INSURANCE FOR PROFESSIONALS

Annual Report 2006

Professional Provident Society Limited
(Limited by Guarantee)

FINANCIAL OVERVIEW AND STATISTICS

	2006	2005	2004	2003	2002	Average annual compound growth rate
Core benefits (excluding Group Life benefits) paid to all policyholders (Rm)	**405.1**	348.5	341.7	293.8	263.4	11.36%
Investment return (10 year average)	**16.9%**	14.5%	12.6%	11.9%	14.3%	
Total assets - PPS Group at fair value (Rm)	**10,780**	8,469	6,436	5,041	4,247	26.22%
Gross investment return for the year (Rm)	**2,294.8**	1,929.5	1,338.8	723.5	(158.8)	
PPS INSURANCE (SOUTH AFRICA AND NAMIBIA)						
Gross policyholder premiums for units of benefit (Rm)	**818**	697	601	527	453	15.92%
Total ordinary policyholders at year end	**134,885**	131,961	129,265	127,028	123,947	2.14%
Sickness and incapacity benefits (Rm)	**211**	177	174	160	141	10.60%
Payments on cessation of benefits (Rm)	**195**	171	167	134	122	12.44%
PPS GROUP LIFE ASSURANCE POLICY (SOUTH AFRICA AND NAMIBIA)						
Total policyholders	**109,031**	106,266	102,929	99,515	95,662	3.32%
Percentage of ordinary policyholders	**80.8**	80.5	79.6	78.3	77.2	1.16%
Total cover (Rb)	**155.9**	137.2	118.7	100.7	81.2	17.71%
Total annual recurring premium (Rm)	**403.7**	333.3	276.5	225.7	203.4	18.69%

NOTE: ACTION REQUIRED

by members regarding the Annual General Meeting

The Annual General Meeting of members will be held at 18h00 on Monday, 4 June 2007 at 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 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 advisor 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 for the Annual General Meeting in accordance with the instructions it contains and returning the form of proxy to the following addresses or via facsimile, to be received by no later than 18h00 on Saturday, 2 June 2007:

Physical Address:

The Company Secretary
6 Anerley Road
Parktown
2193

Postal Address:

The Company Secretary
PO Box 1089
Houghton
2041

Facsimile:

The Company Secretary
(011) 644-4307

TO BE RECEIVED BY 18h00 on SATURDAY 2 JUNE 2007

Annual Report of Professional Provident Society Limited (Limited by Guarantee) ('PPS Limited') and its subsidiaries ('PPS Group')

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CHAIRMAN'S REPORT

for the year ended 31 December 2006

The Professional Provident Society Group ('PPS Group') continues its path of exceptional performance for the third year running, driving a solid message of confidence home to our members for 2006.

We achieved an excellent return on our investments of 28.3% for 2006 (gross before deducting management fees) (2005: 31.7%). Core benefits excluding Group Life benefits paid to members totalled R405.1m (2005: R348.5m). Total assets (excluding the Professional Provident Society Retirement Annuity Fund ('PPS RA Fund')) reached remarkable new levels at R10 780m (2005: R8 469m).

This first-rate performance impacted positively on the Special Benefit Accounts with R1 714m being allocated (2005: R1 450m). Bonus (including the BEE bonus) and interest allocations soared to R458m (2005: R278m) and R 98m (2005: R83m), respectively. The total amount allocated to members' Surplus Rebate Accounts therefore amounted to an exceptional R2 270m (2005: R1 812m).

The PPS Group is a world class organisation, constantly striving to find ways of enhancing our business model.

'Our unique structure as a mutual organisation has enabled the PPS Group to plough back an impressive R5.9bn in profits to our members over the last 5 years.'

The PPS Group is intent on sustaining this growth path, and to do this we need to be innovative, adaptable and progressive in order to be the industry leader. Against this backdrop of growth we spent the best part of 2006 constructing a Black Economic Empowerment deal with a highly acclaimed team of experts led by Mervyn King. The result is that the Professional Provident Society Insurance Company Limited ('PPS Insurance'), is one of the few insurance companies in South Africa to increase Black Economic Interest (as defined) to 25%, placing us at the forefront of the industry. We announced the BEE Transaction ("Transaction"), in December 2006, well ahead of the 2010 schedule set out by the Department of Trade and Industry's Codes of Good Practice and the Financial Sector Charter. However, this is not simply an issue of compliance; it relates to values. We are growing our organisation, enhancing our performance and committing to South Africa for the benefit of graduate professionals.

'The BEE formula was devised to be both innovative in its creation and genuine in its intent for profit flows to reach and benefit all our South African policyholders.'

We believe this Transaction provides a very attractive middle ground for our members. This is entirely a membership orientated deal, consciously put together at extremely low cost to our members. It protects the value of your Surplus Rebate Accounts while increasing black participation to 25% of PPS Insurance's economic interest in what is to be considered a fair and genuine empowerment offer. The cost to existing members is zero in 2006 and a modest 0.8% moving forward, with a once-off special addition to members' Surplus Rebate Accounts in 2006. Above all, the Transaction is a growth initiative, designed to propel the PPS Group firmly into the future.

Continuing this sentiment of confidence, I would like to highlight the fact that the net operating income (as defined), increased by 33% in 2006 – this gives a clear indication of how the business is doing despite market influence. It is similarly impressive to report that administration costs have been well controlled.

Our commitment to South Africa remains of utmost importance to the PPS Group, and we continue to play a role in building a strong graduate professional base through our commitment to education, skills development and training.

We spent over R7m on Corporate Social Investment – R240 000 of which was allocated to 24 outstanding individuals through the Chairman's Scholarship and Bursaries Awards. The awards attracted a very impressive group of young people in 2006, to the extent that the Board provided a gratuity to the runners-up as further encouragement. The Board also made a much-needed R5m donation to the University of the Witwatersrand for the refurbishment of a new community centre that provides outreach programmes for the disadvantaged – known as the Emthonjeni Community Centre.

Moving ahead into the future our strategic initiatives included the launch in October 2006 of PPS Investments (Pty) Ltd ('PPS Investments') – a company which will offer a full range of competitive savings and investment products exclusively to members. In addition, profits that PPS receives from this venture goes back to our members.

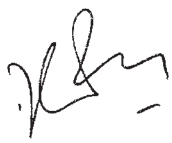
The short-term problems that have impacted the Retirement Annuity industry on the whole have been dealt with equitably by the PPS RA Fund in accordance with new enhancements and requirements within the industry. In future, the levels of transparency with charging and commission structures are guaranteed. In relation to the PPS RA Fund, every single line of every agreement has been carefully inspected to the point where we are comfortable with our compliance and confident that our members' interests are ensured.

'Growth is our lifeblood, and growth depends on many factors – it is not exclusive to how many members we attract. The potential to grow lies in everything we do, it is paramount to our success, and it is a constant challenge.'

To close, I would like to thank our Deputy Chairman Ebi Moolla, who is a constant source of intellect and insight. On behalf of the Board, I would specifically like to thank the Chairman of PPS Insurance, David Anderson who continues to work completely selflessly for the good of the PPS Group. The work he achieves on our behalf is invaluable to this organisation. I would also like to extend my thanks to all the Executive, Non-Executive and Independent Directors and Trustees who work resolutely on the various Boards within the PPS Group.

I would also like to welcome our new Non-Executive Directors, Mrs CN Mbili and Advocate TN Aboobaker to the Board of PPS Limited.

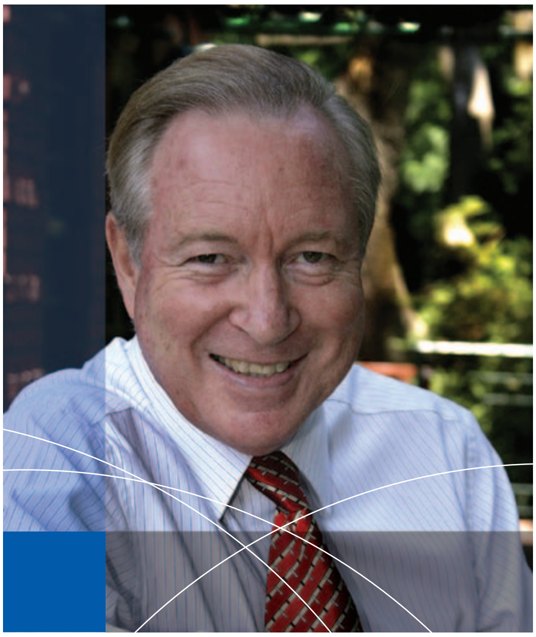
And finally, sincere thanks to our Chief Executive, Mike Jackson and his highly skilled executive team. Under his focussed leadership, the PPS Group has achieved impressive growth over the last three years. I have no doubt that his ethics and vision of growth through transparency and change will continue to drive the PPS Group as a leading insurer for graduate professionals well into the future.



Dr David Presbury
Chairman

CHIEF EXECUTIVE'S REPORT

A Record-breaking year for PPS Group

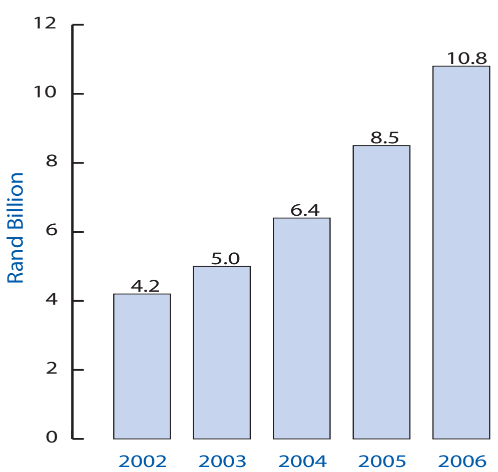


A series of major achievements signal a landmark year for the PPS Group. We accomplished a number of record-breaking firsts and the business performed well, particularly in key areas.

'It is a privilege to announce that total assets have doubled in less than three years to R10.8bn.'

After an exceptional 2005 on the Johannesburg Stock Exchange ('JSE'), few would have expected a further 38% increase in the All Share Index in 2006. This unprecedented growth, together with the outstanding performance of our asset managers – Investec Asset Management, Coronation Asset Managers and Sanlam Multi-Manager Portfolios, resulted in PPS's total assets exceeding a record breaking R10bn.

TOTAL ASSETS 2002 – 2006



It is gratifying to report that total asset growth has exceeded inflation by 11.5% per annum over the last 10 years.

Members' assets are not only invested in the JSE - about 15% are invested offshore and approximately 20% are held in bonds and cash. This diversity is critical to ensure some measure of protection in the event of a market downturn, while at the same time capturing growth when markets are performing well.

It should also be noted that risk reserves are invested more conservatively than other funds.

BUSINESS GROWTH SIGNALS ONGOING SUCCESS

A primary indicator of the health of our business is growth in new premiums and new members. In 2006 we accomplished our sales targets, achieving an 18% increase in annualised premium income over 2005.

We acquired 9 386 new members during the year, and we are positive that there is still far more scope to attract greater numbers of graduate professionals. A further positive note, given the increasingly competitive insurance industry environment, is that the number of members exiting PPS Insurance, including retirements, has remained fairly constant over the years at below 5%.

FINANCIAL HIGHLIGHTS

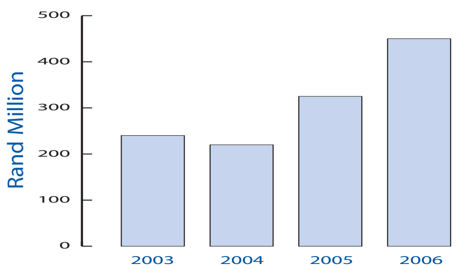
For the year ended December 2006

- *A 33% increase to Members' Surplus Rebate Accounts amounted to R2.2bn*
- *Total asset growth exceeded inflation by 11.5% per annum over 10 years*
- *Total assets doubled in 3 years to R10.8bn*
- *An 18% increase in annualised premium income*
- *Net operating income increased to R452m*

NET OPERATING INCOME SOARED IN 2006

The historic performance measure used in PPS Insurance is net operating income, defined as net income before tax and investment returns. A record was achieved as net operating income increased dramatically from R331m in 2005 to R452m in 2006. Excellent market growth combined with substantial net operating income growth resulted in a significant increase to members' accounts of 33%. The allocation to the Surplus Rebate Accounts amounted to a new record of R2.2bn.

Net Operating Income



- The net operating income is influenced largely by claims and the expenses of running the business.
- Claims continued to show a flattening trend in 2006, and are lower than expected. This is due to improved underwriting practices, claims management and forensic investigations.
- The impact of excellent economic conditions in the country over the last few years should not, however, be underestimated.

EXPENSES 2003 – 2006

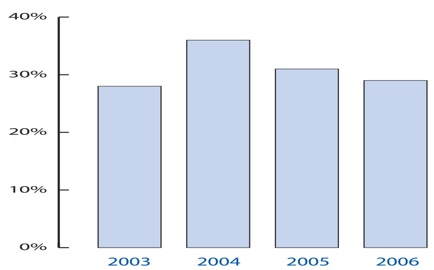
Every effort has been made to contain expenses over the last three years. Rising Information Technology ('IT') costs have received special attention.

Expenses were tightly controlled in 2006 increasing by only 6.6%, including accelerated depreciation of old computer systems. This is especially significant since expenses in 2005 were 4% less than in 2004.

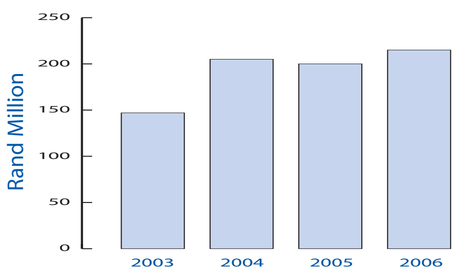
The administration ratio peaked in 2004 and has reduced each year to the current 28.2%.

Although additional gains will now become increasingly difficult, management has plans for future improvements despite new low cost competitor offerings.

Administration Ratio



Net Administration Expenses



NEW DEVELOPMENTS FOR FUTURE GROWTH

In a rapidly changing insurance industry, PPS Insurance is constantly developing in order to move with the times. Just as 2006 was a year of achievement with great rewards for the business and its members, it was also a year in which we worked hard to lay down new foundations – the building blocks for future growth and sustainability.

We made an announcement at the end of 2006 of a ground breaking Black Economic Empowerment Transaction. In so doing, we've achieved what would have taken nearly 19 years to achieve – in a single move we've immediately accelerated Black Economic Interest in PPS Insurance to 25%.

'This transformation gives the PPS Group a major advantage, especially on the university campus – our nursery for new members.'

Most importantly, it will allow us to increase the performance of PPS Insurance by spreading costs over a larger base, which in turn will positively benefit all members both old and new. A summary of the Transaction is detailed under the section entitled 'The BEE Transaction'.

The pilot project for short-term insurance in 2005 was converted to a full initiative in 2006, which included the development of a fully fledged services provider capability. We initially experienced significant inertia from our members, despite the excellent offer of a 20% discount on current short-term insurance premium payments. Our approach was subsequently changed and the considerable response to this new campaign has reinforced our belief that we should continue with this offering. At this stage PPS is not exposed to any underwriting risk. There have been no increases in premium rates over the past two years.

Growing and developing the interests of all our members has always been the aim of the PPS Group. In order to create new investment opportunities, PPS Investments was launched in October 2006.

'This new company is a joint venture with Coronation Fund Managers allowing PPS to offer a full range of retirement and savings products, which will roll out during 2007.'

The PPS Personal Pension will be particularly appealing to members – offering access to the country's best asset managers at very competitive charges. Members with existing PPS (Sanlam) Retirement Annuities will not be affected, but will be able to invest additional contributions or

CHIEF EXECUTIVE'S REPORT

continued

ad hoc contributions into the new PPS Personal Pension. Retired members who have linked annuities – ILLAS – will be able to transfer these to PPS and benefit from our unique profit sharing model.

SYSTEMS UPGRADE

System development costs have been increasing at an unacceptable rate over the past few years. While infrastructure costs were brought under control in 2005 by rationalising the numerous outside IT suppliers and bringing certain functions in-house, our core system was costly to maintain and did not easily enable new product development.

'We made the decision to upgrade our system to world-class standards using an industry architecture developed by global financial services companies.'

The system developed using the architecture went live in June 2006 and is being implemented across nearly all business processes. Nearly 60 years of data was converted to the new system. Significant problems were encountered with the data belonging to a small percentage of members where "fixes" or manual interventions made in the past were rejected by the new system. The debit orders of approximately 10 000 members were affected and these members were significantly inconvenienced. However, the vast majority of errors have now been rectified and we are ready for a phase two rollout in 2007. This important phase will impact on the balance of business processes and will enable PPS to pay its own commissions to intermediaries – a capability we have not had in the past. The new system will also allow us to launch new products in 2007 – for example: Whole-of-life Insurance.

I would like to touch on Profmed's administration, as it had its first full year under the control of PPS Medical Scheme Administrator (Proprietary) Limited in 2006. Service to Profmed members is now perceived to be very positive and while high service levels remain in place, the focus can turn towards growing the membership in 2007.

'With high service levels in place, Profmed is now positioned for growth.'

Finally, Namibian members also had an excellent year with Namibian assets increasing from R160.1m to R228.2m and membership growing by 9%. The cost of operating in Namibia is being closely monitored to ensure the viability and sustainability of the Namibian operations considering the low number of members (3 178) and the limited potential in that market.

LOOKING AHEAD

We anticipate our accomplishments in 2006 will play a pivotal role in achieving further outstanding results in the next financial year. Our Asset Managers continue to have a positive outlook for equities in 2007, although they are not as bullish as they were this time last year. We've experienced such positive returns for five consecutive years that a continued similar experience into 2007 is unlikely. The Board however, continues to take a long-term view and our members' appetite for risk has shown to be considerable, based on the small percentage of members over the age of 55 who opt for a more conservative portfolio.

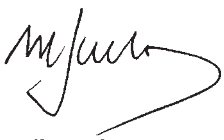
'The transformation and new initiatives I have outlined in this report are geared to boost growth on top of the solid foundations already in place.'

These are times of change and the life insurance industry will be implementing new commission structures in 2007, which will have a major impact on brokers and agents alike. These changes could have an adverse effect on our new premiums as relationships are re-aligned. However, on a positive note, we are launching new products in the second and third quarters and we anticipate that these should be well received by both intermediaries and members.

Service levels are a constant focus. They will receive considerable attention to ensure that the needs of our members are met at the highest levels by our staff, led by a strong, stable and capable management team, which has an excellent relationship with the Boards.

In closing, I would like to thank the Chairman of our Holding Company, Dr David Presbury for his steadfast encouragement and support during the year. Dr David Anderson continues to bring his considerable knowledge and experience of PPS to bear in his role as Chairman of the Insurance Company – I would like to thank him for his unstinting support.

