INTEGRATED REPORT NAMIBIA 2018

FOR PROFESSIONALS

SINCE 1941

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ABOUT OUR

INTEGRATED REPORT

We give readers of our integrated report the option of either reading the report in an interactive online format, which can be printed, or visiting our dedicated integrated reporting site www.pps.co.za.

For video content, including our interview with our Chief Executive Officer, Izak Smit, please visit the dedicated integrated reporting site at www.pps.co.za.

ABOUT OUR INTEGRATED REPORT

SCOPE AND BOUNDARY

PPS's Integrated Annual Report covers the 12 months ended 31 December 2018 and subsequent events up to the date that our financial statements are published.

In this report, we share the collective thinking applied in creating long-term value. Throughout the report, we address the challenges faced by the Group, and opportunities and external drivers influencing PPS's strategy.

The report aims to provide a balanced and succinct view of PPS's financial and non-financial performance and covers the Group's operations in South Africa and Namibia. It provides information on PPS's strategies for growth, efficiency, quality, sustainability, corporate governance and accountability.

The information provided in this Integrated Annual Report has been guided by local and international requirements.

These include the:

- South African Companies Act, 71 of 2008, as amended (Companies Act);
- The King Code of Governance reporting principles (King IV™);
- International Integrated Reporting Council's (IIRC) (IR) framework; and
- International Financial Reporting Standards (IFRS).

Since the release of PPS's 2017 Integrated Annual Report, PPS Short-Term Insurance (STI) has become a wholly-owned subsidiary of the Group. In addition, 2018 saw PPS launch the Financial Services 4 Professionals (FS4P) brokerage.

DISCLOSURE AND ASSURANCE

PPS aims at high standards for all disclosures included in this report to provide meaningful, accurate, complete, transparent and balanced information to stakeholders. The Board, its committees and management were involved in finalising disclosures made in this Integrated Annual Report and assume responsibility for the information contained therein.

The annual financial statements included in this report are prepared in accordance with IFRS. PwC has independently assured the annual financial statements.

Non-financial information was not independently assured.

BOARD RESPONSIBILITY

This report was approved by the PPS Holdings Trust Board of Trustees (the Board) on 2 April 2019. The Board acknowledges its responsibility in ensuring the accuracy of this 2018 Integrated Annual Report. The Board has applied its collective expertise to this report and, in its opinion, this report addresses all material issues and presents an integrated view of the Group's performance in the year under review.

FORWARD-LOOKING COMMENTS

Many of the remarks in this Integrated Annual Report constitute forward-looking comments. These are not guarantees or predictions of future performance. As discussed in the report, PPS faces risks and other factors outside its control. This may lead to outcomes unforeseen by the Group. These are not reflected in the report.

We welcome your feedback so that we can continue improving our communication and service to you. Please make use of the website www.pps.co.za for this purpose.

PPS HIGHLIGHTS FOR 2018

TOTAL ASSETS*

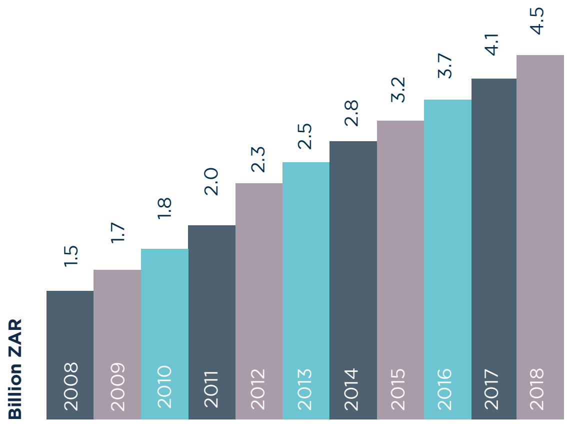
R34.9 billion

*Excluding unit trusts for third parties.

