INSURANCE FOR PROFESSIONALS



# Annual Report 2007

## Professional Provident Society Limited (Limited by Guarantee)

Annual Report of Professional Provident Society Limited (Limited by Guarantee) (“the Company”) and its subsidiaries (“the Group”)

## Contents



## Vision

An exclusive organisation of professionals, belonging to its members, which provides unique sickness and disability cover and a range of exceptional financial benefits, creating wealth, ensuring peace of mind and financial security for our members and their families.

## Mission

To deliver focused and exceptional financial benefits and services to our members.

# Financial overview and statistics

| Rm | 2007 | 2006 | 2005 | 2004 | 2003 | Average annual compound growth rate |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Core benefits (excluding Group Life benefits) paid to all policyholders | **610,4** | 405,1 | 348,5 | 341,7 | 293,8 | 24,2% |
| Investment return (10 year average) | **17,6%** | 16,9% | 14,5% | 12,6% | 11,9% | — |
| Total assets – PPS Group at fair value | **12 409** | 10 895 | 8 469 | 6 436 | 5 041 | 24,1% |
| Gross investment income for the year | **1 425,6** | 2 294,8 | 1 929,5 | 1 338,8 | 723,5 | — |
| **PPS Insurance** (South Africa and Namibia) | | | | | | |
| Gross policyholder premiums for units of benefit | **958** | 818 | 697 | 601 | 527 | 16,2% |
| Total ordinary policyholders at year end | **134 355** | 134 381 | 131 961 | 129 265 | 127 028 | 1,6% |
| Payments on cessation of benefits | **325** | 195 | 171 | 167 | 134 | 26,9% |

## Note: action required
### by members regarding the annual general meeting

The annual general meeting of members will be held at 18:00 on Monday, 2 June 2008 at PPS boardroom, 6 Anerley Road, Parktown, Johannesburg to consider and, if deemed fit, approve the resolutions set out in the notice convening the annual general meeting, which notice is attached to and forms part of this annual report.

**Please take careful note of the provisions regarding 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 attorney or other professional adviser immediately.**

You may attend and vote at the annual general meeting in person or you may appoint a proxy to represent you by completing the attached form of proxy and forwarding it to the following addresses or via facsimile, to be received by the Company Secretary by no later than 17:00 on Thursday, 29 May 2008:

Marked for the attention of the Company Secretary

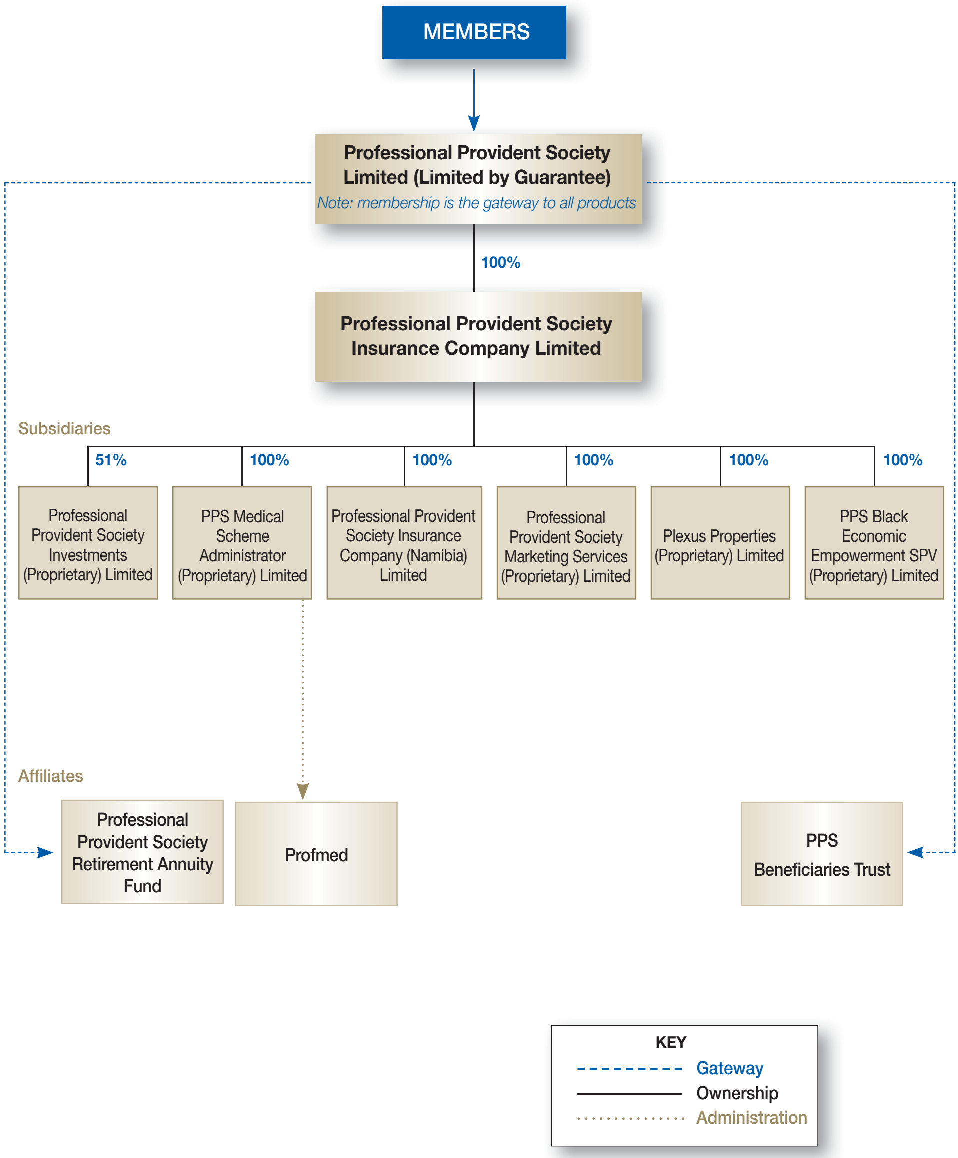
Physical address
6 Anerley Road
Parktown
Johannesburg

Postal address
PO Box 1089
Houghton
2041

Telephone
(011) 644 4200

Facsimile
(011) 644 4641

# PPS group structure




Dr David Presbury *Chairman*

# Chairman's report

I am pleased to be able to report that, once again, this year has been a year of strong performance. This is reflected in the pleasing growth in total assets, which grew from R10,9 billion in 2006 to R12,4 billion in 2007. This is a growth of 13,9%. This excellent performance has led to an allocation to the members' surplus rebate account of R1,3 billion. Whilst it is the aim of the Group to strive to continue to deliver exceptional returns to its members, they are reminded that whilst benefit allocations to the surplus rebate account were smoothed up to 2004, smoothing is no longer applied and therefore allocations more closely reflect the performance of the business, including investment performance, and the volatility in the market.

It has also been a year of unrelenting change at PPS, the most significant of which was the enhancement of the capabilities of the IT administration platform since conversion in 2006, and the implementation of phase 2 thereof in 2007. This was essential in order to place the Group in a unique position to be able to launch a number of new products to members. These new products were launched in May 2007 and have been well received by members and the market generally.

The new products consist of:

- The PPS Business Provider™ Policy which provides for business assurance.
- The PPS Provider™ Policy which includes whole life cover and an enhanced professional health provider.

In addition, Professional Provident Society Investments, a subsidiary of PPS, launched a full range of investment products. The PPS Investment Multi Manager Funds are now available to members of the PPS Retirement Annuity Fund. Members can also invest in unit trusts. The Professional Provident Society Investments offerings endeavour to cater for members' every investment need.

The short-term division continues to grow and offers exceptional value to its members' short-term insurance needs.

Members are also the beneficiaries of product enhancements that occurred in January. From 15 January 2008, the benefits under the PPS Life and Disability Assurance Scheme were increased by including a "terminal illness" benefit and an "immediate needs" benefit. In addition, the waiting period under the abovementioned scheme has been done away with once the criteria for permanent disability are met.

In terms of the PPS Provider™ Policy, the definition of permanent incapacity was simplified to provide more certainty. The criteria for the disability benefit were amended to do away with the 728 day waiting period. The Occupation Specific Rider Benefit™ (OSRB) option was added under the disability benefit.

Members are advised to look out for communications from the Group which give more detail on these and other product enhancements.

Of course with such major changes come teething problems which manifested themselves during the course of the year and resulted in certain instances of less than acceptable levels of service to members. With the system now bedded down and fully functional and the backlogs cleared, the production line is being managed according to service level agreements as from October 2007. Looking forward, the focus of the Group in 2008 will be on delivering service excellence to members.

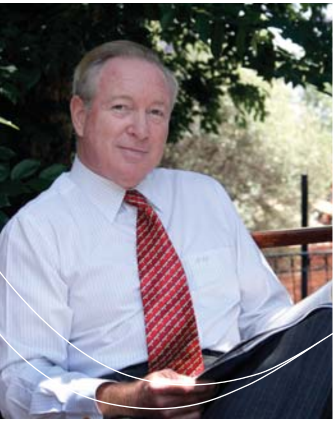
The management team has also been strengthened with the addition of three new members to the executive team. Mrs Tiffany Boesch joined the Group as Chief Financial Officer replacing Mr Callie Masson and Mr Lucien Caron joined as Group Company Secretary and Compliance Officer, replacing Mrs Jennifer Lester. I am also pleased to announce the appointment of Mr Timothy Simba as Membership Relations Executive. Timothy will be fulfilling this new role which focuses purely on members and membership-related issues. With the management team at full strength, I look forward to a year of excellent service to our membership. Full details of the executive team are contained on page 36 of this annual report.

As far as developments on the BEE front are concerned, the Financial Sector Charter, which came into effect in 2004, contained its own guidelines for Black Economic Empowerment. In terms of the Charter, each participant, of which the Group is a participant, sets its own targets based on the guidelines contained in the Charter. The Group developed its BEE targets according to these guidelines and submits equity reports based on these targets to the Department of Labour annually. Subsequent to the Charter coming into effect, the Broad-based Black Economic Empowerment Codes of Good Practice ("the BEE Codes") were issued by Government. These BEE Codes are not aligned to the guidelines set in the Charter. The Group continues to measure itself against the targets set both by the Charter and the BEE Codes. In most categories of measurement, the Group is performing according to the target and, in some cases, is ahead of target. The Group is still one of the few insurance companies in South Africa to have a 25% Black economic interest.

As part of its commitment to growing the pool of graduate professionals in South Africa, the Group has continued with its support of education, skills development and training of university students. This is achieved through the Chairman's Bursary Awards. This year 20 candidates were selected as recipients and who were awarded bursaries to the value of R200 000. Four outstanding achievers were awarded scholarships to the value of R45 000. In addition, as part of the Group's corporate social investment commitment, an amount of approximately R1,5 million was donated to various academic institutions for refurbishment and sponsorship.

Finally, I welcome Mr Brandon Topham and Mr Viresh Bhagwandas to the board and wish to thank my trusted Deputy Chairman Mr Ebi Moolla and all my fellow directors for their commitment during the year. My gratitude is also extended to the Chairman of PPS Insurance Company, Dr David Anderson whose tireless effort as Chairman and committee member on various committees is absolutely invaluable to both the board and the Group. My sincere thanks to Mr Mike Jackson and his executive team who have succeeded, once again, in producing excellent results in a changing and competitive environment to the ultimate benefit of you, the members.

**Dr David Presbury**
Chairman

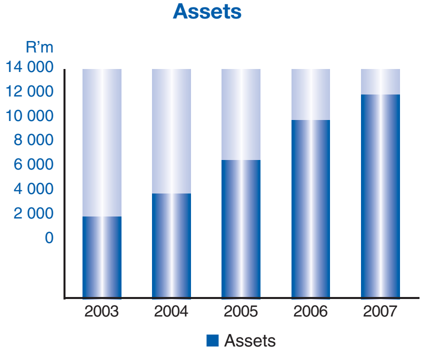


Mike Jackson *Chief Executive*

# Chief Executive's report

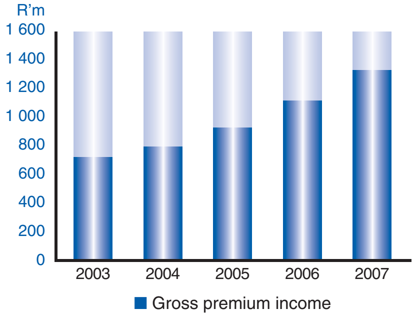
## *Highlights*

- 1,3 billion added to Surplus Rebate Accounts
- Premiums grew by 18,6%
- PPS Investments launched
- Sales targets achieved
- Assets grew 13,9%




Assets have grown from R5,0 billion at the end of 2003 to R12,4 billion at the end of 2007 (24,1% average compound growth per annum.) This is notwithstanding a fall in the market in the month of December 2007 of 4,5%. The Group's overall investment exposure to equities is approximately 60% with the balance in fixed interests and bonds. The overall return on assets was 13,4%. Members are once again reminded that the values of their Surplus Rebate Accounts are not guaranteed and will fluctuate with market volatility. To illustrate the extent of this volatility: the ALSI was 31,800 at its peak in October 2007 and dropped to 24,000 in January 2008 – a reduction of 24,5% in under three months. Exiting members may experience significant changes in quoted values depending on timing and market performance.

**Gross premium income**




Gross premiums increased from R1,1 billion to approximately R1,3 billion – an increase of 18,6% – equivalent to an amount of nearly R10 000 per member. It is interesting to note that members' accounts were credited with R1,3 billion in 2007, an average of R9 600 per member – clearly demonstrating the benefit of the PPS mutuality model.

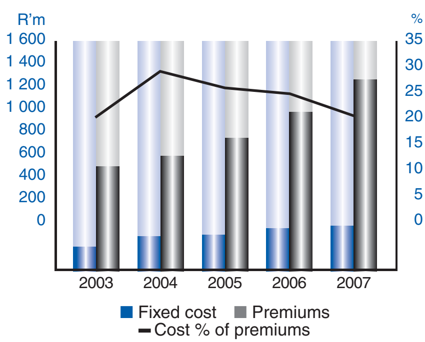
Benefits paid to members of R805,2 million showed a significant increase in 2007 due mainly to retiring members benefiting from the twofold growth in benefits paid over the last five years. On average, retiring members received R14 000 back for every year of membership.

Although the marketing and administration expenses (before investment fees), were only up by 4,6%, the cost of commissions rose dramatically from R71,2 million to R138,1 million. This is due to sales success – targets were achieved, and a different product mix, where the commission content is much higher. On these products premiums will be received from members for their entire lives and will not cease on retirement as is the case with group life. Consequently significant value is added to the business long term, but this "investment" needs to be financed.

Membership growth is always a central management focus. The increasing financial pressure on students has meant declining numbers of student members and competition for access to the lucrative professional market has never been more aggressive. Our members are continually approached with spurious product comparisons and unfortunately sometimes succumb, losing significant benefits. Our product range is as comprehensive as any other assurer, ranging from sickness, dread disease, whole life, short-term insurance, medical scheme and an entirely new range of investment products including retirement annuities. Currently 186 000 professionals avail themselves of PPS membership.

Control of administration expenses remains high on the management agenda. IT costs are now well under control and marketing and sales staff packages are now mainly in the variable cost category – where remuneration is tied to increases in premiums received.

**Fixed cost as % of premiums**

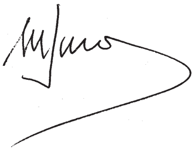


Fixed cost as a percentage of premiums has come down from a high of 30,2% in 2004 to 23,5% in 2007, as can be seen from the graph.

Certain service issues remained problematic during the year. The successful conversion of over 60 years of data onto a state-of-the-art platform, to allow the development of the new product range, created major inconvenience for a small percentage of members. Large volumes of changes to existing products and new products, resulted in backlogs and data capture errors. These errors resulted in what appeared to be incorrect premiums. Further investigation showed that some policies were incorrectly loaded and the system calculations were correct, but based on incorrect data capture. The policies affected are now being corrected to ensure that the premiums will balance with the policy requirements. 2008 has been earmarked as the year of outstanding customer service and hopefully members will already have experienced an improvement by the time they receive this annual report.

2008 is likely to be a very unsettled year. Investment markets are plagued by a number of negative influences and the local scene has considerable uncertainty on both the political and economic fronts. The national skills shortage is worsening and the pressure on professionals will get worse. PPS will not be engaging in any major new initiatives as the last four years have seen new businesses launched, new products introduced and a fundamental re-structuring of the business completed. Consolidation and bedding down are now required with a major focus on customer service and increasing the share of members' wallets. Marketing our new full range of financial services to members will be critical to ensure minimal profit leakage to other suppliers.

I would like to thank the chairman of the holding company, Dr David Presbury, for his involvement and commitment to the task of representing members' interests. Dr David Anderson, chairman of the insurance company, once again provided clear direction to the business and continued to be demanding of management to ensure the best outcome for members. PPS now has a strong top management team and I would like to thank them for their loyalty and support.



**MJ Jackson**
Chief Executive Officer

*Introduction*

Good corporate governance is an integral part of the Group's operations. Accordingly, the Group is fully committed to the principles of the Code of Corporate Practices and Conduct set out in the King Report on Corporate Governance (the 'Code'). The purpose of the Code is to promote the highest level of corporate governance in South Africa. In supporting the Code, the directors recognise the need to conduct the business of the Group with integrity and in accordance with generally accepted corporate practices.

*Key governance developments*

During the year under review, the following developments were key to the Group's corporate governance processes:

- Ongoing compliance with the Code and other industry specific legislation and regulations.
- The Group's code of conduct throughout the operations, which sets out minimum standards of ethical behaviour for all employees of the Group.
- Approval of plans to substantially increase the resources of the compliance monitoring/audit department.
- The implementation of a formal board member evaluation, will take place annually against various criteria and standards.
- Engagement with and assistance of consultants with specialist knowledge regarding director training and development.
- Ongoing awareness and cognisance of international/emerging governance trends. These are considered for implementation only where appropriate.
- Keeping abreast of all relevant legislation and regulations as well as major developments that could impact on the Group and its operations.
- Development of enterprise wide-risk management strategies and plans to be finalised and put into practice in 2008.

*Compliance with the Code*

The directors are of the opinion that the Group complies with, and has applied, the requirements of the Code for the year under review.

Application of the Code and approach to corporate governance

All entities in the Group are required to subscribe to the spirit and principles of the Code. In addition, the Code is applied to all operating entities of the nature and size identified in the Code. Whereas the Audit and Risk Committee reviews overall Group compliance with the Code and is the focal point of the Group's corporate governance system, the heads of the various divisions and business units within the Group are responsible for ensuring compliance. In addition, the following is undertaken:

- a full and effective review by the Audit and Risk Committee of all aspects relating to ongoing corporate governance during the year, and the inclusion of statements in this regard in this annual report; and
- a review of current and emerging trends in corporate governance and the Group's governance systems and benchmarking the Group's governance systems against local and international best practice. In its governance approach, the board believes that, while compliance with the formal standards of governance practice is important, greater

emphasis is placed on ensuring effectiveness of governance practice, with greater emphasis being placed on ensuring compliance with the substance of governance over form. The board also seeks to ensure that good governance is practised at all levels in the Group and is an integral part of the Group's corporate culture.

### *Board of directors and board committees*

*Board composition*

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

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

Each committee acts within agreed terms of reference and the Chairman of each committee reports, where appropriate, to the board at its scheduled meetings. Where appropriate, the minutes of the committee are tabled at board meetings. The Group Chairman of the board is a non-executive director. The roles of Chairman and Chief Executive Officer are separated, with a clear division of responsibility to ensure a clear distinction of duties and responsibilities between them. The Chairman has no executive functions. The role of all directors is to bring independent judgement and experience to the board's decision-making. Directors are advised that they may take independent advice, at the cost of the Company, in the proper execution of their duties as directors. They have direct and unfettered access to the external auditors, professional advisers and the advice of the Company Secretary. Details on the directors appear on pages 35 and 36 of this annual report. There are twenty directors, all of whom are non-executive independent directors.

### Board appointments and succession planning

PPS members appoint the board of PPS Limited at its AGM. In turn, this board appoints the board of PPS Insurance Limited and monitors and obtains regular feedback, acting as shareholder of PPS Insurance Limited. Non-executive directors on the PPS board are appointed for specific terms and re-appointment is not automatic. Under delegated authority of the board, the nominations committee within its powers, selects and appoints directors, including the Chief Executive Officer and non-executive directors. The Nominations Committee considers non-executive director succession planning and makes appropriate recommendations to the board. This encompasses an evaluation of the skills, knowledge and experience required to add value to the Group, for both directors standing for re-election and new candidates standing for election for the first time. All appointments are made in terms of a formal and transparent procedure and are subject to confirmation by the members at the annual general meeting. The Group believes that the board's constitution, in terms of both the number and expertise, is sufficient and appropriate to meet the Group's needs.

### Independence

The board applies the Code's guidelines when considering a director's independence. The board confirms the independence, as stated in the Code, of all of its non-executive directors.

## Board performance assessment

The nominations committee annually assesses the contribution of each director eligible for re-election, using an individual director evaluation process that is conducted by it. This culminates in a determination by the nominations committee as to whether it will endorse a retiring director for re-election. Where a director's performance is not considered satisfactory, the nominations committee will not endorse the re-election.

Individual director performances are assessed against the following criteria:

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

One third of the directors appointed in terms of clause 12.1.2.1 of the articles of association are subject, by rotation, to retirement and re-election at the annual general meeting. In addition, all directors are subject to election by members at the first annual general meeting after their initial appointment. The directors eligible for re-election at the forthcoming annual general meeting are contained in this annual report on page 121.

## Interests in contracts and conflict of interest

During the year ended 31 December 2007, none of the directors had an interest in contracts or arrangements entered into by the Company or its subsidiaries. Directors are required to inform the board timeously of conflicts or potential conflicts of interest that they may have in relation to particular items of business and are obliged to recuse themselves from discussions or decisions in relation to such matters. Directors are also required to disclose their shareholdings in other companies as well as their other directorships at least annually and to inform the board when any changes occur.