Finally, the PPS Group trademarks of commitment, quality and professionalism are the true constant in changing times, and we work at all times for the future mutual benefit of the business and its members.



Mike Jackson
Chief Executive

CORPORATE GOVERNANCE STATEMENT

Professional Provident Society Limited (Limited by Guarantee) ('PPS Limited') and its subsidiaries for the year ended 31 December 2006

Embracing the world in which we work – Economically, Environmentally & Socially

The performance of an organisation has many facets and good Corporate Governance is an increasingly important contributor to an organisation's performance. It reflects the true nature of a business, the core values of ethics and integrity – both of which are held in high esteem by the PPS Group.

The King Report on Corporate Governance 2002 ('King II' or 'the code') acknowledges that there is a move away from the single bottom line (that is, profit for shareholders) to a triple bottom line, which embraces the economic, environmental and social aspects of a company's activities. In subscribing to and supporting the code, the PPS Group is realising the associated benefits of good corporate governance. These include increasingly effective risk management, more reliable and effective management processes, and increased confidence from members.

'Embracing good corporate governance means playing a part in creating a strong and healthy economy.'

Most importantly, good corporate governance is equated with good leadership. The PPS Group accepts the responsibility of ensuring that a spirit of good governance is cultivated at all levels of management. In this way, the PPS Group is able to offer clients professional products borne of an ethically sound, financially secure and socially responsible company.

GOVERNANCE STRUCTURES

Inspired Direction through Solid Foundations

THE BOARD: STRUCTURES

What does the structure look like?

As recommended by King II:

PPS Limited has a unitary Board consisting of 'a majority of non-executive directors. A number of these directors should be independent of management so that shareowner interests (including minority interests) can be protected'.

The current composition of the Boards of Directors of both PPS Limited and PPS Insurance is featured on pages 23 and 24.

In their commitment to the Financial Sector Charter ('FSC'), the Boards are charged with actively addressing the representation of black members at Board level.

What guides the Board in its actions?

Like any Board, it has certain objectives that must be met, but it also needs to ensure good governance, in so doing it must follow certain procedures concerning the manner in which it chooses to carry out these obligations. To ensure clear lines of accountability, the general guidelines expected of any Director of the PPS Group are clearly set out in the Directors Charter. To ensure consistency and efficiency, newly appointed Directors benefit from an induction programme aimed at increasing their understanding of the PPS Group, its business environment and the markets in which the PPS Group operates. In addition, all Directors receive appropriate external training on the duties and responsibilities they are expected to fulfil.

What is the role of the Board Charters?

The Charters serve to lay out the exact operational and fiduciary responsibilities of the Board and its precise role in the PPS Group structure. In addition, the Charters stipulate the mandatory term of contracts. Having been prepared against standards of best practice in organisational and Board governance, these Charters serve to guide the various Board Committees, in which its adoption is mandatory.

Are Directors entitled to remuneration?

The Non-Executive Directors receive no significant benefits other than a Directors' fee, calculated in line with industry trends as per the agreed standard of:

- A basic fee (as ordinary remuneration) comprising of a retainer and a sitting fee per meeting;
- Additional remuneration as Chairperson or Deputy Chairperson of a Board, or of a Board Committee;
- Additional remuneration as a member of a Board Committee.

The Remuneration Committee reviews and considers the remuneration of the Non-Executive Directors, the Chief Executive and the senior management, and makes recommendations to the Board.

'Solid foundations for a stronger future.'

THE BOARD: GOVERNANCE

How does the Board carry out its mandate?

To empower the Board in its mandate and to ensure accountability for its actions, the responsibilities and limitations of its Directors are laid out in the Articles of Association, the Companies Act No. 61 of 1973 (as amended) ('the Companies Act'), and the Board and/or members' resolutions.

To ensure that the Board is able to carry out its mandate effectively, members are entitled to have access, within reason, to all company information ascertaining to its objectives. Where necessary, Directors are also entitled to have access to senior management who can assist in informed decisions being taken by the Board.

There are further procedures (as agreed by the Board) that enable the Board to seek independent professional advice, if necessary, at the PPS Group's expense.

What is the intention of Board meetings?

The Board of PPS Limited meets every quarter to hold discussions and take decisions on a defined set of objectives as set out in the agenda structure. Further 'combined' meetings with the Directors of PPS Insurance are scheduled, in which consideration of the annual business plan, budget, major capital expenditure and key strategic issues is duly given. Having been identified and appointed due to their knowledge, skills and abilities, Directors are expected to participate fully, frankly and constructively in discussions and are required to attend Board meetings having undertaken the appropriate preparations.

CORPORATE GOVERNANCE STATEMENT

continued

RISK MANAGEMENT

The mark of Good Corporate Governance

The Boards have committed the PPS Group to a process of risk management that is aligned to the principles of King II and prevailing best practices.

The realisation of the business strategy depends on the PPS Group being able to take calculated risks in a way that does not jeopardise the direct interests of members and other stakeholders. Sound management of risk enables the PPS Group to anticipate and respond to changes in the business environment, as well as to take informed decisions under conditions of uncertainty.

All key risks associated with major change and significant actions by the PPS Group fall within the processes of risk management. The nature of the industry demands that PPS adopts a prudent approach to corporate risk, and PPS's decisions around risk tolerance and risk mitigation will reflect this. Controls and risk interventions are chosen on the basis that they increase the likelihood that the PPS Group will fulfill its objectives.

Risk management processes are embedded in business systems and processes, so that PPS's responses to risk remain current and dynamic.

An enterprise-wide approach to risk management is under preparation and will be adopted by the PPS Group, which means that every key risk in each part of the PPS Group will be included in a structured and systematic process of risk management. All key risks will be managed within a unitary framework that is aligned to the PPS Group's corporate governance responsibilities, and that takes account of PPS's risk appetite and risk tolerance as established by the Board from time to time.

The Board of Directors is accountable for Risk Management

In line with the recommendations of King II, 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 processes;
- management is accountable to the Board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day business 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; and
- the Board must ensure that appropriate systems are in place to proactively manage the identified risks and measure the impact so that the company's assets and reputation are adequately protected.

Management Responsibilities

Management is responsible for the identification, assessment and control of all key risks facing the operations as well as the functions and processes under their control. In addition, management is required to manage all risks under their jurisdiction that contribute to the PPS 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 specific business areas, and report on any material changes to the risk profile, any risk materialisation / losses. Management is also expected to put in place appropriate risk controls, and to provide assurance that such controls perform as intended.

BOARD COMMITTEES

What is the purpose of these Committees?

The Board is authorised to form Board Committees as and when required, particularly to enable effective decision-making in the execution of its duties and powers. The Board Committees are delegated certain functions and powers but do not, in any way, absolve the Board of its duties and responsibilities and assists the Board to achieve its mandate. For this reason, the Board Committees do not perform any management functions or assume any management responsibilities.

What powers do these Committees yield?

To enable the Committees to carry out their duties effectively, the Board ensures the Committees have reasonable access to professional advice (both inside and outside of the company). To ensure this privilege is not abused in any way, full disclosure and transparency is required from the Committees to the Board.

In addition, the Committees are empowered to the extent that they may:

- investigate any activities within their Terms of Reference;
- require employees to attend meetings or parts of meetings;
- consult with, and seek any information required from any employees; and
- expect the co-operation of all employees with any request made by a Committee in the course of its duties.

The PPS Group has four operational standing Committees:

- Audit and Risk Committee
- Remuneration Committee
- IT Working Committee
- Nominations Committee

AUDIT AND RISK COMMITTEE

Jointly Chaired by Professor Wainer and Advocate Meyer, the Committee holds three Non-Executive Directors (including one of the Joint Chairmen) from the Boards of PPS Limited and PPS Insurance. Additional independent parties (who are not Directors of the PPS Group) have been co-opted onto the Committee to ensure that the majority of its members are financially literate and that the appropriate skills and experience are deployed for the effective functioning of the Committee. There are no relationships in existence that could interfere with the Committee members' independence from management.

What are its functions?

The Committee is tasked with taking an independent view on the appropriateness of the accounting policies and practices and must present its final results along with its findings on the effectiveness of the internal control system (including financial, operational, compliance controls and risk management).

Specific functions include:

Internal and External Auditors

The Committee makes an annual review of the remit, authority, resources and scope of the work of the internal auditors, and considers the fees (both audit and non-audit) for the external auditors, who have unrestricted access to the Committee. The Committee recommends to the Board which firm should be appointed as external auditor, and will monitor the internal and external auditors' performance against expectations.

Financial Statements

The Committee conducts an independent examination of the annual financial statements and reviews other relevant financial reports.

Internal Control and Risk Assurance

An important role of the Committee is to evaluate whether appropriate procedures and mechanisms are in place for the ongoing evaluation of the internal systems of control. It further conducts a review of all financial and operating information (including the internal audit function) in terms of reliability and integrity.

Ethics and Corporate Conduct

The Committee must see to it that adequate procedures exist to ensure compliance with the requirements of the Articles of Association and all appropriate standards of ethical conduct. It is also responsible for detecting any violations of misconduct, fraud, or any other unethical activity.

REMUNERATION COMMITTEE

Chaired by Dr Anderson, a Non-Executive Director, and advised by independent outside experts, the Remuneration Committee comprises mainly Non-Executive Directors.

What are its functions?

In its capacity as an independent body, the Committee must review, consider and recommend on all matters relating to (inter alia) general staff policy, including:

- Senior management remuneration and development;
- Succession planning;
- Senior Management, the Chief Executive, Directors and Committee Members' remuneration and fees. (The financial statements accompanying this report reflect the total Directors' earnings and other benefits in keeping with the requirements of the King II Report and the Companies Act);
- The formulation of the PPS Group policies, with particular reference to equal opportunity employment and human capital development.

NOMINATIONS COMMITTEE

The purpose of the Committee is to assist the Board to:

- identify individuals qualified under the Committee's Terms of Reference to become Directors and members of Committees;
- develop and design a formal process of reviewing the balance and effectiveness of the Board and following on approval by the Board, to implement same;
- identify the skills needed for the Directors on the Board to ensure the proper management; and
- identify those individuals that might serve as Directors by providing their skills in a fair and thorough manner.

KEY ROLES AND RESPONSIBILITIES

Board Chairperson

To ensure fairness of reporting and to safeguard against the abuse of power, each year the Board will appoint a Chairperson from among its Non-Executive Directors. To ensure that there is no conflict of interest, it is stipulated that the Chairperson will hold no executive functions within the PPS Group. Indeed, the role of the Chairperson and the Chief Executive are entirely separate. In this way, the Chairperson is able to carry out his/her mandate, ensuring the integrity and effectiveness of the governance process by:

- providing effective leadership without infringing on the principle of collective responsibility for decisions taken by the Board;
- ensuring all Directors play an active and constructive role in company affairs;
- leading the actions required to remove non-performing or unsuitable Directors from the Board; and
- ensuring all relevant and pertinent information is submitted before the Board, thereby enabling the Directors to reach an informed decision.

Company Secretary

The role of the Company Secretary is acknowledged and formalised in the Board Charters. The Company Secretary's duty is to play a key role in ensuring Board procedures are properly followed and regularly reviewed and to ensure that:

- Directors are made aware of, and are provided with guidance as to their duties, responsibilities and powers; (this is a legal requirement);
- rules and regulations around how the Board conducts its affairs are complied with, and that all matters associated with its efficient operation are maintained;
- a central source of guidance and advice is provided to the Board and its Committees on issues, including compliance with rules and procedures, statutory regulations and King II;
- detailed guidance is provided to the Board as a whole, and the Directors individually, as to how their responsibilities should be properly discharged in the best interests of the company; and

CORPORATE GOVERNANCE STATEMENT
continued

- the Board is kept abreast of current governance thinking and practice. For this reason, it is recommended that the Board evaluation and performance be co-ordinated via the Company Secretary.

It is the responsibility of the Board, and in its own best interests, to ensure that the Company Secretary remains capable to fulfil the function for which he / she has been appointed. The appointment and removal of the Company Secretary is a matter for the Board to decide as a whole.

Chief Executive

As the custodian of ethics in the PPS Group, the Chief Executive ensures that a positive and ethical working environment is in place at all times. This environment must be conducive to attracting, retaining and encouraging a diverse group of top-quality employees at all levels. In addition, the Chief Executive is committed to fostering a corporate culture that promotes ethical practices, encourages individual integrity and champions social responsibility objectives and imperatives, where material to the PPS Group.

To achieve this, a Code of Conduct and Conflict of Interest Policy has been formulated and duly exposed to all employees.

Executive Management Team

The Chief Executive and the management's primary point of reference is at an operational level. Due to their involvement in the day-to-day activities of the business, the Chief Executive and the Executive Management Team ensure that the decisions, strategies, and views of the Board are properly implemented. In addition, the Executive Managers are accountable for the control, conduct and performance of their respective areas of business as laid out in the agreed business strategy.

The Chief Executive attends meetings of the Board of PPS Limited by invitation and reports on the activities of the PPS Group.

Compliance Officer

The Compliance Officer is charged with ensuring compliance with all relevant statutory, regulatory and supervisory requirements within the PPS Group.

INTERNAL CONTROL SYSTEMS

In order to develop a continued environment of good corporate governance, the financial information of a company must be both accurate and reliable. For this reason, the PPS Group maintains financial and operational systems of internal control, specifically designed to:

- provide reasonable assurance that transactions are concluded in accordance with the management's authority;
- ensure assets are adequately safeguarded against material loss of unauthorised acquisition, use or disposal; and
- properly authorise and record transactions.

These internal controls are monitored by internal auditors who report their findings and make recommendations to the management and the Audit and Risk Committee. Should they detect any control deficiencies or recommend systems be improved, corrective measures are taken. The Boards, operating through its Audit and Risk Committee, provides oversight to the financial reporting process and internal controls.

With inherent limitations (human error or other) existing in any system of internal control, an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets. In addition, the effectiveness of an internal control system can change according to its circumstances.

Having assessed the internal control systems in operation during the year, the PPS Group believes that, as at 31 December 2006, the systems of internal controls over financial reporting and safeguarding of assets were adequate.

INVESTING IN HUMAN CAPITAL

Human Resources Policies and Practices

Building our People, Building our Performance

The PPS Group is growing and dynamic and we need appropriate skills in the right places. Now that we operate in an increasingly competitive space, the PPS Group needs to renew and re-invent itself. This will enable it to maintain its dominance in key components of the niche market. It will also enable it to grow its share in both new and existing products and service components. In a business where we are responsible for overseeing the financial future of graduate professionals, the PPS Group takes great care to invest in highly talented, highly trained people.

'In 2006, approximately 50% of PPS Insurance's expenses were people related.'

This investment was made with the goal of gearing our people toward greater productivity, customer service, growing the business and implementing and bedding down the business system seamlessly. The key objective is for the human capital strategy to align with the strategic objectives of the business. While PPS experiences rapid growth, offering new products and services to graduate professionals – the objective is to grow shareholder value substantially, with better utilisation of our human resources. The current perspective is to find concrete ways to ensure that this investment is not perceived as a "fixed cost".

PERFORMANCE MANAGEMENT

From 2004 – 2006 solid progress was made in building a robust performance management system to measure, monitor and reward individual (and team) performance appropriately. The new IT system affords us a unique opportunity to enhance productivity. It enables us to extract maximum return for the investments made in our IT systems – to optimise business processes, re-skill and up-skill our team, and redeploy employees to new, more demanding and engaging positions.

'It is a direct step in the process of giving our customers an improved experience.'

In 2006, PPS Insurance invested 2.5% of its payroll (approximately R3.2m) in skills, development and training. We launched a programme called 'Rejuvenation,' which allows employees to move from one job to another to acquire new skills, perspectives and understanding of the business. Another component of this initiative is to match the right profiles with the right jobs, and we have already seen the results of re-energising 'new' people with a fresh attitude to challenges and growth.

'The migration from a bureaucratic, comfortable entity to a more dynamic, entrepreneurial entity is proceeding speedily.'

Another emphasis is to bolster the management capacity at different levels. All HR components – training and development, performance and reward, recruitment, organisational development and administration have been vested and positioned to address this objective.

Programmes relating to the key 'soft' elements of team development are scheduled for 2007. This aligns with the development and implementation of a coherent set of values for the PPS Group. We are positive that this will enhance the quality of life of our employees together with the 'harder' outcomes of greater productivity, profitability and eventually – greater shareholder value.

ANNUAL INCENTIVE PLAN 2006

The purpose of the PPS Insurance Annual Incentive Plan 2006 ('the Plan') is to appropriately motivate and reward executives and senior managers who are able to influence the performance of PPS Insurance, on a basis which aligns their interests with those of PPS Limited.

With the increasing mobility of skilled executives and increasing volatility and growth in executive pay, particularly in the financial services industry, PPS Insurance adopts a responsible and defensible approach to both the quantum and the structure of executive rewards.

The use of role sizing methodologies ensures both internal relativity and equity, and also provides an authoritative approach to establishing external relativity to market benchmarks (acquired through PPS Insurance's participation in market surveys).

PPS Insurance offers no long-term element of reward for its executives, although it is currently considering such a move. It does, however, offer annual cash bonuses (which conform to market norms), based on business performance targets.

Plan Architecture

Net operating income is defined as net income before tax and investment returns and is adopted as the indicator of overall executive performance. This performance indicator ignores the contribution to overall performance that attends to investment returns. It is deemed appropriate that the annual cash incentive bonus should concentrate and reward those elements of performance that are more directly in the line of sight of executives.

Participant roles are grouped into job families which identify the relative impact that the role has on performance. Each job family has a specified on-target bonus, expressed as a percentage of total guaranteed pay, which is nominally payable if all targets, both company and individual, are exactly met. Currently the job families and their defined on-target bonus percentages are as shown below: -

Job Family	Current number of Participants	On-target bonus
Executives	11	40%
Management	22	25%

On the basis of applying the above policy to the full complement of participants, it is possible to calculate the full on-target bonus pool for PPS Insurance.

In establishing the target net operating income and its attendant performance curve, the Remuneration Committee has set the following points on the performance curve:

1. key points have been configured as provided below based on the Committee's assessment that the budget is a stretch (represents 32% of 2005 performance); and
2. the size of the pools at different levels partially compensates for the lack of a long-term incentive for executives and key staff.

