but no lower than BBB-	5%

The Group's total exposure to government and corporate debt amounted to R 5 181 million (2010: R4 600 million) at 31 December 2011. The following represent the major industry sectors to which the Group is exposed as at 31 December 2011:

Group Rm	2011	2010
Government	**1 747**	1 615
Banks	**2 734**	2 329
Utilities	**496**	491
Corporate	**204**	165
Total	**5 181**	4 600

32. MANAGEMENT OF RISKS...Continued

32.3 Financial risk management...Continued

Concentrations of credit risk

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

Group 2011 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**
Debt securities	**1 880 706**	**2 845 964**	**447 024**	**7 935**	**–**	**5 181 629**
Reinsurance assets	**–**	**–**	**36 324**	**–**	**–**	**36 324**
Insurance receivables	**–**	**–**	**–**	**–**	**15 385**	**15 385**
Cash and cash equivalents	**133 214**	**1 266 456**	**3 136**	**–**	**–**	**1 402 806**
Other receivables	**–**	**–**	**–**	**–**	**32 072**	**32 072**
Reinsurance receivables	**–**	**–**	**36 971**	**–**	**–**	**36 971**

Group 2010 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
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

32. MANAGEMENT OF RISKS...Continued

32.3 Financial risk management ...Continued

Ageing of financial assets

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

Group 2011 R'000	Neither past due nor impaired	Financial assets that are past due 0 – 2 months	3 – 5 months	More than 5 months	Carrying value
Insurance receivables	**227**	**346**	**516**	**14 296**	**15 385**
Reinsurance assets	**36 324**	**–**	**–**	**–**	**36 324**
Reinsurance receivables	**31 742**	**5 229**	**–**	**–**	**36 971**
Other receivables	**25 199**	**6 873**	**–**	**–**	**32 072**
Cash and cash equivalents	**1 402 806**	**–**	**–**	**–**	**1 402 806**

Group 2010 R'000	Neither past due nor impaired	Financial assets that are past due 0 – 2 months	3 – 5 months	More than 5 months	Carrying value
Insurance receivables	4 975	1 600	2 038	27 687	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

The Group does not have collateral or other credit enhancements for its credit risk exposure from financial assets and insurance contract assets during the current or prior year.

There are no financial assets where the terms have been renegotiated for the current or prior year.

Individually impaired assets

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

Group R'000	2011 Gross	2011 Impairment losses	2011 Net	2010 Gross	2010 Impairment losses	2010 Net
Due from contract holders	**27 890**	**12 505**	**15 385**	44 871	8 571	36 300

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.

32. MANAGEMENT OF RISKS...Continued

32.3 Financial risk management ...Continued

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

Group 2011 R'000	Carrying amount	Total cash flows	Contractual cash flows				
			Within 1 year	2 – 5 years	6 – 10 years	11 – 20 years	Over 20 years
Insurance contract liabilities – DPF	**12 837 556**	**12 837 556**	**251 185**	**1 757 929**	**2 738 464**	**4 664 240**	**3 425 738**
Insurance contract liabilities – non-DPF	**3 072 034**	**(7 592 349)**	**547 130**	**1 029 059**	**(456 364)**	**(2 726 152)**	**(5 986 022)**
Reinsurance liabilities	**9 680**	**9 680**	**9 680**	**–**	**–**	**–**	**–**
Third-party financial liabilities arising on consolidation of unit trusts	**711 633**	**711 633**	**711 633**	**–**	**–**	**–**	**–**
Investment contract liabilities	**221 311**	**221 311**	**221 311**	**–**	**–**	**–**	**–**
Other financial liabilities	**86 335**	**86 335**	**86 335**	**–**	**–**	**–**	**–**

Group 2010 R'000	Carrying amount	Total cash flows	Contractual cash flows				
			Within 1 year	2 – 5 years	6 – 10 years	11 – 20 years	Over 20 years
Insurance contract liabilities – DPF	11 887 987	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	–	–	–	–

For obligations with non-DPF components, the amounts in the table represent the estimated cash flows, consistent with the valuation methodology followed by the calculation of the non-DPF component of the insurance liabilities on the published reporting basis. All the cash flows are shown gross of reinsurance. Nominal cash flows are shown and the effect of discounting is taken into account to reconcile to total policy liabilities under insurance contracts. Since the DPF component is a retrospective accumulation of past profit declarations, the current value is taken as the value of the underlying assets (shown in the tables above).