## Advice

Directors have unlimited access to the Group Company Secretary, who acts as an adviser to the board and its committees on issues including compliance with rules and procedures, statutory regulations and the Code. The name of the Group Company Secretary may be found on page 24 of this annual report. Furthermore, any director may, in appropriate circumstances and at the expense of the Group, obtain independent professional advice. The directors are also entitled, with the prior knowledge of the Chief Executive Officer, to have access to senior management and to all relevant Group information.

## Insurance

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

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

*PPS Limited*

| | 13 March 2007 | 11 June 2007 | 3 Sep 2007 | 3 Dec 2007 |
|---|---|---|---|---|
| Adv TN Aboobaker | ✓ | ✓ | ✓ | ✓ |
| Dr J Adno | ✓ | ✓ | ✓ | ✓ |
| Dr DR Anderson | ✓ | ✓ | ✓ | ✓ |
| Dr V Bhagwandas (appointed June 2007) | – | ✓ | ✓ | ✓ |
| Dr NG Campbell | ✓ | ✓ | ✓ | ✓ |
| Prof M Haus | ✓ | ✓ | AP | ✓ |
| Mr I Kotze | ✓ | ✓ | ✓ | ✓ |
| Dr CM Kruger | ✓ | ✓ | ✓ | ✓ |
| Dr TKS Letlape | ✓ | ✓ | ✓ | ✓ |
| Mrs CN Mbili | ✓ | ✓ | AP | ✓ |
| Adv R Meyer | ✓ | ✓ | ✓ | ✓ |
| Mr EA Moolla | ✓ | ✓ | ✓ | ✓ |
| Mr NJ Njeke (resigned June 2007) | AP | AP | – | – |
| Dr DGC Presbury | ✓ | ✓ | ✓ | ✓ |
| Mr CD Reay | ✓ | ✓ | ✓ | AP |
| Dr S Seoka | ✓ | ✓ | ✓ | ✓ |
| Dr TSL Sizani | ✓ | ✓ | ✓ | ✓ |
| Dr RD Sykes | ✓ | AP | ✓ | ✓ |
| Mr B Topham (appointed June 2007) | – | ✓ | ✓ | ✓ |
| Dr K Vallabh (resigned June 2007) | ✓ | – | – | – |
| Dr JJ Van Niekerk | ✓ | AP | ✓ | ✓ |
| Judge R Zulman | ✓ | AP | AP | ✓ |

AP – Apology

*PPS Insurance*

| *PPS Insurance Company* | 22 Jan 2007 | 21 Feb 2007 | 12 Mar 2007 | 7 May 2007 | 25 June 2007 | 23 July 2007 | 20 Aug 2007 | 22 Oct 2007 | 26 Nov 2007 |
|---|---|---|---|---|---|---|---|---|---|
| Dr DR Anderson | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Dr NG Campbell | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | AP | ✓ |
| Mr C Erasmus (appointed February 2007) | – | – | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr D Gnodde | ✓ | ✓ | ✓ | ✓ | ✓ | AP | ✓ | ✓ | ✓ |
| Mr MJ Jackson | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr I Kotze | ✓ | ✓ | ✓ | ✓ | ✓ | AP | ✓ | ✓ | ✓ |
| Mr C Masson (resigned March 2007) | ✓ | ✓ | ✓ | – | – | – | – | – | – |
| Adv R Meyer | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr EA Moolla | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | AP | ✓ |
| Mr WF Mthembu | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr D Nohr | ✓ | AP | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr N Payne (appointed June 2007) | – | – | – | – | AP | ✓ | ✓ | ✓ | AP |
| Dr DGC Presbury | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Dr S Seoka | ✓ | AP | ✓ | ✓ | ✓ | AP | ✓ | ✓ | AP |
| Dr JJ Van Niekerk | ✓ | ✓ | ✓ | ✓ | AP | ✓ | ✓ | ✓ | ✓ |

AP – apology

### *Board committees*

A number of board-appointed committees have been established to assist the board in discharging its responsibilities. The membership and principal functions of these committees are set out below. Pages 14 to 17 reflect a list of the various committee members as well as their attendance at the relevant committee meetings.

### *Executive Committee (Excom)*

Members

M Jackson (Chairman), D Gnodde, J Marsden, T Boesch, C de Klerk, J Goodwin, L Caron, S Clark, R Govenden, A Tait, T Simba.

### Composition and meeting procedures

Excom is chaired by the CEO and has regular input from executives from operations, sales, finance, actuarial, IT, human resources, compliance and special projects. Meetings are normally held once a month. The committee is responsible for strategy and operations of the Group within the parameters defined by the board. Where necessary decisions or recommendations of Excom are referred to the board for final approval, whilst in other instances Excom's authority will be delegated to a sub-committee or particular Excom members.

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

| *Excom* | 21 Jan 2007 | 19 Feb 2007 | 27 Mar 2007 | 18 April 2007 | 21 May 2007 | 23 June 2007 | 30 July 2007 | 20 Aug 2007 | 25 Sep 2007 | 22 Oct 2007 | 26 Nov 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Mr M Jackson | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr D Gnodde | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr A Tait | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr C de Klerk | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr J Goodwin | ✓ | ✓ | ✓ | AP | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr J Marsden | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | AP | ✓ |
| Mr R Govenden | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr S Clark (appointed March 2007) | – | – | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr C Masson (resigned March 2007) | ✓ | ✓ | – | – | – | – | – | – | – | – | – |
| Mrs J Lester (resigned July 2007) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | – | – | – | – | – |
| Mr B Holtzhausen (resigned April 2007) | ✓ | ✓ | – | – | – | – | – | – | – | – | – |
| Mrs T Boesch (appointed August 2007) | – | – | – | – | – | – | – | ✓ | ✓ | ✓ | ✓ |
| Mr L Caron (appointed September 2007) | – | – | – | – | – | – | – | – | ✓ | ✓ | ✓ |

AP – apology

### *Group Remuneration Committee (GRC)*

#### Members

D Anderson (Chairman), E Moolla, R Meyer, D Nohr and W Mthembu.

#### Composition and meeting procedures

The GRC is chaired by an independent director and comprises solely of non-executive directors of PPS. The Group Chief Executive Officer, who is the executive responsible for people management attends the meetings by invitation but does not participate in the committee's deliberations. Meetings are held at least three times a year.

#### Role, purpose and principal functions

Consideration and recommendation to the board on matters such as succession planning, general staff policies, remuneration and benefits, performance bonuses, executive remuneration, directors' remuneration and fees, service contracts, the short-term incentive scheme and long-term incentive scheme and Group retirement funds. In considering executive directors' emoluments the committee is cognisant of responsibility, individual performance and the Group's retention strategies. To this end, the committee relies on external market surveys and industry reward levels as benchmarks. Remuneration packages are structured in such a way that short- and long-term incentives are linked to the achievement of business objectives and the delivery of member value. Non-executive directors receive fees for their contribution to the boards and committees on which they serve. The GRC recommends proposed fees for approval by the PPS board, after due consideration of comparable fee structures and market practices.

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

| *Group Remuneration Committee* | 22 Jan 2007 | 30 Jan 2007 | 9 Feb 2007 | 7 Mar 2007 | 30 May 2007 | 17 Sep 2007 |
|---|---|---|---|---|---|---|
| Dr DR Anderson | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr MJ Jackson | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Adv R Meyer | ✓ | – | – | ✓ | ✓ | ✓ |
| Mr EA Moolla | ✓ | – | – | ✓ | ✓ | ✓ |
| Mr WF Mthembu | ✓ | – | – | AP | ✓ | ✓ |
| Mr D Nohr | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

AP – Apology

*Group Audit and Risk Committee (GARC)*

Members

Prof H Wainer (Joint Chairman), Adv R Meyer (Joint Chairman), Mr I Kotze, Mr E Moolla, Mr D Nohr, Mr N Payne (appointed 21 June 2007), Prof C Rabin

Composition and meeting procedures

The members of the GARC are all independent. In addition, the meetings are attended by representatives of the external auditors, PricewaterhouseCoopers and representatives of the internal auditors, Grant Thornton, who attend by invitation. Meetings are held at least four times a year and are attended by the members of executive management, including those involved in risk management and control and finance. Most of the members of the committee are financially literate. At least once a year time is reserved for separate in camera discussions with committee members only, the committee together with internal auditors (excluding management) and the committee together with the external auditors (excluding management). In camera discussions provide an opportunity for committee members, management and the external auditors to communicate privately and candidly. The internal and external auditors have unrestricted access to members of the GARC, which ensures that their independence is in no way impaired.

Role, purpose and principal functions

The GARC assists the board with regard to reporting financial information, the selection and application of accounting policies, monitoring the Group's internal control systems and various compliance-related matters. Specific responsibilities include:

- reviewing and recommending to the board annual financial statements;
- dealing with matters relating to financial and internal control, accounting policies, reporting and disclosure;
- dealing with the engagement of the external auditors and fees payable to the external auditors;
- approving and ensuring compliance with the Group's policy on non-audit services;
- reviewing and/or approving internal audit, compliance and forensic services policies, plans, reports and findings;
- ensuring compliance with applicable legislation and regulations;
- evaluating the performance of the external auditors;
- reviewing external audit plans, findings and reports;
- assisting the board in the oversight of risk management.

The Group's policy on non-audit services, which is annually reviewed by the GARC, sets out in detail what services may or may not be provided to PPS by the external auditors. The policy is largely based on a review of current and emerging trends in corporate governance and the Group's governance systems. The Group's governance systems are benchmarked against local and international best practice. The GARC conducts a formal external auditor evaluation process. This evaluation will occur annually and includes various criteria and standards such as audit planning, technical abilities, audit process/outputs and quality control, business insight, independence and general factors (such as black economic empowerment credentials). The GARC makes efforts to keep abreast of current and emerging trends in accounting standards which have become a major challenge, particularly with the introduction of International Financial Reporting Standards (IFRS). The board, through a comprehensive evaluation annually reviews the performance of the GARC to evaluate how effectively it has discharged its duties as per its terms of reference.

The GARC meetings held during the year and the attendance of these meetings is as follows:

| *Group Audit and Risk Committee* | 25 Jan 2007 | 19 Feb 2007 | 8 Mar 2007 | 29 Mar 2007 | 21 June 2007 | 16 Aug 2007 | 29 Nov 2007 |
|---|---|---|---|---|---|---|---|
| Prof HE Wainer | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Adv R Meyer | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr I Kotze | AP | ✓ | ✓ | AP | AP | ✓ | AP |
| Mr EA Moolla | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr D Nohr | ✓ | AP | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr N Payne (appointed June 2007) | — | — | — | — | — | ✓ | AP |
| Prof CE Rabin | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

AP – apology

### *Group Nominations Committee (GNC)*

#### Members

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

#### Role, purpose and principal functions

The GNC is chaired by an independent director and comprises solely of independent non-executive directors. This committee supports and advises the board in ensuring that the board comprises individuals who are best able to discharge the responsibilities of directors, having regard to the highest standards of governance. This committee makes recommendations to the board on the appointment of executive and non-executive directors and the composition of the board generally. The nomination committee meets at least three times a year.

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

| *Group Nominations Committee* | 7 Feb 2007 | 6 June 2007 | 26 Nov 2007 |
|---|---|---|---|
| Dr DR Anderson | ✓ | ✓ | ✓ |
| Dr DGC Presbury | ✓ | ✓ | ✓ |
| Adv R Meyer | ✓ | ✓ | ✓ |
| Mr EA Moolla | ✓ | ✓ | ✓ |

AP – apology

*Risk management*

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

- Adherence to the value system of the Group;
- An integrated holistic risk management approach to achieve optimal business decision-making;
- Pro-active risk management;
- A risk awareness culture via management and the business units;
- Disciplined and effective risk management processes and controls, and adherence to risk management standards and limits; and
- Compliance with the relevant statutory, regulatory and supervisory requirements. The management of risk is fundamental to the Group's business and allows management to operate more effectively in an environment characterised by uncertainty and risk.

The Group risk management approach is that all risks must be identified and managed, and that the returns must be commensurate with the risks taken, relative to the Group's risk appetite. Risk management in the Group is guided by several principles, the most important being:

- integrity and reliability of the financial and operational information that is used internally and for public reporting;
- safeguarding and maintenance of assets;
- detection and minimisation of fraud, potential liability, loss and material misstatement;
- compliance with applicable laws, regulations and policies;
- efficient and effective operations;
- the assignment of appropriate responsibility and accountability;
- the adoption of a framework for integrated risk management;
- comprehensive risk assessment and measurement; and
- independent review.

*Responsibility and accountability*

Excellence in risk management is based on a culture in which management makes risk identification, risk management and the establishment and maintenance of an efficient control environment, an integral part of its regular activities. Overall risk management policies, risk appetite and tolerances are set on a comprehensive, organisation-wide basis by senior management, and reviewed with and (where appropriate) approved by the board of directors. These policies, appetites and tolerances are clearly communicated throughout the Group and apply to the various divisions and wholly owned subsidiaries.

*Board and executive management responsibility*

The board is responsible for approving the Group's risk appetite annually. This risk appetite is translated into risk limits per division and/or subsidiary and per risk type. Adherence to these limits is monitored and culminates in a risk profile for the Group. The board of directors is responsible for the Group's systems of financial and operational internal control. To fulfil this responsibility, the executive directors ensure that management maintains accounting records and is continually developing and continues to maintain systems of internal control that are appropriate. Control measures have been put in place to identify and monitor the risk referred to above. Internally controls are founded on the basis that directors and employees are required to maintain the highest ethical standards. The Group's organisational structure incorporates suitable segregation of authority, duties and reporting lines and promotes effective communication of information. Defined control activities include documented policies and procedures as well as budgeting and forecasting disciplines with comparison of actual results against these budgets and forecasts. The directors have satisfied themselves that these systems and procedures are implemented, maintained and monitored by appropriately trained personnel. The effectiveness of the systems of internal control in operations is monitored continually through reviews and reports from senior executives and divisional managers, the internal and the external auditors. Furthermore, management has various control self-assessment processes in place to supplement the existing structures for evaluating the systems of internal control. For the year under review none of the above reviews indicated that the systems of internal control were not appropriate or satisfactory. Furthermore no material loss, exposure or misstatement arising from a material breakdown in the functioning of the systems has been reported to the directors.

*Extent of Broad-based Black Economic Empowerment (BBBEE)*

The Group is committed to the principles and objectives of BBBEE and it remains a high priority of the board. The detailed indicators which are expected to be included in the new draft BBBEE Codes of Good Practice are still awaited. The Group is a member of the Financial Services Sector and as such has committed to reporting its Black Economic Empowerment in terms of the Financial Services Charter, as is required by this Charter.

*Group performance against FSC targets*

| Category | | | Group (as at December 2007) | | FSC target (2008) | |
|---|---|---|---|---|---|---|
| *1.* | *Human resource development* | | | | | |
| 1.1 | Employment Equity | | | | | |
| | Senior management | | Black employees | 19% | Black employees | 25% |
| | | | Black female employees | 13% | Black female employees | 4% |
| | Middle management | | Black employees | 20% | Black employees | 30% |
| | | | Black female employees | 14% | Black female employees | 10% |
| | Junior management | | Black employees | 44% | Black employees | 50% |
| | | | Black female employees | 29% | Black female employees | 15% |
| 1.2 | Skills development | | | | | |
| | 1.2.1 | Skills spend (% of payroll spent per annum on skills development of black employees) | | 1,8% | | 1,5% |
| | 1.2.2 | Learnership programme (learnerships as % of total staff over three years) | | 2% | | 1,5% (1-year) |

| Category | | | Group (as at December 2007) | FSC target (2008) |
|---|---|---|---|---|
| *2. Procurement and enterprise development* | | | | |
| Procurement from black influenced, empowered companies (narrow-based approach) | | | 63,6% | 50% |
| *3. Access to financial services* | | | | |
| 3.1 – 3.6 | Exemption for these previously have been applied for to the Charter Council | | Awaiting annual exemption | |
| 3.7 | Consumer education (% of post tax operating profits spend per annum) | | 0 | Min 0,2% |
| *4. Empowerment financing* | | | | |
| The targets and requirements are awaiting clarification. Therefore it is not appropriate to provide details. | | | | |
| *5. Ownership and control* | | | | |
| 5.1 | "Ownership" (as defined) | | 25% | 20% by 2010 |
| 5.2. | Control | | | |
| | 5.2.1 | Board | | |
| | | (Black people as a percentage of board of directors) | 32% | 33% |
| | | (Black women as a percentage of board of directors) | 11% | Min of 11% |
| | 5.2.2 | Executive | | |
| | | Executive management | | |
| | | (Black people as a percentage of executive management) | 9% | Min 25% |
| | | (Black women as a percentage of executive management) | 0 | Min 4% |
| *6. Corporate Social Investment* | | | | |
| Corporate Social Investment (percentage of post tax operating profit direct p.a. to CSI) | | | 0,75% | 0,5% |

*Performance against the FSC targets*
The Group has exceeded the black female targets in the black female categories in the senior, middle and junior management. Management is focusing on improving representation in the black senior and middle management categories. The Group has exceeded the skills spend on black employees and learnership 2008 targets.

### Procurement
The Group has exceeded the 2008 targets, based on a narrow-based approach.

### Access to financial services
Exemption from reporting on this section of the charter was received in 2007 on the basis of our business model, i.e. we operate solely in the professional market. Exemption has been applied for, on the same basis for 2008.

### Empowerment financing
Until clarity on the targets and requirements have been provided by the FSC, no reporting on this element of the Charter will be conducted.

### Ownership and control
The unique BEE transaction that was implemented in 2006 secured the achievement of the 2010 ownership target of 25%. Regarding control, the Group has almost reached its targets for 2008.

### Health, safety and security
The directors acknowledge their responsibility to all Group employees and the public for compliance with occupational safety and environmental health standards. Management are charged with ensuring that the requirements of the Occupational Health and Safety Act (OHASA) are complied with. The insurance industry, of which the Group is part, exerts a relatively low direct impact on the environment.

### Social responsibility
The focus of the Group's corporate social investment programme centres on the development of individuals and communities through education, training and self sufficiency. In this regard the Group focuses on education and training, skills development and instilling a culture of self sustainability. Projects are chosen on the basis that they are sustainable or inculcate the development of skills.

The Group believes in educating the leaders of the future and therefore supports scholars and university students as it is through these institutions that the future professionals of the country are nurtured. Accordingly, donations to the value of R1,4 million were made to the following universities: Cape Town, KwaZulu-Natal, North West, Pretoria and Western Cape.

In addition, from a total of 27 applications for bursaries, four outstanding learners were selected as recipients of scholarship awards to the value of R45 000. There were 123 applications for bursaries and 20 students were selected as recipients of R200 000. The scholarship awards are based on academic merit and the bursary awards are based on financial need.

### HIV/Aids
As a responsible corporate, the Group has committed to help prevent and combat this disease in the workplace. The Group has adopted a policy on HIV/Aids and plans to launch an education and voluntary counselling and testing initiative for all employees. The Group does not believe that this risk is substantive in the workplace, however this initiative would facilitate the assessment of the prevalence rate, on an anonymous basis, mitigate risks and help tailor a programme to assist staff.

## Human resources policies and practices

2007 has been a momentous year for the Group. As a consequence of changing systems, process, introducing a substantial range of new products, and start-up of new operating units like PPS Investments, new roles have been crafted to meet the needs of the organisation, concomitant with new skills requirements at different levels. This has meant the retraining and re-skilling of people to occupy new roles together with acquiring of external skills in instances where the Group couldn't source these skills internally. The Group embarked on a redeployment process to ensure that the appropriate skills match and motivation was achieved for optimal performance (the programme is called "Rejuvenation"). Regrettably, the Group had a small number of people that were affected by the changes, and could not be accommodated in the new roles necessitated by the business changes.

Despite the substantive changes, the Group has managed to consolidate the changes and vest the people into the new structures. The human capital reorganisation and re-alignment, together with the new enhanced processes, would enable the Group to enhance productivity, customer service and effectiveness to a new level, whilst enhancing member value.

## Training and development

While the Group experienced rapid growth, offering new products and services to graduate professionals, the objective is to grow member and policyholder value substantially with better utilisation of human resources. Targeted training and development programmes were focused to achieve this goal.

The Group spent approximately R3,57 million on training or 3,3% of the payroll on skills development and training. The training drive was primarily designed to align people to the process and systems to achieve business results. This entailed empowering people with skills, knowledge and perspective to achieve both business and individual needs.

Substantive on-the-job training had occurred regarding systems, process and products in response to the immediate requirements. The new system and process are more user-friendly and based on an architecture that simplifies the processing of business.

Significant investment was necessitated in sales-related training to build the sales force. Training was provided to member relations division and the broker force in an effort to bolster distribution capability. This also included enhancing people knowledge and skills in the investment space.

## Performance and reward

The Group began the process of building the foundation of a new robust performance management system in 2004, to measure, monitor and reward individual and team performance. The new architecture and process allows management to extract maximum return for the investments made in these systems, to re-skill, up-skill and cross-skill people to enable the Company to drive to greater levels of performance. Management has made good progress in creating a high performance culture. More meaningful reward has been integrated while striving to attain stretch targets.

Monthly "power hours", which are employee fora addressed by CEO and executive management, were held, to ensure information sharing and consultation. Regular quarterly awards and a final annual awards day (which was part of the year-end function) rewarded employees for excellent performance, superior customer service, "going the extra mile". This has galvanised employees to strive for excellence. A short-term rewards programme called "sUccess" was run in 2007 to drive "excellent customer service". These types of initiatives will be improved and will continue in 2008.

## Statement of responsibility by the board of directors

for the year ended 31 December 2007

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

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

The annual financial statements which appear on pages 26 to 120 were approved by the board of directors and are signed on its behalf by:

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

Mr EA Moolla
*Deputy Chairman*
Professional Provident Society
Limited (Limited by Guarantee)

Mr MJ Jackson
*Chief Executive*

Johannesburg
7 April 2008

## Certificate by the Company Secretary

In my capacity as Company Secretary, I hereby certify, in terms of the Companies Act No. 61 of 1973 (as amended), that for the year ended 31 December 2007, Professional Provident Society Limited (Limited by Guarantee) has lodged with the Registrar of Companies all such returns as are required in terms of this Act and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

L P Caron
*Company Secretary*
*Professional Provident Society Limited (Limited by Guarantee)*
7 April 2008

# Independent Auditors' Report

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

We have audited the annual financial statements and Group annual financial statements of Professional Provident Society Limited (Limited by Guarantee), which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 December 2007, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 26 to 120.