GROSS PREMIUM REVENUE

R4.5 billion

Increased by 10%



BLACK MEMBERSHIP

27%

PPSI NEW INVESTMENT FLOWS

46%

R5.9 billion

PPSI ASSETS UNDER ADMINISTRATION

10%

R31.4 billion

TOTAL BENEFITS PAID

R3.2 billion

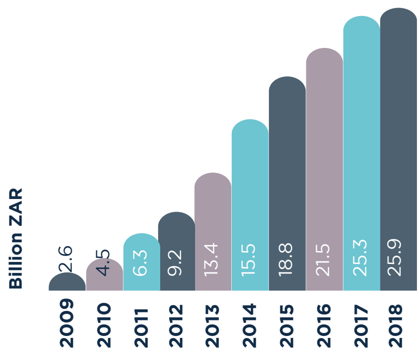
EXIT PAYMENTS	R1.1 BILLION
SICKNESS	R541.7 MILLION
PERMANENT INCAPACITY	R466.8 MILLION
LIFE COVER	R511.9 MILLION
CRITICAL ILLNESS	R216.0 MILLION
LUMP SUM DISABILITY	R151.5 MILLION
MOTOR & HOUSEHOLD	R132.8 MILLION

Profit-Share allocation to members in 2018

R634.6

million

R25.9 billion cumulatively allocated over the last 10 years



TOTAL CUMULATIVE ALLOCATIONS TO MEMBERS

More than

5 400 members

have accumulated more than

R1m

in their **Profit-Share Accounts**

PPS MILLIONAIRES

LEADERSHIP COMMENTARY

"I am pleased to report that PPS weathered the year better than many competitors. Owing to the principle of mutuality, our members continued profiting from the unique profit-share benefit that only PPS offers in South Africa."

Dr Sybil Seoka
Chairman of the PPS Holdings Trust Board

CHAIRMAN'S STATEMENT

OPERATING ENVIRONMENT

The year 2018 started off positively following the significant December 2017 shift in South Africa's political leadership, resulting in the inauguration of President Cyril Ramaphosa in February 2018. As a consequence, and on the back of improving consumer confidence and a strengthening Rand, the South African Reserve Bank modestly increased its growth forecast for South Africa from 1.2% to 1.4% for 2018.

However, this optimism dissipated by mid-year, as local and global macro conditions weakened due to falling public confidence in most countries. Domestic unemployment continued to persist as many sectors battled the tough economic climate. The agricultural sector plunged in the second quarter and South Africa entered its first technical recession since 2009.

Subsequently, the growth forecast for 2018 was revised down to 0.7% due to two successive weak quarters, and confidence indices lost ground.

The JSE All Share Index recorded its worst year in a decade with an 11% loss, driven mainly by Naspers which lost 16% of its market value for the year, the worst yearly performance by Africa's largest company by market capitalisation since 2001. Significant declines in other large cap industrials also contributed to making 2018 an overall disappointing year for investment markets.

Nevertheless, I am pleased to report that PPS weathered the year better than many competitors. Owing to the principle of mutuality, our members continued profiting from the unique profit-share benefit that only PPS offers in South Africa.

CHAIRMAN'S STATEMENT (continued)

REGULATORY CHANGES AND COMPLIANCE

After years of debate, drafting and revision by numerous parties – including PPS – a raft of new financial legislation and underpinning regulations finally passed all legal waypoints into promulgated law. Besides our contribution to the drafting process with government and industry entities, PPS worked diligently to embed new regulations, and updated risk management and governance processes into all our business areas.

As required by the new legislation, we submitted a first complete PPS Group ORSA (Own Risk and Solvency Assessment) to the Prudential Authority. A voluminous body of work requiring several years to prepare, the ORSA captures how prudently and competently the PPS Group is managed. We are now utilising the ORSA for scenario planning and as a primary guide for rolling out the incoming prudential requirements.

KEEPING PPS SUSTAINABLE

As a professional organisation founded nearly 80 years ago, PPS has reinvented itself from time to time in response to changing circumstances. I believe this to be one of those times.

In this general election year, we will likely witness - and be part of – unfolding fundamental societal shifts in South Africa. Our members will want to be safeguarded from any potentially negative impacts – but as South Africa's professional practitioners, they will also be among key drivers of change. This uncertain time provides the real opportunity to empower PPS members to play bigger roles in shaping their professions and securing the financial wellbeing of their families.

A second, bigger trend is the tide of technological enhancements sweeping through the financial sector and most modern industries. Technological change can threaten the current roles of professionals – yet incoming technologies can also spur their disciplines to greater heights.