Market risks

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and equity prices will affect the value of the Group's financial assets and the amount of the Group's liabilities as well as the Group's insurance contract assets and liabilities. Market risk arises in the Group due to fluctuation in the value of liabilities and the value of investments held.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Group's exposure to market risk and its objectives, policies and procedures for managing market risks have not changed significantly from the prior period although rigour has been applied to these in light of current market conditions and volatility. Refer below for more detail.

32. MANAGEMENT OF RISKS...Continued

32.3 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 though 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 2011	**Non-pre-retirement option benefits R'000**	**%**	**Pre-retirement option benefits R'000**	**%**
Local				
Equity	**6 532 809**	**51,6**	**174 960**	**19,9**
Fixed interest	**3 213 096**	**25,4**	**290 043**	**33,0**
Cash	**137 669**	**1,1**	**329 415**	**37,5**
International				
Equity	**2 754 285**	**21,9**	**84 185**	**9,6**
Total	**12 637 859**	**100,0**	**878 603**	**100,0**

Group 2010	Non-pre-retirement option benefits R'000	%	Pre-retirement option benefits R'000	%
Local				
Equity	6 528 775	54,8	52 316	10,0
Fixed interest	2 140 148	18,0	167 676	32,0
Cash	1 064 991	9,0	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

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.

32. MANAGEMENT OF RISKS...Continued

32.3 Financial risk management ...Continued

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:

Group	2011 R'000	%	2010 R'000	%
Local				
Equity	**646 005**	**21,0**	579 493	20,0
Fixed interest	**1 605 771**	**52,3**	2 206 248	76,2
Cash	**820 258**	**26,7**	104 065	3,6
International				
Equity	**–**	**–**	4 961	0,2
Total	**3 072 034**	**100,0**	2 894 767	100,0

Currency risk

The Group's operations in Namibia created no additional sources of foreign currency risk due to the fact that there is no exchange difference between the Namibian Dollar and the South African Rand.

The asset managers actively manage the currency risk when decisions are made in regard to investing internationally. All investment returns are shown in Dollars and the effect of the trading in different currencies are reflected in the investment performance which is measured against an internal benchmark. In terms of legislation, up to 20% of the Group's investments may be invested in foreign currency and hence the Group has less than 20% exposure to currency risk.

Equity price risk

The Group holds a significant portfolio of equities which are subject to price movements. The majority of these assets are held to support contractual liabilities arising from unit-linked insurance contracts, contracts with DPF and investment contracts and therefore the price movements are matched with corresponding movements on contractual obligations.

The exposure to equities is managed to ensure that the Group's internal capital requirements are met at all times, as well as those mandated by the Group's external regulators.

Benchmarks and risk parameters are set against which the Group measures the asset managers. A monthly compliance statement is provided by each asset manager stating their adherence to the investment mandate, and highlighting any deviations and the corrective action to be taken to rectify the deviations. The performance of the assets against benchmarks, and the adherence to mandates, are monitored monthly by management. The asset managers present the performance against benchmarks and adherence to mandates, to the board, on a biannual basis.

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

The nature of the Group's exposures to equity risk and its objectives, policies and processes for managing equity risk have not changed significantly from the prior period. The assets have performed well compared to the benchmark. This, coupled with the long-term view that PPS takes towards its investments, means that the long-term asset strategy and asset allocations have remained unchanged.

32. MANAGEMENT OF RISKS...Continued

32.3 Financial risk management ...Continued

Market risk sensitivity analysis

The table below shows the results of sensitivity testing on the Group's profit or loss (before tax) and equity for reasonable possible changes in the risk variables. The sensitivity analysis indicates the effect of changes in market risk factors arising from the impact of the changes in these factors on the Group's financial assets and liabilities and its insurance assets and liabilities.

For the DPF insurance liabilities and investment contracts the assets and liabilities are matched. The market risk is thus carried by policyholders. The impact of any change in the market risk will be in the movement to/from insurance policy liabilities on the statement of 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:

	Contracts with non-DPF: Impact on profit/(loss) before movement in insurance policyholder liabilities	
Group	**2011 R'000**	2010 R'000
Interest rate risk		
Lower limit: 7,4% yield	**(634 056)**	(517 380)
Upper limit: 9,4% yield	**520 783**	432 268

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 exposure.

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

32. MANAGEMENT OF RISKS...Continued

32.3 Financial risk management ...Continued

The Statutory Actuary reports annually on the financial soundness of the premium rates in use and the profitability of the business, taking into consideration the reasonable benefit expectation of policyholders. All new rate tables are approved and authorised by the statutory actuary prior to being issued. Regular investigations into the mortality and morbidity experience are conducted. All risk-related mortality lump sum, disability and critical illness liabilities in excess of specified monetary limits are reinsured. A sickness experience report is annually presented analysing claim patterns and trends. The latest report indicated no significant deterioration in claim patterns.