Performance Curve Point	Description	Derivation	2006 Incentive Figure R'm	Resultant Pool Size R'm
Threshold	Point at which no bonus pool is payable	Set at previous year's net operating income, plus CPIX	293	Zero
Budget	Point above on-target point	Set at 132% of previous year's net operating income	372	11.7
Target	Point at which on-target bonus pool is payable	Set at 95% of the budgeted net operating income	353	7.8
Doubling Point	Point at which bonus pool is twice on-target	Set at 105% of the budgeted net operating income	390	15.6
Trebling Point (Capped)	Point at which bonus pool is three times on-target	Set at 115% of the budgeted net operating income	428	23.4

- The performance curve is configured on the basis of the key points above.
- The Remuneration Committee will retain the right to review and adjust the total pool payout and the performance bonus calculation for any individual at its discretion.

CORPORATE GOVERNANCE STATEMENT

continued

CORPORATE SOCIAL RESPONSIBILITY

Investing in People Today to Build Capacity Tomorrow

Activities and projects supported by the PPS Group are aligned with formal guidelines which have brought an important element of cohesion to Corporate Social Investment ('CSI'). Our CSI activities are channelled towards attaining common goals in the areas of education, training and development. They are aimed at students and the skills development programmes of current employees.

Please refer to the Corporate Social Investment Statement on page 15 for a detailed account of our commitment to education, training and development.

FINANCIAL SECTOR CHARTER ('SFC')

Enabling and Accelerating Transformation

The PPS Group can make a difference by committing to the targets set out in the FSC.

To quote the FSC, the PPS Group commits to 'actively promoting a transformed, vibrant, and globally competitive financial sector that reflects the demographics of South Africa, and contributes to the establishment of an equitable company by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy'.

On page 14, we have outlined the progress PPS Insurance has made in terms of BEE. But it is far more than a compliance issue, growing the PPS Group through transformation and committing to South Africa for the benefit of graduate professionals is a core value.

The PPS Group is using this opportunity to up-skill our skilled workforce, and in so doing, to build the long-term sustainability of professional people, the industries they work in, and the future stability of the PPS Group.

The FSC is a transformation charter in terms of the Broad-based Black Economic Empowerment Act No 53 of 2003 (BBBEE Act). A summary of where PPS Insurance stands regarding the FSC 2008 targets can be referred to in the table below.

Category	PPS Insurance (as at December 2006)		FSC Target (2008)	
1. Human Resources Development Component				
1.1 Employment Equity				
Senior Management	Black employees Black female employees	20% 13%	Black employees Black female employees	25% 4%
Middle Management	Black employees Black female employees	31% 21%	Black employees Black female employees	30% 10%
Junior Management	Black employees Black female employees	41% 28%	Black employees Black female employees	50% 15%
1.2 Skills Development				
1.2.1 Skills Spend				
(% of payroll spent per annum on skills development of black employees)		1.85%		1.5%
1.2.2 Learnership programme				
(learnerships as % of total staff over 3 years)		2.4%		4.5%
2. Procurement and Enterprise development				
Procurement from black influenced, empowered companies (narrow-based approach)		60.6%		50%
3. Access to Financial Services				
3.1 – 3.6 Exemption received from Charter Council				
3.7 Consumer Education (% of post tax operating profits spend per annum)		0		Min 0.2%
4. Empowerment Financing				
The targets and requirements are not clarified; therefore it is not appropriate to provide details in this regard.				
5. Ownership and Control				
5.1 "Ownership" (as defined)		25%		25% by 2010

Category	PPS Insurance (as at December 2006)	FSC Target (2008)
5.2 Control		
5.2.1 Board		
(Black people as a % of Board of Directors)	25%	33%
(Black women as a % of Board of Directors)	8%	Min of 11%
5.2.2 Executive		
Executive Management		
(Black people as a % of Executive Management)	10%	Min of 25%
(Black women as a % of Executive Management)	0%	Min of 4%
6. Corporate Social Investment (% of post tax operating profit directed p.a. to CSI)	Approx 1.55%	0.5%

HOW WE ARE TRACKING WITH REGARD TO OUR 2008 FSC TARGETS:

Human Resource Development Components:

PPS Insurance is progressing well in reaching our employment equity targets in the senior, middle and junior categories. We have exceeded the skills spend on black employee 2008 targets and we are on track to achieve our learnership target in 2008.

Procurement and Enterprise Development:

We have exceeded the 2008 targets on procurement (this has been calculated on a narrow-based approach).

Access to Financial Services:

The FSC Charter Council has provided PPS Insurance an exemption on the basis of our business model, i.e. operating solely within the niche graduate professional market.

Empowerment Financing:

We await clarity from the FSC Council in this regard.

Ownership and Control:

The BEE Transaction implemented with effect from 1 January 2007, has enabled us to achieve the 2010 Ownership Target.

Regarding Control, we are confident that we are on track to reach our Board targets by 2008. A significant challenge is to achieve our Executive Management target by 2008, as the gap is substantive.

Corporate Social Investment:

We are proud to inform that we have significantly exceeded the CSI target for 2008.

HEALTH, SAFETY AND SECURITY

The Directors acknowledge their responsibility to all employees and policyholders to comply with health, safety and security standards for the wellbeing of employees. Although the PPS Group's major activities do not pose a significant threat to the environment, an active Health and Safety Committee ensures adherence to the Health and Safety Act. The PPS Group's risk management activities continue to focus on compliance with key features of existing environmental, health and safety legislation.

HIV / AIDS

The challenges of dealing with HIV / AIDS are broad and as a responsible corporate, the PPS Group stands firmly in its commitment to help prevent and combat this disease in the workplace. We have adopted a policy on HIV / AIDS with a commitment to embark upon an education programme in 2007 together with a voluntary counselling and testing initiative for all employees. This will enable us to assess our prevalence rate on an anonymous basis, mitigate risks, and lay the foundation for assisting our staff.

COMMUNICATION

The PPS Group has always worked within the codes of professionalism, ethics and trust. These are the foundations on which to build a solid corporate reputation. The current climate in South Africa requires every business to drive transparency and to open up communication even further with its respective stakeholders. At the PPS Group, these stakeholders include members, employees, the media and the public. Communication is important on a day-to-day business level, particularly in the financial sector where one of the core objectives is to simplify industry language. In 2006, the business went to extreme lengths to communicate simple and easily understandable messages with internal and external stakeholders – via e-mails, letters, leaflets, the website, the intranet, and through customer service. Our objective is to demystify our products and services and to highlight their many benefits while at the same time preserving uniqueness and mutuality.

THE BEE TRANSACTION

Growth Potential for all Stakeholders

The PPS Group is committed to enabling and accelerating transformation, both within the Group and the industry at large. In 2006, the transformation of PPS Insurance received a considerable boost with the implementation of the BEE Transaction – an achievement which is unsurpassed in the South African insurance industry.

Prior to the Transaction, the share of the economic interest of PPS Insurance (defined as 10% of the annual profits) held by Black South African professionals, was measured at approximately 17%. The BBBEE Act and the Financial Sector Charter (FSC) require the economic participation by Black members to be 25% by 2010. The Board decided to accelerate PPS's black participation to 25% in one move, as it was estimated, given the normal growth of policyholders, that it would have taken approximately 19 years to achieve this goal – despite the fact that 40% of new members are black. For this reason, a special BEE task team of experts under the leadership of Mervyn King, the details of which are provided below, was set up to propose a solution to the Board. After months of deliberations, the team's proposal was accepted by the Board in October 2006 and duly implemented. Members received various communications regarding the implications and impact of the proposals on both the long-term sustainability of PPS and on their accounts. Overwhelming support was obtained from members to proceed.

- In terms of the Transaction, from 1 January 2007 approximately 8% of the economic interest (or approximately 0.8% of the annual profits of the business) will be retained each year in a funding structure.
- Existing policyholders were fully compensated for this reduction in their share of the future economic interest in the business by a once-off special bonus allocated to their Surplus Rebate Accounts at the end of 2006.
- Importantly, the BEE Transaction will not result in a reduction in the existing Surplus Rebate Account balance of any current policyholder.
- Once the funding of the above once-off special bonus has been recouped from the share of the economic interest retained each year, the share of the economic interest will be used to fund a special BEE bonus to qualifying Black policyholders.
- Any Black policyholder with a Surplus Rebate Account in PPS Insurance as at 31 December 2008, will qualify for the special BEE bonus. The full details of this addition are covered in the Directors' Report.

PPS INSURANCE BLACK ECONOMIC EMPOWERMENT ROADMAP

	Background	Task Team	Transaction	Special Purpose Vehicle	2008	2010 and Beyond
Details	• Goal: To grow Black policyholders' participation in the economic interest of the business from 17% to 25%. • This would result in PPS Insurance becoming the leader in BEE in the industry.	• The Board tasked a specialist team of advisors – legal, corporate finance, actuarial and tax experts to investigate and propose a BEE Transaction.	• All 130 000 existing policyholders will be compensated with a Rand amount for the facilitation of the Transaction • Compensation will be made by means of a once-off special addition to the policyholder's Surplus Rebate Account, to be allocated with the 2006 bonus allocations.	• PPS Insurance will provide funding for the BEE Transaction.	• Close-off of special BEE addition for Black policyholders on 31 December 2008.	• Department of Trade and Industry Codes and the FSC require companies to achieve a level of 25% Black economic ownership by the year 2010.
Outcome	• PPS Insurance is in a unique position to achieve this immediately, while strengthening the Company through new members.	The Transaction will: • Accelerate BEE. • Maintain the mutuality of PPS Insurance. • Be acceptable to PPS Insurance policy-holders, the Financial Services Board and the Department of Trade and Industry.	• Launch of the BEE Transaction from 01 January 2007 • R70m added to existing policyholders' SRA's on 31 December 2006.	• These funds will be invested in a Special Purpose Vehicle, specifically created for the BEE Transaction • The Special Purpose Vehicle will invest these funds in an endowment policy with PPS Insurance.	• When the special BEE addition commences it will only apply to Black policyholders who join before 31 December 2008 .	• All new policyholders (Black or White) joining from 1 January 2009 will be in the same position.
Benefits	• PPS Insurance has the ability to bring integrity and transparency into the BEE Transaction, on the basis that its policyholders control the organisation.	• Best practice in terms of corporate governance.	• Black policyholders will have the unique opportunity to increase their share of the Economic Interest in PPS Insurance over the next two years. • This Transaction will increase the perfor-mance of PPS Insurance, positively benefiting all policyholders – not only Black policyholders.	• The Special Purpose Vehicle will repay its funding obligation from the maturity proceeds of the endowment policy. • Once the funding has been repaid, Black policyholders will start to receive an annual special BEE addition at the end of each year.	• All Black policyholders with a Surplus Rebate Accounts as at 31 December 2008 will quality for this annual special BEE addition.	• PPS Insurance will comply with Department of Trade and Industry and FSC requirements well before the required deadline.

*Key: * BEE – Black Economic Empowerment*

*** Black Policyholders – defined according to the BEE guidelines as all African, Coloured, Indian persons who are South African citizens by birth or by descent, or who were naturalised prior to the commencement of the interim Constitution of 1993*

In closing, the Board is steadfast in its conviction that this BEE Transaction is necessary, timeous, responsible and beneficial. Set against the 2006 financial backdrop of growth, including the doubling of members' assets in less than three years to R10bn and operating profit increasing to R452m, the PPS Group is moving ahead with calculated confidence from a position of strength for the benefit of graduate professionals.

BEE TASK TEAM

Mr M King SC	Chairman of the BEE Task Team
Dr DR Anderson	PPS Insurance – Chairman / PPS Limited – Non-Executive Director
Mr P Bracher	Deneys Reitz Inc.
Mr B Croome	Edward Nathan Sonnenbergs
Mr C de Klerk	PPS Insurance – Product Actuary
Mr R du Plessis	Bowman Gilfillan Inc.
Mr MJ Jackson	PPS Insurance – Executive Director / Chief Executive
Ms J Lester	PPS Insurance – Company Secretary / Compliance Officer
Mr K Lester	Mohlaleng Transcend Corporate Advisors
Mr R Naude	Edward Nathan Sonnenbergs
Dr DGC Presbury	PPS Limited – Chairman / PPS Insurance – Non-Executive Director
Dr SNE Seoka	PPS Limited – Non-Executive Director / PPS Insurance – Non-Executive Director
Mr D Smollan	i Capital
Mr A Tait	PPS Insurance – General Manager
Mr C van der Riet	Actuarial & Insurance Solutions Deloitte & Touche

CORPORATE SOCIAL INVESTMENT STATEMENT

Creating Opportunity, Building Futures

Education is crucial to growing capacity and achieving sustainability – both in society and in business. It is in this sector that the PPS Group can make a difference. We continued to play a role in building a strong graduate professional base in 2006 through our commitment to education, skills development and training.

CSI is an integral part of the PPS Group's activities – both as a component of our scorecard for internal transformation and as a cornerstone of our corporate accountability and governance programme.

We have significantly exceeded the CSI target for 2008 – approximately 2% of PPS Insurance's post tax operating profit is directed at CSI per annum. The Group's goal however, is not simply to tick the boxes that meet the CSI requirement of the Financial Sector Charter (0.5% of operating profit), but to help make a difference by contributing meaningfully towards the education sector.

'Our investment totalled more than R7 million on collective CSI projects in 2006.'

PPS Insurance strongly believes in supporting universities, as it is through these institutions that the future professionals of the country are nurtured. We are aware of the financial constraints that many universities operate under, and understand the importance of maintaining or upgrading campus facilities in order to improve amenities for students. For this reason PPS Insurance pledged – almost ten years ago – to assist one or more institutions annually. And, we have kept our promise.

This year, PPS Insurance made nine donations to the value of R6 110 000 to Southern African universities including Namibia. Refurbishment grants spanned the country from universities in Pretoria and the North-West, to universities in the Eastern and Western Cape, the Free State and Zululand. The faculties we assisted were diverse, ranging from Engineering and Pharmacy, to Natural and Agricultural Sciences, Accounting, Veterinary Science and Biochemistry.

The largest of the 2006 donations was a contribution of R5 million made to the University of the Witwatersrand (Wits). This funding was used for the refurbishment of a new community centre that provides outreach programmes for the disadvantaged. The School of Human and Community Development is responsible for the initiative, which is known as the Emthonjeni Community Centre, and aptly means 'drawing from the fountain'. Assessment, intervention, counselling and psychotherapy, with particular emphasis on early diagnosis and intervention, are offered. The Centre was established in order to enhance the quality of professional training through knowledge generation. It will also improve the efficiency and effectiveness of community services in the areas of psychology, speech and hearing and social work.

'A goal was realised with the establishment of the Centre, and PPS provided the impetus for this dynamic initiative which is a catalyst for multi-disciplinary research and training …' Ali Bacher, Executive Director of the Wits Foundation.

This year, PPS Insurance awarded a scholarship and nineteen bursaries to students who met the criteria. The Chairman's Scholarship Award of R30 000 was based on academic merit, and the Bursary Awards, which totaled R190 000 were based on financial need. In a unique turn of events, the four students who were runners up for the scholarship award displayed such exceptional potential that they inspired the selection panel to award R5 000 to each one of them as a gesture of support.

The Chairman's Scholarship and Bursaries Awards provide a much anticipated occasion for PPS Insurance to interview students – an opportunity which continues to inspire us. It allows us to gauge the calibre of the graduate professional market in the future, and we are always left encouraged. For example, the sheer determination of our winning scholar this year was astounding. This achiever has worked in order to put himself through Medicine for the past five years while excelling in his studies – assisting him has been a rewarding and humbling experience.

From sponsored refurbishments to grants and scholarships, each initiative that PPS Insurance undertakes is focused on growing the skills and competencies of future generations. By doing this we are not only helping to build a nation, but we are helping to support potential employees and clients and above all – fellow graduate professionals.

'Investing in our country's people today, to build capacity tomorrow'.

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 31 December 2006

The Directors accept responsibility for the preparation, integrity and fair presentation of the annual financial statements. These financial statements have been prepared using appropriate accounting policies, supported by reasonable and prudent judgements and estimates, in conformity, in all material respects, 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 shareholders, 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 annual financial statements which appear on page 21 to 57 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

Professional Provident Society
Limited (Limited by Guarantee)

Johannesburg

3 April 2007

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 2006, 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.

Jennifer Lester

Jennifer Lester
Company Secretary

Professional Provident Society Limited (Limited by Guarantee)

3 April 2007

INDEPENDENT AUDITOR'S 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 2006, 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 27 to 57.

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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 company and of the group as of 31 December 2006, 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
22 March 2007

REPORT OF THE INDEPENDENT ACTUARY

for the year ended 31 December 2006

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 2006, 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

22 March 2007

The consolidated balance sheet for the group on the Published Reporting basis is shown below:

	Paragraph	31.12.2006 R'000	31.12.2005 R'000
Net Assets	4	**10 399 762**	8 134 975
Insurance Liabilities	5	**10 267 422**	8 001 301
Apportionment and Special Benefit Accounts		**8 139 447**	6 103 676
Risk benefits and Smoothing reserves		**2 045 954**	1 791 867
Other insurance liabilities		**82 021**	105 758
Excess of assets over liabilities		**132 340**	133 674

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:

	2006 R'000	2005 R'000
Excess of assets over liabilities at the end of the period	**132 340**	133 674
Excess of assets over liabilities at the start of the period	**133 674**	134 133
Change in excess assets over the period	**(1 334)**	(459)
The change in excess assets is due to the following factors:		
Investment Return on Shareholder Assets	**37 934**	44 927
Investment Income	**6 902**	6 454
Capital Appreciation	**31 032**	38 473
Tax on Shareholders Assets	**(4 488)**	(3 302)
Balance of profits / (losses)	**(34 780)**	(42 084)
Earnings for the year on the Financial Soundness basis	**(1 334)**	(459)

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.

The impact of any changes to valuation methods and assumptions is offset by a corresponding change in the bonus smoothing reserves. These changes will thus not impact on the earnings for the year on the Financial Soundness basis.

3 RECONCILIATION TO REPORTED EARNINGS

	2006 R'000	2005 R'000
Total Earnings per above table	**(1 334)**	(459)
Reported Deficit in the Financial Statements	**(1 334)**	(459)
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.

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 31.12.2006. 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 R157m. 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 01.01.2004 – 31.12.2006. The morbidity investigation was conducted on the experience for 2005. The mortality experience related to the period 01.01.2003 to 31.12.2005.

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.

REPORT OF THE INDEPENDENT ACTUARY

Continued

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 4.5% per annum in future. The experience will be monitored and adjustments made as and when necessary.