PPS is working diligently to provide the tools and community that will enable our professionals to secure their careers, practices and lifestyles.

This is demonstrated through the development of several key initiatives, including the PPS Credit Card and Horizon advisory tool rollout, as well as launching the Financial Services 4 Professionals (FS4P) brokerage and Specialist Support Services (S^3) offerings.

BUILDING THE PPS COMMUNITY

Over the years, PPS has developed a distinct corporate culture built on sound community values such as mutuality, pooling of resources, helping members in need and providing services that support their choices.

With society and the workplace evolving by the day, we examined the values that motivate our members and employees. Do these groups have similar values? Are their interests aligned?

Our members deserve to receive consistently exceptional service that targets their exact needs and expectations, and this can only be delivered by employees who experience meaning and purpose in their roles. At PPS we believe in preparing, empowering and enabling our employees through their working environments to perform their roles intuitively in a manner that fulfils our values.

OUR CORPORATE SOCIAL RESPONSIBILITY

PPS Foundation

The PPS Foundation gained its Public Benefit Organisation (PBO) status in 2018, enabling those making financial donations to benefit from the tax deductibility of their contributions, and setting the tone for our 2018 achievements. Among these was the development and launch of the donation platform, allowing PPS employees, members and the general public to donate to the Foundation. In 2018 the Foundation funded 61 students in the science, technology, economics and mathematics (STEM) fields and supported 20 interns through our graduate internship programme. We are gratified that over 12 500 professionals used our Professionals Connect offering to search for job, mentorship and career guidance opportunities.

PPS Academy

In 2018, the Academy underwent a turnaround strategy that delivered outstanding results, doubled its training hours recorded in the previous year and attracted interest beyond its present capacity. I am delighted to congratulate the Academy for being recognised as one of the Top 125 training organisations in the world, which is a well-deserved honour.

ETHICS AND CORPORATE GOVERNANCE

The PPS mission and mandate makes us an irreplaceable defender of the interests of the professionals in South Africa and Namibia. As such, the Group complies with all relevant legislation and regulation and we have updated our corporate governance practices to align with the King IV™ Code principles.

In terms of the Companies Act and the King IV™ Code, PPS is governed through a unitary structure that includes a main board, subsidiary boards and their subcommittees. All boards and the committees operate within the parameters of approved charters and terms of reference, which are reviewed periodically. Furthermore, all boards and committees are supported by the company secretary and a well-resourced company secretariat.

THANK YOU

Considering the major strides PPS made in 2018, on behalf of our trustees and PPS entities, I thank Izak Smit, our CEO, and his executive team, for continuing to prepare and position PPS as the preferred provider of premium risk, financial and investment products to professionals in South Africa, Namibia and Australia. Izak and the team can lead, but would achieve little without the proactive support of PPS people across the Group. Thank you, one and all.

PPS would not exist at all without the active subscription and support of our members, who motivate us to keep on aiming higher. Thank you for entrusting us with your financial wellbeing.

Last and by no means least, I extend my gratitude to my predecessor in this chair, Ebi Moolla, for his guidance, Dr Mannie Kruger, my deputy, and our fellow trustees who are a fount of wise counsel. I must also thank my family for their wholehearted support in this new journey to sustain professional excellence.

Sybil Seoka

Dr Sybil Seoka
Chairman

2 April 2019

CEO MESSAGE TO MEMBERS

OVERVIEW

Once again, I'm reporting back on a challenging year, although these days, tough trading is regarded as 'business as usual' and matching up to the previous year's results is becoming 'the new normal'.

On the operating side, PPS managed to outperform this new normal.

Difficult conditions not only reflect our South African realities of political and economic volatility, but also the societal and technological changes that are sweeping across the globe. A 2019 Edelman Trust Barometer survey reveals that only one out of five people believe 'the system' still works for them, with nearly half the global sample stating that the current system has actually failed them. We see this in the concerning rise of populism in the world around us.

Our niche market includes South Africa, Australia and Namibia's most educated, influential and proven individuals. They have the resources and knowledge to create the significant changes required to remain at the forefront of their professions and communities. They are also the niche that has the ability to adapt to changes and cope with the realities that confront us.