Reinsurance

A comprehensive, Board approved, reinsurance strategy is in place for the Group. Certain life, disability, dread disease and physical impairment risks are reinsured. The risks to be reinsured have been decided upon by balancing the need to reduce variability of claims experience against the cost of reinsurance. The reinsurers contracted with have been assessed on their ability to provide the Group with product, pricing, underwriting and claims support, as well on as their global credit rating.

Claims risk

Pro-active training of staff takes place to ensure that fraudulent claims are identified and investigated timeously. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks. The forensic investigation team also advises on improvements to internal control systems and performs forensic investigations on perceived fraudulent claims. The Forensic Investigations department investigates all suspected fraudulent claims.

Products and pricing risk

Some of the mitigating measures in place to address this risk include:

- Ongoing analysis of risk experience (such as the sickness and mortality investigations).
- Use of reinsurance – this protects the insurer in that some of the risk of insufficient rates is passed onto a reinsurer.
- Margins in the premium rates – generally additional margins are included in the setting of premium rates to arrive at a more prudent set of rates and should protect against experience being slightly worse than anticipated.
- Non-guaranteed rates allows the Group to change its rates should the experience worsen significantly or be anticipated to worsen significantly.
- The thorough testing of proposed products upfront, including testing expected expenses and volumes of business, provides a sense of the expected parameters within which the product pricing will remain appropriate. If expenses or volumes are significantly different from the business plan then the overall offering and position will be revisited and consideration given to making appropriate changes to remedy worsening positions.
- Valuation – the annual valuation provides valuable information about changing parameters (such as mortality, morbidity, long term investment returns, yields).

Expense risk

There is a risk that the Group may suffer a loss from actual expenses being higher than those assumed when pricing or valuing contracts. This may be caused by factors increasing the expense charge in running the business, higher than expected expense inflation, or by an in force policy book smaller than expected. Alternatively, lower than expected volumes of new business or higher than expected contract terminations may result in higher than expected unit costs per policy.

Expense investigations are performed annually and valuation expense assumptions are set based on the results of this investigation, taking cognisance of the budgeted expenses per policy for the next financial year. Actual expenses are compared against budgeted expenses on a monthly basis. Due to the mutual nature of the Group, expense savings or expenses losses compared to expected expenses will respectively result in a higher or lower profit allocation to the policyholders.

32. MANAGEMENT OF RISKS...Continued

32.3 Financial risk management ...Continued

Business volume risk

Business Volume risks arises from writing less than expected new business or significantly more than expected. If PPS writes less of a product than expected in its pricing basis, then PPS may not recover the fixed costs of the product, and may not contribute sufficiently to the broader cost base and required profits. Should PPS write far more of a product than anticipated, PPS may find that the commission and acquisition costs strain of writing such volumes of business will negatively impact operating profits more than PPS has appetite for. While the business might have been written profitably, the short term significant amount of unexpected commissions and expenses might cause an unmanageable new business strain and consequently possible negative operating profits for the year. A mitigating factor is that a substantial portion of these costs are variable costs. Actual sales volumes are compared against budgeted and annual targeted sales on a monthly basis. This enables management to determine whether there are any factors that could impact the delivery of the targeted volumes. Where these are identified, an investigation occurs and the appropriate corrective action is taken.

Data and model risk

There is a risk that the Group may suffer a loss if the model used to calculate the insurance liabilities does not project the expected cash flows on the contracts accurately. This risk is mitigated by comparing the actual cash flows with the expected cash flows on a product basis at least annually. All new contract designs are also incorporated into the model. Detailed investigations are performed annually to ensure the integrity of the data used in the valuation process. Automated systems have been implemented to flag any anomalous transactions on an ongoing basis.

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 plays 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' product offering also plays an important role in mitigating lapse risk.

Capital management

The Group's capital management objectives are:

- To comply with the insurance regulatory capital requirements in the country where the Group operates;
- To safeguard the entity's ability to continue as a going concern; and
- To continue to provide acceptable returns for policyholders and members, and benefits for other stakeholders.

The board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and satisfy regulators whilst still creating value for policyholders.

The level of accumulated funds required by the Group is determined by the Long-term Insurance Act 52 of 1998 together with the Group's licence requirements.