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

The economic assumptions were based on the following:

Bond Yield @ 31.12.2006	8.00%
Equity Return	10.00%
Cash	6.50%
Property Return	9.00%

The assumed future gross investment return is 8.38% p.a. (2005: 8.63% 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 excess of the assets over the liabilities is 2.6 times (2004: 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 R79m. This is equivalent to a reduction in the aggregate profit allocation of 20.4%.
- The impact of fluctuations in the mortality, morbidity and medical experience will be absorbed by a reduction of R46m in the operating profit allocated to Apportionment Accounts. This is equivalent to a reduction in the aggregate profit allocation of 11.9%.
- The impact of fluctuations in the mortality experience on permanent incapacity benefit claims in payment will be absorbed by a reduction of R20m in the operating profit allocated to Apportionment Accounts. This is equivalent to a reduction in the aggregate profit allocation of 5.1%.
- The impact of fluctuations in the expense experience will be absorbed by a reduction of R18m in the operating profits allocated to Apportionment Accounts. This is equivalent to a reduction in the aggregate profit allocation of 4.7%.
- 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 R2 135m. This is equivalent to removing in aggregate 42% of the Special Benefit Account balances at 31 December 2006.

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.

DIRECTORS' REPORT

Professional Provident Society Limited (Limited by Guarantee) and its subsidiaries

The Directors present their report, which forms part of the audited annual financial statements of the Group for the year ended 31 December 2006

PRINCIPAL ACTIVITIES

Professional Provident Society Limited (Limited by Guarantee) ('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.

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 (Pty) Ltd ('PPS BEE SPV'), a special purpose company, was formed as part of the PPS Insurance BEE Transaction ('the Transaction'). 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.

A reinsurance agreement was put in place when PPS Namibia was separated from PPS Insurance. In terms of this 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 3 178 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, a wholly owned subsidiary of PPS Insurance, was formed to act as a distribution company for some of PPS Insurance's products.

Coronation Fund Managers Limited and PPS Insurance are co-investors in Professional Provident Society Investments (Proprietary) Limited ('PPS Investments'). PPS Investments will exclusively provide savings and investment products to, inter alia, the PPS client base.

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, which was previously partially owner occupied and let. The property was sold for R18m during the year.

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

FINANCIAL RESULTS

The financial results on pages 27 to 57 clearly set out the results of the PPS Group. These results incorporate 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 net operating income and investment returns 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 the 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 return 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.

DIRECTORS' REPORT

Continued

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 are 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 2006 to policyholders' Apportionment Accounts referred to above, as approved by the respective Boards, are set out as follows:

PPS INSURANCE

	2005 Rates	2005 R'000	2006 Rates	2006 R'000
Interest				
Pre- retirement option policyholders *(note 1)*	6.57%	4 305	**6.90%**	**5 599**
Other policyholders *(note 1)*	3.68%	77 610	**3.79%**	**89 633**
Bonus allocation – per Unit of Benefit per month				
Full – ordinary	18.00c	180 428	**21.65c**	**268 789**
Reduced – ordinary	5.00c	8 012	**8.65c**	**14 034**
Supplementary A	6.80c	29 382	**8.18c**	**32 750**
Supplementary B	38.80c	6 213	**46.68c**	**6 453**
Deferred	6.55c	12 356	**7.88c**	**13 439**
Accident	7.75c	3 382	**9.32c**	**3 758**
Hospital benefits				
Full ordinary	2.45c	15 936	**2.95c**	**24 409**
Reduced ordinary	1.15c	1 572	**1.65c**	**2 240**
Supplementary A	1.30c	2 980	**1.56c**	**3 219**
Supplementary B	8.50c	845	**10.23c**	**842**
Accident	4.60c	1 467	**5.53c**	**1 593**
Professional Provident Society Retirement Annuity Special Bonus	0.90c	8 095	**0.50c**	**4 992**

Note 1 – Investment income allocated to policyholders' notional Apportionment Account balances.

PPS NAMIBIA

	2005 Rates	2005 N$'000	2006 Rates	2006 N$'000
Interest				
Pre-retirement option policyholders *(note 1)*	7.01%	62	**5.28%**	**63**
Other policyholders *(note 1)*	3.30%	1 478	**4.94%**	**2 605**
Bonus allocation – per Unit of Benefit per month				
Full – ordinary	18.00c	5 589	**21.65c**	**8 584**
Reduced – ordinary	5.00c	155	**8.65c**	**286**
Supplementary A	6.80c	556	**8.18c**	**650**
Supplementary B	38.80c	146	**46.68c**	**169**
Deferred	6.55c	241	**7.88c**	**275**
Accident	7.75c	75	**9.32c**	**93**
Hospital benefits				
Full ordinary	2.45c	632	**2.95c**	**987**
Reduced ordinary	1.15c	33	**1.65c**	**51**
Supplementary A	1.30c	72	**1.56c**	**82**
Supplementary B	8.50c	23	**10.23c**	**27**
Accident	4.60c	35	**5.53c**	**41**
Professional Provident Society Retirement Annuity Special Bonus	0.90c	206	**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 2006 were made to the Special Benefit Accounts:

- 7.13% for South African policyholders who chose to move to the pre-retirement option – this amounts to R14,735m.
- 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 R1,661.86m.
- 7.67% for Namibian policyholders who chose to move to the pre-retirement option – this amounts to N$0.24m.
- 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$36.96m.

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.

REVISION TO BONUS STRATEGY

Members are reminded that from 31 December 2004 the approach to smoothing benefit allocations was changed. As of that date the allocations to Surplus Rebate Accounts were no longer smoothed and more closely reflected the actual performance of the business over the financial year. Previously allocations to Surplus Rebate Accounts were smoothed from year to year.

The future impact of this change will be that the allocations to benefits (and in particular the Special Benefit Accounts) will be potentially more volatile from year to year than has been the case in the past. This is evidenced in the above interest and special benefit allocations, where the particularly good investment performance achieved during 2005 and 2006 has been allocated to policyholders without applying a smoothing process. The allocations are thus higher than would otherwise have been the case. Policyholders are advised to consider the potential impact this change might have on their policy benefits in future. Illustrations of the possible impact on Surplus Rebate Accounts of variations in the underlying experience of the business (in particular fluctuations in the market value of investments) are provided in the accounting policies and notes to these financial statements.

BEE BONUS ALLOCATION

In addition to the above allocations, all policyholders that were policyholders at 31 December 2006 qualify for a once-off BEE bonus allocation of 56.9c per Ordinary Unit of Benefit ('UOB') and Accident UOB (where only Accident UOB's were held). This total BEE allocation amounts to R70.5m.

ACCOUNTING TREATMENT OF BEE TRANSACTION

The accounting treatment described below, determined in consultation with the Group's auditors, complies with International Financial Reporting Standards.

In summary, PPS Insurance subscribed for preference shares to the amount of R70.5m, issued by the PPS BEE SPV. The consideration of the issue of the preference shares was again used by the PPS BEE SPV to purchase an endowment policy in PPS Insurance at 31 December 2006. In accordance with IFRS this transaction has no financial transaction effect.

DIRECTORS AND OFFICE BEARERS

DIRECTORS OF PPS LIMITED

Elected Members (serve a 3 year term)

Dr DGC Presbury	*Chairman* (term ends June 2007)
Mr EA Moolla	*Deputy Chairman* (term ends June 2007)
Dr DR Anderson	(term ends June 2009)
Dr J Adno	(term ends June 2009)
Mr DJ Cornish	(resigned June 2006)
Dr NG Campbell	(term ends June 2008)
Prof M Haus	(term ends June 2008)
Judge LI Goldblatt	(term ended June 2006)
Dr CM Krüger	(term ends June 2007)
Adv R Meyer	(term ends June 2009)
Dr JJ van Niekerk	(term ends June 2008)
Dr K Vallabh	(term ends June 2007)
Judge RH Zulman	(term ends June 2008)

Nominated Members As

Adv TN Aboobaker	The General Council of the Bar of South Africa (appointed December 2006)
Mr RB Honeyborne	The South African Institute of Chartered Accountants (resigned December 2006)
Mr I Kotzé	The Pharmaceutical Society of South Africa
Dr TKS Letlape	The South African Medical Association
Ms CN Mbili	The South African Institute of Chartered Accountants (appointed December 2006)
Mr CD Reay	The Society for Professional Engineers
Dr TSL Sizani	The South African Dental Association

Co-opted Members

Dr SNE Seoka
Mr MJN Njeke

Representatives

Dr RD Sykes	The South African Veterinary Association

COMMITTEES OF PPS LIMITED

Nominations Committee

Dr DGC Presbury	*Chairman*
Dr DR Anderson	
Adv R Meyer	
Mr EA Moolla	

DIRECTORS OF PPS INSURANCE

All the Directors of PPS Insurance retire at every Annual General Meeting. Retiring Directors are eligible for re-appointment by the Board of PPS Limited.

Dr DR Anderson	Chairman
Adv R Meyer	Deputy Chairman

DIRECTORS' REPORT

Continued

DIRECTORS OF PPS INSURANCE *Continued*

Dr NG Campbell	Non-Executive Director
Mr DD Gnodde	Executive Director
Judge LI Goldblatt	Non-Executive Director (retired June 2006)
Mr MJ Jackson	Executive Director
Mr I Kotzé	Non-Executive Director
Mr CJ Masson	Executive Director
Mr EA Moolla	Non-Executive Director
Mr FW Mthembu	Independent Non-Executive Director
Dr DGC Presbury	Non-Executive Director
Dr SNE Seoka	Non-Executive Director (appointed June 2006)
Mr DK Smith	Independent Non-Executive Director (resigned November 2006)
Mr J van Rooyen	Independent Non-Executive Director (resigned May 2006)
Dr JJ van Niekerk	Non-Executive Director

COMMITTEES OF PPS INSURANCE

Audit and Risk Committee

Prof HE Wainer	Joint Chairman
Adv R Meyer	Joint Chairman
Mr EA Moolla	
Mr I Kotzé	
Mr DS Nohr	
Prof CE Rabin	

Remuneration Committee

Dr DR Anderson	Chairman
Adv R Meyer	Deputy Chairman
Judge LI Goldblatt	(resigned July 2006)
Mr MJ Jackson	
Mr EA Moolla	
Mr FW Mthembu	
Mr DK Smith	(resigned November 2006)

IT Working Committee

Mr MJ Jackson	Chairman
Dr DR Anderson	
Mr DD Gnodde	
Adv R Meyer	
Dr DGC Presbury	
Mr DK Smith	(resigned November 2006)

DIRECTORS OF SUBSIDIARIES

PPS Namibia

All the Directors of PPS Namibia retire at every Annual General Meeting. Retiring Directors are eligible for re-appointment by the Board of PPS Insurance.

Adv RV Rukoro	Chairman (resigned January 2006)
Dr E Maritz	Deputy Chairperson
Ms MR Bennett	
Mr MJ Jackson	
Dr OJ Oosthuizen	
Mr A Tait	

PPS Medical Scheme Administrator

All the Directors of PPS Medical Scheme Administrator retire at every Annual General Meeting. Retiring Directors are eligible for re-appointment by the Board of PPS Insurance.

Mr MJ Jackson	Chairman
Mr DD Gnodde	
Dr JJ van Niekerk	

OFFICE BEARERS

PPS Insurance

Mr MJ Jackson	Chief Executive
Mr C de Klerk	General Manager
Mr DD Gnodde	Chief Operating Officer
Dr PJP Goodwin	Chief Medical Officer
Mr R Govenden	General Manager
Mr PA Holtzhausen	General Manager
Mrs J Lester	Company Secretary/Compliance Officer
Mr JN Marsden	General Manager
Mr CJ Masson	Chief Financial Officer
Mr A Tait	General Manager

PPS Namibia

Ms MR Bennett	Managing Director
KPMG Corporate Secretaries (Pty) Ltd	Company Secretaries

ADMINISTRATIVE INFORMATION

Business address

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

Statutory Actuary of PPS Insurance and PPS Namibia (in terms of the Long-term Insurance Act)

Carl van der Riet

Trustees of the PPS Retirement Annuity Fund, housed within Sanlam:

Dr DGC Presbury	Chairman
Mr E Huggett	Deputy Chairman
Mr PA Holtzhausen	Principal Officer
Mr MA Eustace	
Adv R Meyer	
Mr EA Moolla	
Mr G Richardson	
Dr SNE Seoka	
Dr JJ van Niekerk	

Trustees of the PPS Beneficiaries Trust:

Dr RD Sykes	Chairman
Mr RB Honeyborne	
Mr MG Oosthuizen	
Judge RH Zulman	

Fund Managers

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

DIRECTORS' / COMMITTEE MEMBERS' ATTENDANCE AT MEETINGS AND FEES

Director's Name	Number of Meetings (PPS Limited) and Director's Fees									Number of Meetings (PPS Insurance and Committees) and Director's / Committee Member's Fees											
	PPS Limited			Nominations Committee			BEE Task Team			PPS Insurance			Remuneration Committee			Audit and Risk Committee			IT Working Committee		
	A	B	Rand	A	B	Rand	A	B	Rand	A	B	Rand	A	B	Rand	A	B	Rand	A	B	Rand
Dr J Adno	7	7	80 195																		
Dr DR Anderson	7	7	77 795	2	2	1 500	6	6	5 710	11	11	331 810	4	4	33 216				5	5	3 620
Dr NG Campbell	7	7	77 795							11	11	125 784									
Mr DJ Cornish	3	3	66 523																		
Mr DS Nohr																5	5	75 745			
Judge LI Goldblatt	3	1	32 787							3	3	52 800	2	2	10 750						
Prof M Haus	7	4	69 941																		
Mr RB Honeyborne	7	7	80 195																		
Mr I Kotzé	7	5	77 795							11	8	115 723				5	4	42 745			
Dr CM Krüger	7	6	76 777																		
Dr TKS Letlape	7	4	69 941																		
Adv R Meyer	7	4	67 734	2	1	1 500				11	11	163 753	4	4	22 145	5	5	87 250	5	5	3 620
Mr EA Moolla	7	6	105 509	2	2	1 500				11	11	125 784	4	4	22 145	5	5	47 745			
Mr FW Mthembu										11	11	217 390	4	4	22 145						
Mr MJ Njeke	7	3	87 855																		
Dr DGC Presbury	7	7	266 707	2	2	1 500	6	6	5 710	11	10	122 366							5	5	3 620
Prof CE Rabin																5	4	65 745			
Mr CD Reay	7	7	80 195																		
Mr DK Smith										11	11	206 790	4	4	22 145				5	4	3 090
Dr SNE Seoka	7	4	97 255				4	4	7 360	8	8	72 984									
Dr TSL Sizani	7	7	80 195																		
Dr RD Sykes	7	7	80 195																		
Dr K Vallabh	7	6	80 195																		
Dr JJ Van Niekerk	7	7	77 795							11	11	125 784									
Prof HE Wainer																5	4	79 650			
Judge RH Zulman	7	5	73 359																		

EXECUTIVE DIRECTOR'S ATTENDANCE AT MEETINGS AND EMOLUMENTS

Director's Name	PPS Insurance Number of Meetings attended		Months in office	Salary	Bonus	Pension	Total emoluments
	A	B		Rand	Rand	Rand	Rand
Mr MJ Jackson	11	11	12	2 105 033	3 650 000	332 758	6 087 791
Mr DD Gnodde	11	11	12	1 226 093	1 950 000	193 817	3 369 910
Mr CJ Masson	11	11	12	842 801	–	133 227	976 028

Column A indicates the number of meetings held during the year while the Director/Member was a Member of the Board or Committee
Column B indicates the number of meetings attended by the Director/Member during the year while the Director was a Member of the Board or Committee

GENERAL PRODUCT INFORMATION

This section outlines the main products that form part of the Group's long term insurance business. The product descriptions provide a backdrop against which other sections of this report can be interpreted.

The Group issues the following policies to individuals who qualify as members, i.e. professionals:

- Sickness and permanent incapacity plan, (offering sickness and/or incapacity cover)
- Life and disability assurance policy, (offering a lump sum payment on either death or permanent disability)
- Professional health preserver product.

The Group issued an endowment policy to a special purpose entity, PPS Black Economic Empowerment SPV (Pty) Ltd.

Refer to the Accounting treatment of BEE Transaction in the Directors' Report.

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-discretionary participation feature (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 GROUP POLICY

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.

The policy is classified as a grouped individual policy. 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.

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.

These policies are sold to individuals. The policies transfer insurance risk only, and do not contain a DPF component.

GROUP ACCOUNTING POLICIES

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

1. BASIS OF PRESENTATION

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), utilising the provisions of IFRS 1 – First-time Adoption of International Financial Reporting Standards. 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 and loss
- Investment property carried at fair value
- Policy liabilities under insurance contracts that are valued in terms of the Financial Soundness Valuation (FSV) basis outlined in accounting policy 4
- Post-employment employee benefit obligations valued using the projected unit credit method.

These consolidated financial statements were previously prepared in accordance with South African Statements of Generally Accepted Accounting Practice ("SA GAAP"). In accordance with the transitional provisions set out in IFRS 1, and other relevant standards, these consolidated financial statements have been prepared in accordance with IFRS at 31 December 2006 with effect from 1 January 2005.

There is no financial impact of the transition from SA GAAP to IFRS on the Group's reported financial position and results.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment 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.

IFRS 1 sets out the requirements for the initial adoption of IFRS. IFRS 1 requires that accounting policies be adopted that are compliant with IFRS and that these policies be applied retrospectively to all periods presented. However, certain exemptions are permitted to full retrospective application in preparing the balance sheet at the date of transition on 1 January 2005 (the transition balance sheet) and the financial information for the year ended 31 December 2005. The following elections have been made in terms of IFRS 1:

- Designation of previously recognised financial instruments: Financial instruments have been designated "at fair value through profit or loss" in the 2005 financial statements.

There have been no changes to the accounting policies applied in the prior year.

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 holding company and its subsidiaries.

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 de-consolidated 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

Financial instruments carried on the balance sheet include all assets and liabilities, but exclude property and equipment, investment property, intangible assets, deferred tax, investment in subsidiaries, reinsurance assets, insurance policy liabilities, retirement benefit obligations and current income tax liabilities.

3.2 Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, receivables (including insurance receivables) and cash and cash equivalents. The Group currently does not hold any held to maturity or available-for-sale assets.

Financial assets are initially measured at cost, which represents the fair value given or received and excludes transaction costs. All financial asset purchases and sales are recognised using trade date accounting.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset was not active, the Group established fair value by using valuation techniques, e.g. recent arms length transactions, discounted cash flow analysis and option pricing models.

Financial assets held at fair value through profit or loss

A financial asset is classified into this category if so designated by management.

GROUP ACCOUNTING POLICIES

Continued

Assets are classified on initial recognition as "At fair value through profit or loss" to the extent that it produces more relevant information because it:

– results 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

– is managed as a group of financial assets and/or financial liabilities and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel.

Financial assets classified as held 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.

Insurance and other receivables

Insurance and other receivables are measured at amortised cost less impairment adjustments (Accounting policy note 12) Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at fair value through profit or loss.