PPS is working hard to create the solutions, tools and opportunities for our member professionals to embrace, lead and profit from change. That – and how we performed in 2018 – is primarily what this report is about.

CHALLENGES, RISKS AND OPPORTUNITIES

The intertwined threat of political and economic unpredictability in South Africa remained the PPS Group's biggest challenge in 2018.

While fundamental societal changes and political election results unfold, PPS is pressing on with rolling out tailored solutions that will equip our members to thrive in the commercial realities now taking shape. I commented last year that PPS is now one of the few South African financial services providers presenting an end-to-end portfolio of solutions, and indeed the only one that focuses exclusively on the needs of professionals. If you are a professional looking for one 'home' to take care of your end-to-end financial services needs, PPS is that home.

STRATEGISING FOR THE FUTURE OF PROFESSIONALS

In the strategy section of this report we outline why and how PPS is developing the professional space for our members. For 2018, PPS continued rolling out strategy in terms of seven focus areas:

- Our exclusive member value proposition
- Digitalisation of our services for members
- Expand our value proposition to advisers, both inside and outside of the organisation
- Develop holistic solutions for our members, and cross-market these products and services
- Create alternative revenue streams to boost value and profit share for our members
- Position the PPS brand as the undeniable financial services provider of choice for professionals
- Develop the PPS community culture (where community includes our whole ecosystem, our staff and our members)

In-depth strategic planning revealed that the future for professionals is digital and mobile, especially as newer generations become dominant. Younger professionals expect efficient online transacting as a matter of course, while older members and advisers will appreciate the added reach and convenience that PPS tools bring to established practices.

In brief, PPS is creating an appealing and productive PPS online community featuring multiple means of communication with and between our members, PPS representatives and advisers. This omnichannel environment will enable more efficient claims and other processes, while also encouraging members to network and collaborate for mutual benefit.

An important part of our future strategy remains to partner with professional associations across the various professional disciplines. These partnerships allow us to understand the needs of professionals better, and to develop bespoke solutions for particular professional needs. We value these partnerships with the various associations deeply.

At the same time, we are creating value through revenue streams adjacent to our traditional offerings, to accelerate member profit share and mitigate against equity market and foreign exchange volatility.

PERFORMANCE SNAPSHOTS FOR 2018

PPS Insurance

Our main life insurance business again recorded a healthy profit for our members in 2018, and even managed to grow this profit from 2017. This profit was supported by claims experience that remained within budgeted assumptions, and good expense control. Our first and foremost purpose is to be there for our members in times of need, to protect them. But it is always pleasing when we are able to set aside a profit share for our members, after we have honoured valid claims. If we did not operate under the mutual ethos, this profit distribution would have been to shareholders but at PPS our members enjoy these benefits.

The one big disappointment of 2018 was the investment markets. Our medium-term investment objective remains to outperform inflation for our members by a handsome margin. The way to achieve this objective is to invest in a well-diversified and sensibly constructed, balanced portfolio. Such a portfolio will contain a significant portion of growth assets such as equities and property. As most of our members are aware, growth assets had a torrid time in 2018. Our asset managers and investment strategy succeeded in protecting our members from the worst that the markets had to offer, but unfortunately the investment returns on our members' Profit Share Accounts were slightly negative by the end of the year.

The impact will of course differ between members. Members who have only recently joined us, or are approaching retirement and have de-risked their PPS Profit-Share Account through the Portfolio Choice option, will not feel as much of the impact of the investment markets in their profit-share allocations. Members who have been with us for many years and who have built up sizeable Profit-Share Accounts, will of course be more impacted – most of the additions to such accounts are typically from investment returns on previous years' profit. It is especially the powerful effect of compounding over time that yields the sizeable profit share that so many of our members eventually

CEO MESSAGE TO MEMBERS (continued)

enjoy. And yet, for most of our members, the positive effect of operating profit was more than adequate to compensate for the negative market return impact. This demonstrates the power of our model, where most members could still enjoy positive additions to their Profit-Share Accounts after the most brutal year in the investment markets since the Great Recession of more than a decade ago.

PPS Investments (PPSI)

PPSI performed well due to new business signings and tight control over expenditure. At year-end PPSI had signed 46% more business than the previous year, which was 10% above an optimistic target, a very good achievement in a very tough environment.