The minimum capital requirements must be maintained at all times during the year. The table below summarises the minimum accumulated funds requirements across the Group and the actual accumulated funds held.

Group	2011		2010	
R'000	South Africa	Namibia	South Africa	Namibia
Capital held	**191 479**	**5 223**	174 278	5 223
Regulatory capital	**71 655**	**4 000**	65 039	4 000

32. MANAGEMENT OF RISKS...Continued

32.3 Financial risk management ...Continued

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 11), 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 board. The results of the ALM investigations may lead to changes in the approved asset class mixes contained in the Investment Policy, in order to address any increases in the risk of volatility identified in the ALM investigation.

There have been no material changes in the Group's management of capital during the period. The Group has maintained its level of CAR cover at 2,6 times. This decision has resulted in R17,2 million (2010: R15,1 million) being allocated to (2010: from) 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 the concentration of risk 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 Investments 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; and
- making manager changes where PPS Investments feels this is in the best interest of investors.

The Collective Investments Scheme Control Act also imposes specific restrictions which the underlying managers have to comply with and also restricts the interest rate and credit risk, where applicable, that they are able to take.

32. MANAGEMENT OF RISKS...Continued

32.3 Financial risk management ...Continued

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 limit to not more than 75% of the portfolio value.

Typical investments

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

Risk exposure

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

PPS Flexible Income Fund

Investment objective

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

Investment mandate

This multi-managed flexible fund invests in a number of underlying managers with the specific mandate to actively manage the fund by investing without prescribed maturity limits. Asset allocation is defensive with exposure to fixed interest instruments, including high-yielding corporate bonds and securities, government bonds, listed property, preference shares and inflation-linked bonds.

Typical investments

The manager invests in income-yielding fixed instruments such as money market, bonds and preference shares.

Risk exposure

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

PPS Equity Fund

Investment objective

To provide long-term capital growth that exceeds the return provided by a broad equity market index.

Investment mandate

This multi-managed fund invests in a number of underlying managers with the specific mandate to actively manage exposures to domestic listed equities in order to deliver long-term performance.

Typical investments

This multi-manager invests in equities and cash.

Risk exposure

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

33. STANDARDS AND INTERPRETATIONS ISSUED

Amendments to published standards mandatory for the Group's accounting periods beginning on or after 1 January 2011:

- IAS 32 (Amendment): 'Financial Instruments: Presentation' (Effective 1 February 2010) – Classification of rights issues. The amendment allows rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment did not result in a material impact on the Group's financial statements.
- IFRIC 19: 'Extinguishing financial liabilities with equity instruments' (Effective 1 July 2010). The interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's share or other equity instruments to settle the financial liability. The interpretation did not result in a material impact on the Group's financial statements.
- IAS 24 (Revised): 'Related party disclosures' (Effective 1 January 2011). The revised standard amended the definition of a related party and modifies certain related-party disclosure requirements for government-related entities. The revised statement did not result in a material impact on the Group's financial statements.
- IFRS 3 (Amendment): 'Business combinations'.

  (a) *Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS* (effective on or after 1 July 2010) – Clarifies that the amendments to IFRS 7, Financial instruments: Disclosure, IAS 32, Financial instruments: Presentation and IAS 39, Financial instruments: Recognition and measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). The amendment did not result in a material impact on the Group's financial statements.

  (b) *Measure of non-controlling interests* (effective on or after 1 July 2010) – The choice of measuring non-controlling interest at fair value or at the proportionate share of the net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. The amendment did not result in a material impact on the Group's financial statements.

  (c) *Un-replaced and voluntarily replaced share-based payment awards* (effective on or after 1 July 2010) – The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payments awards. The amendment did not result in a material impact on the Group's financial statements.

- IFRS 7 (Amendment): 'Financial Instruments' (effective 1 January 2011). Emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment did not result in a material impact on the Group's financial statements.
- IAS 1 (Amendment): 'Presentation of financial statements' (effective 1 January 2011). The statement clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment did not result in a material impact on the Group's financial statements.
- IAS 27 (Amendment): 'Consolidated and separate financial statements' (effective on or after 1 July 2010). The statement clarifies that the consequential amendments from IAS 27 made to IAS 21, The effect of changes in foreign exchange rates, IAS 28, Investments in associates and IAS 31, Interest in joint ventures, apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when IAS 27 is applied earlier. The amendment did not result in a material impact on the Group's financial statements.