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 accounts payable and current income tax liabilities.

Financial liabilities are initially recognised at the amount received 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.

Reinsurance and other payables are also included in financial liabilities.

3.4 Derecognition of assets and liabilities

The Group derecognises an asset:

- when the contractual rights to the asset expires
- where there is a transfer of contractual rights, or
- where the company retains the contractual rights of 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.

4. INSURANCE 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.

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

The Group issues 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

Long-term insurance contracts

Principles of valuation and profit recognition

On IFRS 4 adoption, IFRS allows companies to continue using local GAAP to value the liabilities. Accordingly, 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 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

These 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 increased the policy liabilities. There are no other discretionary margins in the policy liabilities.

During the year the actuarial valuation methodology relating to negative reserves was changed from setting all the negative reserves to zero on the newer products to setting a part of the negative reserves to zero. The impact of this change in accounting policy is a reclassification from non-DPF liabilities to other benefits and liabilities in the policy liabilities with no effect on the income statement or net asset value. There is also no impact on taxation. The effect of this change is immaterial.

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

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 modeled 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.

GROUP ACCOUNTING POLICIES

Continued

Claims payable

A claims payable liability is held in respect of sickness and permanent incapacity policies, and the professional health preserver policies, where the Group has been notified of a claim, 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.

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 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 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.

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, and of borrowings and other currency instruments designated as hedges of such investments, 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 secondary tax on companies and 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.

The Group recognises as an expense, any penalty payment to the lessor for early termination of an operating lease before the lease period has expired, in the period in which termination takes place.

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 programs 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 5 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 carried at amortised cost or group of financial assets 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

GROUP ACCOUNTING POLICIES

Continued

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 insurance receivables carried at amortised cost, 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 impairment provision account. 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 the 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.

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.

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 Fee income

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. 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 rate method.

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 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

	Note	GROUP 2006 R'000	GROUP 2005 R'000	COMPANY 2006 R'000	COMPANY 2005 R'000
ASSETS					
Property and equipment	3	**46 435**	50 710	**–**	–
Investment property	4	**–**	18 000	**–**	–
Investment in subsidiary company	5	**–**	–	**10 000**	10 000
Intangible assets	6	**49 422**	52 691	**–**	–
Deferred tax	14	**4 435**	2 022	**–**	–
Financial assets	7	**9 705 944**	7 556 594	**–**	–
Reinsurance contracts	8,13	**3 550**	3 530	**–**	–
Insurance and other receivables	9	**219 737**	150 400	**601**	655
Cash and cash equivalents	10	**750 693**	635 466	**–**	–
Total assets		**10 780 216**	8 469 413	**10 601**	10 655
EQUITY					
Capital and accumulated funds					
Share capital	11	**–**	–	**–**	–
Accumulated funds	12	**132 340**	133 674	**10 500**	10 500
Total equity		**132 340**	133 674	**10 500**	10 500
LIABILITIES					
Insurance policy liabilities	13	**10 267 422**	8 001 301	**–**	–
Deferred tax	14	**207 718**	154 275	**–**	–
Retirement benefit obligations	15	**18 463**	16 246	**–**	–
Employee related provisions	16	**27 784**	17 102	**–**	–
Reinsurance and other payables	17	**116 085**	100 469	**101**	155
Current income tax liabilities		**10 404**	46 346	**–**	–
Total liabilities		**10 647 876**	8 335 739	**101**	155
Total equity and liabilities		**10 780 216**	8 469 413	**10 601**	10 655

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December

	Note	GROUP 2006 R'000	GROUP 2005 R'000	COMPANY 2006 R'000	COMPANY 2005 R'000
Net insurance premium revenue	18	**1 091 698**	918 248	**–**	–
Fee income	19	**72 229**	51 290	**4 052**	3 475
Investment income	20	**2 294 204**	1 926 009	**–**	–
Rental income		**610**	3 454	**–**	–
		3 458 741	2 899 001	**4 052**	3 475
Net insurance benefits and claims	21	**538 197**	481 507	**–**	–
Expenses	22	**418 950**	361 192	**4 052**	3 475
Profit before movement in insurance policy liabilities		**2 501 594**	2 056 302	**–**	–
Movement to insurance policy liabilities	13.2	**2 287 715**	1 894 151	**–**	–
Tax	24	**215 213**	162 610	**–**	–
Deficit after tax (transfer from accumulated funds)		**(1 334)**	(459)	**–**	–

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Group	Note	Accumulated funds R'000	Revaluation reserve R'000	Total R'000
Balance at 1 January 2005		134 133	–	134 133
Revaluation of owner occupied property		–	5 534	5 534
Deferred tax on revaluation of owner occupied property		–	(357)	(357)
Movement in insurance policy liabilities	13.2	–	(5 177)	(5 177)
Deficit for the year		(459)	–	(459)
Balance at 31 December 2005	12	133 674	–	133 674
Revaluation of owner occupied property		–	2 259	2 259
Deferred tax on revaluation of owner occupied property		–	(116)	(116)
Movement in insurance policy liabilities	13.2	–	(2 143)	(2 143)
Deficit for the year		(1 334)	–	(1 334)
Balance at 31 December 2006	12	**132 340**	**–**	**132 340**

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 2006 and 2005, 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.

Company	Note	Accumulated funds R'000	Revaluation reserve R'000	Total R'000
Balance at 1 January 2005		10 500	–	10 500
Profit for the year		–	–	–
Balance at 31 December 2005	12	10 500	–	10 500
Profit for the year		–	–	–
Balance at 31 December 2006	12	**10 500**	**–**	**10 500**

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December

	Note	2006 R'000	2005 R'000
Cash flows from operating activities			
Cash generated from operations	25	**172 199**	168 567
Interest received		**209 847**	184 422
Dividend received		**190 626**	132 331
Tax paid	26	**(200 241)**	(63 718)
Net cash from operating activities		**372 431**	421 602
Cash flows from investing activities			
Purchases of property and equipment	3	**(6 097)**	(6 400)
Software development	6	**(13 511)**	(16 128)
Purchase of financial assets	7	**(6 185 622)**	(5 655 294)
Proceeds from sale of furniture and equipment		**23**	376
Proceeds from sale of investment property	4	**18 000**	–
Proceeds from disposal of financial assets		**5 930 003**	4 885 792
Net cash used in investing activities		**(257 204)**	(791 654)
Net increase /(decrease) in cash and bank		**115 227**	(370 052)
Cash and bank at beginning of year		**635 466**	1 005 518
Cash and bank at end of year	10	**750 693**	635 466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

1. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS 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 judgments are annually evaluated 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

HIV / AIDS:

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 is 29%. PPS Insurance has three separate tax funds, the individual policyholders' fund (taxed at 30%), the company policyholder' fund (taxed at 29%), and the corporate fund (taxed at 29%).

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 15 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 (R70 per square metre), and estimated expenses relating to the building. Any change in these assumptions will impact the value of the building.

2. MANAGEMENT OF RISKS

2.1 General

Risk management is a priority issue because it affects every part of the business. It is a pre-emptive process that allows the Group to assess and analyse risk in an integrated fashion, identifying potential areas in advance and then to proactively create processes and measures for compliance.

For best practice, the Group employs the experience of experts internally, and utilises the strategic experience of top management on the various Management Committees and Forums. 'It is a crucial process which when effectively managed, guides the business to make decisions that are both informed and innovative.'

Fundamentally the Board's responsibility in managing risk is to protect the Groups' employees, its policyholders, and the company in every facet. It fully accepts overall responsibility for risk management and internal control and in so doing the Board has deployed effective control mechanisms to prevent and mitigate the impact of risk. The costs of implementing a risk management plan are significantly less than the potential costs involved if the business does not manage risk, and it has become increasingly important to focus on a high-level plan, particularly as the country is becoming more of a global player, opening up corporate South Africa to higher risk.

The Audit and Risk Committee is tasked with taking an independent view on the appropriateness of the accounting policies and practices and must present its final results along with its findings on the effectiveness of the internal control system (including risk management).

Integrating Risk Management processes into the day-to-day activities of the Group is a consistent focus and the Board is confident that through well executed Risk Management, the Group can open up agreements with different partners, it can diversify, and it can confidently continue to be an entrepreneurial, ethical and sustainable business.

An enterprise-wide approach to risk management is under preparation and will be adopted by the Group, which means that every key risk in each part of the Group will be included in a structured and systematic process of risk management.

All key risks will be managed within a unitary framework that is aligned to the Group's corporate governance responsibilities, and that takes account of Group's risk appetite and risk tolerance as established by the Board from time to time.

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 proactively 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.

2.2 Insurance risk

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

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.

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 carrying amount of the insurance policy liabilities and hence reduce profits available for policyholders. 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.

Long-term 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 overinsured. 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.

	Total Insured Monthly Benefit R'000	Benefit per month per life Rands
2006	**3 246 199**	**24 251**
2005	2 885 779	22 020

Insurance risk for contracts disclosed in this note is also affected by the contract holders' right to terminate the contract completely. As a result, the amount of insurance risk is also subject to contract holder behaviour. On the assumption that contract holders will make decisions rationally, overall insurance risk can be assumed to be aggravated by such behaviour. For example, it is likely that contract holders whose health has deteriorated significantly will be less inclined to terminate contracts insuring death benefits than those contract holders remaining in good health. This results in an increasing trend of expected mortality, as the portfolio of insurance contracts reduces due to voluntary terminations.

The Group has factored the impact of contract holders behaviour into the assumptions used to measure these liabilities (see note 13).

(b) Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and 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 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.

2.3 Financial risk

The Group is exposed to financial risk through its financial assets, financial liabilities, 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 interest rate risk, equity price risk, currency 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 policy holders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006 continued

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 modeling techniques. The asset-liability risk management framework allows for asset liability modeling to drive the optimal long term asset class composition. This approach ensures the expected return on assets is sufficient to fund the required return on the risk reserves and to maximize 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.

Equity price and interest rate risk

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:

	31 December 2006			
	Non-Pre-Retirement Option Benefits		Pre-Retirement Option Benefits	
	R'000	%	R'000	%
Local				
Equity	**5 230 323**	**65.4**	**–**	**–**
Fixed interest	**1 138 821**	**14.2**	**50 293**	**20.2**
Cash	**434 642**	**5.4**	**199 205**	**79.8**
International				
Equity	**963 940**	**12.1**	**–**	**–**
Fixed interest	**217 814**	**2.7**	**–**	**–**
Cash	**14 134**	**0.2**	**–**	**–**
Total	**7 999 674**	**100.0**	**249 498**	**100.0**

	31 December 2005			
	Non-Pre-Retirement Option Benefits		Pre-Retirement Option Benefits	
	R'000	%	R'000	%
Local				
Equity	4 170 595	66.3	–	–
Fixed interest	872 012	13.9	14 174	7.7
Cash	324 320	5.1	168 890	92.3
International				
Equity	679 656	10.8	–	–
Fixed interest	159 169	2.5	–	–
Cash	87 099	1.4	–	–
Total	6 292 851	100.0	183 064	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 Modeling exercise undertaken during the year. Investment profits or losses arising from the impact of fluctuations in market values of assets and interest rates on the value of assets and non-DPF policy liabilities will be transferred to policyholders by adjusting the allocations made to the DPF component of their benefits.

Policyholders younger than 55 years old, have a tolerance for 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. Policyholders older than 55 years 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:

	31 December 2006		31 December 2005	
	R'000	%	R'000	%
Equity	**1 269 640**	**60.0**	987 156	60.0
Fixed interest	**740 623**	**35.0**	575 841	35.0
Cash	**105 803**	**5.0**	82 263	5.0
Total	**2 116 066**	**100.0**	1 645 260	100.0

Foreign Currency Risk

The Group operations in Namibia created no additional sources of foreign currency risk.

BEE Transaction

PPS insurance issued a linked policy to the directors of the BEE company. The policy is a linked policy, therefore all investment risk is carried by the policyholder. The assets backing the liabilities are invested in fixed interest instruments.

Until PPS Insurance is authorised to enter into sinking fund policies, this policy pays a lump sum benefit upon the death of the last-dying of the lives assured prior to maturity date or on maturity date if any of the lives assured are alive at maturity date. If PPS Insurance is authorised to enter into sinking fund policies, this policy will pay the policy benefit on maturity date.

This policy transfers financial risk.

There are no current or contingent risks associated with the BEE structure or the associated endowment contract issued.

2.4 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 or impairment 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

The same underwriting processes and controls as mentioned above are applicable to policies that are reinsured inwards. In addition there is a profit sharing arrangement in place which limits the risk of the company.

Claims risk

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

Products and pricing risk

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

- Ongoing analysis of risk experience (such as the sickness and mortality investigations).
- Use of reinsurance - this protects the insurer in that some of the risk of insufficient rates is passed onto a reinsurer.
- Margins in the premium rates – generally additional margins are included in the setting of premium rates to arrive at a more prudent set of rates and should protect against experience being slightly worse than anticipated.
- Non-guaranteed rates allows the 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.

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 sales on a monthly basis.

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.

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 other obligations. All policyholder funds are invested in assets that are listed financial instruments 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.

The following table gives an indication of liquidity needs in respect of cashflows required to meet obligations arising under non-DPF liabilities. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006 continued

Period when cashflows become due on the non-DPF component of the insurance liabilities	**2006 R'000**	2005 R'000
Within 1 year	**232 386**	158 946
2 – 5 years	**233 229**	186 342
6 – 10 years	**(1 017 658)**	(663 889)
11 – 20 years	**(4 376 239)**	(3 431 378)
Over 20 years	**(5 083 816)**	(4 911 671)
Effect of discounting	**11 983 654**	10 231 057
Total (per note 13.2)	**1 971 556**	1 569 407

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).

Credit risk

Credit risk refers to the risk of loss arising from the inability of the counterparty to service its debt obligations. The risk is managed by monitoring the investments according to the mandates noted below.

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)
RSA 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 R1 887m at 31 December 2006. The following represent the major industry sectors to which the Group is exposed in terms of corporate debt at 31 December 2006:

RSA Government	R 1 362m
Banks	R 200m
Utilities	R 175m
Other	R 150m
Total	**R 1 887m**

3. PROPERTY AND EQUIPMENT

	Owner occupied property R'000	Computer hardware R'000	Vehicles, office furniture & equipment R'000	Total R'000
Year ended 31 December 2005				
Opening net book amount	25 000	31 404	4 759	61 163
Revaluation surplus	5 534	–	–	5 534
Additions	–	3 335	3 065	6 400
Reclassification from property and equipment category to intangible assets	–	(4 458)	(32)	(4 490)
Disposals at carrying value	–	(878)	(402)	(1 280)
Depreciation charge	(534)	(14 820)	(1 263)	(16 617)
Closing net book amount	30 000	14 583	6 127	50 710

	Owner occupied property R'000	Computer hardware R'000	Vehicles, office furniture & equipment R'000	Total R'000
At 31 December 2005				
Cost or valuation	35 016	59 600	9 356	103 972
Accumulated depreciation	(5 016)	(44 610)	(3 229)	(52 855)
Impairment	–	(407)	–	(407)
Net book amount	30 000	14 583	6 127	50 710
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**

The Group's owner occupied property was revalued at 31 December 2006 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:

	2006 R'000	2005 R'000
At 31 December		
Cost	**20 870**	20 870
Accumulated depreciation	**(4 677)**	(4 336)
Net book amount	**16 193**	16 534

4. INVESTMENT PROPERTY

At 31 December		
Opening net book amount	**18 000**	15 500
Fair value gain (note 20)	**–**	2 500
Proceeds on sale of investment property	**(18 000)**	–
Net book amount	**–**	18 000

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 R0.614 million (2005: R3.450 million). Direct operating expenses arising from the investment property amounted to R0.365 million (2005: R2.061 million).

	Company	
	2006 R'000	2005 R'000
5. INVESTMENT IN SUBSIDIARY COMPANY		
Professional Provident Society Insurance Company Limited		
Shares issued at cost	**10 000**	10 000

The investment in the subsidiary company is accounted for at cost established when the Group was restructured in 2001.
A list of the subsidiaries of the company is set out in the PPS Group Structure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006 continued

	2006 R'000	2005 R'000
6. INTANGIBLE ASSETS – SOFTWARE DEVELOPMENT COSTS		
At 1 January		
Cost or valuation	**122 137**	122 704
Accumulated amortisation	**(43 912)**	(37 648)
Impairment	**(25 534)**	(25 534)
Net book amount	**52 691**	59 522
Year ended 31 December		
Opening net book amount	**52 691**	59 522
Additions	**13 511**	16 128
Reclassifications from property and equipment to intangible assets	–	4 490
Disposals at carrying value	**(5 097)**	(20 100)
Amortisation charge	**(11 683)**	(7 349)
Closing net book amount	**49 422**	52 691
At 31 December		
Cost or valuation	**60 588**	122 137
Accumulated amortisation	**(11 166)**	(43 912)
Impairment	**–**	(25 534)
Net book amount	**49 422**	52 691

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. Depreciation commenced from that date. The Group ceased using the previous developed software on 31 May 2006.

	2006 R'000	2005 R'000
7. FINANCIAL ASSETS		
At fair value through profit or loss	**9 705 944**	7 556 594
Insurance and other receivables (note 9)	**219 737**	150 400
Total financial assets	**9 925 681**	7 706 994
Current portion	**305 233**	218 883
Non-current portion	**9 620 448**	7 488 111
Analysis of financial assets held at fair value through profit or loss		
Equity securities:		
– local listed	**5 205 067**	4 048 581
– international listed	**31 547**	27 921
	5 236 614	4 076 502
Debt securities – fixed interest rate:		
– government bonds and local listed	**1 934 504**	1 472 536
– international listed	**42 705**	26 122
	1 977 209	1 498 658
Unit trusts and pooled funds:		
– local pooled funds and unit trusts	**1 301 372**	1 113 101
– international equity unit trusts	**542 207**	365 847
– international fixed interest unit trusts	**56 720**	47 822
– international balanced	**591 822**	454 664
	2 492 121	1 981 434
Total financial assets at fair value through profit or loss	**9 705 944**	7 556 594

All international investments are denominated in Dollars and were translated to Rands at the closing exchange rate at 31 December of $1 = R6.98 (2005: $1 = R6.33)

	2006 R'000	2005 R'000
Analysis of movements in financial assets held at fair value through profit or loss:		
Opening balance	**7 556 594**	5 141 010
Exchange differences on monetary assets	**72 997**	43 482
Additions	**6 185 622**	5 655 294
Disposals at carrying value	**(5 692 513)**	(4 631 709)
Fair value net gains excluding net realised gains	**1 566 231**	1 280 034
Accrued interest	**10 841**	36 631
Accrued dividends	**6 172**	31 852
Closing balance	**9 705 944**	7 556 594

	2006	2005
The spread of investments by sector:		
Industrial	**57.35%**	55.97%
Financial	**20.17%**	26.72%
Resources	**22.48%**	17.31%

	2006 R'000	2005 R'000
Maturity profile of fixed interest investments:		
Due in 1 year or less	**52 572**	51 169
Due between 1 year and 5 years	**758 747**	600 648
Due between 5 years and 10 years	**622 252**	464 127
Due after 10 years	**543 638**	382 714
	1 977 209	1 498 658
Maturity profile of equity securities:		
Due after 10 years	**5 236 614**	4 076 502
Maturity profile of unit trusts and pooled funds:		
Due after 10 years	**2 492 121**	1 981 434

8. REINSURANCE ASSETS

	2006 R'000	2005 R'000
Total assets arising from reinsurance contracts at beginning of the year	**3 530**	–
Reinsurers' share of insurance policy liabilities	**20**	3 530
Total assets arising from reinsurance contracts at end of the year (note 13)	**3 550**	3 530
Current portion	**3 550**	3 530

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in insurance and other receivables (note 9).