Revised distribution strategies have transformed PPSI's new business drive into an operation that now also has a wholesale focus. During 2018 PPSI introduced the first of our new range of PPS Partnership Funds.

PPS Short-Term Insurance (STI)

Our 2018 results came in below budget due to the unfavourable economy muting new business. We also experienced a tougher claims environment, but continue to see evidence that the professional market segment is a relatively benign risk pool. STI has in recent months successfully migrated its claims administration to a new service provider, and developed a mobile app that will soon be rolled out to our members, strengthening a highly competitive value proposition. During 2018, STI became a wholly owned subsidiary in the PPS Group. Very exciting for our members in the medical professions is the roll-out of new professional indemnity solutions, a big need in this space.

PPS Healthcare Administrators (PPSHA)

PPS Healthcare Administrators recorded satisfactory results, although growth in membership numbers did not reach target. Nevertheless, PPSHA met its budgeted earnings targets and paid out healthy dividends which we allocate to members.

PPS Advisory and Enablement Services

In response to market and regulatory shifts, PPS merged its former Life and Investment Advisory businesses into a consolidated financial advisory division for members to access the entire suite of PPS products and financial planning services.

Our Lifestyle Financial Planning team was repositioned as Specialist Support Services (S^3), to support our advisers and members in complex financial planning, and to coach members on how best to utilise PPS options. The S^3 team remains impartial, as it does not implement products or receive related commissions. Implementation happens through our members' trusted advisers.

PPS Life Broker Services (LBS)

Our LBS team delivered an exceptional performance, reaching its 2018 targets despite the stalled economy and loss of a traditional business pipeline due to the advent of the new Retail Distribution Review (RDR) regulatory environment. Timeous preparation enabled us to cushion the blow of RDR through solutions such as assisting our business partners in relocating affected advisers to independent financial practices, where relevant. PPS also started its own independent financial advisory practice in 2018, FS4P (Financial Solutions for Professionals).

MAKING INNOVATION WORK FOR PROFESSIONALS

Professionals will inevitably be at the forefront of changes in their disciplines – with much based on incoming technology. PPS has positioned itself at the leading edge of change to remain in step with our membership base in this fast-evolving reality.

PPS engages with world-leading innovators to share learnings and participate in digital forums appropriate for our member needs. In 2018 PPS sponsored the first ever Singularity University conference in Africa exclusively for professionals, which made available a staggering amount of forward thinking and intellectual property for our members.

In 2018 we also linked up with Plug and Play, a San Francisco-based innovation platform that connects the world's largest corporations with innovators around the globe. PPS is actively engaging in Plug and Play programmes.

To be launched in 2019, the PPS PRO-FiT platform is a game changer for members, enabling them to take an integrated approach to their financial, wellness and lifestyle planning. Profit-share planning is a key feature, with members able to evaluate various scenarios on their current or potential product portfolio. PPS PRO-FiT will also help initiate professional growth by enabling our members to exchange expertise, referrals, consultations, internships and job offers, particularly with practitioners in similar fields.

LOOKING AT 2019 AND BEYOND

PPS has no control over socio-economic shifts. In recent years events have proven especially unpredictable. Suffice to say that PPS does have planning in place for various potential scenarios.

What is clearly evident is that the commercial world is digitally transforming quickly and graduate professionals will be pioneers of that transformation. PPS is accordingly reinventing its own IT processes to meet the challenges of a quicker, online reality.

Although we continue to evaluate tempting opportunities in other countries, our focus at this time remains on our operations in South Africa, Australia and Namibia. Our operations in Australia and subsidiary in Namibia are performing to expectations and the Namibian operation recently launched a full suite of PPS risk products in that country.

We have also recently rolled out Credit Card and Payment Solutions for our members. These solutions will put more money back into the pockets of our members and into their PPS Profit-Share Accounts.* We are very excited by these developments. The interest and uptake of these new offerings are very encouraging.

THANK YOU

Hard times bring out the best – or worst – in people, and I was privileged to witness how PPS people resiliently took on the challenges during 2018 and implemented complex solutions, often against tight deadlines. The signs of a next generation and tech-adept PPS are becoming apparent across the organisation.