### *Directors' responsibility for the financial statements*

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

### *Auditors' responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the group and of the company as of 31 December 2007, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc

Director: A du Preez
*Registered Auditor*

Sunninghill
7 April 2008

# Report of the Independent Actuary

for the year ended 31 December 2007

*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 2007, in my opinion, the insurance interests were financially sound on the statutory bases, and in my opinion are likely to remain financially sound for the foreseeable future.

***C van der Riet***

*Statutory Actuary to PPS Insurance and PPS Namibia*

7 April 2008

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

| | Paragraph | **2007 R'000** | 2006 R'000 |
|---|---|---|---|
| Net assets | 4 | **11 939 996** | 10 527 592 |
| Insurance liabilities | 5 | **11 821 146** | 10 395 252 |
| Apportionment and special benefit accounts | | **9 116 732** | 8 139 447 |
| Risk benefits and smoothing reserves | | **2 583 573** | 2 160 635 |
| Investment contracts | | **6 922** | — |
| Other insurance liabilities | | **113 919** | 95 170 |
| Excess of assets over liabilities | | **118 850** | 132 340 |

*2. Analysis of change in excess assets*

The excess of the value of assets over the value of liabilities has changed as follows over the year:

| | **2007 R'000** | 2006 R'000 |
|---|---|---|
| Excess of assets over liabilities at the end of the period | **118 850** | 132 340 |
| Excess of assets over liabilities at the start of the period | **132 340** | 133 674 |
| Change in excess assets over the period | **(13 490)** | (1 334) |
| The change in excess assets is due to the following factors: | | |
| Investment return on shareholder assets | **17 895** | 37 934 |
| Investment income | **6 084** | 6 902 |
| Capital appreciation | **11 811** | 31 032 |
| Tax on shareholders' assets | **(1 660)** | (4 488) |
| Balance of profits/(losses) | **(29 725)** | (34 780) |
| Earnings for the year on the financial soundness basis | **(13 490)** | (1 334) |

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

*3. Reconciliation to reported earnings*

| | 2007 | 2006 |
|---|---|---|
| Total earnings per above table | **(13 490)** | (1 334) |
| Reported deficit in the financial statements | **(13 490)** | (1 334) |
| Difference | **0** | 0 |

*4. Published reporting asset valuation methods and assumptions*

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

*5. Published reporting liability valuation methods and assumptions*

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

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

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

The actuarial liability in respect of investment contracts was taken to be the fair value of the assets backing the 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 were positive overall at 31 December 2007. In the South African business the bonus smoothing reserves are zero.

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.

For certain products an additional discretionary margin has been held to prevent the premature recognition of profits. This increased the policy liabilities by R392 million. There are no other discretionary margins in the policy liabilities. For the Namibian business, no policy was treated as an asset in accordance with Namibian legislation.

In accordance with generally accepted practice, the best estimates of future expenses, mortality, morbidity and persistency are largely based on recent past experience rather than being an attempt to predict the future course of these variables. The most recent persistency investigations were for the period 1 January 2005 to 31 December 2007. The morbidity investigation was conducted on the experience for 2006. The mortality experience related to the period 1 January 2004 to 31 December 2006.

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 5,0% per annum in future. The experience will be monitored and adjustments made as and when necessary.

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

The economic assumptions were based on the following:

| | |
|---|---|
| Bond Yield @ 31 December 2007 | 8,50% |
| Equity return | 10,50% |
| Cash | 7,00% |
| Property return | 9,50% |

The assumed future gross investment return is 8,88% p.a. (2006: 8,38% p.a.).

### *6. Capital requirements and policyholder benefits*

The statutory capital adequacy requirement is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of a significant negative departure of actual future experience from the assumptions made in calculating actuarial liabilities and for significant fluctuations in the value of assets. The capital adequacy requirement has been calculated in accordance with PGN104. The guidance note prescribes various adverse scenarios that must be tested to determine the potential impact on the business of possible adverse experience. The excess of the assets over the liabilities is 2,6 times (2006: 2,6 times) the capital adequacy requirement.

In deriving the investment resilience requirement in the ordinary capital adequacy requirement (OCAR) it was assumed that a decline of 30% in equity asset values, 15% in property values, and a 12% increase in fixed interest asset values (as a result of a 25% reduction in fixed-interest yields) will occur, in accordance with PGN104.

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

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

- The impact of losses arising from selective adverse policy terminations will be absorbed by a reduction in the profit allocation to apportionment accounts of R78 million. This is equivalent to a reduction in the aggregate profit allocation of 19%.

- The impact of fluctuations in the mortality, morbidity and medical experience will be absorbed by a reduction of R49 million in the operating profit allocated to apportionment accounts. This is equivalent to a reduction in the aggregate profit allocation of 12%.

- The impact of fluctuations in the mortality experience on permanent incapacity benefit claims in payment will be absorbed by a reduction of R16 million in the operating profit allocated to apportionment accounts. This is equivalent to a reduction in the aggregate profit allocation of 4%.

- The impact of fluctuations in the expense experience will be absorbed by a reduction of R20 million in the operating profits allocated to apportionment accounts. This is equivalent to a reduction in the aggregate profit allocation of 5%.

- The impact of a significant fall in asset values (equivalent to 30% of equity values) will result in a reduction to special benefit accounts of R3,85 billion. This is equivalent to removing in aggregate 69% of the special benefit account balances at 31 December 2007.

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

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

The directors present their report, which forms part of the audited annual financial statements of the Group for the year ended 31 December 2007.

*Principal activities*

PPS Limited is incorporated as a company limited by guarantee under the Companies Act. PPS Limited is an investment holding company whose sole investment is 100% of the shares of Professional Provident Society Insurance Company Limited ('PPS Insurance'). PPS Limited is owned and controlled by its members. In terms of the group structure:

- *PPS Insurance* is a long-term insurance company registered in South Africa whose principal products include sickness, partial and permanent incapacity benefits and life and capital disability assurance benefits.

  The life and capital disability assurance products offered to members are 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 (Proprietary) Limited* ('PPS BEE SPV'), a special purpose company, was formed as part of the PPS Insurance BEE transaction in 2006. The sole asset of PPS BEE SPV is an endowment policy issued by PPS Insurance. PPS BEE SPV has issued cumulative redeemable preference shares to PPS Insurance. The redemption of these shares will be funded out of the proceeds of the endowment policy.

- *Professional Provident Society Insurance Company (Namibia) Limited* ('PPS Namibia') is a wholly owned subsidiary of PPS Insurance and provides products similar to those of PPS Insurance exclusively to the Namibian market. A reinsurance agreement is in place in respect of 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. This provides security as the Namibian policyholders are effectively included in a risk pool of around 134 000 policyholders. Without this reinsurance arrangement, the Namibian subsidiary, with only about 3 353 Namibian policyholders, would be exposed to significantly higher volatility from participating in a significantly smaller risk pool.

- *PPS Medical Scheme Administrator (Proprietary) Limited* ('PPS Medical Scheme Administrator'), a wholly owned subsidiary of PPS Insurance, administers Profmed.

- *Professional Provident Society Marketing Services (Proprietary) Limited,* ('PMS') a wholly owned subsidiary of PPS Insurance, was formed to act as a distribution company for some of PPS Insurance's products, through its divisions, namely, member relations division ('MRD') and the newly formed short term division.

- *Professional Provident Society Investments (Proprietary) Limited* ('PPS Investments') was a newly formed operation in 2006. PPS Insurance and Coronation Fund Managers Limited are joint shareholders in PPS Investments which provides, *inter alia*, savings and investment products exclusively to PPS members.

- *The PPS Beneficiaries Trust* manages the termination or exit benefits of deceased members, pending transfer to those beneficiaries not yet legally entitled to receive funds, such as minors.

- *Plexus Properties (Proprietary) Limited,* a wholly owned subsidiary of PPS Insurance, owned and managed property belonging to the Group. The property was sold during the course of 2006 and the company is currently not trading.

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

The Group structure is contained in the organogram on page 2 of this report.

### *Financial results*

The financial results on pages 39 to 120 clearly set out the consolidated results of the Group. The company results reflect those of PPS Limited. The Group results reflect the consolidated results of PPS Limited and its subsidiaries.

### *Interest and profit allocations to policyholders' surplus rebate accounts*

At the end of each year policyholders' surplus rebate accounts; including the apportionment accounts and the special benefit accounts; are credited with a share of the profit before movement in insurance policy liabilities (after provision for sickness reserves) 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 equal to the balance accumulated in their surplus rebate accounts at that time.

The surplus rebate account represents a notional allocation of surplus and investment returns only. This account does not belong to the policyholder (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 and net operating income allocated each year may be positive or negative depending on investment return as well as the operating experience of PPS Insurance and/or PPS Namibia. Therefore, the surplus rebate account may increase or decrease each year. The extent of possible variations in the surplus rebate accounts is set out in the accounting policies and notes to these financial statements. There are no guarantees given by PPS Insurance or PPS Namibia that the allocations of operating results or investment returns will always be positive, or that the surplus rebate accounts will not reduce in any year.

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

On surrender of a policy prior to the age of 60, policyholders are entitled to receive a lump sum termination payment determined as a proportion of the surplus rebate accounts at the time. For all other policyholders aged 60 or older, the full balance of the surplus rebate accounts is paid out to the policyholder tax-free on retirement, termination of cover or resignation, and to beneficiaries or the estate on death.

The allocation at 31 December 2007 to policyholders' apportionment accounts referred to above, as approved by the respective boards, are set out as follows:

*PPS Insurance*

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Rates** | **R'000** | Rates | R'000 |
| **Interest** | | | | |
| Pre-retirement option policyholders (note 1) | **8,91%** | **8 530** | 6,90% | 5 599 |
| Other policyholders (note 1) | **3,47%** | **93 965** | 3,79% | 89 633 |
| **Bonus allocation – per Unit of benefit per month** | | | | |
| Full – ordinary | **20,02c** | **290 443** | 21,65c | 268 789 |
| Reduced – ordinary | **7,02c** | **11 125** | 8,65c | 14 034 |
| Supplementary A | **7,24c** | **27 114** | 8,18c | 32 750 |
| Supplementary B | **41,3c** | **5 067** | 46,68c | 6 453 |
| Deferred | **6,97c** | **10 975** | 7,88c | 13 439 |
| Accident | **8,25c** | **3 194** | 9,32c | 3 758 |
| **Hospital benefits** | | | | |
| Full ordinary | **2,61c** | **25 681** | 2,95c | 24 409 |
| Reduced ordinary | **1,31c** | **1 711** | 1,65c | 2 240 |
| Supplementary A | **1,38c** | **2 607** | 1,56c | 3 219 |
| Supplementary B | **9,05c** | **648** | 10,23c | 842 |
| Accident | **4,89c** | **1 339** | 5,53c | 1 593 |
| Professional Provident Society Retirement Annuity Special Bonus | **0,80c** | **8 729** | 0,50c | 4 992 |

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

*PPS Namibia*

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | **Rates** | **N$'000** | Rates | N$'000 |
| **Interest** | | | | |
| Pre-retirement option policyholders (note 1) | **4,57%** | **73** | 5,28% | 63 |
| Other policyholders (note 1) | **3,25%** | **2 105** | 4,94% | 2 605 |
| **Bonus allocation – per unit of benefit per month** | | | | |
| Full – ordinary | **20,13c** | **9 552** | 21,65c | 8 584 |
| Reduced – ordinary | **7,13c** | **234** | 8,65c | 286 |
| Supplementary A | **7,27c** | **566** | 8,18c | 650 |
| Supplementary B | **41,51c** | **142** | 46,68c | 169 |
| Deferred | **7,01c** | **237** | 7,88c | 275 |
| Accident | **8,29c** | **80** | 9,32c | 93 |
| **Hospital benefits** | | | | |
| Full ordinary | **2,62c** | **1 062** | 2,95c | 987 |
| Reduced ordinary | **1,32c** | **40** | 1,65c | 51 |
| Supplementary A | **1,39c** | **70** | 1,56c | 82 |
| Supplementary B | **9,10c** | **22** | 10,23c | 27 |
| Accident | **4,92c** | **36** | 5,53c | 41 |
| Professional Provident Society Retirement Annuity Special Bonus | **0,53c** | **123** | 0,50c | 116 |

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

*Allocation to special benefit accounts*

The following interest allocations (note 2) for 2007 were made to the special benefit accounts:

- 2,73% (2006: 7,13%) for South African policyholders who chose to move to the pre-retirement option – this amounts to R7,4 million. (2006: R14,8 million)
- 10,25% (2006: 29,62%) for South African policyholders who did not qualify for, or did not choose to move to the pre-retirement option – this amounts to R762,6 million. (2006: R1 661,9 million)
- 3,23% (2006: 7,67%) for Namibian policyholders who chose to move to the pre-retirement option – this amounts to N$0,1 million. (2006: N$ 7,6 million)
- 11,65% (2006: 33,3%) for Namibian policyholders who did not qualify for, or did not choose to move to the pre-retirement option – this amounts to N$18,1 million. (2006: N$ 37,0 million)

*Note 2: Investment return allocated to policyholders' notional special benefit accounts as a percentage of the notional surplus rebate accounts at the beginning of the year.*

*Senior management incentive schemes*

The short-term incentive scheme that was in place during the course of 2006 continues as a method of rewarding both middle and senior management. In terms of this scheme management will be able to earn annual incentive bonuses based on business performance and each individual's performance. The incentive bonuses paid in terms of this scheme are not regarded as guaranteed as it is dependent on business performance being above a certain threshold.

Recently the remuneration committee approved the long-term incentive scheme. The purpose of the scheme is to attract, retain, motivate and reward eligible management who are able to influence the long-term performance of the Company, on a basis that aligns their interests with those of the Company's members, by providing that the extent to which such eligible management ultimately benefit under the plan is dependent on the long-term sustained growth in the total balance of the apportionment account.

*Directors of PPS Limited*

| Director | Status | Classification | Term of office |
|---|---|---|---|
| Dr D Presbury | Independent Chairman | Elected | Ends June 2010 |
| Mr E Moolla | Independent Deputy Chairman | Elected | Ends June 2010 |
| Dr D Anderson | Independent | Elected | Ends June 2009 |
| Dr J Adno | Independent | Elected | Ends June 2009 |
| Dr N Campbell | Independent | Elected | Ends June 2008 |
| Prof M Haus | Independent | Elected | Ends June 2008 |
| Dr C Kruger | Independent | Elected | Ends June 2010 |
| Adv R Meyer | Independent | Elected | Ends June 2009 |
| Dr J van Niekerk | Independent | Elected | Ends June 2008 |
| Judge R Zulman | Independent | Elected | Ends June 2008 |
| Dr V Bhagwandas | Independent | Elected | Ends June 2010 |
| Mr B Topham | Independent | Elected | Ends June 2010 |
| Dr K Vallabh | Independent (resigned June 07) | Elected | Ends June 2007 |
| Adv T Aboobaker | Appointed by General Council of the Bar of South Africa | Nominated | N/A |
| Mr I Kotze | The Pharmaceutical Society of South Africa | Nominated | N/A |
| Dr T Letlape | The South African Medical Association | Nominated | N/A |
| Ms C Mbili | The South African Institute of Chartered Accountants | Nominated | N/A |
| Mr C Reay | The Society of Professional Engineers | Nominated | N/A |
| Dr T Sizani | The South African Dental Association | Nominated | N/A |
| Dr S Seoka | Independent | Co-opted | N/A |
| Mr M Njeke | Independent (resigned June 2007) | Co-opted | N/A |
| Dr R Sykes | The South African Veterinary Association | Representative | N/A |

*PPS Insurance Board*

| Director | Status |
|---|---|
| Dr D Anderson (Chairman) | Non-executive |
| Mr E Moolla | Non-executive |
| Dr D Presbury | Non-executive |
| Adv R Meyer | Non-executive |
| Dr N Campbell | Non-executive |
| Mr C Erasmus (appointed February 2007) | Non-executive |
| Mr W Mthembu | Non-executive |
| Mr D Nohr | Non-executive |
| Dr J van Niekerk | Non-executive |
| Mr I Kotze | Non-executive |
| Dr S Seoka | Non-executive |
| Mr N Payne | Non-executive |
| Mr M Jackson (Chief Executive Officer) | Executive |
| Mr D Gnodde (Chief Operating Officer) | Executive |
| Mr C Masson (Chief Financial Officer) (resigned March 2007) | Executive |

*Executive of PPS*

| Member | Status |
|---|---|
| Mr M Jackson | Chief Executive Officer |
| Mr D Gnodde | Chief Operating Officer |
| Mrs T Boesch (appointed August 2007) | Chief Financial Officer |
| Mr C de Klerk | Company Actuary |
| Mr L Caron (appointed September 2007) | Group Company Secretary/Compliance Officer |
| Mr J Marsden | National Sales Director |
| Dr J Goodwin | Group Medical Officer |
| Mr A Tait | General Manager |
| Mr R Govenden | Group Human Resources Manager |
| Mr T Simba (appointed January 2008) | Group Membership Relations Manager |
| Mr S Clark (appointed March 2007) | Head of Business Applications |
| Mr C Masson (resigned March 2007) | Chief Financial Officer |
| Mrs J Lester (resigned July 2007) | Group Company Secretary/Compliance Officer |
| Mr B Holtzhausen (resigned April 2007) | General Manager |

## DIRECTORS OF SUBSIDIARIES

*PPS Namibia*

| Director |
|---|
| Dr E Maritz |
| Ms M Bennett |
| Dr O Oosthuizen |
| Mr M Jackson |
| Mr A Tait |

*PPS Medical Scheme Administrators*

| Director |
|---|
| Mr M Jackson |
| Mr D Gnodde |
| Dr J van Niekerk |

## DIRECTORS OF SUBSIDIARIES (continued)

| *PPS BEE SPV* | *PPS Marketing Services* | *PPS Investments* | *Plexus Properties* |
|---|---|---|---|
| Dr T Letlape | Mr M Jackson | Mr H Nelson | Mr A Tait |
| Mr E Moolla | Mr C Erasmus | Mr T du Toit | Mrs M Kennelley |
| Dr S Seoka | Mr D Gnodde | Mr S Pather | |
| | Mr J Marsden | Mr E Moolla | |
| | | Mr C de Klerk | |
| | | Mr M Jackson | |

## TRUSTEES

| *PPS Retirement Annuity Fund* | *PPS Beneficiaries Trust* |
|---|---|
| Dr D Presbury | Dr R Sykes |
| Mr E Huggett | Judge R Zulman |
| Mr M Eustace | Mr B Topham (appointed July 2007) |
| Adv R Meyer | Mr R Honeyborne (resigned June 2007) |
| Mr G Richardson | Mr M Oosthuizen (resigned May 2007) |
| Dr S Seoka | |
| Dr J van Niekerk | |
| Adv T Ferriera | |

*PPS Limited directors emoluments*

*(Including subsidiaries and committees)*

| Director | PPS Limited (Incl committees) R | Subsidiary companies (Incl committees) R | Total emoluments R |
|---|---|---|---|
| Adv T Aboobaker | 75 613 | — | 75 613 |
| Dr J Adno | 75 421 | — | 75 421 |
| Dr D Anderson | 76 025 | 350 398 | 426 423 |
| Dr V Bhagwandas | 43 090 | — | 43 090 |
| Dr N Campbell | 73 225 | 118 925 | 192 150 |
| Prof M Haus | 68 609 | — | 68 609 |
| Mr I Kotze | 72 925 | 162 615 | 235 540 |
| Dr C Kruger | 83 365 | — | 83 365 |
| Dr T Letlape | 106 803 | — | 106 803 |
| Ms C Mbili | 68 699 | — | 68 699 |
| Adv R Meyer | 68 829 | 288 631 | 357 460 |
| Mr E Moolla | 125 687 | 201 881 | 327 568 |
| Mr M Njeke | 29 118 | — | 29 118 |
| Dr D Presbury | 253 625 | 123 180 | 376 805 |
| Mr C Reay | 72 249 | — | 72 249 |
| Dr S Seoka | 130 012 | 115 429 | 245 441 |
| Dr TSL Sizani | 75 925 | — | 75 925 |
| Dr R Sykes | 108 817 | — | 108 817 |
| Mr B Topham | 58 441 | — | 58 441 |
| Dr K Vallabh | 32 536 | — | 32 536 |
| Dr J Van Niekerk | 68 555 | 132 497 | 201 052 |
| Judge R Zulman | 92 419 | — | 92 419 |
| Total | 1 859 988 | 1 493 556 | 3 353 544 |

# Administrative information

## BUSINESS ADDRESS

| | |
|---|---|
| Principal place of business | 6 Anerley Road<br>Parktown, 2193 |
| Postal address: | PO Box 1089<br>Houghton, 2041 |
| Web address: | www.pps.co.za |

## STATUTORY ACTUARY OF PPS INSURANCE AND PPS NAMIBIA (in terms of the Long-term Insurance Act)

Carl van der Riet

## EXTERNAL AUDITOR

PricewaterhouseCoopers Inc

## INTERNAL AUDITOR

Grant Thornton Business Risk Services (Pty) Limited

## FUND MANAGERS

Coronation Asset Managers Limited
Investec Asset Management (Pty) Limited
Namibia Asset Management (Pty) Limited
Sanlam Investment Management (Pty) Ltd through its division, Sanlam Multi-Manager Portfolios
PPS Investments (Pty) Limited

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

## 1. BASIS OF PRESENTATION

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

- Owner occupied property carried at fair value
- Financial assets elected 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
- Post-employment employee benefit obligations valued using the projected unit credit method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 1 of the notes to the consolidated financial statements.

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

In preparing these consolidated financial statements, the Group has adopted IFRS 7 *Financial Instruments: Disclosures* as well as the amendments to IAS 1 *Presentation of Financial Statements – Capital Disclosures* and IFRS 4 *Insurance Contracts.* The adoption of IFRS 7 and the amendments to IAS 1 and IFRS 4 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standards, the Group has provided full comparative information.