33. STANDARDS AND INTERPRETATIONS ISSUED...Continued

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 2011 or later periods, and the Group has not early adopted them:

- IFRS 7 (Amendment): 'Financial instruments: Disclosures' (effective 1 July 2011). This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amended standard will not result in a material impact on the Group's financial statements.
- IAS 12 (Amendment): 'Income Taxes' (effective 1 January 2012). IAS 12, Income taxes currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use of through sale when the asset is measured using the fair value model in IAS 40, Investment property. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendment also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amended standard will not result in a material impact on the Group's financial statements.
- IAS 1 (Amendment): 'Financial statement presentation' (effective 1 July 2012). The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amended standard will not result in a material impact on the Group's financial statements.
- IAS 19 (Amendment): 'Employee benefits' (effective 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. Currently the Group has a R17,9 million unrealised actuarial loss.
- IFRS 9: 'Financial Instruments' (effective 1 January 2015). IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance is IAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard will not result in a material impact on the Group's financial statements.
- IFRS 10: 'Consolidated financial statements' (effective 1 January 2013). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis of consolidation and sets out the accounting requirements for the preparation of consolidated financial statement. The new standard will not result in a material impact on the Group's financial statements.
- IFRS 11: 'Joint arrangements' (effective 1 January 2013). IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has the right to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The new standard will not result in a material impact on the Group's financial statements.
- IFRS 12: 'Disclosure of interest in other entities' (effective 1 January 2013). IFRS 12 includes the disclosure requirements of all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The new standard will not result in a material impact on the Group's financial statements.

33. STANDARDS AND INTERPRETATIONS ISSUED...Continued

- IFRS 13: 'Fair value measurement' (effective 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other IFRSs. The new standard may result in a material impact on the Group's financial statements.
- IAS 27(Revised): 'Separate financial statements' (effective 1 January 2013). IAS 27 includes the provision on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The revised standard will not result in a material impact on the Group's financial statements.
- IAS 28 (Revised): 'Associates and joint ventures' (effective 1 January 2013). IAS 28 includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The 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 a material impact on the Group's financial statements.

34. SUBSEQUENT EVENT

In the budget speech of the minister of finance on 22 February 2012, the following tax changes were announced which will have an impact on the financial results of the Group in the coming year:

- Dividend withholding tax levied at 15% on dividends received in the Individual Policyholder Fund as published in the Taxation Law Amendments Act, No. 24 of 2011; and
- An increase in the inclusion rate of capital gains used in the calculation of capital gains tax as published in the Eighth Schedule to the Income Tax Act of 1962.

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST (REGISTRATION NUMBER: IT312/2011 ('the Trust')

NOTICE TO THE MEMBERS OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the second annual general meeting ('the meeting') of the members of the Trust will be held on Monday, 4 June 2012 at 18:00, in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg, for the following purposes:

1. To approve and adopt the annual financial statements for the year ended 31 December 2011, including the reports of the trustees and the auditors of the Trust.
2. To re-appoint PricewaterhouseCoopers Inc. as the auditors of the Trust.
3. To elect and appoint trustees in place of those trustees retiring in accordance with the Trust Deed which established and governs the Trust ('Trust Deed').

   Dr D R Anderson, Dr V K S Bhagwandas, Mr U D Jivan and Mr S Trikamjee retire by rotation at the meeting in terms of the Trust Deed.

   Dr D R Anderson, Mr U D Jivan and Mr S Trikamjee, being eligible for re-election and appointment, offer themselves for re-election and appointment as trustees of the Trust.

   In addition, the following candidates have been nominated for election and appointment as trustees of the Trust in terms of the Trust Deed:

   Mr P M Gumede; and
   Mr H A C van den Bout.

   (Abbreviated biographical details of the persons referred to above are set out on pages 92 to 94 of these financial statements).

   EXPLANATORY NOTE ON THE APPOINTMENT OF THE TRUSTEES

   The board of trustees currently consists of 20 trustees, all of whom were appointed in accordance with the Trust Deed. In terms of clause 5.3.1 of the Trust Deed, a maximum of 12 of the trustees may be appointed by the members in general meeting. There are four vacancies and there are five nominees for these vacant positions (including the trustees who retire by rotation and who offer themselves for re-election and appointment). In terms of the Trust Deed, if more persons have been nominated for the office of trustee than there are vacancies, and although each candidate will be voted upon by a separate resolution, the result of the voting shall be determined in accordance with the number of votes cast in favour of each resolution so that the vacancies will be filled by the four candidates receiving the highest number of favourable votes. Members should vote for a maximum of four trustees.
4. To elect the Audit Committee of the Trust. The following trustees, who meet the requirements of paragraph 26.1 of the Trust Deed, have offered themselves for election:

   4.1 Dr D R Anderson;

   4.2 Ms D L T Dondur; and

   4.3 Mr E A Moolla.
5. To approve the following remuneration of the trustees for the period 1 July 2012 to 30 June 2013:

   5.1 remuneration of the chairman, comprising a retainer of R284 150 and an attendance fee of R12 200 per meeting;

   5.2 remuneration of the deputy chairman, comprising a retainer of R189 400 and an attendance fee of R9 150 per meeting;

   5.3 remuneration of the co-opted members of the board of trustees, comprising a retainer of R135 080 and an attendance fee of R6 100 per meeting;

   5.4 remuneration of the remainder of the members of the board of trustees, comprising a retainer of R94 700 and an attendance fee of R6 100 per meeting;

   5.5 remuneration of the chairman of the Trust Audit Committee, being an attendance fee of R14 400 per meeting; and

   5.6 remuneration of the members of the Trust Audit Committee, being an attendance fee of R7 200 per meeting.
6. To pass the following special resolution approving the amendment and restatement of the deed of trust constituting the Trust ('Trust Deed'):

   'RESOLVED THAT the Members of the Trust hereby, in terms of clauses 12.1.3 and 31.1.3 of the existing deed of trust constituting the Trust ('Trust Deed'), hereby approve the amendment and restatement of the Trust Deed by the replacement thereof with the 'First Amended and Restated Trust Deed for The Professional Provident Society Holdings Trust' which accompanied the notice to Members of the meeting at which this resolution was considered, subject to confirmation from the Registrar of Long-term Insurance that it does not object to the proposed amendment contemplated by this resolution, as referred to in clause 31.1.4 of the Trust Deed.'

NOTICE TO THE MEMBERS OF THE ANNUAL GENERAL MEETING...Continued

EXPLANATORY NOTE ON THE AMENDMENT AND RESTATEMENT OF THE TRUST DEED

On restructuring the former holding company of the PPS Group, namely Professional Provident Society Limited (Limited by Guarantee) ('PPS Limited'), into a trust, the Trust Deed of The Professional Provident Society Holdings Trust was drafted to substantially replicate the articles of association of PPS Limited, which were drafted in 2001. Having successfully implemented the restructuring, it is now proposed that the Trust Deed be updated to reflect the current practices and direction of the PPS Group, to improve administrative efficiency and to align members' voting rights with participation in the core products of PPS Insurance.

The First Amended and Restated Trust Deed for The Professional Provident Society Holdings Trust, together with an annexure setting out the proposed salient amendments thereto, are accordingly enclosed with the Integrated Report and accompany this Notice of Annual General Meeting.

The amendment and restatement of the Trust Deed has been approved by the Board of Trustees in terms of clause 31.1.2 of the Trust Deed and, in order for that amendment and restatement to become effective in accordance with the remaining provisions of the Trust Deed:

- resolution number 6 must be authorised by at least 75% of the votes cast by members present at the annual general meeting; and
- the Registrar of Long-term Insurance is required to confirm that it does not object to the proposed amendment and restatement.

VOTING

In voting or passing any resolution:

- Associate Members (as defined in the Trust Deed) shall each have 1 (one) vote; and
- Ordinary Members (as defined in the Trust Deed) shall have 100 (one hundred) votes each, plus 1 (one) additional vote for each completed R200,00 (two hundred Rand) standing to his/her credit in his/her Apportionment Account (as defined in the Trust Deed), as at the most recent date prior to the meeting when the Apportionment Accounts of Ordinary Members were adjusted, provided that an Ordinary Member who is at the date of the vote 3 (three) months or more in arrear with the payment of his/her premiums (payable in terms of the Master Contract (as defined in the Trust Deed)) shall only have 1 (one) vote at the meeting.

A member who has more than 1 (one) vote may not split votes to exercise his/her votes in voting on any particular resolution but shall exercise all his/her votes either for or against the resolution or the member may abstain from voting on it.

PROXIES

Any member who is entitled to attend and vote at the meeting may appoint one or more proxies (who need not be a member of the Trust) to attend, speak and on a poll to vote or abstain from voting in his/her stead.