9. INSURANCE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Receivables arising from insurance and reinsurance contracts:				
– due from contract holders	**49 108**	1 399	**–**	–
– due from contract holders – Life Assurance Policy	**160 890**	127 265	**–**	–
– less provision for impairment of receivables from contract holders	**(6 140)**	(2 018)	**–**	–
– due from reinsurers	**1 577**	1 876	**–**	–
– due from agents, brokers and intermediaries	–	738	**–**	–
Other receivables:				
– prepayments	**506**	689	**95**	126
– accrued interest	**7 374**	5 377	**–**	–
– accrued dividends	**2 176**	3 196	**–**	–
– receivables from related parties	**–**	–	**506**	529
– other receivables	**4 246**	11 878	**–**	–
Total receivables including insurance receivables	**219 737**	150 400	**601**	655
Current portion	**219 737**	150 400	**601**	655
Fair value of receivables held at amortised cost	**219 737**	150 400	**601**	655

10. CASH AND CASH EQUIVALENTS

	2006 R'000	2005 R'000
Cash at bank and in hand	**31 897**	20 913
Cash on call	**718 796**	614 553
Total cash and cash equivalents	**750 693**	635 466

The proportion of cash held to fund the working capital of the Group as part of the investment portfolio is 4.2% (2005: 3.3%) of total cash and cash equivalents. The balance of the cash is held as part of the investment portfolio. The effective interest rate earned was 8.0% (2005: 7.7%).

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	GROUP		COMPANY	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
11. SHARE CAPITAL				
As a company limited by guarantee, each member of the Company is liable for a maximum amount of R1 in the event of the Company being wound up whilst being a member or within 1 year thereafter.				
12. ACCUMULATED FUNDS				
Accumulated funds	**132 340**	133 674	**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.

13. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS

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

(a) Process used to decide on assumptions

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

The determination of the non-DPF liabilities under long-term insurance contracts is dependent on estimates made by the Statutory Actuary. Any changes in estimates will impact on the size of the non-DPF policy liabilities and on the bonus rates the 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 and 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.

• *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 and 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 8.0% (2005: 7.5%) per annum.

Equity investments: the expected long term return (dividends and capital growth) is derived by adding to the risk-free rate of return an equity risk premium of 2% (2005: 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% (2005: 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 8.38% gross of tax in 2006 (8.63% in 2005). 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% (2005: 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.

- *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.

IBNR

The IBNR liability calculation is based on run-off tables using historical data from 2002 to 2005. 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 R263.8m, which included the change in the investment return assumption amounting to a decrease of R153.25m.

The non-economic changes amounted to a R274.3m 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.

Variable	**Change in variable**	**Change in liability 2006 R'000**	**% change**	**Change in liability 2005 R'000**	**% change**
Liability per note 13.2		**1 971 556**		1 569 407	
Improvement in mortality	10%	**8 108**	**0.4%**	10 043	0.6%
Worsening of morbidity rates	10%	**241 675**	**12.3%**	196 647	12.5%
Worsening in PI inception rate	10%	**291 938**	**14.8%**	208 308	13.3%
Lowering of investment returns	(1%)	**384 999**	**19.5%**	213 946	13.6%
Lowering of terminations	(10%)	**82 451**	**4.2%**	59 964	3.8%
Worsening of maintenance expense level	10%	**210 313**	**10.7%**	214 085	13.6%
Worsening of expense inflation rate	10%	**106 213**	**5.4%**	92 326	5.9%

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.

(d) Compulsory margins

PGN104 specifies the compulsory margins that need to be added to the best estimate margins. The following compulsory margins were added for both 2005 and 2006:

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

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

	2006			2005		
	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)	**6 067**	**–**	**6 067**	13 786	–	13 786
– Unintimated claims (IBNR)	**25 099**	**–**	**25 099**	34 524	–	34 524
– Non-DPF liability	**1 569 407**	**–**	**1 569 407**	1 297 108	–	1 297 108
– Cessation benefits (Notified claims)	**71 062**	**–**	**71 062**	35 809	–	35 809
– DPF liability	**6 103 676**	**–**	**6 103 676**	4 456 495	–	4 456 495
Life policies						
– Unintimated claims (IBNR)	**3 530**	**3 530**	**–**	25 000	–	25 000
– Life Assurance Policy reserve	**25 000**	**–**	**25 000**	25 000	–	25 000
Other benefits and liabilities						
– Other benefits and liabilities	**197 460**	**–**	**197 460**	217 612	–	217 612
Total at beginning of the year	**8 001 301**	**3 530**	**7 997 771**	6 105 334	–	6 105 334
Change in Insurance policy liabilities per Income Statement	**2 287 735**	**20**	**2 287 715**	1 897 681	3 530	1 894 151
Change in insurance policy liabilities per statement of changes in equity	**2 143**	**–**	**2 143**	5 177	–	5 177
Movement in claims liabilities						
– arising from current year claims	**(22 200)**	**–**	**(22 200)**	10 283	–	10 283
– arising from prior year claims	**(1 557)**	**–**	**(1 557)**	(17 174)	–	(17 174)
Total movement in insurance policy liabilities	**2 266 121**	**20**	**2 266 101**	1 895 967	3 530	1 892 437
Movement allocated as follows						
Sickness and disability policies						
– Claims payable (Notified claims)	**1 840**	**–**	**1 840**	(7 719)	–	(7 719)
– Unintimated claims (IBNR)	**830**	**–**	**830**	(9 425)	–	(9 425)
– Non-DPF liability	**402 149**	**–**	**402 149**	272 299	–	272 299
– Cessation benefits (Notified claims)	**(26 427)**	**–**	**(26 427)**	35 253	–	35 253
– DPF liability	**2 035 771**	**–**	**2 035 771**	1 647 181	–	1 647 181
Life policies						
– Unintimated claims (IBNR)	**20**	**20**	**–**	(21 470)	3 530	(25 000)
– Life Assurance Policy reserve	–	**–**	**–**	–	–	–
Other benefits and liabilities						
– Other benefits and liabilities	**(148 062)**	**–**	**(148 062)**	(20 152)	–	(20 152)
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	**1 971 556**	**–**	**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	**49 398**	**–**	**49 398**	197 460	–	197 460
Total at the end of the year	**10 267 422**	**3 550**	**10 263 872**	8 001 301	3 530	7 997 771
Analysis of total insurance policy liabilities:						
Current	**78 471**	**–**	**78 471**	102 228	–	102 228
Non-current	**10 188 951**	**3 550**	**10 185 401**	7 899 073	3 530	7 895 543
Total	**10 267 422**	**3 550**	**10 263 872**	8 001 301	3 530	7 997 771

	2006 R'000	2005 R'000
The non-DPF liabilities developed as follows:		
Liabilities at start of year	**1 569 407**	1 297 108
Unwinding of discount rate	**116 232**	104 728
Expected cash flows	**192 767**	95 944
Expected risk reserves at year end	**1 878 406**	1 497 780
Impact of movements	**(22 862)**	(35 969)
Change in valuation assumptions	**(10 657)**	4 844
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	**197 169**	102 752
Liabilities at end of year	**1 971 556**	1 569 407
The DPF liabilities developed as follows:		
Liabilities at start of year	**6 103 676**	4 456 495
Claims paid during the year	**(234 359)**	(164 962)
Allocation of interest and dividends	**2 199 630**	1 812 143
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	**8 139 447**	6 103 676

14. DEFERRED TAX

	2006 R'000	2005 R'000
Deferred tax assets:		
Provisions and computed tax loss	**4 435**	2 022
	4 435	2 022
Deferred tax liabilities:		
Unrealised gains on investments	**207 095**	153 768
Unrealised gains on land and buildings revaluation	**623**	507
	207 718	154 275
Current asset	**1 770**	2 022
Non-current asset	**2 665**	–
Non-current liability	**207 718**	154 275

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 2005	2 849
Debited to the income statement	(827)
At 31 December 2005	2 022
Credited to the income statement	2 413
At 31 December 2006	**4 435**

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 2005	95 229	150	95 379
Charged to the income statement	58 539	–	58 539
Charged to equity	–	357	357
At 31 December 2005	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**

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	2006 R'000	2005 R'000
15. RETIREMENT BENEFIT OBLIGATIONS		
Balance Sheet obligations for:		
– pension benefits	**–**	–
– post-retirement medical benefits	**18 463**	16 246
	18 463	16 246
Income Statement charge for (note 23):		
– pension benefits	**(10)**	1 364
– post-retirement medical benefits	**2 932**	4 677
	2 922	6 041

Pension benefits

The Group has an established pension scheme, which covers all employees employed before July 2004. The pension scheme is a final salary defined benefit scheme and is fully funded. 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 2003, followed by an interim valuation at 1 June 2004 and at 1 March 2005. A valuation using the projected unit credit method has been performed at 31 December 2006.

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 actuarial value of the obligation per member was transferred from the defined benefit fund into the defined contribution pension and provident fund. This has been shown as a reduction in both the obligation and the market value at 31 December 2005. The assets were transferred out of the fund during 2006. As there were no active members in the scheme from 31 December 2005, the full remaining actuarial loss at 31 December 2005 was recognised in 2005.

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.

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 amounts recognised in the balance sheet are determined as follows:

	2006 R'000	2005 R'000
Present value of funded obligations	**1 002**	30 920
Fair value of plan assets	**(8 732)**	(32 915)
	(7 730)	(1 995)
Unrecognised actuarial losses	**–**	–
Unrecognised surplus	**7 730**	1 995
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:		
Defined benefit obligation at beginning of year (1 January)	**30 920**	74 966
Current service cost	–	1 039
Interest cost	**1 500**	7 873
Benefits paid	**(395)**	(7 388)
Settlements	**(25 495)**	(53 422)
Actuarial loss	**236**	1 086
Contingency reserves	**(5 764)**	6 766
Defined benefit obligation at end of year (31 December)	**1 002**	30 920

The balance at the end of 2006 represents contingency reserves to cover the risk that errors in the data will provide a false position.

	2006 R'000	2005 R'000
The movement in plan assets was as follows:		
Market value of assets at beginning of year (1 January)	**32 915**	87 325
Expected return on plan assets	**1 316**	7 859
Actuarial gain / (loss)	**401**	(2 823)
Employer contributions	**(6)**	839
Member contributions	**(4)**	525
Benefits paid	**(395)**	(7 388)
Settlements	**(25 495)**	(53 422)
Market value of assets at end of year (31 December)	**8 732**	32 915
Actual return on plan assets (Expected return less actuarial loss)	**2 576**	6 073
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:		
Current service cost	**–**	1 039
Interest cost	**1 500**	7 873
Expected return on plan assets	**(1 316)**	(7 859)
Net actuarial losses recognised during the year	**(165)**	20 443
Contingency reserves	**(5 764)**	6 766
Movement in unrecognised surplus	**5 735**	(26 898)
Total included in staff costs (note 23)	**(10)**	1 364

	2006	2005
The principal actuarial assumptions used were as follows:		
Discount rate based on the All Bond Index (2005:8.3%)	**N/A**	8.25%
Expected return on plan assets	**N/A**	10%
Future salary increases (excluding merit increases)	**N/A**	0%
Future pension increases	**N/A**	3.10%

No assumptions were made at 31 December 2006 since there were no liabilities in the fund at 31 December 2006.

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:

	2006 R'000	2005 R'000
Present value of unfunded obligations	**33 513**	21 234
Unrecognised actuarial losses	**(15 050)**	(4 988)
Liability in the balance sheet	**18 463**	16 246
The latest actuarial valuation of the Group's post-employment benefits, carried out at 31 December 2006 indicated a present value of projected future benefits amounting to R18.463 million (2005: R16.246 million).		
The movement in the post-employment medical benefit obligation was as follows:		
Post-employment medical benefit obligation at beginning of year (1 January)	**21 234**	19 067
Current service cost	**1 028**	936
Interest cost	**1 774**	1 777
Benefits paid	**(715)**	(713)
Actuarial loss	**10 192**	167
Post-employment medical benefit obligation at end of year (31 December)	**33 513**	21 234
The amounts recognised in the income statement are as follows:		
Current service cost	**1 028**	936
Interest cost	**1 774**	1 777
Transitional liability recognised	**–**	1 834
Actuarial losses recognised during the year	**130**	130
Total included in staff costs (note 23)	**2 932**	4 677

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	2006	2005
The principal actuarial assumptions used were as follows:		
Discount rate based on the Long-term Bond Index	**8.25%**	8.5%
Medical cost inflation	**7.25%**	7.0%

Trend information	2002 R' 000	2003 R' 000	2004 R' 000	2005 R'000	2006 R'000
Present value of obligations	11 022	14 388	19 067	21 234	**33 513**
Experience adjustments (actuarial (loss) / gain before changes in assumptions) in respect of present value of obligations	(0.058)	(1.856)	(3.057)	1.759	**0.296**

Sensitivity results

	Health care cost inflation		
	Central assumption 7.25%	R'000 -1%	R'000 +1%
Accrued liability 31 December 2006	33 513	27 247	41 836
Percentage change		–18.7%	+24.8%
Current service cost plus interest cost 2006/2007	4 444	3 522	5 685
Percentage change		–20.8%	+27.9%
	Central assumption 7.0%	**-1%**	**+1%**
Current service cost plus interest cost 2005/2006	2 803	2 298	3 455
Percentage change		–18.0%	+23.3%
	Central assumption 7.25%	**+5% for 5 years**	**+10% for 5 years**
Accrued liability 31 December 2006	33 513	41 528	51 073
Percentage change		+23.9%	+52.4%

	Discount rate		
	Central assumption 8.25%	R'000 -1%	R'000 +1%
Accrued liability 31 December 2006	33 513	42 043	27 213
Percentage change		+25.5%	–18.8%

	Expected retirement age		
	Central assumption 65 years	R'000 1 year younger	R'000 1 year older
Accrued liability 31 December 2006	33 513	35 241	31 926
Percentage change		+5.2%	–4.7%

	2006 R'000	2005 R'000
16. EMPLOYEE RELATED PROVISIONS		
Provision for leave pay		
Opening balance	**2 904**	5 003
Charged to the income statement		
– additional provisions	**7 183**	7 263
Used during the year	**(5 937)**	(9 362)
Closing balance	**4 150**	2 904
Current	**4 150**	2 904
Provision for performance related bonuses		
Opening balance	**14 198**	8 000
Charged to the income statement		
– additional provisions	**23 641**	14 046
Used during the year	**(14 205)**	(7 848)
Closing balance	**23 634**	14 198
Current	**23 634**	14 198
Total provisions	**27 784**	17 102

	GROUP		COMPANY	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
17. REINSURANCE AND OTHER PAYABLES				
Reinsurance payables	**52 677**	44 173	**–**	–
Marketing management cost payable	**1 663**	5 983	**–**	–
Subscriptions received in advance	**11 041**	2 912	**–**	–
Accruals and sundry creditors	**50 704**	47 401	**101**	155
	116 085	100 469	**101**	155
Current	**116 085**	100 469	**101**	155

	2006 R'000	2005 R'000
18. NET INSURANCE PREMIUM REVENUE		
Recurring premiums		
Individual premiums from policyholders	**817 734**	696 726
Group reinsurance premiums inwards	**291 440**	231 919
Premium revenue arising from insurance contracts issued	**1 109 174**	928 645
Individual premium revenue ceded to reinsurers on insurance contracts issued	**(17 476)**	(10 397)
	1 091 698	918 248

	GROUP		COMPANY	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
19. FEE INCOME				
Policy administration and collection services	**20 658**	16 973	**–**	–
Administration fees	**51 571**	34 317	**4 052**	3 475
	72 229	51 290	**4 052**	3 475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006 continued

	2006 R'000	2005 R'000
20. INVESTMENT INCOME		
Net realised gains and losses on financial assets held at fair value through profit or loss		
– Interest income	**220 688**	195 299
– Dividend income	**196 798**	150 611
– Net gains on disposal of financial assets	**237 490**	254 083
	654 976	599 993
Net unrealised gains and losses on revaluation of financial assets held at fair value through profit and loss		
– net fair value gains	**1 566 231**	1 280 034
– net foreign exchange gains	**72 997**	43 482
	1 639 228	1 323 516
– fair value gains on investment property (note 4)	**–**	2 500
	2 294 204	1 926 009
Investment management fees amounting to R39.769 million (2005: R28.743 million) are included in "Expenses for marketing and administration" (note 22).		
21. INSURANCE BENEFITS AND CLAIMS		
Gross		
Long term insurance contracts with and without DPF		
– Individual Sickness and incapacity benefits: current year	**212 210**	194 410
– Individual Sickness and incapacity benefits: overprovision for prior years	**(1 557)**	(17 174)
– Group non-DPF component of death benefits	**142 304**	134 921
– Individual DPF component of death, retirement and resignation benefits	**194 477**	171 226
	547 434	483 383
Reinsurance recoveries		
Long term insurance contracts with and without DPF		
– Individual sickness and incapacity benefits: current year	**(9 237)**	(1 876)
	538 197	481 507
22. EXPENSES		
Costs incurred for the acquisition of insurance contracts expensed in the year		
– Sickness and incapacity policies	**71 243**	63 082
– Group life policies	**10 205**	12 551
	81 448	75 633

	GROUP		COMPANY	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Marketing and administrative expenses include :				
Auditors remuneration	**2 222**	1 719	**93**	72
Audit fees – current year provision	**2 039**	1 686	**93**	85
Audit fees – prior year under / (overprovision)	**88**	(10)	**–**	–
Tax consulting services	**95**	43	**–**	(13)
Non-executive directors' fees for attendance at board meetings	**3 392**	2 946	**1 853**	1 681
Paid by company	**1 853**	1 681	**1 853**	1 681
Paid by subsidiary company	**1 539**	1 265	**–**	–
Fees for services	**23 355**	14 996	**4**	1 007
Actuarial	**2 499**	2 135	**–**	–
Legal	**1 520**	2 220	**4**	28
Internal audit	**956**	448	**–**	–
PPS Medical Scheme Administrator outsourcing fee	**8 335**	2 721	**–**	–
IT consulting	**2 111**	2 871	**–**	–
Agents commission on sale of investment property	–	485	**–**	–
PPS Medical Scheme Administrator set up costs	–	678	**–**	–
BEE transaction legal and consulting fees	**5 981**	**–**	**–**	–
Other (Primarily management consulting)	**1 953**	3 438	**–**	979
Employee benefit expenses (note 23)	**142 769**	111 530	**–**	–
Depreciation on property and equipment	**12 464**	16 617	**–**	–
Realised loss on disposal of property and equipment	**144**	904	**–**	–
Realised loss on disposal of intangible asset	**5 097**	20 100	**–**	–
Amortisation of intangible asset	**11 683**	7 349	**–**	–
Operating lease rentals	**5 674**	5 085	**–**	–
Data processing & information technology systems maintenance	**44 755**	35 941	**–**	–
Maintenance, product development and other administration expenses	**46 178**	39 629	**2 102**	715
Investment management fees	**39 769**	28 743	**–**	–
	337 502	285 559	**4 052**	3 475

VAT which cannot be recovered from the South African Revenue Service is expensed together with the related expense.