There have been no changes to the accounting policies applied in the prior year, except for cash and cash equivalents which are now measured at amortised cost and not fair value. However, this does not have any impact on the amounts as disclosed in the prior year. Refer note 11 for further details.

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

## 2. CONSOLIDATION

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

### Subsidiaries

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

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

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

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

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

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

## 3. FINANCIAL INSTRUMENTS

### 3.1 General

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

## 3. FINANCIAL INSTRUMENTS continued

### 3.1 General continued

Financial instruments carried on the balance sheet 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 cost including, for financial assets not at fair value through profit or loss, any directly attributable transaction costs. All financial asset purchases and sales are recognised using trade date accounting.

*Financial assets at fair value through profit or loss*

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

Financial assets 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.

## 3. FINANCIAL INSTRUMENTS continued

### 3.2 Financial assets continued

Financial assets 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 income statement 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 balance sheet 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 balance sheet 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 balance sheet 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.

Subsequent to initial recognition, loans and receivables are measured at amortised cost less impairment adjustments (Accounting policy Note 12).

### 3.3 Financial liabilities

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

Financial liabilities include other payables and investment contract liabilities (Accounting policy Note 4.2.2).

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 income statement over the period of borrowing.

### 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 policy holder 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.

## 4. INSURANCE AND INVESTMENT CONTRACTS continued

### 4.1 Classification of contracts continued

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

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer; and
- that are contractually based on:
  a. The performance of a specified pool of contracts or a specified type of contract;
  b. Realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  c. The profit 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.

*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 income statement.

## 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 ('PGN's') 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 balance sheet date to reflect current expectations. The policy liabilities also make provision for future bonus declarations to policyholders. The bonuses provided for are in line with past declarations and the Group's interpretation of policyholder reasonable benefit expectations.

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

## 4. INSURANCE AND INVESTMENT CONTRACTS continued

### 4.2 Valuation and recognition continued

#### 4.2.1 Insurance contracts continued

*Valuation continued*

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

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

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

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

*Recognition: insurance contracts*

*Premiums*

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

*Reinsurance inwards*

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

*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 company. 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, and the claim has not been paid at balance sheet 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 income statement 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 income statement 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 continued

#### 4.2.1 Insurance contracts continued

*Liability adequacy test*

At each balance sheet 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 balance sheet 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.

### 4.2.2 Investment contracts

Investment contracts are recognised as financial liabilities in the balance sheet 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. Policyholder 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 policyholder liabilities under investment contracts reflect the fair value of the assets concerned, thus the actuarial valuation of the policyholder liabilities under unmatured investment contracts also reflect the fair value of the contractual liabilities.

*Receivables and payables related to investment contracts*
Amounts due from and to policyholders and agents in respect of investment contracts are included in insurance and other receivables and payables.

## 5. FOREIGN CURRENCY TRANSLATION

### 5.1 Transactions and balances

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

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 balance sheet presented are translated at the closing rate at the date of that entity's most recent balance sheet;
- income and expenses for each income statement 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 income statement as part of the gain or loss on sale.

## 6. DIRECT 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 balance sheet 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.

## 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 income statement during the financial period in which they are incurred.

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

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

The assets' residual values and useful lives are reviewed at each balance sheet 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 income statement and are determined by comparing sales proceeds with the carrying amount.

## 9. INVESTMENT PROPERTY

Property held for long-term rental yields and for capital appreciation for the benefit of policyholders, which is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises freehold land and buildings. It is carried at fair value as determined annually by independent professional valuators. Fair value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. It is not depreciated.

Changes in fair values are recorded in the income statement. Gains and losses arising on disposal of the investment property are included in the income statement.

## 10. LEASES

*Operating leases where a Group company is the lessee*

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

## 11. INTANGIBLE ASSETS

*Computer software development costs*

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development team's costs. Computer software acquired as part of the software development project is capitalised on the basis of the acquisition costs and related costs to bring it to use. All other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

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

## 12. IMPAIRMENT OF ASSETS

*Financial assets*

The Group assesses at each balance sheet 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 income statement.

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 income statement.

*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 income statement.

## 12. IMPAIRMENT OF ASSETS continued

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 income statement.

## 13. DEFERRED TAX

Deferred tax is provided in full, 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 balance sheet 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.

## 14. EMPLOYEE BENEFITS

### 14.1 Pension/retirement obligations

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

*Defined contribution fund*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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*

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

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

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

The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. Plan assets exclude any insurance contracts issued by the Group. 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 balance sheet date.

**14.2 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 balance sheet 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. Cumulative actuarial gains and losses at the beginning of the period in excess of 10% of the fund liabilities are recognised in the income statement over the expected average remaining service lives of participating employees.

The liability recognised in the balance sheet in respect of the post-retirement medical obligation is the present value of the post-retirement medical obligation at the balance sheet 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 balance sheet date.

**14.3 Termination benefits**

Termination benefits are recognised as an expense in the income statement and a liability in the balance sheet when the Group has a present obligation relating to termination.

**14.4 Leave pay provision**

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

**14.5 Management bonuses**

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

**14.6 Long-term incentive scheme**

During the financial year the Group entered into a long-term incentive scheme for certain employees. 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 balance sheet date, applying the projected unit credit method.

## 15. SHARE CAPITAL

Shares are classified as equity when there is no obligation to transfer cash or other assets. As a company limited by guarantee, each member of the Company is liable for a maximum amount of R1 in the event of the Company being wound up while a member or within 1 year thereafter.

## 16. ACCUMULATED FUNDS

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

## 17. REVENUE RECOGNITION

### 17.1 Administration fee income

Administration fee income arising from the administration and other management services provided by the Group is recognised in the accounting period in which the services are rendered. Administration fee income is calculated and measured based on the terms and conditions in the administration agreements.

Fees consist primarily of collection and administration fees arising from services rendered in conjunction with the administration of the life assurance policy, underwritten by Sanlam, as well as administration fees for administering the Profmed medical aid scheme, and the PPS Beneficiaries Trust. Fees are also received from members when changing their risk profiles.

### 17.2 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 comprises of gains and losses on disposal or revaluation of assets to fair values and is recognised in the income statement.

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.

### 17.3 Rental income

Rental income from operating leases is recognised in income on a straight-line basis over the lease term. Expenses incurred in earning rental income are recognised as an expense as incurred.

### 17.4 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.

# Consolidated balance sheet

as at 31 December 2007

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2007 R'000** | 2006 R'000 | **2007 R'000** | 2006 R'000 |
| **ASSETS** | | | | | |
| Property and equipment | 4 | **58 327** | 46 435 | **—** | — |
| Investment property | 5 | **—** | — | **—** | — |
| Investment in subsidiary company | 6 | **—** | — | **10 000** | 10 000 |
| Intangible assets | 7 | **47 579** | 49 422 | **—** | — |
| Deferred tax | 17 | **9 644** | 4 435 | **—** | — |
| Financial assets – Investments | 8 | **10 658 828** | 9 705 944 | **—** | — |
| Reinsurance assets | 9,15 | **205 033** | 118 231 | **—** | — |
| Insurance and other receivables | 10 | **352 134** | 219 737 | **500** | 601 |
| Current income tax asset | | **8 063** | — | **—** | — |
| Cash and cash equivalents | 11 | **1 069 113** | 750 693 | **—** | — |
| **Total assets** | | **12 408 721** | 10 894 897 | **10 500** | 10 601 |
| **EQUITY** | | | | | |
| **Capital and accumulated funds** | | | | | |
| Share capital | 12 | **—** | — | **—** | — |
| Accumulated funds | 13 | **118 850** | 132 340 | **10 500** | 10 500 |
| **Total equity** | | **118 850** | 132 340 | **10 500** | 10 500 |
| **LIABILITIES** | | | | | |
| Insurance policy liabilities | 15 | **11 814 222** | 10 395 252 | **—** | — |
| Investment contract liabilities | 16 | **6 922** | — | **—** | — |
| Borrowings | 14 | **3 600** | — | **—** | — |
| Deferred tax | 17 | **139 238** | 207 718 | **—** | — |
| Retirement benefit obligations | 18 | **22 688** | 18 463 | **—** | — |
| Employee related obligations | 19 | **17 896** | 27 784 | **—** | — |
| Insurance and other payables | 20 | **285 305** | 102 936 | **—** | 101 |
| Current income tax liabilities | | **—** | 10 404 | **—** | — |
| **Total liabilities** | | **12 289 871** | 10 762 557 | **—** | 101 |
| **Total equity and liabilities** | | **12 408 721** | 10 894 897 | **10 500** | 10 601 |

# Consolidated income statement

for the year ended 31 December 2007

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2007 R'000** | 2006 R'000 | **2007 R'000** | 2006 R'000 |
| Net insurance premium revenue | 21 | **1 275 905** | 1 081 493 | **—** | — |
| Administration fee income | 22 | **86 556** | 74 564 | **4 812** | 4 052 |
| Investment income | 24 | **1 425 587** | 2 294 204 | **—** | — |
| Rental income | | **—** | 610 | **—** | — |
| | | **2 788 048** | 3 450 871 | **4 812** | 4 052 |
| Net insurance benefits and claims | 25 | **805 158** | 538 197 | **—** | — |
| Fair value of policyholder liabilities under investment contracts | | **38** | — | **—** | — |
| Expenses | 26 | **503 210** | 411 080 | **4 812** | 4 052 |
| Profit before movement in insurance policy liabilities | | **1 479 642** | 2 501 594 | **—** | — |
| Movement to insurance policy liabilities | 15.2 | **1 298 801** | 2 287 715 | **—** | — |
| Tax | 28 | **196 291** | 215 213 | **—** | — |
| Deficit after tax | | **(15 450)** | (1 334) | **—** | — |
| Attributable to: | | | | | |
| Members | | **(13 490)** | (1 334) | **—** | — |
| Minority interest | | **(1 960)** | — | **—** | — |
| | | **(15 450)** | (1 334) | **—** | — |

The mutuality nature of PPS should be noted – every member is a policyholder. The allocation to policyholders (described above as 'movement to insurance policy liabilities') is in effect the return enjoyed by the members in their capacity as policyholders. The deficit after tax relates to results of operations of the non-insurance subsidiaries.

# Consolidated statement of changes in equity

for the year ended 31 December 2007

| | Note | Accumulated funds R'000 | Revaluation reserve R'000 | Minority interest R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| Balance at 1 January 2006 | | 133 674 | — | — | 133 674 |
| Revaluation of owner-occupied property | 4 | — | 2 259 | — | 2 259 |
| Deferred tax on revaluation of owner-occupied property | | — | (116) | — | (116) |
| Movement in insurance policy liabilities | 15.2 | — | (2 143) | — | (2 143) |
| Deficit for the year | | (1 334) | — | — | (1 334) |
| Balance at 31 December 2006 | 13 | 132 340 | — | — | 132 340 |
| Net change in share capital and share premium | | **—** | **—** | **1 960** | **1 960** |
| Revaluation of owner-occupied property | 4 | **—** | **12 041** | **—** | **12 041** |
| Deferred tax on revaluation of owner-occupied property | | **—** | **(974)** | **—** | **(974)** |
| Movement in insurance policy liabilities | 15.2 | **—** | **(11 067)** | **—** | **(11 067)** |
| Deficit for the year | | **(13 490)** | **—** | **(1 960)** | **(15 450)** |
| **Balance at 31 December 2007** | 13 | **118 850** | **—** | **—** | **118 850** |

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 2007 and 2006, based on the amounts and at the rate applicable to capital gains.

As the properties are held to back insurance policy liabilities, with discretionary participation features, the movement in insurance policy liabilities as a result of the revaluation is recognised in equity.

| | Note | Accumulated funds R'000 | Revaluation reserve R'000 | Total R'000 |
|---|---|---|---|---|
| **Company** | | | | |
| Balance at 1 January 2006 | | 10 500 | — | 10 500 |
| Profit for the year | | — | — | — |
| Balance at 31 December 2006 | 13 | 10 500 | — | 10 500 |
| Profit for the year | | **—** | **—** | **—** |
| **Balance at 31 December 2007** | 13 | **10 500** | **—** | **10 500** |

# Consolidated cash flow statement

for the year ended 31 December 2007

| | Note | 2007 R'000 | 2006 R'000 |
|---|---|---|---|
| **Group** | | | |
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 29 | **173 613** | 172 199 |
| Interest received | | **303 626** | 209 847 |
| Dividend received | | **200 535** | 190 626 |
| Tax paid | 30 | **(289 423)** | (200 241) |
| Net cash from operating activities | | **388 351** | 372 431 |
| **Cash flows from investing activities** | | | |
| Purchases of property and equipment | 4 | **(6 406)** | (6 097) |
| Software development | 7 | **(21 003)** | (13 511) |
| Purchase of financial assets | 8 | **(13 837 960)** | (6 185 622) |
| Proceeds from sale of furniture and equipment | | **—** | 23 |
| Proceeds from sale of investment property | 5 | **—** | 18 000 |
| Proceeds from disposal of financial assets | 8,24 | **13 791 838** | 5 930 003 |
| Net cash used in investing activities | | **(73 531)** | (257 204) |
| **Cash flows from financing activities** | | | |
| Increase in borrowings | 14 | **3 600** | — |
| Net cash from financing activities | | **3 600** | — |
| **Net increase in cash and bank** | | **318 420** | 115 227 |
| Cash and bank at beginning of year | | **750 693** | 635 466 |
| Cash and bank at end of year | 11 | **1 069 113** | 750 693 |

A company cash flow statement has not been presented as PPS Limited does not utilise cash, and is funded by PPS Insurance.

## 1. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at balance sheet date as well as affecting the reported income and expenses for the year. Estimates and judgements are evaluated annually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 1.1 Valuation of insurance policy liabilities

The determination of the liabilities under insurance contracts is dependent on estimates and assumptions made by the Group. In determining the value of these insurance policy liabilities assumptions regarding mortality, persistency, investment returns, expense level and inflation, tax and future profit allocations have been made. For details on these assumptions refer to Note 15.1.

No allowance was made for any assumed deterioration in mortality and morbidity due to HIV/Aids. It is expected that the impact of the epidemic on the current membership will not be significant in the near future.

### 1.2 Income tax

The Group is subject to tax in South Africa and Namibia. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination was made. The corporate tax rate in South Africa was 29% for the year under review. The Group has four separate tax funds, the individual policyholders' fund (taxed at 30%), the company policyholder' fund (taxed at 29%), the corporate fund (taxed at 29%) and the untaxed fund (taxed at 0%).

### 1.3 Employee benefit liabilities

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

The assumptions relating to the expected return on plan assets are determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long- term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the pension and post-retirement medical obligations. In determining the appropriate discount rate, the Group considers the interest rate on high quality corporate bonds and Government bonds that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales. Additional information is provided in Note 18 of these financial statements.

### 1.4 Valuation of owner-occupied property

The value of the owner-occupied property depends on a number of factors that are determined using a number of assumptions. The assumptions used in determining the value include the expected long-term rate of return on the asset (9,5%), the average rentals for office space in the area (R80 per square metre), and estimated expenses relating to the building. Any change in these assumptions will impact the value of the building.

### 1.5 Valuation of investment contract liabilities

The Group issues investment contracts, with no investment management services, that are recognised and measured as financial liabilities and designated at fair value through profit 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.

### 1.6 Valuation of long-term incentive scheme

The cost of the benefits of the long-term incentive scheme depends on a number of assumptions used in calculating the present value under the projected unit credit method. The assumptions used in determining the charge to the income statement arising from these obligations include the expected growth in the apportionment account (rolling five-year average historical growth), the turnover of staff participating in the scheme (nil) and the discount rate (an appropriate market-related yield curve as at the balance sheet date). Any changes in these assumptions will impact the charge to the income statement

## 2. MANAGEMENT OF RISKS

### 2.1 General

The board is responsible for strategic risk management within the Group and tasks the Audit and Risk Committee with ensuring effective risk management. The purpose of the Group's risk management strategy is to identify the risks and ensure that the overall risk profile remains at acceptable levels. The risk management policy provides reasonable, but not absolute, assurance that risks are being adequately managed.

The Group risk policy sets out the minimum standards of risk management to be adopted and adhered to by the various businesses within the Group. The risk policy, which has recently been reviewed and updated, contains processes for identifying both the impact and likelihood of such risk occurring. Risks that have been identified as having a potentially severe impact on the Group will be regarded as unacceptable and, where possible, will be avoided.

Responsibility for adherence to the Group risk management policy is headed by the compliance officer who has access to the Audit and Risk Committee, members of the Executive Committee and executives of the various business units within the Group. In addition the Group employs the experience of an independent expert within the Audit and Risk Committee to assist in implementing risk management strategies. In line with the recommendations of King 2, the Board Charter outlines the directors' responsibilities for the management of risk. These responsibilities are as follows:

- The board is responsible for the identification of major risks, for the total process of risk management, as well as for forming its own opinion on the effectiveness of the process.
- Management is accountable to the board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities;
- The board must identify and fully appreciate the business risk issues and key performance indicators affecting the ability of the Company to achieve its strategic purpose and objectives;
- The board must ensure that appropriate systems are in place to manage the identified risks, measure the impact and to pro-actively manage it, so that the Company's assets and reputation are suitably protected.

### Management responsibilities

Management is responsible for the identification, assessment and control of all key risks facing the operations, functions and processes under their control. In addition, management is required to manage all risks under their jurisdiction that contribute to the Group's risk profile.

Management is expected to implement each of the relevant aforementioned standards. In addition, management is required to monitor the status of risks in their area, and report on any material changes to the risk profile, any risk materialisation/losses. Management is also expected to put in place appropriate controls for their risks, and to provide assurance that such controls perform as intended.

Due to the significant increase in the number of products which the Group brought to market and the regulated environment in which the Group operates, management is in the process of reassessing and reviewing the risk management framework and policies; including the risk matrix and plan. Once the appropriate framework and policies have been documented, including the risk matrices, these will be tabled for the approval of the Audit and Risk Committee.

### 2.2 Insurance product risk management

*General*

The Group issues contracts that transfer significant insurance risk. This section summarises these risks and the way the Group manages them.

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

## 2. MANAGEMENT OF RISKS continued

*General (continued)*

The table below provides an overview of the types of products and the terms and conditions of life insurance contracts written by the Group:

| Type of contract | Terms and conditions |
|---|---|
| Sickness and permanent incapacity plan | The sickness and permanent incapacity plan offers a variety of sickness and permanent incapacity benefit options with differing premium rates and benefit levels. The premium rates and benefits are not guaranteed and may be revised at the discretion of the insurer. To qualify for sickness and permanent incapacity benefits, the applicant must apply for cover units. Such a benefit entitles a policyholder to claim an amount determined by the units of cover for sickness and incapacity, held by a policyholder. The amount of cover units obtainable are limited by the applicant's annual gross professional income and maximum limits applied by the Group. The non-DPF component of this product is the sickness and incapacity cover. The DPF component of this product is the surplus rebate accounts. These policies are sold to individuals. |
| Life and disability assurance | The policy offers lump sum life and disability cover only to members who already have sickness and incapacity cover. The premiums are payable monthly with annual premium rate reviews, which are based on the experience of the policy.<br>The previous generation of policies are classified as being part of a grouped individual policy. For these policies Sanlam is the insurer with significant reinsurance back to PPS Insurance. These policies transfer insurance risk only, are accounted for as reinsurance inwards, and do not contain a DPF component. This class is closed for new business. For the new generation of life and disability policies PPS Insurance is the risk carrier. A reinsurance policy to reduce the variability of the claims outgo is in place. |

| | |
|---|---|
| Life and disability assurance continued | The premiums are not guaranteed, and are subject to change based on the experience of the overall pool of risks. |
| Professional Health Preserver | Professional Health Preserver (PHP) is a product that pays a lump sum benefit, according to severity levels, upon assessment of standard dread disease conditions and physical impairment events. PHP is only offered to members who already have sickness and incapacity cover. The premiums for this cover are determined according to age and increase annually.<br>These policies are sold to individuals. The policies transfer insurance risk only, and do not contain a DPF component. |
| Professional Health Provider | The Professional Health Provider (Provider PHP) was launched in 2007, as an enhanced product based on the Professional Health Preserver (PHP) which was launched in 2004. These products pay a lump sum benefit according to severity levels upon assessment of standard dread disease conditions and physical impairment events. They are only offered to members who already have sickness and incapacity cover. The premiums increase with age, are not guaranteed and are subject to change based on the experience of the overall pool of risks.<br>Reinsurance policies are in place to reduce the variability of the claims experience. |

The sickness and disability contracts include a DPF element. The participating nature of these contracts results in the insurance risk being carried by the insured parties. All variations in claims, persistency or termination rates are carried by the insured parties by means of variations in the amounts allocated to the DPF element. However, the Group continues to manage the insurance risk in order to maximise the benefits available to policyholders.

**2. MANAGEMENT OF RISKS continued**

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

**Insurance contracts**

*(a) Frequency and severity of claims*

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

The Company has a claims assessing process where all claims received are assessed. Repetitive and large claims are investigated further before being paid.

Undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Group manages these risks through its underwriting strategy. The underwriting strategy ensures that the risks underwritten are drawn from specified professions only. Medical selection is also included in the Group's underwriting procedures where premium loadings or benefit exclusions may be imposed which reflect the health condition and family medical history of the applicants. The Group has maximum exposure limits in respect of any single life insured. 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.

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 |
|---|---|---|
| **2007** | **3 544 139** | **26 252** |
| 2006 | 3 246 199 | 24 251 |

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 15).

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

## 2. MANAGEMENT OF RISKS continued

*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:

| **2007 R'000** | **Non-DPF component of insurance liabilities** | **DPF component of insurance liabilities** | **Total** |
|---|---|---|---|
| **South Africa** | | | |
| Gross | **2 441 754** | **8 925 049** | **11 366 803** |
| Net of reinsurance | **2 248 857** | **8 925 049** | **11 173 906** |
| **Namibia** | | | |
| Gross | **69 240** | **191 683** | **260 923** |
| Net of reinsurance | **57 104** | **191 683** | **248 787** |

| 2006 R'000 | Non-DPF component of insurance liabilities | DPF component of insurance liabilities | Total |
|---|---|---|---|
| **South Africa** | | | |
| Gross | 2 031 395 | 7 974 436 | 10 005 831 |
| Net of reinsurance | 1 921 615 | 7 974 436 | 9 896 051 |
| **Namibia** | | | |
| Gross | 54 842 | 165 011 | 219 853 |
| Net of reinsurance | 49 941 | 165 011 | 214 952 |

*Risk management relating to investment contracts*

The Group commenced selling investment products during 2007 through its subsidiary PPS Investments (Pty) Ltd ('PPS Investments'). For these policies the investment risk is carried by the policyholders. In PPS Investments there is a risk of reduced income from fees where these are based on the underlying value of the invested assets. There is furthermore a reputational risk if actual investment performance is not in line with policyholders' expectations. These risks are managed through a rigorous multi-manager investment research process applied by PPSI's investment managers, which includes both technical and fundamental analysis.