Proxy forms must be received at one of the following addresses or via facsimile or email, to be received by, and marked for the attention of, the Secretary, by no later than 18:00 on Wednesday, 30 May 2012:

- Physical address: 6 Anerley Road, Parktown, Johannesburg
- Postal address: PO Box 1089, Houghton, 2041
- Facsimile: 011 644 4641
- Email: VBarnard@pps.co.za

By order of the board of trustees

VE Barnard

Secretary
The Professional Provident Society Holdings Trust

28 March 2012

ABBREVIATED CURRICULA VITAE FOR NOMINATED CANDIDATES

DR DAVID RANDLE ANDERSON

DATE OF BIRTH

18 October 1946

PROFESSION

Specialist: Oral Medicine and Periodontics

TERTIARY QUALIFICATIONS

- Bachelor of Dentistry (WITS)
- Dip POM (WITS)
- FCD, (SA) OMP

POSITIONS HELD

- Member of the Federal Council of the Dental Association of South Africa (DASA)(1992-1998)
- Member of the National Council of the South African Dental Association (SADA)(1998-2005)
- Served on the Gauteng Regional Organisation of SADA, and as its President in 1990
- Chairman of the Research, Education and Development Trust (SADA)(1995-2005)
- Chairman of the Dentistry Development Trust (SADA)(1995-2005)
- Executive Committee member of the Dental Education Committee of SADA (1995-2005)
- Principal Specialist/Senior Lecturer (part-time) in the Department of Oral Medicine and Periodontology – University of the Witwatersrand (1982-2001)
- Facilitator of the Audit and Risk Committee of SADA (2006-2008)

DIRECTORSHIPS/TRUSTEESHIPS

- Chairman of the Board of Professional Provident Society Insurance Company Limited
- Member of the Board of Trustees of The Professional Provident Society Holdings Trust since 2011
- Chairman of the PPS Group Remuneration Committee
- Chairman of the PPS Group Actuarial Committee
- Chairman of the PPS New Generation Retirement Funds (Pension and Provident)
- Member of the PPS Group Nominations Committee
- Member of the Professional Provident Society Holdings Trust Audit Committee
- Previously Chairman of Professional Provident Society Limited and a member of the Board of Professional Provident Society of South Africa, 1991-2010

UMESH DHANJEE JIVAN

DATE OF BIRTH

6 May 1962

PROFESSION

Attorney, Conveyancer and Notary of the High Court of South Africa

TERTIARY QUALIFICATIONS AND PROFESSIONAL MEMBERSHIP

- BA, LLB (University of KwaZulu-Natal) 1985

POSITIONS HELD

- CEO of Jivan and Co since 1989
- Councillor of KwaZulu-Natal Law Society since 2010

DIRECTORSHIPS AND TRUSTEESHIPS

- Member of the Board of Trustees of The Professional Provident Society Holdings Trust since 2011
- Member of the Board of Directors of Professional Provident Society Limited (2009-2011)
- Chairman and Trustee of various property holding trusts

SHAYLEN TRIKAMJEE

DATE OF BIRTH

9 November 1978

PROFESSION

Chartered Accountant and Entrepreneur

TERTIARY QUALIFICATIONS

- BCom (Hons) University of Natal 2001
- CA(SA)

POSITIONS HELD

- Owner manager of business in the hospitality industry since 2010
- Head of Resources Team: Merrill Lynch SA (2005-2009)

DIRECTORSHIPS AND TRUSTEESHIPS

- Member of the Board of Trustees of The Professional Provident Society Holdings Trust since 2011
- Member of the Board of Directors of Professional Provident Society Limited (2009-2011)
- Vice-Chairman – Durban and Districts Society (2003-2004)
- District Commissioner – Durban Central Scouts Association

ABBREVIATED CURRICULA VITAE FOR NOMINATED CANDIDATES...Continued

PATRICK MZIKAYISE GUMEDE

DATE OF BIRTH

2 November 1974

PROFESSION

Attorney

TERTIARY QUALIFICATIONS

- BA University of Durban Westville
- BJuris University of Zululand

POSITIONS HELD

- Professional Assistant with Deena Moodley and Associates since 2006
- Educator – Gqokubukhosi Secondary School and Dabeka High School (1994-1999)
- Convenor – UNISA Durban Law Society 1995
- International Relations Officer – KZN Progressive Professional Network

DIRECTORSHIPS

- Board member – Legal officer of Durban Youth Radio (2007-2009)
- Board member – Greater Durban Television (GDTV) since 2010

HENDRIK ARNOLD CHRISTIAAN VAN DEN BOUT

DATE OF BIRTH

17 January 1976

PROFESSION

Admitted Attorney of the High Court of South Africa, 2002
Admitted Solicitor in the High Court of England and Wales, 2004