23. EMPLOYEE BENEFIT EXPENSES

	2006 R'000	2005 R'000
Salaries and related costs	**104 282**	84 588
Pension costs – defined contribution plans	**11 924**	8 855
Pension costs – defined benefit plans (note 15)	**(10)**	1 364
Overprovision in respect of funding of shortfall in prior year in defined benefit pension fund	**–**	(2 000)
Other post-employment benefits (note 15)	**2 932**	4 677
Performance related bonuses	**23 641**	14 046
	142 769	111 530

24. TAX

	2006 R'000	2005 R'000
Current tax		
– Current year tax	**161 622**	103 244
– Prior year underprovision	**2 677**	**–**
Deferred tax	**50 914**	59 366
	215 213	162 610

Tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to South African companies as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006 continued

	2006 R'000	2005 R'000
24. TAX (continued)		
Profit before movement in policy liabilities	**2 501 594**	2 056 302
Tax calculated at domestic tax rates applicable to profits in South Africa	**725 462**	596 328
Tax effect of income not subject to tax	**(706 784)**	(607 392)
Tax effect of non-deductible expenses	**187 921**	168 291
Prior year overprovision	**2 125**	–
Tax effect of different tax rate in Namibia	**–**	306
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 ("CF")	**5 824**	5 248
Tax effect of change in CF tax rate	**–**	(171)
Total tax per income statement	**215 213**	162 610

The applicable tax rate was 29% (2005: 29%). PPS Insurance has three separate tax funds, the individual policyholders' fund (taxed at 30%), the company policyholder' fund (taxed at 29%) and the corporate fund (taxed at 29%). The tax reconciliation is done on total tax on both funds.

	GROUP		COMPANY	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
25. CASH GENERATED FROM OPERATIONS				
Reconciliation of profit before movement in insurance policy liabilities to cash generated by operations:				
Profit before movement in policy liabilities	**2 501 594**	2 056 302	**–**	–
Adjustments for:				
Depreciation	**12 464**	16 617	**–**	–
Amortisation of intangible asset	**11 683**	7 349		
Realised loss on disposal of property and equipment	**144**	904	**–**	–
Realised loss on disposal of intangible asset	**5 097**	20 100	**–**	–
Investment income	**(2 294 204)**	(1 926 009)	**–**	–
Changes in working capital:				
– Receivables	**(69 337)**	(39 119)	**54**	(13)
– Payables including insurance policy liabilities	**4 758**	32 423	**(54)**	13
Cash generated from operations	**172 199**	168 567	**–**	–

	2006 R'000	2005 R'000
26. TAX PAID		
Tax payable at beginning of year	**46 346**	6 820
Tax as per income statement	**164 299**	103 244
Tax payable at end of year	**(10 404)**	(46 346)
	200 241	63 718
27. COMMITMENTS		
(a) Capital commitments		
Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:		
– Authorised and contracted for	**–**	49 442
– Committed but not contracted for	**54 777**	2 000
(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 22.		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Due in 1 year or less	**2 222**	4 139
Due between 1 year and 5 years	**5 945**	5 955
Due after 5 years	**387**	–

28. 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.

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

	2006 R'000	2005 R'000
Fees	**4 052**	3 475
Receivable from PPS Insurance		
Balance at the beginning of the year	**529**	549
Fees	**(4 052)**	(3 475)
Paid by PPS Insurance on behalf of PPS Limited	**4 029**	3 455
Balance at the end of the year	**506**	529

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:

	2006 R'000	2005 R'000
Salaries and other short-term employee benefits	**11 922**	9 830
Performance payments	**11 889**	9 808
Directors fees	**3 392**	2 946
Termination benefits	**–**	375
	27 203	22 959

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:

	2006 R'000	2005 R'000
Life and disability cover	**61 652**	52 027
Premiums	**678**	572
Claims	**47**	4
Surplus rebate accounts (policy liabilities)	**7 752**	6 135

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

29. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

IFRS 7: Financial Instruments: Disclosure (including amendments to IAS 1 – Presentation of financial statements: Capital disclosures).

Effective date: Annual periods commencing on or after 1 January 2007.

This standard deals with the disclosure of financial instruments, as well as the disclosure of related qualitative and quantitative risks associated with financial instruments. As IFRS 7 will supersede the current disclosure required in IAS 30 and IAS 32, the standard will not impact the results of the Group, but will result in more disclosure than currently provided on financial instruments in the Group's financial statements.

Amendment to IAS 1: Presentation of Financial Statements: Capital disclosures.

Effective date: Annual periods commencing on or after 1 January 2007.

This amendment deals with the disclosures of an entity's objectives, policies, and processes for managing capital. This statement will therefore not impact the results of the Group but will likely result in certain additional disclosures.

30. FINANCIAL INFORMATION ON THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The financial results have been prepared in accordance with current interpretations of IFRS. Future results may be impacted upon completion of phase 2 of the International Accounting Standards Board's (IASB) review of accounting for insurance contracts.

Accounting policy 1 sets out the elections that have been made in terms of IFRS1. The transition from SA GAAP to IFRS has no financial impact on the Group Financial Statements. Accordingly the following have not been presented:

- Reconciliation from previous SA GAAP to IFRS income statement for the year ended 31 December 2005
- Reconciliation from previous SA GAAP to IFRS opening balance sheet at transition date
- Reconciliation from previous SA GAAP to IFRS balance sheet at 1 January 2006.

NOTICE OF ANNUAL GENERAL MEETING

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 sixth Annual General Meeting ("the meeting") of the members of the company will be held on Monday, 4 June 2007 at 18h00, 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 2006, 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").

3.1 Dr CM Kruger (medical), Mr EA Moolla (attorney), Dr DGC Presbury (medical), and Dr K Vallabh (medical) retire by rotation in terms of the articles. Mr EA Moolla (attorney), Dr DGC Presbury (medical), and Dr CM Krüger (medical), being eligible for re-election and re-appointment, offer themselves for re-election and re-appointment as directors of the company.

3.2 In addition, Dr V Bhagwandas (medical), Mr R Dehal (attorney), Mr Y Gordhan (accountant), Mr JM Jackson (accountant), Dr AK Makan (medical), Mr NC Martin (marketing manager), Mr KR Patel (accountant), and Mr B Topham (accountant) 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 3.1 and 3.2 is set out on pages 60 to 62 of this annual report.)

EXPLANATORY NOTE ON THE APPOINTMENT OF THE DIRECTORS

Article 12.1.2.1 of the articles provides as follows:

"12.1.2 The Board shall be appointed as follows:

12.1.2.1 a minimum of 12 (twelve) Directors shall be nominated and appointed by the Company in General Meeting provided that at least 8 (eight) of these Directors shall be members either of The South African Dental Association or The South African Medical Association."

Currently the board of directors consists of 20 directors, 11 of whom were appointed by the company in general meeting in accordance with article 12.1.2.1. Out of the directors appointed by the company in general meeting 2 are members of The South African Dental Association and 6 are members of The South African Medical Association. This means that at least 3 of the directors to be appointed at the meeting must be members of either The South African Dental Association or The South African Medical Association.

In addition, there are more nominees than there are vacancies on the board. There are 4 vacancies that occurred as a result of the retirement of 4 directors by rotation in terms of the articles and there are 11 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 4 candidates receiving the highest number of favourable votes.

In addition, Mr DJ Cornish resigned as a director during the course of the financial year and as a result, there is an additional vacancy on the board. In addition to the above mentioned vacancies, this vacancy needs to be filled.

For example, if a candidate who is an engineer receives the highest number of favourable votes, but article 12.1.2.1 requires a member of either The South African Dental Association or The South African Medical Association to fill the vacancy, such engineer would not become a director (notwithstanding the fact that he receives the highest number of favourable votes) but the first person who receives the highest number of favourable votes who is a member of either The South African Dental Association or The South African Medical Association will become a director.

Accordingly, a total of five new directors must be appointed at the meeting.

4. SPECIAL RESOLUTION:

The reason for the special resolution is to amend the articles of association of the company in order to remove the requirement that at least 8 (eight) of the 12 (twelve) directors appointed in the general meeting should be members of either The South African Dental Association or The South African Medical Association, to remove the requirement that all directors of the company must be members of the company so as to allow the appointment of independent directors, to limit the period for the validity of a proxy form and to make consequential amendments to the articles of association.

The effect of the special resolution is that the articles of association of the company will be amended to remove the requirement that at least 8 (eight) of the 12 (twelve) directors appointed in general meeting should be members of either The South African Dental Association or The South African Medical Association, to remove the requirement that all directors of the company must be members of the company, to limit the period for the validity of a proxy form and to make consequential amendments to the articles of association.

"Resolved as a special resolution that the articles of association of the company be and are hereby amended as follows:

1. Article 11.3:

The words "the expiration of 6 (six) months from the date when it was signed, unless so specifically stated in the proxy itself" in the sixth and seventh line of article 11.3 shall be deleted and be replaced with the words "the meeting for which it was granted or, if applicable, after any adjournment of such meeting," so that article 11.3 shall read as follows:

"11.3 The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, shall be deposited at the Office not less than 48 (forty eight) hours before the time for holding the meeting at which the person named in the instrument proposes to vote and in default of complying herewith the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the meeting for which it was granted or, if applicable, after any adjournment of such meeting, and no proxy shall be used at an adjourned meeting which could not have been used at the original meeting.".

2. Article 12.1.2.1:

The words ", provided that at least 8 (eight) of these Directors shall be members either of The South African Dental Association or The South African Medical Association" at the end of article 12.1.2.1 shall be deleted, so that article 12.1.2.1 shall read as follows:

"12.1.2.1 12 (twelve) Directors shall be appointed by the Company in General Meeting;".

3. Articles 12.1.3 and 12.1.3A:

Articles 12.1.3 and 12.1.3A shall be deleted and replaced with the following new articles 12.1.3 and 12.1.3.A:

"12.1.3 Directors to be appointed to the Board in terms of Article 12.1.2.1 shall be those individuals who:

12.1.3.1 have accepted their appointment in writing ("Written Acceptance") and who have been nominated in writing ("Written Nomination") for election by at least 2 (two) Ordinary Members and the Company has received the Written Acceptance and Written Nomination by not later than the last day of February in each year; and

12.1.3.2 meet the qualification criteria determined from time to time by the Board, or a nominations committee appointed by the Board.

12.1.3A The Company shall not be obliged to call for nominations to be appointed to the Board and it shall be the responsibility of the Ordinary Members who are nominating a Director to be appointed to the Board to ensure that the Written Acceptance and Written Nomination are received by the Company by not later than the last day of February, failing which such Director shall not be eligible for appointment as a Director."

4. Article 12.1.A

Article 12.1A shall be deleted and shall be replaced with the following new article 12.1A:

"12.1A Notwithstanding anything to the contrary in these Articles, if more than 12 (twelve) persons are nominated for the office of Director in terms of Article 12.1.3 for appointment as Director in terms of Article 12.1.2.1, the result of the voting at the General Meeting 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 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

Jennifer Lester

Jennifer Lester
Company Secretary

3 April 2007

ABBREVIATED BIOGRAPHICAL DETAILS

DR VERASH BHAGWANDAS

DATE OF BIRTH

14 September 1968

PROFESSION

Radiologist

TERTIARY QUALIFICATIONS

- MB Bch (WITS) 1993
- Fellow of the College of Radiology (Diagnostic) SA, 2000
- Medpro X, Accounting and Finance, (UNISA) with Distinction

CORPORATE EXECUTIVE FINANCIAL SERVICES / INSURANCE INDUSTRY EXPERIENCE

- Partner and Director of multiple radiology and business investments companies: Responsibilities include business management of the radiology practices, administration and interaction with financial and practice managers, providing input into staff and administrative issues.
- Responsible for steering Board meetings.
- Portfolio includes introduction of new business and investment strategies to various entities within the organisation as well as administration of the property portfolio.

BOARD POSITIONS HELD

- Director, GMO Inc.
- GMO Imaging (Pty) Ltd
- N17 Imaging (Pty) Ltd
- VB Investments (Pty) Ltd

OTHER FINANCIAL SERVICES / INSURANCE INDUSTRY QUALIFICATIONS & MEMBERSHIPS

- Medpro X, Accounting and Finance, (UNISA) with Distinction: Business Management Degree for Medical Professionals: The course includes marketing, accounting principles, finance, taxation and business management.

EMINENT POSITIONS HELD

- Chairperson of the Board of GMO Inc.

MR ROSHAN DEHAL

DATE OF BIRTH

8 September 1956

PROFESSION

Attorney and Conveyancer (28 years)

TERTIARY QUALIFICATIONS

- B Proc, (UNISA)
- LLB, (UNISA)
- B Sc, incomplete, (University of Durban Westville)
- Certificate in Constitutional Litigation, incomplete, (UNISA)
- LLM, incomplete, International Trade Law, (Stellenbosch University)
- Certificate in Maritime Law, (University of Natal)
- LLD, presently being undertaken, (University of Cape Town)

CORPORATE EXECUTIVE FINANCIAL SERVICES / INSURANCE INDUSTRY EXPERIENCE

- Africa Institute of South Africa (AISA), Chairperson of Audit and Risk Finance Committee
- uMgungundlovu Municipality, Chairperson of Audit Committee
- South African Revenue Service (SARS), Chairperson of Tax Appeal Board
- Lectures to Lawyers countrywide on behalf of Legal Education and Development (LEAD) and the Black Lawyers Association in risk management and insurance, Constitutional Litigation and Information Technology

BOARD POSITIONS HELD

- Chairperson of AISA Audit and Risk Finance Committee
- Africa Institute of South Africa (AISA), Member of Council
- Assessor for Medical Schemes Board
- Past Vice-Chairperson, Estate Agency Affairs Board
- Chairperson of the SARS Tax Board
- Member of the Board and the EXCO South African Council for Special Service Professions
- Chairperson of the uMgungundlovu Municipality Audit Committee

EMINENT POSITIONS HELD

- Judicial: Specialist Prosecutor for Minister of Justice and Directorate of Special Operations and Government
- Human Rights Lawyer for the Government, PAN African Congress and all the Liberation Movements during their apartheid/exile years.
- Received several Liberation Struggle Awards for successfully defending/prosecuting Human Rights matters, especially in the apartheid days of SA.

MR YASWANT GORDHAN

DATE OF BIRTH

1 March 1951

PROFESSION

Chartered Accountant (SA)

TERTIARY QUALIFICATIONS

B Com: Master of Science (Business Administration)

CORPORATE EXECUTIVE FINANCIAL SERVICES / INSURANCE INDUSTRY EXPERIENCE

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

BOARD POSITIONS HELD

- Chairperson of Audit Committee, Amplats Group Provident Fund, from 2006 to 2007
- Chairperson, Departments of Education, Health, Social Development and Safety, Limpopo Province, from 2005 to 2007
- Director, Johannesburg Housing Company, from 2006 to 2007
- Director, National Urban Reconstruction and Housing Company (NURCHA), from 2006 to 2007

OTHER FINANCIAL SERVICES / INSURANCE INDUSTRY QUALIFICATIONS & MEMBERSHIPS

- Corporate governance and accounting standards courses
- Attended two courses hosted by the Institute of Directors
- Attended a KPMG Workshop on the Companies Bill
- Member, Mining Qualification Authority, from 2004 to 2007
- Member Regulating Committee, governing Airports Company of South Africa and Air Traffic Navigation Services, from 1998 to 2007

MR JONATHAN MANSFIELD JACKSON

DATE OF BIRTH

6 November 1970

PROFESSION

Accountant

TERTIARY QUALIFICATIONS

CA (SA), Admitted Chartered Accountant, June 1997

CORPORATE EXECUTIVE FINANCIAL SERVICES / INSURANCE INDUSTRY EXPERIENCE

- Current: Eastern Cape Provincial Treasury, Municipal Finance Section, reporting to the Superintendent-General
- Mister Bread (Pty) Ltd, Appointed Accountant from 1 September 2005 to August 2006
- Office of the Auditor-General, Mthatha, Eastern Cape, Audit Manager from July 2003 to August 2005
- Jones Avens, Chartered Accountants, Sussex, UK: Senior Accountant, from June 2002 to July 2003
- District Audit (local Government), Sussex, Contract Auditor, from November 2001 to July 2002: Financial Aspects of Corporate Governance
- Ashdown Hurrey, Hove, Accounts and Audit Manager
- Spofforths Chartered Accountants, West Sussex, Audit Manager, from February 2001 to 30 April 2001
- District Audit, from 1 May to 30 June 2001
- South African Revenue Service, Cape Town, Company Auditor, from March 1998 to January 2001
- MSGM Masuku Jeena (Kwazulu-Natal) Inc., Audit Manager, from 1997 to February 1998 and Articled Clerk, from 1994 to February 1997

DR CHRISTIAN MARTIN (MANNIE) KRÜGER

DATE OF BIRTH

15 December 1965

PROFESSION

Family Physician

TERTIARY QUALIFICATIONS

MB ChB (Pretoria University) 1989

M Prax Med (Medunsa, Pretoria University) 1995

M Pharm Med (Pretoria University) 2000

CORPORATE EXECUTIVE FINANCIAL SERVICES / INSURANCE INDUSTRY EXPERIENCE

- PPS Director Training Courses from 2004 to 2006

BOARD POSITIONS HELD

- Director, PPS Limited Board from 2004 to 2007

EMINENT POSITIONS HELD

- Private practice in Pietersburg / Polokwane as Family Physician, from 1993 to 2007
- Branch Councillor, Soutpansberg Branch, South African Medical Association (SAMA), from 1992 to 2007
- President: SAMA Soutpansberg Branch, from 1994 to 2007
- National Councillor, SAMA, from 2000 to 2007
- Councillor, Health Professions Council of SA (HPCSA), from 1998 to 2003
- Medical and Dental Professions Board (MDB), from 1998 to 2003
- MDB Committee for General Practice, from 1998 to 2003
- Chairperson, SA Academy for Family Practice, Limpopo Province, from 1999 to 2007
- National Councillor, SA Academy of Family Practice, from 1999 to 2007
- National Councillor, Society of General / Family Practice (SGFP), from 1993 to 2007
- Member of the Executive Committee of the National Council on Dispensing (NCD), from 2003 to 2007
- Awarded Academic Honours from Pretoria University for obtaining both Under Graduate and Post Graduate Degrees cum laude
- Awarded the HW Snyman Award in 1989 for outstanding contribution to the student community of the University of Pretoria
- Awarded the Glaxo Wellcome Award in 1995 for the Best Post Graduate Student in Family Medicine

DR AJAY KESHAVE MAKAN

DATE OF BIRTH

10 June 1969

PROFESSION

Psychiatry/Leadership

TERTIARY QUALIFICATIONS

- MB BCh (WITS)
- MBA (UCT)
- FC Psych (WITS)

CORPORATE EXECUTIVE FINANCIAL SERVICES / INSURANCE INDUSTRY EXPERIENCE

- Deutsche Bank & J.P. Morgan: Facilitating Government's Telkom IPO office and selection of Government's transaction advisors (2000 – 2002)
- Regular executive interaction (2000 – 2002) with:
  - National/ International banks e.g. ABSA, Investec, Standard Bank, HSBC, Citibank, etc.
  - National Treasury ensuring adherence and implementation of financial policy
  - Parastatals e.g. Eskom, Telkom to implement restructuring and adherence to professional financial management.
- Deloitte Consulting, Management Consultant – Strategy, (1999 – 2000): Consulted for Sanlam, creating economically feasible insurance products, identifying market's needs and optimal marketing. Identified cost saving, profit opportunities for FNB. Evaluated and adopted strategic options from cost/revenue perspective. Facilitated strategic vision/mission and new product idea workshops for Hollard Insurance.