The investment products underwritten by PPS Insurance are the PPS Endowment and the PPS Living Annuity.

## 2.3 Financial risk management

The Group is exposed to financial risk through its financial assets, financial liabilities (including investment contracts), reinsurance assets and insurance policy liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk (comprising interest rate risk, equity price risk and foreign currency risk), liquidity risk and credit risk. The participating nature of the contracts issued results in the financial risk being carried by the insured parties by means of variations in the amounts allocated to the DPF element. However the Group continues to manage the financial risk in order to maximise the benefits available to policyholders.

These financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Group primarily faces arises from the impact of volatility in equity prices and interest rates on the value of assets and liabilities.

The Group manages exposure to investment volatility as part of an annual review of the assets held to back the insurance policy liabilities using asset liability modelling techniques. The asset-liability risk management framework allows for asset liability modelling to drive the optimal long-term asset class composition. This approach ensures the expected return on assets is sufficient to fund the required return on the risk reserves and to maximise the rate of return on the balance of the policy liabilities subject to acceptable levels of risk. Asset class composition is discussed on a monthly basis with the respective asset managers.

### Credit risk

Credit risk refers to the risk of loss arising from the inability of the counterparty to service its debt obligations. The Group's key areas of exposure to credit risk include:

- debt securities and cash and cash equivalents;
- amounts due from insurance and investment contract policyholders;
- amounts due from intermediaries;
- reinsurers' share of insurance liabilities; and
- amounts due from reinsurers in respect of payments already made to policyholders.

The nature of the Group's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior period.

## 2. MANAGEMENT OF RISKS continued

### Credit risk continued

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

The Group only enters into insurance contracts with eligible professional individuals. 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+.

### Exposure to credit risk

The maximum exposure to credit risk at the reporting date from financial assets and insurance contracts was:

| Group<br>R'000 | 2007 | 2006 |
|---|---|---|
| Debt securities | **2 352 981** | 1 977 209 |
| Reinsurance assets | **205 033** | 118 231 |
| Insurance receivables | **307 272** | 203 858 |
| Cash and cash equivalents | **1 069 113** | 750 693 |
| Other receivables | **34 578** | 13 796 |
| Reinsurance receivables | **10 062** | 1 577 |
| Total | **3 979 039** | 3 065 364 |

### Corporate and government debt

Included in the category designated at fair value through profit or loss is 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 national credit category (Fitch ratings) | Category limit (as % of Group bond holdings) |
| --- | --- |
| AAA, sovereign and government – guaranteed bonds | Up to 100% |
| Below AAA but no lower than AA- | 40% |
| Below AA- but no lower than A | 15% |
| Below A- but no lower than BBB- | 5% |
| **Individual issuers and instruments credit category (Fitch ratings)** | **Category limit (as % of Group bond holdings)** |
| Bonds | Up to 100% |
| AAA and government – guaranteed bonds | 15% |
| Below AAA but no lower than AA- | 7,5% |
| Below AA- but no lower than A | 5% |
| Below A- but no lower than BBB- | 1% |

The Group's total exposure to government and corporate debt amounted to R2 353 million (2006: R1 977 million) at 31 December 2007. The following represent the major industry sectors to which the Group is exposed as at 31 December 2007:

| **Group**<br>**Rm** | **2007** | 2006 |
| --- | --- | --- |
| Government | **1 843** | 1 450 |
| Banks | **159** | 200 |
| Utilities | **142** | 177 |
| Corporate | **209** | 150 |
| Total | **2 353** | 1 977 |

## 2. MANAGEMENT OF RISKS continued

### Concentrations of credit risk

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

| **Group 2007 R'000** | **AAA and govern-ment** | **Below AAA but no lower than AA-** | **Below AA- but no lower than A** | **Below A- but no lower than BBB-** | **Unrated** | **Total** |
|---|---|---|---|---|---|---|
| Debt securities | **2 058 926** | **131 071** | **136 555** | **26 429** | **—** | **2 352 981** |
| Reinsurance assets | **—** | **—** | **205 033** | **—** | **—** | **205 033** |
| Insurance receivables | **—** | **—** | **—** | **—** | **307 272** | **307 272** |
| Cash and cash equivalents | **247 833** | **650 269** | **147 240** | **23 771** | **—** | **1 069 113** |
| Other receivables | **—** | **—** | **—** | **—** | **34 578** | **34 578** |
| Reinsurance receivables | **—** | **—** | **10 062** | **—** | **—** | **10 062** |

| Group 2006 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 | 1 701 200 | 181 600 | 83 416 | 10 993 | — | 1 977 209 |
| Reinsurance assets | — | — | 118 231 | — | — | 118 231 |
| Insurance receivables | — | — | — | — | 203 858 | 203 858 |
| Cash and cash equivalents | 185 412 | 430 594 | 108 332 | 26 355 | — | 750 693 |
| Other receivables | — | — | — | — | 13 796 | 13 796 |
| Reinsurance receivables | — | — | 1 577 | — | — | 1 577 |

## Ageing of financial assets

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

| **Group 2007 R'000** | **Neither past due nor impaired** | **Financial assets that are past due 0 – 2 months** | **3 – 5 months** | **More than 5 months** | **Financial assets that have been impaired** | **Carrying value** |
|---|---|---|---|---|---|---|
| Reinsurance assets | **205 033** | **—** | **—** | **—** | **—** | **205 033** |
| Insurance receivables | **263 983** | **860** | **7 070** | **35 359** | **20 026** | **307 272** |
| Reinsurance receivables | **10 062** | **—** | **—** | **—** | **—** | **10 062** |
| Other receivables | **32 963** | **679** | **—** | **936** | **—** | **34 578** |
| Cash and cash equivalents | **1 069 113** | **—** | **—** | **—** | **—** | **1 069 113** |

| Group 2006 R'000 | Neither past due nor impaired | Financial assets that are past due 0 – 2 months | 3 – 5 months | More than 5 months | Financial assets that have been impaired | Carrying value |
|---|---|---|---|---|---|---|
| Reinsurance assets | 118 231 | — | — | — | — | 118 231 |
| Insurance receivables | 150 460 | 6 679 | 4 079 | 42 640 | 6 140 | 203 858 |
| Reinsurance receivables | 1 577 | — | — | — | — | 1 577 |
| Other receivables | 13 796 | — | — | — | — | 13 796 |
| Cash and cash equivalents | 750 693 | — | — | — | — | 750 693 |

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 that would have been past due or impaired had the terms not been renegotiated for the current or prior year.

## 2. MANAGEMENT OF RISKS continued

### Individually impaired assets

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

| Group R'000 | 2007 Gross | 2007 Net | 2007 Impairment losses | 2006 Gross | 2006 Net | 2006 Impairment losses |
|---|---|---|---|---|---|---|
| Contract holder receivables | **43 231** | **23 205** | **20 026** | 49 108 | 42 968 | 6 140 |

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts and in respect of financial liabilities.

The Group's approach to managing its liquidity risk is as follows:

- All policyholder funds are invested in assets that match the reasonable benefit expectation of policyholders, which includes the expectation that funds will be available to pay out benefits as required by the insurance contract.
- All policyholder funds are invested in assets that are listed financial instruments on various stock and bond exchanges and cash or cash equivalents that are actively traded on the various stock and bond exchanges, resulting in the ability to liquidate most of these investments at relatively short notice to be able to timeously pay out benefits as required by the policy contract.
- Furthermore, the operational cash flow is sufficient to cover cash flow of a normal operational nature for example, in order to settle outstanding trade creditor balances.

### Exposure to liquidity risk

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

| Group 2007 R'000 | Carrying amount | Total cash flows | Within 1 year | Contractual cash flows 2 – 5 years | 6 – 10 years | 11 – 20 years | Over 20 years |
|---|---|---|---|---|---|---|---|
| Insurance contract liabilities – DPF | **9 116 732** | **9 116 732** | **1 008 696** | **1 116 954** | **1 769 880** | **3 198 749** | **2 022 453** |
| Insurance contract liabilities – non-DPF | **2 305 961** | **(10 479 757)** | **238 177** | **170 621** | **(1 211 013)** | **(4 737 604)** | **(4 939 938)** |
| Reinsurance liabilities | **210 841** | **210 841** | **210 841** | **—** | **—** | **—** | **—** |
| Investment contract liabilities | **6 922** | **6 922** | **6 922** | **—** | **—** | **—** | **—** |
| Other financial liabilities | **69 440** | **69 440** | **69 440** | **—** | **—** | **—** | **—** |

| Group 2006 R'000 | Carrying amount | Total cash flows | Within 1 year | Contractual cash flows 2 – 5 years | 6 – 10 years | 11 – 20 years | Over 20 years |
|---|---|---|---|---|---|---|---|
| Insurance contract liabilities – DPF | 8 139 447 | 8 139 447 | 709 355 | 891 382 | 1 544 432 | 2 992 502 | 2 001 776 |
| Insurance contract liabilities – non-DPF | 1 971 556 | (10 012 097) | 232 387 | 233 229 | (1 017 658) | (4 376 239) | (5 083 816) |
| Reinsurance liabilities | 52 677 | 52 677 | 52 677 | — | — | — | — |
| Investment contract liabilities | — | — | — | — | — | — | — |
| Other financial liabilities | 39 218 | 39 218 | 39 218 | — | — | — | — |

## 2. MANAGEMENT OF RISKS continued

### Exposure to liquidity risk

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

### Market risks

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

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

### Management of market risks

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

*Interest rate risk*

Interest rate risk arises primarily from the Group's investments in debt securities and its long-term debt obligations. However, changes in investment values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of insurance and investment contract liabilities. As a result of this the exposure to interest rate risk is managed by the asset managers 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** | **Non-pre-retirement option benefits** | | **Pre-retirement option benefits** | |
|---|---|---|---|---|
| **31 December 2007** | **R'000** | **%** | **R'000** | **%** |
| **Local** | | | | |
| Equity | **5 481 370** | **60,5** | **—** | **—** |
| Fixed interest | **1 422 515** | **15,7** | **123 003** | **35,5** |
| Cash | **730 450** | **8,0** | **223 365** | **64,5** |
| **International** | **1 210 812** | **13,3** | **—** | **—** |
| Equity | | | | |
| Fixed interest | **212 100** | **2,3** | **—** | **—** |
| Cash | **18 365** | **0,2** | **—** | **—** |
| **Total** | **9 075 612** | **100,0** | **346 368** | **100,0** |

| Group | Non-pre-retirement option benefits | | Pre-Retirement option benefits | |
|---|---|---|---|---|
| 31 December 2006 | R'000 | % | R'000 | % |
| **Local** | | | | |
| Equity | 5 355 052 | 64,9 | – | – |
| Fixed interest | 1 236 965 | 15,0 | 50 200 | 20,2 |
| Cash | 448 623 | 5,5 | 198 368 | 79,8 |
| **International** | | | | |
| Equity | 963 925 | 11,7 | – | – |
| Fixed interest | 217 814 | 2,7 | – | – |
| Cash | 14 134 | 0,2 | – | – |
| **Total** | 8 236 513 | 100,0 | 248 568 | 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 which will be implemented over time. 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.

## 2. MANAGEMENT OF RISKS 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, 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:

| | **2007** | | 2006 | |
|---|---|---|---|---|
| **Group** | **R'000** | **%** | R'000 | % |
| Equity | **1 383 576** | **60,0** | 1 182 931 | 60,0 |
| Fixed interest | **807 086** | **35,0** | 690 045 | 35,0 |
| Cash | **115 299** | **5,0** | 98 580 | 5,0 |
| **Total** | **2 305 961** | **100,0** | 1 971 556 | 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 only 15% of the Group's investments may be invested in foreign currency and hence the Group has less that 15% 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.

### 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 a reallocation between the surplus rebate account and the policyholder liabilities. Both these items are disclosed within the movement to insurance policy liabilities on the income statement. The only other impact is the resultant change in the investment management fees, which will fluctuate as a percentage of the movement in the assets. Therefore a market risk sensitivity analysis has not been included for this component of the business.

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

| | Contracts with non-DPF | |
|---|---|---|
| **Group R'000 31 December 2007** | **Impact on profit/(loss) before movement in insurance policyholder liabilities** | **Impact on equity** |
| **Interest rate risk** | | |
| **Local and government debt** | | |
| Lower limit: 7% yield | **(23)** | **(1 319)** |
| Upper limit: 8,5% yield | **(13)** | **(13)** |
| **Local cash** | | |
| Lower limit: 9% return | **(1)** | **131** |
| Upper limit: 10,5% return | **1** | **211** |
| **International and government debt** | | |
| No exposure to international assets | **—** | **—** |
| **International cash** | | |
| No exposure to international assets | **—** | **—** |
| **Currency risk** | | |
| **International equity** | | |
| No exposure to international assets | **—** | **—** |
| **International debt securities** | | |
| No exposure to international assets | **—** | **—** |
| **Equity price risk** | | |
| **Local** | | |
| Lower limit: 8% increase in equity prices | **(130)** | **(723)** |
| Upper limit: 12% increase in equity prices | **(83)** | **270** |
| **International** | | |
| No exposure to international assets | **—** | **—** |

| Group<br>R'000<br>31 December 2006 | Contracts with non-DPF<br>Impact on profit/(loss) before movement in insurance policyholder liabilities | Impact on equity |
|---|---|---|
| **Interest rate risk** | | |
| **Local and government debt** | | |
| Lower limit: 4% yield | (33) | (3 082) |
| Upper limit: 7% yield | (16) | (767) |
| **Local cash** | | |
| Lower limit: 7% return | (1) | 51 |
| Upper limit: 8,5% return | 1 | 129 |
| **International and government debt** | | |
| No exposure to international assets | — | — |
| **International cash** | | |
| No exposure to international assets | — | — |
| **Currency risk** | | |
| **International equity** | | |
| No exposure to international assets | — | — |
| **International debt securities** | | |
| No exposure to international assets | — | — |
| **Equity price risk** | | |
| **Local** | | |
| Lower limit: 10% increase in equity prices | (276) | (276) |
| Upper limit: 15% increase in equity prices | (227) | 924 |
| **International** | | |
| No exposure to international assets | — | — |

## 2. MANAGEMENT OF RISKS continued

*Assumptions, methodology and limitations of sensitivity analysis*

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

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

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

### Other risks

*Underwriting risk*

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

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

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

*Reinsurance inwards*

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

*Claims risk*

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

*Products and pricing risk*

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

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

*Expense risk*

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

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

*Business volume risk*

There is a risk that the Group may not cover the costs of acquisition and distribution if insufficient volumes of new business are sold. A mitigating factor is that a substantial portion of these costs are variable costs. Actual sales volumes are compared against budgeted and annual targeted sales on a monthly basis. This enables management to determine whether there are any factors that could impact the delivery of the targeted volumes. Where these are identified, an investigation occurs and the appropriate corrective action is taken.

*Data and model risk*

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

## Capital management

### Capital management policies and objectives

The Group's capital management objectives are:

- to comply with the insurance regulatory capital requirements in the countries where the Group operates;
- 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 as well as the relevant Namibian legislation (Act 5 of 1998). It is thus dependent on the country in which the Group operates, namely South Africa and Namibia.

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

| | **2007** | | 2006 | |
|---|---|---|---|---|
| **Rm** | **South Africa** | **Namibia** | South Africa | Namibia |
| Capital held | **132 450** | **2 223** | 132 450 | 2 223 |
| Regulatory capital | **50 000** | **1 000** | 50 000 | 1 000 |

The board considers the capital of the Group to be the total of all accumulated funds held as well as the DPF insurance liabilities (refer Note 15) as the policy holders are also the members of the Group. A detailed asset liability matching (ALM) investigation is conducted on an annual basis to better understand the potential impact on the capital of the Group of different market conditions, such as interest rate fluctuations and volatility in equity prices. The impact of varying operational conditions (such as variations in deaths, withdrawals and profits) on the Group's capital is also presented for 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 and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the period.

## 3. FINANCIAL INSTRUMENT AND INSURANCE CONTRACT ANALYSIS

The tables analyse each class of financial instrument and insurance contracts per category as well as provide their fair values, where applicable.

| R'000 | Note | Financial assets and liabilities designated at fair value through profit or loss on initial recognition | Loans and receivables | Financial liabilities at amortised cost | Insurance contract assets and liabilities | Prepayments | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|---|
| **Group 2007** | | | | | | | | |
| Equity securities | | | | | | | | |
| Local listed | 8 | 5 740 194 | — | — | — | — | 5 740 194 | 5 740 194 |
| International listed | 8 | 141 831 | — | — | — | — | 141 831 | 141 831 |
| Debt securities | | | | | | | | |
| Government bonds | 8 | 2 352 604 | — | — | — | — | 2 352 604 | 2 352 604 |
| International listed | 8 | 377 | — | — | — | — | 377 | 377 |
| Unit trusts and pooled funds | 8 | 2 423 822 | — | — | — | — | 2 423 822 | 2 423 822 |
| Reinsurance assets | 9 | — | — | — | 205 033 | — | 205 033 | N/A |
| Insurance receivables | 10 | — | — | — | 307 272 | — | 307 272 | N/A |
| Prepayments | 10 | — | — | — | — | 222 | 222 | N/A |
| Other receivables | 10 | — | 34 578 | — | — | — | 34 578 | 34 578 |
| Reinsurance receivables | 10 | — | — | — | 10 062 | — | 10 062 | N/A |
| Cash and cash equivalents[N1] | 11 | 1 039 287 | 29 826 | — | — | — | 1 069 113 | 1 069 113 |
| Insurance contract liabilities | 15 | — | — | — | 11 814 222 | — | 11 814 222 | N/A |
| Investment contract liabilities | 16 | 6 922 | — | — | — | — | 6 922 | 6 922 |
| Borrowings | 14 | — | — | 3 600 | — | — | 3 600 | 3 600 |
| Reinsurance payables | 20 | — | — | — | 210 841 | — | 210 841 | N/A |
| Insurance payables | 20 | — | — | — | 5 024 | — | 5 024 | 5 024 |
| Accruals and sundry creditors | 20 | — | — | 69 440 | — | — | 69 440 | 69 440 |
| Group 2006 | | | | | | | | |
| Equity securities | | | | | | | | |
| Local listed | 8 | 5 205 067 | — | — | — | — | 5 205 067 | 5 205 067 |
| International listed | 8 | 31 547 | — | — | — | — | 31 547 | 31 547 |
| Debt securities | | | | | | | | |
| Government bonds | 8 | 1 934 504 | — | — | — | — | 1 934 504 | 1 934 504 |
| International listed | 8 | 42 705 | — | — | — | — | 42 705 | 42 705 |
| Unit trusts and pooled funds | 8 | 2 492 121 | — | — | — | — | 2 492 121 | 2 492 121 |
| Reinsurance assets | 9 | — | — | — | 118 231 | — | 118 231 | N/A |
| Insurance receivables | 10 | — | — | — | 203 858 | — | 203 858 | N/A |
| Prepayments | 10 | — | — | — | — | 506 | 506 | N/A |
| Other receivables | 10 | — | 13 796 | — | — | — | 13 796 | 13 796 |
| Reinsurance receivables | 10 | — | — | — | 1 577 | — | 1 577 | N/A |
| Cash and cash equivalents[N1] | 11 | 718 796 | 31 897 | — | — | — | 750 693 | 750 693 |
| Insurance contract liabilities | 15 | — | — | — | 10 280 571 | — | 10 280 571 | N/A |
| Investment contract liabilities | 16 | — | — | — | — | — | — | — |
| Borrowings | 14 | — | — | — | — | — | — | — |
| Reinsurance payables | 20 | — | — | — | 52 677 | | 52 677 | N/A |
| Insurance payables | 20 | — | — | — | 11 041 | — | 11 041 | N/A |
| Accruals and sundry creditors | 20 | — | — | 39 218 | — | — | 39 218 | 39 218 |

[N1] Cash and cash equivalents were measured as at fair value during the prior year.
The measurement method has been changed during the current year to at amortised cost. There has been no change in the amounts recognised during the current or prior year.

| | Group | | | |
|---|---|---|---|---|
| | Owner occupied property R'000 | Computer hardware R'000 | Vehicles, office furniture and equipment R'000 | Total R'000 |
| **4. PROPERTY AND EQUIPMENT** | | | | |
| **Year ended 31 December 2006** | | | | |
| Opening net book amount | 30 000 | 14 583 | 6 127 | 50 710 |
| Revaluation surplus | 2 259 | — | — | 2 259 |
| Additions | — | 3 912 | 2 185 | 6 097 |
| Disposals at carrying value | — | (48) | (119) | (167) |
| Depreciation charge | (659) | (10 300) | (1 505) | (12 464) |
| Closing net book amount | 31 600 | 8 147 | 6 688 | 46 435 |
| **At 31 December 2006** | | | | |
| Cost or valuation | 37 275 | 59 149 | 11 344 | 107 768 |
| Accumulated depreciation | (5 675) | (51 002) | (4 656) | (61 333) |
| Net book amount | 31 600 | 8 147 | 6 688 | 46 435 |
| Non-current | 31 600 | 8 147 | 6 688 | 46 435 |
| **Year ended 31 December 2007** | | | | |
| Opening net book amount | **31 600** | **8 147** | **6 688** | **46 435** |
| Revaluation surplus | **12 041** | **—** | **—** | **12 041** |
| Additions | **—** | **4 161** | **2 245** | **6 406** |
| Disposals at carrying value | **—** | **—** | **—** | **—** |
| Depreciation charge | | | | |
| – Current year | **(340)** | **(5 280)** | **(1 934)** | **(7 554)** |
| – Prior year adjustment | **999** | **—** | **—** | **999** |
| Closing net book amount | **44 300** | **7 028** | **6 999** | **58 327** |
| **At 31 December 2007** | | | | |
| Cost or valuation | **50 006** | **63 310** | **13 589** | **126 905** |
| Accumulated depreciation | **(5 706)** | **(56 282)** | **(6 590)** | **(68 578)** |
| Net book amount | **44 300** | **7 028** | **6 999** | **58 327** |
| Non-current | **44 300** | **7 028** | **6 999** | **58 327** |

## 4. PROPERTY AND EQUIPMENT continued

The Group's owner-occupied property was revalued at 31 December 2007 by CB Richard Ellis (Pty) Ltd, an independent valuator. Valuations were done using the discounted cash flow of future income stream method. The discounted cash flow method takes projected cash flow and discounts them at a rate which is consistent with comparable market transactions. Refer to note 1.4 for valuation assumptions. The opening carrying value is depreciated and then adjusted to reflect market value at year-end. The property consists of an office block situated at 6 Anerley Road, Parktown, which is occupied by the Group. The property is revalued annually. If land and buildings were stated on a historical cost basis, the amounts would be as follows:

| | Group | |
|---|---|---|
| | **2007 R'000** | 2006 R'000 |
| **At 31 December** | | |
| Cost | **20 870** | 20 870 |
| Accumulated depreciation | **(5 017)** | (4 677) |
| Net book amount | **15 853** | 16 193 |
| **5. INVESTMENT PROPERTY** | | |
| At 31 December | | |
| Opening net book amount | **—** | 18 000 |
| Proceeds on sale of investment property | **—** | (18 000) |
| Net book amount | **—** | — |

The Group owned land and buildings which was sold in February 2006. The Group's investment property was valued at the selling price per the agreement of sale in 2005. The carrying value was adjusted to the revalued amount at 31 December 2005. The revaluation was credited to net fair value gains on assets at fair value through profit or loss, disclosed as part of investment income. The investment property consisted of an office block situated at 7 Anerley Road, Parktown, which was leased to tenants.