TERTIARY QUALIFICATIONS

- BCom Law (University of Pretoria) 1996
- LLB (University of Pretoria) 1998
- BCom(Hons) (Business Management) (University of Pretoria) 1999
- LLM (Corporate Law) (UNISA) 2000

POSITIONS HELD

- Attorney at Coombe and Associates Inc. Attorneys since 2008
- Director: Bustque 366 (Pty) Limited since 2009
- Chief Operating Officer: One Law (Pty) Limited since 2008
- Project Office Manager: OneTrace (Pty) Limited since 2008
- Attorney at Lanham – Love Attorneys 2008
- Solicitor at The London Borough of Camden, Prosecution, Licensing and Civil Litigation (2002-2007)

DIRECTORSHIP AND MEMBERSHIPS

- Director: Bustque 366 (Pty) Limited since 2009
- Member of the Law Society of South Africa – Northern Provinces since 2002
- Member of the Law Society of England and Wales (non-practising) since 2004
- Member of Commonwealth Lawyer's Association since 2006

FORM OF PROXY

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST (REGISTRATION NUMBER IT312/2011) ('the Trust')

Member's particulars

Identity No. ______________________________

Membership No. ______________________________

Email address: ______________________________

Cell: ______________________________

Member: I, ______________________________

of ______________________________ being a member of the Trust, hereby appoint:

Proxy: ______________________________ of ______________________________

or failing him/her ______________________________ of ______________________________

or failing him, the Chairman of the meeting as my proxy to attend, speak and on a poll vote for me and on my behalf at the annual general meeting of the Trust to be held at 18:00 on Monday, 4 June 2012 in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg, and at any adjournment thereof, as follows:

No.	**Business**	**In favour of**	**Against**	**Abstain**
1.	Ordinary resolution for the adoption of the annual financial statements of the Trust for the year ended 31 December 2011			
2.	Ordinary resolution for the reappointment of the auditors of the Trust			
3.	Ordinary resolutions for the election and appointment of trustees:			
	3.1 Dr D R Anderson*			
	3.2 Mr U D Jivan*			
	3.3 Mr S Trikamjee*			
	3.4 Mr P M Gumede			
	3.5 Mr H A C van den Bout			
4.	Ordinary resolutions for the appointment of the members of the Trust Audit Committee			
	4.1 Dr D R Anderson			
	4.2 Ms D L T Dondur			
	4.3 Mr E A Moolla			
5.	Special resolutions for the approval of trustees' remuneration**			
	5.1 Remuneration of the chairman of the board of trustees			
	5.2 Remuneration of the deputy chairman of the board of trustees			
	5.3 Remuneration of the co-opted members of the board of trustees			
	5.4 Remuneration of the remainder of the members of the board of trustees			
	5.5 Remuneration of the chairman of the Trust Audit Committee			
	5.6 Remuneration of the members of the Trust Audit Committee			
6.	Special resolution for the approval of the amendment and restatement of the trust deed**			

* *Trustees who will retire at the meeting by rotation, in accordance with the Trust Deed and, being eligible, offer themselves for re-election.*

** *Authorisation of at least seventy-five percent of the votes cast by members present (in person or represented by proxy) at the meeting is required.*

Signed this ____________________ day of ______________________________ 2012

Profession ____________________ Signature ______________________________

NOTE TO PROXY

1. The form of proxy must be signed, dated and returned so as to reach the registered office of the Company and Trust to be received by 18:00 on Wednesday, 30 May 2012.

   If the form of proxy is signed under a power of attorney or other authority, the original of such power of attorney or authority, or a certified copy thereof, has to be lodged with the form of proxy.
2. The signatory may insert the name of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose. If no name is inserted, the Chairman of the meeting shall be appointed as the member's proxy.
3. The completing and lodging of the form of proxy will not preclude the signatory from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.
4. If the signatory does not indicate in the appropriate place on the face hereof how he/she wishes to vote in respect of any resolutions, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution.

RETURN OPTIONS

Either

Deliver to: The Trust Secretary
6 Anerley Road
Parktown, 2193
Johannesburg

or Post to: The Trust Secretary
PO Box 1089
Houghton
2041

or Fax to: The Trust Secretary
011 644-4641

or Email to: VBarnard@pps.co.za

FOR PROFESSIONALS

SINCE 1941

www.pps.co.za
Physical address: 6 Anerley Road, Parktown 2193
Postal address: PO Box 1089, Houghton 2041
The Professional Provident Society Holdings Trust
Reg No. IT 312/2011