BOARD POSITIONS HELD

- South African Energy Sector Education & Training Authority (ESETA) Board member (2000 – 2002)
- Vice-Chairperson, Tiger Rocks & Isipingo Surf Life Saving Clubs:1995 –1997

OTHER FINANCIAL SERVICES / INSURANCE INDUSTRY QUALIFICATIONS & MEMBERSHIPS

- Princeton University/World Bank collaboration: Privatization, Regulatory Reform and Corporate Governance International Workshop – 2001
- MBA majors: Economics, Accounting, Finance, etc 1998

EMINENT POSITIONS HELD

- Coordinator: Swaminarayan Leadership Forum (2006 – 2007)
- Speakers: Telkom CFO, Deutsche Bank COO, Regenesys Business School CEO
- Facilitator: Swaminarayan Children's Fun Day (2005 – 2007)
- Director: Department of Public Enterprises, Restructuring of Telecommunications & Energy (2000 – 2002)
- Chairperson: Restructuring and Advisor selection committees e.g. Parastatals role in Second National Telecommunications Operator (SNO) licence; Eskom Enterprises, etc.
- Accompanied now Deputy President on a European fact finding tour researching nuclear power's environmental impact and feasibility.
- Accompanied Ministerial delegation to Iraq investigating economic issues.
- Scandinavian fact-finding tour researching communication. Best practices subsequently adopted by South African Government
- Captain – South African National Defence Force, Durban Military Base Hospital, 1997

MR NORMAN CRAIG MARTIN

DATE OF BIRTH

10 March 1969

PROFESSION

Banker

TERTIARY QUALIFICATIONS

- B Com
- B Com (Honours)
- Diploma in Banking
- Post Graduate Diploma in Financial Planning
- Advanced Post Graduate Diploma in Financial Planning

CORPORATE EXECUTIVE FINANCIAL SERVICES / INSURANCE INDUSTRY EXPERIENCE

- He has spent the past 17 years in the banking industry. He has held various positions in retail/consumer banking. His most recent post was as Director: Operations of Standard Bank's Financial Planning Business Unit – where he has been for 5 years

OTHER FINANCIAL SERVICES / INSURANCE INDUSTRY QUALIFICATIONS & MEMBERSHIPS

- Member of the Institute of Bankers, SA
- Member of the Financial Planning Institute, SA

MR EBRAHIM ABOOBAKER MOOLLA

DATE OF BIRTH

24 November 1950

PROFESSION

Attorney: EBI Moolla & Singh Attorneys, Chatsworth

TERTIARY QUALIFICATIONS

Practising Attorney admitted April 1977

B Juris (UDW) 1972 to 1973

CORPORATE EXECUTIVE FINANCIAL SERVICES / INSURANCE INDUSTRY EXPERIENCE

- Director: PPS Limited
- Deputy Chairperson: PPS Limited, from July 2004 to 2007
- Director: PPS Insurance from 2004 to 2007
- Chairperson and Director: PPS Investments (Pty) Limited
- Member: PPS Investments (Pty) Limited Investment Committee
- Director: PPS Black Economic Empowerment SPV (Pty) Ltd
- Member: PPS Insurance Remuneration Committee
- Member: PPS Insurance Audit and Risk Committee
- Member: PPS Limited Nominations Committee
- Trustee: PPS Retirement Annuity Fund

BOARD POSITIONS HELD

- Non-Executive Director: Santam Limited, from August 2005 to November 2006
- Member of Santam Limited Investment Committee
- Member of Santam Limited Sustainability Committee
- Chairperson of the Treasury Committee of the Attorneys Fidelity Fund of South Africa (2004 to 2007)
- Member of the Advisory Board of the Durban Best Practice City Commission, which was established to make Durban an investor friendly city
- Permanent Bank Limited: Previously served as a Director of the Natal Provincial Advisory Board of Directors
- Legal Provident Fund: Trustee from April 2002 to March 2005

OTHER FINANCIAL SERVICES / INSURANCE INDUSTRY QUALIFICATIONS & MEMBERSHIPS

- Served as an Acting Judge of the High Court of South Africa (Venda Division) from 1 February 1999 to 31 March 1999, and from 9 June 1999 to 15 June 1999
- Attended the Canadian Justice Linkage Programme for the training of High Court Judges from 1 to 6 October 2000
- Member of the Kwa-Zulu-Natal Law Society 1999 to 2000, and from 2001 to 2002

ABBREVIATED BIOGRAPHICAL DETAILS

continued

- Member of the Attorneys Fidelity Fund of South Africa from 2003 to 2006
- Member of the Insider Trading Directorate of the Financial Services Board from 1999 to 2004
- Member of the Enforcement Committee of the Directorate of Market Abuse: Financial Services Board
- Member: Institute of Directors

EMINENT POSITIONS HELD

- Chairperson, Attorneys Fidelity Fund (2007)
- President of the Kwa-Zulu-Natal Law Society from October 2002 to October 2003
- Vice President of the Kwa-Zulu-Natal Law Society from 1997 to 1998
- Joint Vice-President of the Kwa-Zulu-Natal Law Society from 1999 to 2000, and from 2001 to 2002
- Joint Vice-Chairperson Attorneys Fidelity Fund of South Africa, from 2003 to 2006
- Estates Complaints Committee (Chairperson)

MR KAUSHIK RAJNIKANT PATEL

DATE OF BIRTH

3 July 1962

PROFESSION

Finance

TERTIARY QUALIFICATIONS

- B Compt, Accounting III, Auditing II
- B Compt, Honours, Accounting, Auditing, Taxation
- CA (SA) – June 1989

CORPORATE EXECUTIVE FINANCIAL SERVICES / INSURANCE INDUSTRY EXPERIENCE

- Current: Telkom SA, Chief Financial Officer, from 2004
- Telkom SA, Deputy Chief Financial Officer, from 2000 to 2004
- Teba Bank, Financial Director, from 1999 to 2000
- The African Bank, Finance Executive, from 1998 to 1999
- The Standard Bank of SA Stannic Division, Financial Manager, from 1993 to 1998
- Anglo American Corporation of SA, Senior Internal Auditor, from 1992 to 1993
- Neville Russell International, Senior Auditor, from 1990 to 1991
- Rand Mines Group, Management Accountant, from January to October 1990
- Ernst & Young, Audit Manager, from 1987 to 1989
- Lipschitz Assin & Partners, Senior Auditor, from 1982 to 1987

BOARD POSITIONS HELD

- Telkom Communications International (Pty) Ltd (Mauritius)

OTHER FINANCIAL SERVICES / INSURANCE INDUSTRY QUALIFICATIONS & MEMBERSHIPS

- CA (SA) – June 1989

EMINENT POSITIONS HELD

- Management Committee Member at Bochasanwasi Shri Akshar Purushottam Swaminarayan Sanstha

DR DAVID GUY COMPTON PRESBURY

DATE OF BIRTH

18 February 1943

PROFESSION

Dermatologist

TERTIARY QUALIFICATIONS

MB, BS (London) 1966 (St Thomas' Hospital)

MRCP (London) 1970

FRCP 1995

CORPORATE EXECUTIVE FINANCIAL SERVICES / INSURANCE INDUSTRY EXPERIENCE

- Chairperson of PPS Limited, from 2004 to 2007
- Director of PPS Insurance, from 2001 to 2007
- Chairperson of PPS RA Fund Board of Trustees, from 2002 to 2007
- Chairperson of PPS Limited Nominations Committee, from 2006 to 2007
- Member of PPS IT Working Committee, from 2006 to 2007
- Member of PPS BEE Working Group, from 2006 to 2007
- Deputy Chairperson of PPS Limited, from 2003 to 2004

BOARD POSITIONS HELD (OTHER)

- Member of the Executive Committee of the Dermatological Society of South Africa, from 1975 to 1992
- Chairperson of the Dermatological Society of South Africa for 4 years
- Member of the Gauteng Branch of the Medical Association of South Africa (MASA) / the South African Medical Association (SAMA), from 1990 to 1999
- Federal National Councillor of MASA/SAMA, from 1993 to 1999
- Member of the Science and Education Committee and Chairperson of the Guidelines Sub-Committee

OTHER FINANCIAL SERVICES / INSURANCE INDUSTRY QUALIFICATIONS & MEMBERSHIPS

- Received the Distinguished Service Award of the Dermatological Society of South Africa in 2002
- Attended in-house training through PPS on the fiduciary duties of directors and trustees, the insurance industry, actuarial and accounting principles and governance.

EMINENT POSITIONS HELD

- President of the Gauteng Branch of SAMA, from 2003 to 2004

MR BRANDON TOPHAM

DATE OF BIRTH

7 July 1971

PROFESSION

Chartered Accountant and Attorney

TERTIARY QUALIFICATIONS

- B Compt (Honours) CA(SA)
- B Proc
- LLM
- Post Graduate Certificate in Advanced Taxation
- Chartered Institute of Management Accountants, (UK)
- Certificate in Legal Practice
- Post Graduate Certificate in Advanced Taxation, UNISA
- Currently registered for Doctorate Degree in Mercantile Law, UNISA
- Currently registered for MBA, Edinburgh Business School

CORPORATE EXECUTIVE FINANCIAL SERVICES / INSURANCE INDUSTRY EXPERIENCE

- Inspector of Financial Institutions, appointed by the Financial Services Board
- Associate Financial Planner (Financial Planning Institute South Africa)

BOARD POSITIONS HELD

- Director, 1 Time Airline (Pty) Ltd
- Director, Breform Limited
- Financial Director, Telemasters Holdings Limited (Listed JSE)
- Director, Brandon Topham Inc.
- Director, TAG Forensic Services (Pty) Ltd
- Director, TAG Incorporated (Chartered Accountants)
- Director, Parris Incorporated (Attorneys)
- Trustee of various Trusts
- Served in various positions on various boards of voluntary associations, body corporates and non-profit organisations.

OTHER FINANCIAL SERVICES / INSURANCE INDUSTRY QUALIFICATIONS & MEMBERSHIPS

- Assisted with the inspection of registered and un-registered banks on behalf of the South African Reserve Bank and performed various forensic investigations of financial institutions as well as corporate governance reviews.
- Directors' Induction Programme, Wits Business school
- Member of the Institute of Directors, SA

EMINENT POSITIONS HELD

- Councillor in the City of Tshwane Metropolitan Council
- Past Vice-President of Junior Chamber International
- Past National President of Junior Chamber South Africa
- Past Division Governor Toastmasters
- Past District Rotaract Representative (9250)
- Member of the Institute of Directors South Africa
- Member of the South African Institute of Chartered Accountants
- Member of the Public Accountants and Auditors Board (Registered Accountant and Auditor)
- Attended Wits Business School, Institute of Directors and JSE Altx Directors' Induction Programme
- Member of the Chartered Institute of Management Accountants (United Kingdom)
- Member of the Certified Fraud Examiners (United States of America) and the South African Chapter of the Certified Fraud Examiners

FORM OF PROXY

for the Annual General Meeting to be held at 18h00 on Monday, 4 June 2007

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 18h00 on Monday, 4 June 2007, 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 2006			
2.	Ordinary resolution for the reappointment of the auditors			
3.	Ordinary resolution for the election and appointment of directors			
3.1	Dr Bhagwandas V (medical)			
3.2	Mr Dehal R (attorney)			
3.3	Mr Gordhan Y (accountant)			
3.4	Mr Jackson JM (accountant)			
3.5	**Dr Kruger CM (medical)			
3.6	Dr Makan AK (medical)			
3.7	Mr Martin NC (marketing manager)			
3.8	**Mr Moolla EA (attorney)			
3.9	Mr Patel KR (accountant)			
3.10	**Dr Presbury DGC (medical)			
3.11	Mr Topham B (accountant)			
4.	Special resolution to amend the articles of association of the company.			

** 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 FIVE.)

(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 ____2007

PROFESSION ______________________________ Signature ________________________________

NOTES:

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 completion 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

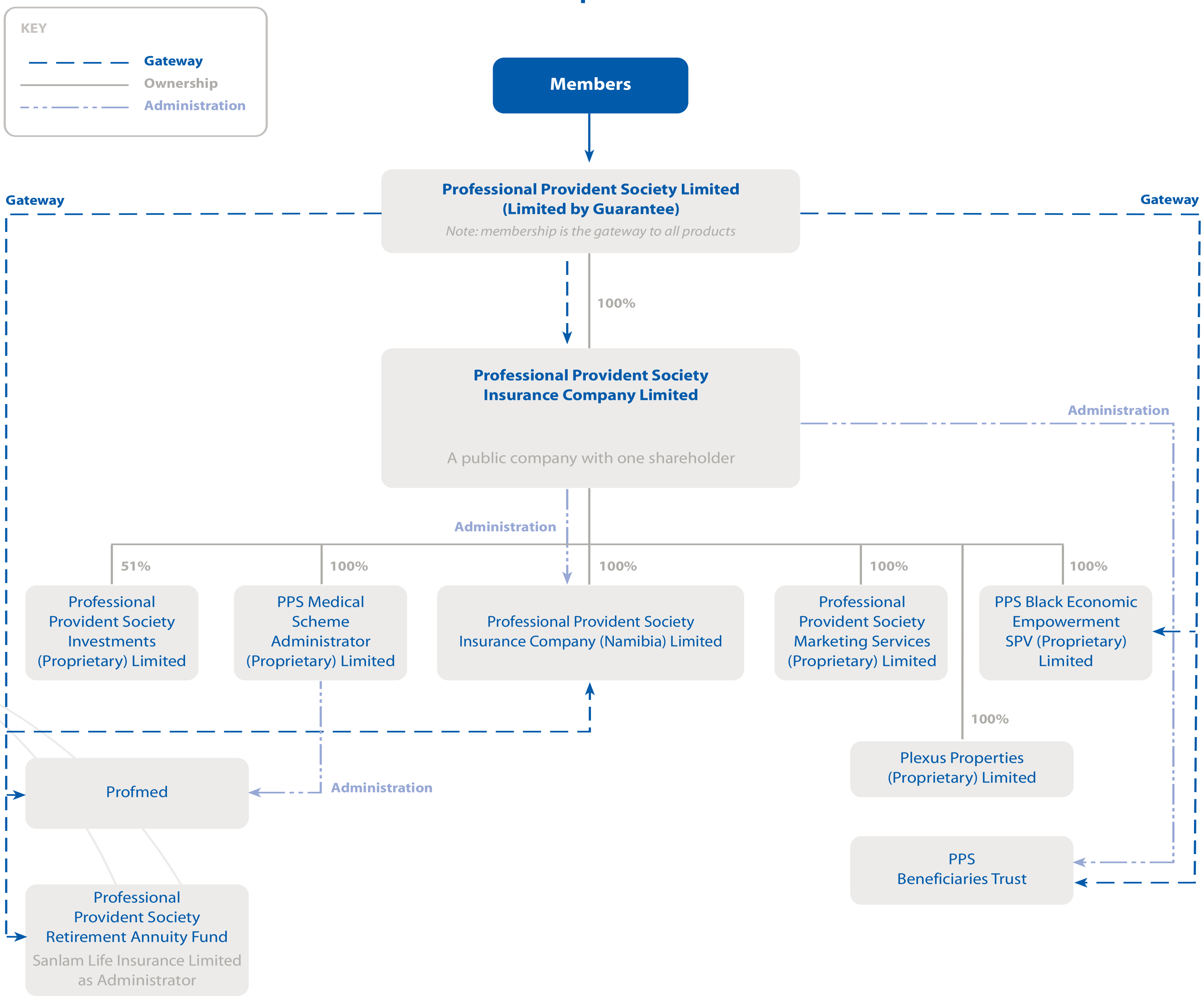
Post to: The Company Secretary
P O Box 1089
Houghton
2041

or

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

TO BE RECEIVED BY 18h00 on, Saturday, 2 June 2007

PPS Group Structure



INSURANCE FOR PROFESSIONALS

PROFESSIONAL PROVIDENT SOCIETY LIMITED
(Limited by Guarantee)

Registration No. 2001/011016/09

Physical Address:
6 Anerley Road
Parktown
2193

Postal Address:
PO Box 1089
Houghton
2041

www.pps.co.za