The property rental income earned from the investment property amounted to R nil (2006: R0,614 million). Direct operating expenses arising from the investment property amounted to R nil (2006: R0,365 million).

| | Company | |
|---|---|---|
| | **2007 R'000** | 2006 R'000 |
| **6. INVESTMENT IN SUBSIDIARY COMPANY** | | |
| Professional Provident Society Insurance Company Limited | | |
| Shares issued at cost | **10 000** | 10 000 |

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

A list of the subsidiaries of the company is set out in the PPS Group Structure (page 2).

| | Group | |
|---|---|---|
| | **2007 R'000** | 2006 R'000 |
| **7. INTANGIBLE ASSETS – SOFTWARE DEVELOPMENT COSTS** | | |
| **At 1 January** | | |
| Cost or valuation | **60 588** | 122 137 |
| Accumulated amortisation | **(11 166)** | (43 912) |
| Impairment | **—** | (25 534) |
| Net book amount | **49 422** | 52 691 |
| **Year ended 31 December** | | |
| Opening net book amount | **49 422** | 52 691 |
| Additions | **21 003** | 13 511 |
| Disposals at carrying value | **—** | (5 097) |
| Amortisation charge | **(22 846)** | (11 683) |
| Closing net book amount | **47 579** | 49 422 |
| **At 31 December** | | |
| Cost or valuation | **81 591** | 60 588 |
| Accumulated amortisation | **(34 012)** | (11 166) |
| Net book amount | **47 579** | 49 422 |

Software development costs relate to expenditure paid to external computer consultants on the development of software systems. The first phase of the system was implemented in June 2006 and the second in June 2007. Amortisation commenced from these dates.

| | Group 2007 R'000 | Group 2006 R'000 |
|---|---|---|
| **8. FINANCIAL ASSETS – INVESTMENTS** | | |
| **Analysis of financial assets held at fair value through profit or loss** | | |
| Equity securities: | | |
| – local listed | **5 740 194** | 5 205 067 |
| – international listed | **141 831** | 31 547 |
| | **5 882 025** | 5 236 614 |
| Debt securities – fixed interest rate: | | |
| – government bonds and local listed | **2 352 604** | 1 934 504 |
| – international listed | **377** | 42 705 |
| | **2 352 981** | 1 977 209 |

| | Group 2007 R'000 | Group 2006 R'000 |
|---|---|---|
| **8. FINANCIAL ASSETS – INVESTMENTS continued** | | |
| **Unit trusts and pooled funds:** | | |
| – local pooled funds and unit trusts | **1 002 673** | 1 301 372 |
| – international equity unit trusts | **747 572** | 542 207 |
| – international fixed interest unit trusts | **222** | 56 720 |
| – international balanced | **673 355** | 591 822 |
| | **2 423 822** | 2 492 121 |
| **Total financial assets at fair value through profit or loss** | **10 658 828** | 9 705 944 |
| All international investments are denominated in Dollars and were translated to Rands at the closing exchange rate at 31 December of \$1 = R6,79 (2006: \$1 = R6,98) | | |
| **Analysis of movements in financial assets held at fair value through profit or loss:** | | |
| Opening balance | **9 705 944** | 7 556 594 |
| Exchange differences on monetary assets | **(54 509)** | 72 997 |
| Additions | **13 837 960** | 6 185 622 |
| Disposals at carrying value | **(13 035 370)** | (5 692 513) |
| Fair value net gains excluding net realised gains | **205 550** | 1 566 231 |
| Accrued interest | **12 832** | 10 841 |
| Accrued dividends | **(13 579)** | 6 172 |
| Closing balance | **10 658 828** | 9 705 944 |
| *The spread of investments by sector:* | | |
| Industrial | **56,31%** | 57,35% |
| Financial | **27,67%** | 20,17% |
| Resources | **16,02%** | 22,48% |

| | Group 2007 R'000 | 2006 R'000 |
|---|---|---|
| **8. FINANCIAL ASSETS – INVESTMENTS continued** | | |
| *Maturity profile of fixed interest investments:* | | |
| Due in 1 year or less | **66 683** | 52 572 |
| Due between 1 year and 5 years | **812 269** | 758 747 |
| Due between 5 years and 10 years | **961 592** | 622 252 |
| Due after 10 years | **512 437** | 543 638 |
| | **2 352 981** | 1 977 209 |
| *Maturity profile of equity securities:* | | |
| Due after 10 years | **5 882 025** | 5 236 614 |
| *Maturity profile of unit trusts and pooled funds*: | | |
| Due after 10 years | **2 423 822** | 2 492 121 |

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

| | 2007 R'000 | 2006 R'000 |
|---|---|---|
| **9. REINSURANCE ASSETS** | | |
| Total assets arising from reinsurance contracts at beginning of the year | **3 550** | 3 530 |
| Reinsurers' share of insurance policy liabilities | **201 483** | 114 701 |
| **Total assets arising from reinsurance contracts at end of the year (Note 15)** | **205 033** | 118 231 |
| Current | **205 033** | 118 231 |

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 10).

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 R'000** | 2006 R'000 | **2007 R'000** | 2006 R'000 |
| **10. INSURANCE AND OTHER RECEIVABLES** | | | | |
| *Receivables arising from insurance and reinsurance contracts:* | **317 334** | 205 435 | **—** | — |
| – due from contract holders | **43 231** | 49 108 | **—** | — |
| – due from contract holders – life assurance policy | **284 067** | 160 890 | **—** | — |
| – less allowance for impairment losses from receivables from contract holders | **(20 026)** | (6 140) | **—** | — |
| – due from reinsurers | **10 062** | 1 577 | **—** | — |
| *Other receivables:* | **34 578** | 13 796 | **395** | 506 |
| – accrued interest | **20 756** | 7 374 | **—** | — |
| – accrued dividends | **3 458** | 2 176 | **—** | — |
| – receivables from related parties | **—** | — | **373** | 506 |
| – value added tax | **3 787** | — | **—** | — |
| – other receivables | **6 577** | 4 246 | **22** | — |
| Prepayments | **222** | 506 | **105** | 95 |
| **Total receivables including insurance receivables and prepayments** | **352 134** | 219 737 | **500** | 601 |
| Current | **352 134** | 219 737 | **500** | 601 |
| Fair value of other receivables held at amortised cost | **34 578** | 13 796 | **395** | 506 |
| **Allowances for impairment losses of receivables from contract holders** | | | | |
| ***Specific allowances for impairment*** | | | | |
| At beginning of period | **6 140** | 2 018 | **—** | — |
| Impairment loss recognised (Note 26) | **13 886** | 4 122 | **—** | — |
| At end of year | **20 026** | 6 140 | **—** | — |

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 R'000** | 2006 R'000 | **2007 R'000** | 2006 R'000 |
| **11. CASH AND CASH EQUIVALENTS** | | | | |
| Cash at bank and in hand | **29 826** | 31 897 | **—** | — |
| Cash on call | **1 039 287** | 718 796 | **—** | — |
| Total cash and cash equivalents | **1 069 113** | 750 693 | **—** | — |

The proportion of cash held to fund the working capital of the Group as part of the investment portfolio is 3,7% (2006: 4,2%) 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 9,5% (2006: 8,0%).

## 12. SHARE CAPITAL

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 R'000** | 2006 R'000 | **2007 R'000** | 2006 R'000 |
| **13. ACCUMULATED FUNDS** | | | | |
| Accumulated funds | **118 850** | 132 340 | **10 500** | 10 500 |

The accumulated funds balance represents the amount of reserves which is not distributable. The Group must retain this amount to cover the capital adequacy requirement.

| | Group | | | |
|---|---|---|---|---|
| | Carrying amount | | Fair value | |
| | **2007 R'000** | 2006 R'000 | **2007 R'000** | 2006 R'000 |
| **14. BORROWINGS** | | | | |
| **Unsecured – at amortised cost** | | | | |
| Shareholder loan | **3 600** | — | **3 600** | — |
| **Total borrowings** | **3 600** | — | **3 600** | — |
| Current | **3 600** | — | | |

The shareholder loan will incur interest at Nedbank deposit rates from 1 January 2009. Until that date, the loan is interest free.

The loan has no fixed repayment term and is therefore classified as short term, resulting in the fair value being the carrying value.

## 15. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS

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

(a) Process used to decide on assumptions

The sickness and disability contracts issued by the Group include a non-DPF and a DPF component. The non-DPF component includes sickness and disability benefits. The DPF component includes the surplus rebate accounts allocated to each policyholder. The participating nature of these contracts results in the insurance and other risk being carried by the insured parties. These contracts are however managed and accounted for as one contract.

The determination of the non-DPF liabilities under long-term insurance contracts is dependent on estimates made by the statutory actuary. Any changes in estimates will impact on the size of the non-DPF policy liabilities and on the bonus rates the company declares to the DPF component of the policy liabilities. Hence the changes in estimates will impact on the balance between the DPF component of the liabilities and the non-DPF component of the liabilities. In aggregate the changes will have no impact on the value of the total policy liabilities. The assumptions used for the insurance contracts disclosed in this note are as follows:

- *Mortality*

  Estimates are made as to the expected future mortality experience. The estimates are based on standard industry and national mortality tables that reflect historical mortality experience, adjusted where appropriate to reflect the Group's own experience. The main source of uncertainty is epidemics such as Aids, SARS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits. These uncertainties could result in future mortality being significantly worse than in the past. However, continuing improvements in medical care and social conditions could result in improvements in longevity.

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

- *Morbidity*

  Estimates are made as to the expected number of temporary and permanent incapacity claims for each of the years in which the Group is exposed to risk. These estimates are based on morbidity tables that reflect the 2005 to 2006 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.

## 15. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS continued

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

- *Persistency*

  Estimates are made as to the future rate at which policyholders will terminate their contracts prior to the original maturity date. These estimates are based on the 2005 to 2006 experience of the business. The future termination rates will vary with economic conditions, the profitability of the business and with changes in consumer behaviour.

- *Investment returns*

  Risk-free fixed interest securities: the risk free rates are based on the gross yields to redemption of a benchmark government security. For the current valuation, this effective rate is 8,5% (2006: 8,0%) per annum.

  Equity investments: the expected long term return (dividends and capital growth) is derived by adding to the risk-free rate of return an equity risk premium of 2% (2006: 2%).

  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% (2006: 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 8,88% gross of tax in 2007 (8,38% in 2006). 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 3,5% (2006: 3,5%) 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.

## 15. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS continued

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

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

(a) IBNR

The IBNR liability calculation is based on run-off tables using historical data from 2003 to 2007. 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 R233,0 million, which included the change in the investment return assumption amounting to a decrease of R198,4 million.

The non-economic changes amounted to a R15 million decrease in liabilities.

(c) Sensitivity analysis

The following tables present the sensitivity in the key valuation assumptions of the value of the non-DPF component of the insurance policy liabilities disclosed in this note to movements in the assumptions used in the estimation of these insurance policy liabilities. The impact of a deviation from the best estimate assumption for all future years on a per policy basis on the liability is shown. For mortality, an improvement in the assumed mortality rates will increase the liabilities.

## 15. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS continued

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

| Variable | Change in variable % | Change in liability 2007 R'000 | % change | Change in liability 2006 R'000 | % change |
|---|---|---|---|---|---|
| Liability per note 15.2 | | **2 305 961** | | 1 971 556 | |
| Improvement in mortality | **10** | **9 371** | 0,41 | 8 108 | 0,40 |
| Worsening of morbidity rates | **10** | **235 849** | 10,24 | 241 675 | 12,30 |
| Worsening in PI inception rate | **10** | **311 337** | 13,52 | 291 938 | 14,80 |
| Lowering of investment returns | **(1)** | **392 127** | 17,03 | 384 999 | 19,50 |
| Lowering of terminations | **(10)** | **92 805** | 4,03 | 82 451 | 4,20 |
| Worsening of maintenance expense level | **10** | **241 580** | 10,49 | 210 313 | 10,70 |
| Worsening of expense inflation rate | **10** | **134 311** | 5,83 | 106 213 | 5,40 |

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

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

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

PGN104 specifies the compulsory margins that need to be added to the best estimate margins. The following compulsory margins were added for both 2006 and 2007:

(d) Compulsory margins

| Assumption | Margin |
|---|---|
| Mortality | 7,5% (decrease to assumption) |
| Morbidity | 10% |
| Medical | 15% |
| Lapse | 25% (e.g. if the best estimate is 10%, the margin is 2,5%) |
| 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 |

## 15. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS continued

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

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | | | 2006 | | |
| | **Gross R'000** | **Re-insurance R'000** | **Net R'000** | Gross R'000 | Re-insurance R'000 | Net R'000 |
| Sickness and disability policies | | | | | | |
| – Claims payable (Notified claims) | **7 907** | **—** | **7 907** | 6 067 | — | 6 067 |
| – Unintimated claims (IBNR) | **25 929** | **—** | **25 929** | 25 099 | — | 25 099 |
| – Non-DPF liability | **2 086 237** | **114 681** | **1 971 556** | 1 569 407 | — | 1 569 407 |
| – Cessation benefits (Notified claims) | **44 635** | **—** | **44 635** | 71 062 | — | 71 062 |
| – DPF liability | **8 139 447** | **—** | **8 139 447** | 6 103 676 | — | 6 103 676 |
| Life policies | | | | | | |
| – Unintimated claims (IBNR) | **3 550** | **3 550** | **—** | 3 530 | 3 530 | — |
| – Life Assurance Policy reserve | **25 000** | **—** | **25 000** | 25 000 | — | 25 000 |
| Other benefits and liabilities | | | | | | |
| – Other benefits and liabilities | **62 547** | **—** | **62 547** | 197 460 | — | 197 460 |
| Total at beginning of the year | **10 395 252** | **118 231** | **10 277 021** | 8 001 301 | 3 530 | 7 997 771 |
| Change in insurance policy liabilities per income statement | **1 385 603** | **86 802** | **1 298 801** | 2 402 416 | 114 701 | 2 287 715 |
| Change in insurance policy liabilities per statement of changes in equity | **11 067** | **—** | **11 067** | 2 143 | — | 2 143 |
| Movement in claims liabilities | | | | | | |
| – arising from current year claims | **(2 447)** | **—** | **(2 447)** | (9 051) | — | (9 051) |
| – arising from prior year claims | **24 747** | **—** | **24 747** | (1 557) | — | (1 557) |
| Total movement in insurance policy liabilities | **1 418 970** | **86 802** | **1 332 168** | 2 393 951 | 114 701 | 2 279 250 |

## 15. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS continued

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

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | | | 2006 | | |
| | **Gross R'000** | **Re-insurance R'000** | **Net R'000** | Gross R'000 | Re-insurance R'000 | Net R'000 |
| Movement allocated as follows | **1 418 970** | **86 802** | **1 332 168** | 2 393 951 | 114 701 | 2 279 250 |
| Sickness and disability policies | | | | | | |
| – Claims payable (Notified claims) | **(1 145)** | **—** | **(1 145)** | 1 840 | — | 1 840 |
| – Unintimated claims (IBNR) | **5 193** | **—** | **5 193** | 830 | — | 830 |
| – Non-DPF liability | **424 757** | **90 352** | **334 405** | 516 830 | 114 681 | 402 149 |
| – Cessation benefits (Notified claims) | **(6 119)** | **—** | **(6 119)** | (26 427) | — | (26 427) |
| – DPF liability | **977 285** | **—** | **977 285** | 2 035 771 | — | 2 035 771 |
| Life policies | | | | | | |
| – Claims payable (Notified claims) | **24 483** | **—** | **24 483** | — | — | — |
| – Unintimated claims (IBNR) | **(3 550)** | **(3 550)** | **—** | 20 | 20 | — |
| Other benefits and liabilities | | | | | | |
| – Other benefits and liabilities | **(1 934)** | **—** | **(1 934)** | (134 913) | — | (134 913) |
| Sickness and disability policies | | | | | | |
| – Claims payable (Notified claims) | **6 762** | **—** | **6 762** | 7 907 | — | 7 907 |
| – Unintimated claims (IBNR) | **31 122** | **—** | **31 122** | 25 929 | — | 25 929 |
| – Non-DPF liability | **2 510 994** | **205 033** | **2 305 961** | 2 086 237 | 114 681 | 1 971 556 |
| – Cessation benefits (Notified claims) | **38 516** | **—** | **38 516** | 44 635 | — | 44 635 |
| – DPF liability | **9 116 732** | **—** | **9 116 732** | 8 139 447 | — | 8 139 447 |
| Life policies | | | | | | |
| – Claims payable (Notified claims) | **24 483** | **—** | **24 483** | — | — | — |
| – Unintimated claims (IBNR) | **—** | **—** | **—** | 3 550 | 3 550 | — |
| – Life Assurance Policy reserve | **25 000** | **—** | **25 000** | 25 000 | — | 25 000 |
| Other benefits and liabilities | | | | | | |
| – Other benefits and liabilities | **60 613** | **—** | **60 613** | 62 547 | — | 62 547 |
| **Total at the end of the year** | **11 814 222** | **205 033** | **11 609 189** | 10 395 252 | 118 231 | 10 277 021 |
| Analysis of total insurance policy liabilities: | | | | | | |
| Current | **76 399** | **—** | **76 399** | 78 471 | — | 78 471 |
| Non-current | **11 737 823** | **205 033** | **11 532 790** | 10 316 781 | 118 231 | 10 198 550 |
| Total | **11 814 222** | **205 033** | **11 609 189** | 10 395 252 | 118 231 | 10 277 021 |

## 15. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS continued

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

| | Group | |
|---|---|---|
| | **2007 R'000** | 2006 R'000 |
| **The non-DPF liabilities developed as follows:** | | |
| Liabilities at start of year | **1 971 556** | 1 569 407 |
| Unwinding of discount rate | **180 985** | 116 607 |
| Expected cash flows | **245 428** | 192 767 |
| Expected risk reserves at year-end | **2 397 969** | 1 878 781 |
| Impact of movements | **(278 025)** | 127 471 |
| Change in valuation assumptions | **231 740** | 10 517 |
| Transfer to DPF liabilities to fund once-off dividend to current policyholders in respect of BEE transaction | **—** | (70 500) |
| Risk benefit reserves for new business issued | **(45 723)** | 25 287 |
| Liabilities at end of year | **2 305 961** | 1 971 556 |
| **The DPF liabilities developed as follows:** | | |
| Liabilities at start of year | **8 139 447** | 6 103 676 |
| Claims paid during the year | **(314 764)** | (234 359) |
| Allocation of interest and dividends | **1 292 049** | 2 199 630 |
| Transfer from non-DPF liabilities to fund once-off dividend to current policyholders in respect of BEE transaction | **—** | 70 500 |
| Liabilities at end of year | **9 116 732** | 8 139 447 |

| | Group | |
|---|---|---|
| | **2007 R'000** | 2006 R'000 |
| **16. INVESTMENT CONTRACT LIABILITIES** | | |
| Linked investment contracts | **6 922** | — |
| Non-current | **6 922** | — |

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.

### Movement table for investment contract liabilities

| | Group 2007 R'000 | Group 2006 R'000 |
|---|---|---|
| **Linked contracts** | | |
| Balance at 1 January | **—** | — |
| Contributions received during the period | **6 884** | — |
| Net investment return credited to account balances | **43** | — |
| Other movements | **(5)** | — |
| **Balance at 31 December** | **6 922** | — |

| | Group | |
|---|---|---|
| | **2007 R'000** | 2006 R'000 |
| **17. DEFERRED TAX** | | |
| Deferred tax assets: | | |
| Provisions and impairments | **3 976** | 1 770 |
| Tax losses carried forward | **5 668** | 2 665 |
| | **9 644** | 4 435 |
| Deferred tax liabilities: | | |
| Unrealised gains on investments | **137 640** | 207 095 |
| Unrealised gains on land and buildings revaluation | **1 598** | 623 |
| | **139 238** | 207 718 |
| Current asset | **3 883** | 1 770 |
| Non-current asset | **5 761** | 2 665 |
| Non-current liability | **139 238** | 207 718 |

The movement in the deferred tax assets and liabilities during the year is as follows:

(a) Deferred tax assets on provisions and computed tax losses

| | **R'000** |
|---|---|
| At 1 January 2006 | 2 022 |
| Debited to the income statement | 2 413 |
| At 31 December 2006 | 4 435 |
| Credited to the income statement | **5 209** |
| **At 31 December 2007** | **9 644** |

The utlilisation of the deferred tax asset in respect of the provision for leave pay is dependent on the taking of leave and/or payment or forfeiture of amounts due in respect of leave accrued by employees.

(b) Deferred tax liabilities

| | **Deferred tax liability on unrealised gains on investments R'000** | **Deferred tax liability on land and buildings revaluation R'000** | **Total R'000** |
|---|---|---|---|
| At 1 January 2006 | 153 768 | 507 | 154 275 |
| Charged to the income statement | 53 327 | — | 53 327 |
| Charged to equity | — | 116 | 116 |
| At 31 December 2006 | 207 095 | 623 | 207 718 |
| Credited to the income statement | **(69 454)** | **—** | **(69 454)** |
| Charged to equity | **—** | **974** | **974** |
| **At 31 December 2007** | **137 641** | **1 597** | **139 238** |

| | Group | |
|---|---|---|
| | **2007 R'000** | 2006 R'000 |
| **18. RETIREMENT BENEFIT OBLIGATIONS** | | |
| Balance sheet obligations for: | | |
| – pension benefits | **—** | — |
| – post-retirement medical benefits | **22 688** | 18 463 |
| | **22 688** | 18 463 |
| Income statement charge for (Note 27): | | |
| – pension benefits | **209** | (869) |
| – post-retirement medical benefits | **5 001** | 2 932 |
| | **5 210** | 2 063 |

*Pension benefits*

The Group has two pension schemes, a defined benefit scheme and a defined contribution and provident fund scheme.

The defined benefit scheme, covered all employees employed before July 2004. The pension scheme is a final salary defined benefit scheme. The assets of the scheme are held in an independent trustee-administered fund, administered in terms of the Pension Funds Act of 1956, as amended. The latest full statutory actuarial valuation was conducted as at 1 January 2006.

The pensions payable by the fund have been outsourced to Old Mutual. The insured pension policies were purchased as at 1 November 2006. Pensions were purchased from Old Mutual by utlilising the assets held in the fund. It is the intention of the trustees to transfer these insured policies from the fund's name to the pensioner's own name. While these policies are an asset to the fund, they match the liability relating to the pensioners. These insured policies have been excluded from both the assets and the liabilities.

All non-pensioner members of the defined benefit pension fund were transferred to the defined contribution pension and provident fund, with effect from 1 March 2005. The bulk of the assets were transferred out of the fund during 2006. The remaining assets in the fund will be transferred once the outstanding Section 14 approval has been received from the FSB. Since all active members have been transferred out and the pensioners have had insured pension policies purchased for them from a registered insurer, there are no further liabilities remaining in the fund.

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

**18. RETIREMENT BENEFIT OBLIGATIONS continued**

The amounts recognised in the balance sheet are determined as follows:

| | Group | |
|---|---|---|
| | **2007 R'000** | 2006 R'000 |
| Present value of funded obligations | **1 065** | 1 002 |
| Fair value of plan assets | **(9 617)** | (8 732) |
| | **(8 552)** | (7 730) |
| Unrecognised actuarial losses | **—** | — |
| Unrecognised surplus | **8 552** | 7 730 |
| Liability in the balance sheet | **—** | — |

No asset is recognised in respect of the surplus as there was no surplus available for distribution as at 1 January 2003 per the actuarial valuation of the pension fund. A nil apportionment scheme was submitted to the Registrar of Pension Funds in terms of the Pension Fund Second Amendment Act, 39 of 2001.

The movement in the defined benefit obligation was as follows:

| | 2007 R'000 | 2006 R'000 |
|---|---|---|
| Defined benefit obligation at beginning of year (1 January) | **1 002** | 30 920 |
| Interest cost | **—** | 1 500 |
| Benefits paid | **—** | (395) |
| Settlements | **—** | (25 495) |
| Actuarial loss | **—** | 236 |
| Contingency reserves | **63** | (5 764) |
| Defined benefit obligation at end of year (31 December) | **1 065** | 1 002 |

The balance at the end of 2007 represents contingency reserves to cover the risk that errors in the data will provide a false position.

The movement in plan assets was as follows:

| | 2007 R'000 | 2006 R'000 |
|---|---|---|
| Market value of assets at beginning of year (1 January) | **8 732** | 32 915 |
| Expected return on plan assets | **810** | 2 175 |
| Actuarial (loss) gain | **(134)** | 401 |
| Employer contributions | **—** | (6) |
| Member contributions | **—** | (4) |
| Benefits paid | **(79)** | (395) |
| Settlements | **445** | (24 700) |
| Expenses | **(147)** | (480) |
| Tax | **26** | (379) |
| Allowance for late claims | **(36)** | (795) |
| Market value of assets at end of year (31 December) | **9 617** | 8 732 |

| | Group | |
|---|---|---|
| | **2007 R'000** | 2006 R'000 |
| **18. RETIREMENT BENEFIT OBLIGATIONS continued** | | |
| Actual return on plan assets (Expected return less actuarial loss) | **676** | 2 576 |
| The assets of the plan were held in an administered fund separate from the Group's assets. All the assets were invested in a cash fund. | | |
| The amounts recognised in the income statement are as follows: | | |
| Interest cost | **—** | 1 500 |
| Expected return on plan assets | **(810)** | (2 175) |
| Net actuarial losses (gains) recognised during the year | **134** | (165) |
| Contingency reserves | **63** | (5 764) |
| Movement in unrecognised surplus | **822** | 5 735 |
| Total included in staff costs (Note 27) | **209** | (869) |
| *Post-employment medical benefits* | | |
| The Group provides for the unfunded post-retirement healthcare benefits of those employees and retirees employed before 4 October 1999, as well as their spouses and dependants. The entitlement to post-retirement healthcare benefits is based on an employee remaining in service up to retirement and completion of a minimum service period. | | |
| The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes. The amounts recognised in the balance sheet were determined as follows: | | |
| Present value of unfunded obligations | **36 471** | 33 513 |
| Unrecognised actuarial losses | **(13 783)** | (15 050) |
| Liability in the balance sheet | **22 688** | 18 463 |

| | Group 2007 R'000 | Group 2006 R'000 |
|---|---|---|
| **18. RETIREMENT BENEFIT OBLIGATIONS continued** | | |
| The latest actuarial valuation of the Group's post-employment benefits, carried out at 31 December 2007 indicated a present value of projected future benefits amounting to R22 688 million (2006: R18 463 million). | | |
| The movement in the post-employment medical benefit obligation was as follows: | | |
| Post-employment medical benefit obligation at beginning of year (1 January) | **33 513** | 21 234 |
| Current service cost | **1 711** | 1 028 |
| Interest cost | **2 733** | 1 774 |
| Benefits paid | **(776)** | (715) |
| Actuarial (gain) loss | **(710)** | 10 192 |
| Post-employment medical benefit obligation at end of year (31 December) | **36 471** | 33 513 |
| The amounts recognised in the income statement are as follows: | | |
| Current service cost | **1 711** | 1 028 |
| Interest cost | **2 733** | 1 774 |
| Actuarial losses recognised during the year | **557** | 130 |
| Total included in staff costs (note 27) | **5 001** | 2 932 |

| | 2007 | 2006 |
|---|---|---|
| The principal actuarial assumptions used were as follows: | | |
| Discount rate based on the Long-term Bond Index | **8,00%** | 8,25% |
| Medical cost inflation | **6,75%** | 7,25% |

| | 2003 R'000 | 2004 R'000 | 2005 R'000 | 2006 R'000 | 2007 R'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Trend information** | | | | | |
| Present value of obligations | 14 388 | 19 067 | 21 234 | 33 513 | **36 471** |
| Experience adjustments (actuarial (loss)/gain before changes in assumptions) in respect of present value of obligations | (1 856) | (3 057) | 1 759 | 296 | **(1 040)** |

## 18. RETIREMENT BENEFIT OBLIGATIONS continued

| **Group**<br>**Sensitivity results** | **Health care cost inflation** | | |
|---|---|---|---|
| | **Central assumption 6,75%** | **R'000 (1%)** | **R'000 1%** |
| Accrued liability 31 December 2007 | 36 471 | 30 408 | 44 371 |
| Percentage change | | (16,6%) | 21,7% |
| Current service cost plus interest cost 2007/2008 | 4 253 | 3 456 | 5 305 |
| Percentage change | | (18,7%) | 24,8% |

| | **Central assumption 6,75%** | **R'000 (1%)** | **R'000 1%** |
|---|---|---|---|
| Current service cost plus interest cost 2006/2007 | 4 444 | 3 522 | 5 685 |
| Percentage change | | (20,8%) | 27,9% |

| | **Central assumption 6,75%** | **R'000 5% for 5 years** | **R'000 10% for 5 years** |
|---|---|---|---|
| Accrued liability 31 December 2007 | 36 471 | 45 042 | 55 243 |
| Percentage change | | 23,5% | 51,5% |

| | **Discount rate** | | |
|---|---|---|---|
| | **Central assumption 8,00%** | **R'000 (1%)** | **R'000 1%** |
| Accrued liability 31 December 2007 | 36 471 | 44 570 | 30 368 |
| Percentage change | | 22,2% | (16,7%) |

| | **Expected retirement age** | | |
|---|---|---|---|
| | **Central assumption 65 years** | **R'000 1 year younger** | **R'000 1 year older** |
| Accrued liability 31 December 2007 | 36 471 | 38 054 | 35 023 |
| Percentage change | | 4,3% | (4,0%) |

| | Group | |
|---|---|---|
| | **2007 R'000** | 2006 R'000 |
| **19. EMPLOYEE-RELATED OBLIGATIONS** | | |
| **Leave pay accrual** | | |
| Opening balance | **4 150** | 2 904 |
| Charged to the income statement | | |
| – additional provisions | **1 015** | 7 183 |
| Used during the year | **(946)** | (5 937) |
| Closing balance | **4 219** | 4 150 |
| Current | **4 219** | 4 150 |
| **Provision for performance related bonuses** | | |
| Opening balance | **23 634** | 14 198 |
| Charged to the income statement | | |
| – additional provisions | **9 960** | 23 641 |
| Used during the year | **(19 917)** | (14 205) |
| Closing balance | **13 677** | 23 634 |
| Current | **13 677** | 23 634 |
| Total provisions | **17 896** | 27 784 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 R'000** | 2006 R'000 | **2007 R'000** | 2006 R'000 |
| **20. INSURANCE AND OTHER PAYABLES** | | | | |
| Payables arising from insurance and reinsurance contracts: | | | | |
| – reinsurance payables | **210 841** | 52 677 | **—** | — |
| – subscriptions received in advance | **5 024** | 11 041 | **—** | — |
| Other payables | | | | |
| – accruals | **29 449** | 29 055 | **—** | — |
| – sundry creditors | **39 991** | 10 163 | **—** | 101 |
| | **285 305** | 102 936 | **—** | 101 |
| Current | **285 305** | 102 936 | **—** | 101 |
| **21. NET INSURANCE PREMIUM REVENUE** | | | | |
| Individual premiums from policyholders | **958 771** | 817 734 | **—** | — |
| Group reinsurance premiums inwards | **376 022** | 307 673 | **—** | — |
| Gross premium revenue arising from insurance contracts issued | **1 334 793** | 1 125 407 | **—** | — |
| Individual premium revenue ceded to reinsurers on insurance contracts issued | **(58 888)** | (43 914) | **—** | — |
| | **1 275 905** | 1 081 493 | **—** | — |
| **22. ADMINISTRATION FEE INCOME** | | | | |
| Policy administration and collection services | **22 810** | 20 658 | **—** | — |
| Administration fees | **63 746** | 53 906 | **4 812** | 4 052 |
| | **86 556** | 74 564 | **4 812** | 4 052 |

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

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

| **Group 2007** | **Designated at fair value through profit or loss on initial recognition R'000** | **Financial liabilities at amortised cost R'000** | **Total R'000** |
|---|---|---|---|
| Interest income | **329 839** | **—** | **329 839** |
| Dividend income | **188 239** | **—** | **188 239** |
| Net gains on disposal of financial assets | **756 468** | **—** | **756 468** |
| Net unrealised gains and losses on revaluation of financial assets | **205 550** | **—** | **205 550** |
| Net foreign exchange losses | **(54 509)** | **—** | **(54 509)** |
| Impairment losses | **(13 886)** | **—** | **(13 886)** |
| **Total net gains recognised in the income statement** | **1 411 701** | **—** | **1 411 701** |

| Group 2006 | Designated at fair value through profit or loss on initial recognition R'000 | Financial liabilities at amortised cost R'000 | Total R'000 |
|---|---|---|---|
| Interest income | 220 688 | — | 220 688 |
| Dividend income | 196 798 | — | 196 798 |
| Net gains on disposal of financial assets | 237 490 | — | 237 490 |
| Net unrealised gains and losses on revaluation of financial assets | 1 566 231 | — | 1 566 231 |
| Interest expense | — | (9) | (9) |
| Net foreign exchange gains | 72 997 | — | 72 997 |
| Impairment losses | (4 122) | — | (4 122) |
| Total net gains recognised in the income statement | 2 290 082 | (9) | 2 290 073 |

| | Group | |
|---|---|---|
| | **2007** **R'000** | 2006 R'000 |
| **24. INVESTMENT INCOME** | | |
| Net realised gains and losses on financial assets held at fair value through profit or loss consist of the following components: | | |
| – Interest income | **329 839** | 220 688 |
| – Dividend income | **188 239** | 196 798 |
| – Net gains on disposal of financial assets | **756 468** | 237 490 |
| | **1 274 546** | 654 976 |
| Net unrealised gains and losses on revaluation of financial assets held at fair value through profit or loss consist of the following components: | | |
| – net fair value gains | **205 550** | 1 566 231 |
| – net foreign exchange (losses) gains | **(54 509)** | 72 997 |
| | **151 041** | 1 639 228 |
| | **1 425 587** | 2 294 204 |
| Investment management fees amounting to R51,2 million (2006: R39,8 million) are included in "Expenses for marketing and administration" (note 26). | | |
| **25. INSURANCE BENEFITS AND CLAIMS** | | |
| **Gross** | | |
| Long-term insurance contracts with and without DPF | | |
| – Individual sickness and incapacity benefits: current year | **261 001** | 212 210 |
| – Individual sickness and incapacity benefits: under (over) provision for prior years | **24 747** | (1 557) |
| – Group non-DPF component of death benefits | **217 746** | 148 893 |
| – Individual DPF component of death, retirement and resignation benefits | **324 695** | 194 477 |
| | **828 189** | 554 023 |
| **Reinsurance recoveries** | | |
| Long-term insurance contracts with and without DPF | | |
| – Individual sickness and incapacity benefits: current year | **(4 601)** | (9 237) |
| – Death benefits | **(18 430)** | (6 589) |
| | **(23 031)** | (15 826) |
| | **805 158** | 538 197 |
| **26. EXPENSES** | | |
| Costs incurred for the acquisition of insurance contracts expensed in the year | | |
| – Individual life, sickness and incapacity policies | **137 890** | 71 243 |
| – Group life policies | **209** | — |
| | **138 099** | 71 243 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 R'000** | 2006 R'000 | **2007 R'000** | 2006 R'000 |
| **26. EXPENSES continued** | | | | |
| Marketing and administrative expenses include: | | | | |
| Auditors remuneration | **4 170** | 2 222 | **101** | 93 |
| Audit fees – current year provision | **3 369** | 2 039 | **101** | 93 |
| Audit fees – prior year under provision | **293** | 88 | **—** | — |
| Tax consulting services | **508** | 95 | **—** | — |
| Directors fees | **12 403** | 14 622 | **1 875** | 1 853 |
| Non-executive directors' and committee members' fees | **3 354** | 3 420 | **1 875** | 1 853 |
| Subsidiary non-executive directors' and committee members' fees | **1 127** | 768 | **—** | — |
| Executive directors' remuneration – salaries | **7 922** | 10 434 | **—** | — |
| Fees for services | **19 041** | 23 355 | **15** | 4 |
| Actuarial | **1 100** | 2 499 | **—** | — |
| Legal | **1 112** | 1 520 | **15** | 4 |
| Internal audit | **748** | 956 | **—** | — |
| PPS Medical Scheme Administrator outsourcing fee | **7 832** | 8 335 | **—** | — |
| IT consulting | **1 162** | 2 111 | **—** | — |
| PPS Medical Scheme Administrator consulting fees | **4 000** | — | **—** | — |
| BEE transaction legal and consulting fees | **644** | 5 981 | **—** | — |
| Other (Primarily management consulting) | **2 443** | 1 953 | **—** | — |
| Employee benefit expenses (Note 27) | **144 740** | 133 874 | **—** | — |
| Depreciation on property and equipment (Note 4) | **6 555** | 12 464 | **—** | — |
| Realised loss on disposal of property and equipment | **—** | 144 | **—** | — |
| Realised loss on disposal of intangible asset | **—** | 5 097 | **—** | — |
| Amortisation of intangible asset (Note 7) | **22 846** | 11 683 | **—** | — |
| Impairment of insurance and other receivables (Note 10) | **13 886** | 4 122 | **—** | — |
| Operating lease rentals | **6 676** | 5 674 | **—** | — |
| Data processing and information technology systems maintenance | **39 409** | 44 755 | **—** | — |
| Maintenance, product development and other administration expenses | **44 149** | 42 056 | **2 821** | 2 102 |
| Investment management fees | **51 236** | 39 769 | **—** | — |
| | **365 111** | 339 837 | **4 812** | 4 052 |

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

| | Group | |
|---|---|---|
| | **2007 R'000** | 2006 R'000 |
| **27. EMPLOYEE BENEFIT EXPENSES** | | |
| Salaries and related costs | **121 158** | 101 846 |
| Pension costs – defined contribution plans | **12 629** | 11 924 |
| Pension costs – defined benefit plans (note 18) | **209** | (869) |
| Other post-employment benefits (note 18) | **5 001** | 2 932 |
| Performance related bonuses | **5 743** | 18 041 |
| | **144 740** | 133 874 |
| **28. TAX** | | |
| Current tax | | |
| – Current year tax | **255 548** | 161 622 |
| – Prior years underprovision | **15 406** | 2 677 |
| Deferred tax | **(74 663)** | 50 914 |
| | **196 291** | 215 213 |
| Tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to South African/Namibian companies as follows: | | |
| Profit before movement in policy liabilities | **1 479 642** | 2 501 594 |
| Tax calculated at domestic tax rates applicable to profits in South Africa/Namibia | **431 444** | 725 462 |
| Tax effect of income not subject to tax | **(601 730)** | (706 784) |
| Tax effect of non-deductible expenses | **344 317** | 187 921 |
| Prior years underprovision | **15 406** | 2 125 |
| Change in tax rate on corporate fund – impact on unrealised capital gains opening balance | **—** | 665 |
| Tax effect of tax rate on the individual policyholder fund being different to tax rate on the corporate fund | **6 854** | 5 824 |
| Total tax per income statement | **196 291** | 215 213 |

The applicable tax rate was 29% (2006: 29%). PPS Insurance has four separate tax funds: the individual policyholders' fund (taxed at 30%), the company policyholder' fund (taxed at 29%), the untaxed policyholder's fund (taxed at 0%) and the corporate fund (taxed at 29%). The tax reconciliation is done on total tax on all funds.

In the Budget speech on 20 February 2008, Trevor Manuel announced a change in the corporate tax rate from 29% to 28%. The new corporate tax rate of 28% is effective for all financial year-ends which occur after 31 March 2008. Therefore, the applicable tax rate used in the tax rate reconciliation is 29% as this is the corporate tax rate still applicable as at the end of the financial period. Deferred tax is measured at tax rates that have been substantively enacted by the balance sheet date. The 28% tax rate has been substantively enacted with effect from the date of the Budget speech, that is, post year end.

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 R'000** | 2006 R'000 | **2007 R'000** | 2006 R'000 |
| **29. CASH GENERATED FROM OPERATIONS** | | | | |
| Reconciliation of profit before movement in insurance policy liabilities to cash generated by operations: | | | | |
| Profit before movement in policy liabilities | **1 479 642** | 2 501 594 | **—** | — |
| Investment contract receipts | **6 884** | — | **—** | — |
| Adjustments for: | | | | |
| Depreciation | **6 555** | 12 464 | **—** | — |
| Fair value of policyholder liabilities under investment contracts | **38** | — | **—** | — |
| Amortisation of intangible asset | **22 846** | 11 683 | **—** | — |
| Realised loss on disposal of property and equipment | **—** | 144 | **—** | — |
| Realised loss on disposal of intangible asset | **—** | 5 097 | **—** | — |
| Investment income | **(1 425 587)** | (2 294 204) | **—** | — |
| Changes in working capital: | | | | |
| – Receivables | **(117 733)** | (69 337) | **(80)** | 54 |
| – Payables including insurance policy liabilities | **200 968** | 4 758 | **80** | (54) |
| **Cash generated from operations** | **173 613** | 172 199 | **—** | — |
| **30. TAX PAID** | | | | |
| Tax payable at beginning of year | **10 404** | 46 346 | **—** | — |
| Tax as per income statement net of deferred tax | **270 956** | 164 299 | **—** | — |
| Tax receivable (payable) at end of year | **8 063** | (10 404) | **—** | — |
| | **289 423** | 200 241 | **—** | — |

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 R'000** | 2006 R'000 | **2007 R'000** | 2006 R'000 |
| **31. COMMITMENTS** | | | | |
| (a) Capital commitments | | | | |
| Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows: | | | | |
| – Authorised and contracted for | **—** | — | **—** | — |
| – Committed but not contracted for | **34 531** | 54 777 | **—** | — |
| (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 income statement during the year is disclosed in Note 26. | | | | |
| The future aggregate minimum lease payments under non-cancellable operating leases are as follows: | | | | |
| Due in 1 year or less | **2 620** | 2 222 | **—** | — |
| Due between 1 year and 5 years | **7 048** | 5 945 | **—** | — |
| Due after 5 years | **387** | 387 | **—** | — |

## 32. RELATED PARTIES

*Holding company*

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

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

*Subsidiaries*

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

### 32. RELATED PARTIES continued

PPS insurance owes PPS Limited a fee for services rendered by PPS Limited. The transactions and balances with PPS Insurance are listed below:

| | Group | |
|---|---|---|
| | **2007 R'000** | 2006 R'000 |
| Fees | **4 811** | 4 052 |
| Receivable from PPS Insurance | | |
| Balance at the beginning of the year | **506** | 529 |
| Fees | **(4 811)** | (4 052) |
| Paid by PPS Insurance on behalf of PPS Limited | **4 846** | 4 029 |
| Balance at the end of the year | **541** | 506 |

There are no terms and conditions attached to, or guarantees received in respect of the amount receivable from PPS Insurance. The receivable is not secured.

*Key management information*

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

The aggregate compensation of the PPS Limited directors and PPS Insurance executive committee members paid by the Group is set out below:

| | **2007 R'000** | 2006 R'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **8 766** | 11 922 |
| Performance payments | **11 020** | 11 889 |
| Directors fees | **3 354** | 3 420 |
| Termination benefits | **—** | — |
| | **23 140** | 27 231 |

Aggregate details of insurance between PPS Limited, 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:

| | **2007 R'000** | 2006 R'000 |
|---|---|---|
| Life and disability cover | **49 884** | 61 652 |
| Premiums | **756** | 678 |
| Claims | **19** | 47 |
| Surplus rebate accounts (policy liabilities) | **41 078** | 7 752 |
| Motor and household cover | **16 951** | — |
| Premiums | **180** | — |
| Claims | **—** | — |
| Investment contracts | **1 778** | — |

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

## 33. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

### IAS 1: *Presentation of Financial Statements*

*Effective date:* Annual periods commencing on/after 1 January 2009

The objective of this standard is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

This statement will not impact the results of the Group but will likely result in certain additional disclosures.

### IAS 23: *Borrowing costs* – revised

*Effective date:* Annual periods commencing on/after 1 January 2009

The main change from the previous version of IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

This statement will not impact the results of the Group as currently there are no borrowings from outside parties relating to the purchase of assets.

### IFRS 8: O*perating segments*

*Effective date:* Annual periods commencing on/after 1 January 2009

IFRS 8 requires an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments. The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The disclosure should enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

This statement will not impact the results or disclosures of the Group as the Group equity is not traded in a public market.

### IFRIC 11: IFRS 2 – *Group and Treasury Share Transactions*

*Effective date:* Annual periods commencing on/after 1 March 2007

IFRIC 11 addresses how to apply IFRS 2 to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (e.g. equity instruments of its parent).

This statement will not impact the results or disclosures of the Group as the Group has not entered into any transactions that result in share based payments or the need to apply the accounting contained within IFRS 2.

### IFRIC 12: *Service Concession Arrangements*

*Effective date:* Annual periods commencing on/after 1 January 2008

IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements.

This statement will not impact the results or disclosures of the Group as the Group has not entered into any service concession arrangements.

## 33. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

### IFRIC 13: *Customer Loyalty Programmes*

*Effective date:* Annual periods commencing on/after 1 July 2008

IFRIC 13 addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits.

This statement will not impact the results or disclosures of the Group as the Group has not entered into any customer loyalty programmes.

### IFRIC 14: IAS 19 – *The limit on a Defined Benefit Asset, minimum funding requirements and their interaction*

*Effective date:* Annual periods commencing on/after 1 January 2008

IFRIC 14 provides general guidance on how to assess the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement.

This statement is not expected to impact the results of the Group as although the Group has employees still benefiting from a defined benefit option, there is no liability to the Group as the plan assets significantly exceed the obligations. However, it is likely to result in certain additional disclosures.

## 34. CHANGES TO COMPARATIVES

The following comparatives were reclassified to make the financial statements more relevant and comparable with current year classifications:

### 34.1 Outstanding cheques

R13,1 million of outstanding cheques not banked by members have been reclassified from current liabilities to policyholder liabilities.

### 34.2 Reinsurance asset

During 2006 the data for calculating policyholder liabilities gross of reinsurance was not available. As such, only the policyholder liability, net of reinsurance, was disclosed. During 2007 the data was available. As a result R114,7 million relating to the grossing-up of the policyholder liabilities in accordance with IFRS 4, results in the reclassifying of the amount from policyholder liabilities to reinsurance assets in the balance sheet. Notes 2, 3, 9 and 15 have been amended to reflect this reclassification.

### 34.3 Group life reinsurance

R10,2 million relating to reinsurance premiums has been reclassified from acquisition costs (in expenses) to reinsurance premium inwards.

**PROFESSIONAL PROVIDENT SOCIETY LIMITED (LIMITED BY GUARANTEE)**
**(COMPANY INCORPORATED UNDER SECTION 19(1)(B))**
**(REGISTRATION NUMBER: 2001/011016/09)**
**("the Company")**

## NOTICE TO MEMBERS

Notice is hereby given that the seventh annual general meeting ("the meeting") of the members of the company will be held on Monday, 2 June 2008 at 18:00, at the offices of the Company at 6 Anerley Road, Parktown, Johannesburg, for the following purposes:

1. To receive and adopt the annual financial statements for the year ended 31 December 2007, including the reports of the directors and the auditors of the Company.
2. To re-appoint PricewaterhouseCoopers Inc. as the auditors of the Company.
3. To elect and appoint directors in place of those directors retiring in accordance with the articles of association of the Company ("the articles").

   Dr NG Campbell, Prof M Haus, Dr JJ van Niekerk and Judge RH Zulman retire by rotation in terms of the articles. Dr NG Campbell, Dr JJ van Niekerk and Judge RH Zulman being eligible for re-election and re-appointment, offer themselves for re-election and re-appointment as directors of the Company. Prof M Haus retires by rotation in terms of the articles and is eligible for re-election, however, he has not offered himself for re-election.

   In addition, Mr Y Gordhan, Mr T Mphuti and Dr S Mazibuko have been nominated for election and appointment as directors of the Company in terms of the articles.

   (Abbreviated biographical detail of the persons referred to in 3 above is set out on pages 124 to 130 of this annual report).

## EXPLANATORY NOTE ON THE APPOINTMENT OF THE DIRECTORS

Currently the board of directors consists of 20 directors, 12 of whom were appointed by the Company in general meeting in accordance with article 12.1.2.1.

In addition, there are two more nominees than there are vacancies on the board. There are four vacancies that occurred as a result of the retirement of four directors by rotation in terms of the articles and there are six nominees for these vacant positions (including the directors who retire by rotation and who offer themselves for re-election and re-appointment). In terms of the articles, if more persons have been nominated for the office of director 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.

## VOTING

In voting or passing any resolution:

- Associate members (as defined in the articles) shall each have 1 (one) vote; and
- Ordinary members (as defined in the articles) shall have 1 (one) vote, and in addition thereto, shall have 99 (ninety nine) 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 articles), as at the end of the previous financial year, provided that a member who is more than 3 (three) months in arrear with the payment of his/her premiums (payable in terms of the Master Contract (as defined in the articles) shall only have 1 (one) vote at the meeting.

A certificate issued by a director or officer of the Company shall constitute prima facie proof of the number of votes a member shall be entitled to cast 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 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 1 (one) or more proxies (who need not be a member of the company) to attend, speak and on a poll to vote or abstain from voting in his/her stead.

Proxy forms must be received at the registered office of the company not less than 48 (forty eight) hours before the time appointed for the holding of the meeting.

By order of the board of directors

**Lucien Caron**
Company Secretary

7 April 2008

# Abbreviated curriculum vitae for nominated candidates

## Yaswant Narotham Gordhan

### Education

Bachelor of Commerce (1975), Honours in Accounting (1978), Chartered Accountant (SA) (1979), Master of Science (Bus. Admin) Penn State University USA (1989)

### Current position

Financial Consultant and Registered Auditor

### Previous positions

- Financial Director – Hendler and Hart (Pty) Ltd (October 2000 to July 2003)
- Consultant Desai Jadwat Inc (2000)
- Chief Executive Officer of Public Accountants' and Auditor's Board (1998 – 1999)
- Financial and Auditing Consultant (1983 to 1998)
- Professor-Deputy Head of Department of Accounting University of Zululand, Umlazi Campus (1991 – 1998)
- Vice-Dean Umlazi Faculty of Commerce and Administration (1996 – 1998)
- Senior Lecturer University of Durban-Westville (1981 – 1991)
- Financial Accountant Anikem (Pty) Ltd (1980)
- Audit Senior Arthur Young and Company (1974 – 1980)

### Non-executive positions

- Member – Regulating Committee governing Airports Company of South Africa and Air Traffic Navigation Services (1998 to date)
- Member – Mining Qualification Authority (2004 to date)
- Chairman – Amplats Group Provident Fund Audit Committee (2006 to date)
- Chairman – Education, Training, Development and Practices Audit Committee (2003 – 2006)
- Chairman – Audit Committees of Gauteng Departments of Education, Safety and Recreation (2001 – 2003)
- Chairman – Petronet Audit Committee (1996 to 2001)
- Member – Divisional Board of Petronet (1998 to 2001)
- Chairman – Remuneration Committee of Petronet (2000 to 2001)
- Chairman – Departments of Education, Health, Social Development and Safety in the Limpopo Province (2005 to date)
- Non-executive director – Johannesburg Housing Company (2006 to date)
- Non-executive director – NURCHA (2006 to date)

### Professional affiliations

South African Institute of Chartered Accountants, The Public Accountant's and Auditor's Board (now IRBA), Institute of Directors

## Jacob Jozua van Niekerk

### Medical qualifications

- MB ChB University of Pretoria – 1960.
- M Med Surgery University of Pretoria – 1967.

### Posts and positions held

- Private practice orthopaedic surgeon in Johannesburg – March 1968 to present.
- Part-time consultant Boksburg-Benoni Hospital – 1969 to 1987.
- Executive South African Orthopaedic Association – 1977 to 2000.
- President South African Orthopaedic Association – 1993 to 1995.
- Elected life member South African Orthopaedic Association – 1997 in recognition for services to the South African Orthopaedic Association.
- Trustee of the South African Orthopaedic Trust – 1992 to present.
- Chairman RASD (Representative Association of Surgical Disciplines) Medical Association of South Africa – 1993 to 2000.
- Member of the Hospital Board Morningside Clinic – 1997 to present.
- Founder member of the South African Foot Surgeons Association.
- First president South African Foot Surgeons Association – 1997 to 1999.
- Member of the board of the Professional Provident Society Holding Company 1999 to present.
- Member of the board of Professional Provident Insurance Company – 2004 to present.
- Trustee Retirement Annuity Trust for Professional Provident Society 2003 to present.
- Member of the board of PPS Medical Scheme Administrator 2005 to present.
- Life member of South African Medical Association.

### Neil Gordon Campbell

**Academic**

Graduated from the University of Witwatersrand B.D.S., 1973.

**Practical experience**

- Worked for Mines Benefit Society in Welkom, Carletonville and Rustenburg before opening a solo private practice in Johannesburg in 1974.
- Worked in the UK 1979.
- Moved to a private group dental practice in Bedfordview, 1980.
- Left private practice after 26 years to work as the first-full time dental adviser in SA at Medscheme, 1999.
- Appointed SA Dental Association Chief Executive Officer, September 2000 to present.
- Experience in branch, national and international dental politics in both DASA, SADA and the FDI (International Dental Federation), serving as President-Elect of DASA, and Chairperson of the Private Practice Committee of DASA and SADA and South African representative to the International Dental Federation (FDI) since 1997.
- Member of the DASA unification delegation.
- Director PPS Insco, PPS Holdco, (2001 to present), Oral Health Marketing Committee (2000 to present) and ORALnet (1997 to present).
- Attended Director training at PPS 2001 to present. Holder of the DASA Bronze medal. Southern African Vice-President of African Regional Organisation of the FDI 1997 to 2006.
- Member of the FDI Communications Committee, 2003 to present. Presenter at several regional, national and international congresses.
- Sometime examiner in Dental Ethics and Jurisprudence and Practice Management at Medunsa. Elected to the Medical and Dental Professions Board of the HPCSA and Continuing Professional Development Committee 2003 to present.
- Sometime lecturer at dental schools of Universities of the Witwatersrand, Pretoria and Medunsa.

### Ralph Hirsch Zulman

**Academic**

- B.Com (University of the Witwatersrand – Wits 1958). LL.B cum laude – Wits – 1961). L.L.M. (Tulane University – New Orleans, Louisana, USA (1963).
- Admitted as an Attorney of the Supreme Court of South Africa (Transvaal Provincial Division 1961).
- Admitted as an Advocate to the Bar in South Africa in 1963.
- Practised at Johannesburg, Swaziland, Botswana and Zimbabwe Bars 1963 to 1990.
- Awarded Silk in 1978 (SC).
- Higher Diploma in Income Tax Law (Wits 1981).
- Called to the English Bar (Lincoln's Inn 1984).

- Elected member Wits Student Representative Council (1957).
- Acted as Judge of the Supreme Court of South Africa on four occasions before being permanently appointed in October 1990.
- Former Chairman Wits Students Constitutional Committee, Wits Law Students council, Vice-Chairman Wits Rag Committee.
- Awarded Claude Franks Memorial Prize for Jurisprudence. Member of Johannesburg Bar council for several years, serving as Secretary, elected Member, Vice-Chairman and Chairman.
- Former Vice-Chairman, Chairman and subsequently Honorary Life Vice-President of the General Council of the Bar of South Africa.
- Former Chairperson of the Supreme Court Rules Committee.
- Chairman of the SA Law Commission Insolvency Law Committee.
- Former Small Claims Commissioner and concerned with establishment of first such Court.
- Former Chairman and Founding Member of Swaziland Bar Association.
- South African delegate to the International Bar Association Conferences on several occasions. Member of Witwatersrand Local Division Commercial Court.
- Member of Equality Legislation Education Committee connected with the implementation of the Promotion of Equality and Prevention of Unfair Discrimination Act 4 of 2000.
- Former Chairman SA Yad Vashem Foundation.
- Former Vice-Chairman of the SA Jewish Board of Deputies. Trustee of Sandringham Gardens Home for the Aged. Co-Chairman International Jewish Lawyers Association (SA Chapter).
- Sometime part-time lecturer at Wits Law Faculty.
- Serving Member of Board of Wits Law Faculty. Contributor to Annual Survey of South African Law. Contributor to chapter on South African Immigration Law in the Center for International Law Institute's (Salzburg) publication on Immigration Law.
- Managing editor Butterworths Income Tax Practice Manual.
- Member of the Editorial Advisory Board of the SA Mercantile Law Journal.
- Co-Author of the 5th edition of the SA Law on Sale.
- Served on a temporary basis on secondment as a Judge of the High Court of Swaziland.
- Honorary Professor of Law of Rand Afrikaans University (RAU).
- Flynn Martin Visiting Professor of Law at the University of Connecticut, Hartford, USA.
- Honorary Fellow of the Institute of Arbitrators.
- Honorary Member of the South African Banking Law Institute.
- Fellow of the American College of Bankruptcy.
- Honorary Member of International Insolvency Association. Honorary Professor Pretoria University.
- Founder member of the International Insolvency Institute. Judge of the Supreme Court of Appeal as from 15 December 1995 until 15 August 2007 when retired to become an Arbitrator and Mediator.

**Sfiso A Mazibuko**

**Occupational experience**

**2008**

Phambi Investments Pty (Ltd)

Non-executive Director

**2004-2006**

Siyanakekela Health Solution

Chairman

- Established a network of 80 health service providers in KZN
- Established a pathology laboratory for the network (Zululand Pathology Laboratory)
- Form a strategic partnership with Med-Pak wholesale chemist

**2004-Current**

University of Zululand Kwa-Dlangezwa (SA)

Part-time lecturer

- Lecturing, tutoring and student consultation in Human Anatomy
- Setting of tests, exams and marking

External moderation for KZN colleges of Nursing for Human Anatomy and Physiology

**2003-Current**

Ngwelezane Medical Centre Empangeni – KZN (SA)

Medical practitioner/manager

- Established a medical centre around wellness concept. The centre has Physiotherapist, dental therapist, speech therapist, Audiologist, optometrist and ultrasonographer
- General management of the centre
- Provision of general medical services

**1997 – 2002**

Drs Mazibuko, Mbuli and Tshabalala (Partnership) Empangeni (KZN) (SA)

**1996 – 1997**

Natalspruit Hospital Gauteng (SA) medical intem

- Provision of general medical services

**Academic experience**

- MBA Health Care Management (Regent Business School)
- Post Graduate Diploma in Business Management (University of KZN)
- Bachelor of Medicine and Bachelor of Surgery (MbChb) (University of KZN)

**Tebogo Mphuti**

**Tertiary education**

**1990 – 1992**

Bachelor of Arts (Law) University of KwaZulu-Natal

**1993 – 1995:**

Bachelor of Laws – LLB University of Witwatersrand

**2003**

Master of Business Administration (incomplete)
University of KwaZulu-Natal

**Professional qualification**

Admitted attorney

**Membership to professional bodies**

CLASA – Corporate Lawyers Association of South Africa

**Extra curricula activity and achievements**

**1995**

Member Admissions and Exclusions Committee, Wits Law School

Tebogo is currently the Chief Executive Officer of April 27 Corporate Finance, prior to forming the company Tebogo was the Deputy Director General and Head of Corporate Finance and Transactions Division in the Department of Public Enterprises. Public Enterprises oversees the Shareholder Management of State-Owned Enterprises (SOEs), e.g. Eskom, Transnet, South African Port Operations, National Ports Authority, South African Airways, SA Forestry Company, Arivia.kom and Denel.

Total assets under oversight of these enterprises is approximately R140 billion. His Division was mandated with the task of the restructuring of SOE businesses, which included the development of SOE businesses, acquisition of new businesses, and disposal of non core businesses, for purposes of broader economic development.

The Division also coordinated the development of the principles of ownership and shareholder transaction guidelines, which incorporated the shareholder strategic objectives to be followed during the execution of SOE transactions. In addition to being responsible for SOE strategic transactions, Tebogo was also responsible for the overall corporate governance of SOEs in relation to the Public Finance Management Act (PFMA).

Prior to joining the Department of Public Enterprises Tebogo was Head of Credit Administration at ABN AMRO Bank, one of the leading AAA banks in the world.

As Head of the Credit Administration, Tebogo was responsible for advising on financing transactions review of revenue on the Credit Portfolio and also sat as member of the Credit Committee of the bank.

Tebogo, is an experienced South African Corporate Lawyer and Banker, started his career at one of the big five Law Firms in the country Edward Nathan and Friedland now Sonnenberg, specialising in corporate laws, mergers and acquisitions, corporate finance and banking law.

He thereafter joined the Standard Bank in the Asset-Based Finance Division, wherein he was put on an Executive Advancement Programme where he sharpened his skill in asset finance specialising in Aircraft finance, Plant and equipment and various financing transactions. While at Standard Bank he was one of the champions of the Plain English Project, where all the banks legal documents were rewritten in plain English with minimal legal jargon.

Tebogo specialises in the following:

- Developing and implementing acquisition and divestiture strategies
- Innovative capital raising and financing strategy, both locally and offshore
- Negotiating and facilitating all merger and acquisition related transactions
- Restructurings to enhance shareholder value
- Documenting and implementing merger and acquisition related transactions
- Empowerment structuring and advising and facilitation of empowerment transactions
- Privatisations and structuring of transactions
- Corporate Law, PFMA
- BEE codes of good practices

**Memberships and boards**

- Board member: Arivia.Kom (Pty) Ltd
- Board member/acting CEO: Aventura Limited
- Member Corporate Lawyers Association of South Africa;
- Member Black Business Executive Circle.
- Chair Audit Committee: Arivia.Kom (Pty) Ltd

# Form of proxy

For the annual general meeting to be held at 18:00 on Monday, 2 June 2008

**PROFESSIONAL PROVIDENT SOCIETY LIMITED (LIMITED BY GUARANTEE)**
**(COMPANY INCORPORATED UNDER SECTION 19(1)(B))**
**(REGISTRATION NUMBER 2001/011016/09)**
**("the Company")**

I, ____________________, Membership No. __________

of ____________________ being a member of the company, hereby appoint

____________________ of ____________________

or failing him ____________________ 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 meeting of the Company to be held at 18:00 on Monday, 2 June 2008, at 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 for the year ended 31 December 2007 | | | |
| 2. | Ordinary resolution for the reappointment of the auditors | | | |
| 3. | Ordinary resolution for the election and appointment of directors | | | |
| 3.1 | Dr NG Campbell** | | | |
| 3.2 | Dr JJ van Niekerk** | | | |
| 3.3 | Judge RH Zulman** | | | |
| 3.4 | Mr Y Gordhan | | | |
| 3.5 | Mr T Mphuti | | | |
| 3.6 | Dr S Mazibuko | | | |

***Directors who will retire at the meeting by rotation, in accordance with the articles of association and, being eligible, offer themselves for re-election and re-appointment.*

*(Indicate instruction to proxy by way of a cross in the space provided above. In terms of the articles of association the maximum number of directors that must be elected and appointed at the meeting is 4.*

*(Note: A member entitled to attend and vote is entitled to appoint a proxy to attend, speak and on a poll vote in his/her stead, and such proxy need not also be a member of the company).*

Signed this __________ day of __________ 2008

Profession ____________________ Signature ____________________

# Notes to the proxy

1. The proxy form must be signed, dated and returned so as to reach the registered office of the Company at least 48 (forty eight) hours before the time for holding the meeting and may be returned in any manner set out below.

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.

3. The completing and lodging of this form of proxy will not preclude the signatory from attending the 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 Company Secretary
6 Anerley Road
Parktown
Johannesburg

**or**

Post to: The Company Secretary
PO Box 1089
Houghton
2041

**or**

Fax to: The Company Secretary
(011) 644-4307

**To be received by 17:00 on Thursday, 29 May 2008**

PPS Annual Report 2007

INSURANCE FOR
PROFESSIONALS

www.pps.co.za

**Physical address:** 6 Anerley Rd, Parktown 2193
**Postal address:** PO Box 1089, Houghton 2041
Professional Provident Society Limited (Limited by Guarantee)
**Reg No.** 2001/011016/09