PPS members are typically hard-working professionals that wrestle daily with twists and changes in their careers, lifestyles and broader economic and political environments. At PPS, we consider it our privilege to serve our members, enabling them to protect their income and dreams against smaller mishaps or bigger catastrophes, and live the lives they want to live. We value their loyalty and continuous support.

With that being said, PPS would not be what it is today without the commitment of our employees. People are at the core of our organisation and I feel privileged to be part of a mutuality that serves and is served by a niche of outstanding people. The support that I enjoy from a strong and diverse board is also invaluable. Both the chair of PPS Holdings Trust, Dr Sybil Seoka, who recently succeeded Ebi Moolla, and of PPS Insurance, Charles Erasmus, are strong sources of advice. My deepest gratitude goes to Ebi Moolla, who has unselfishly served PPS as chair of the Holdings Trust for many years.

We are well positioned to continue to go from strength to strength in 2019 as we grow our PPS community for the betterment of our entire stakeholder universe.

Izak Smit
PPS Group CEO

2 April 2019

**Points are redeemed to Profit-Share Account. The allocations also only take place in 2020.*

WHO IS PPS AND WHAT MAKES US DIFFERENT?

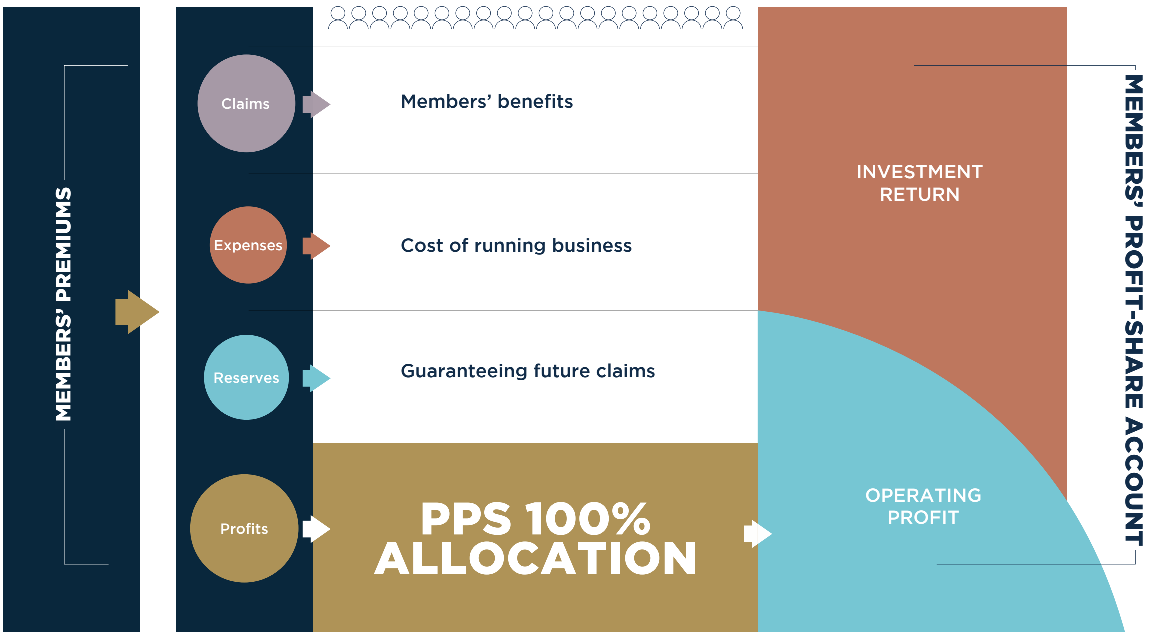
Since its founding in 1941, PPS is the only mutual financial services company in South Africa that has focused exclusively on graduate professionals, providing tailor-made insurance, investment and healthcare solutions to our members.

PPS exists to take care of the financial interests of its members, by providing advice, products and services for the optimal creation, protection and management of the wealth of its members throughout their lives.

Life and Sickness Insurance	Short-Term Insurance	Investments	Advisory Services	Healthcare Administration	Wills and Estate Planning

PPS operates under the ethos of mutuality and all PPS profits are allocated to PPS members with qualifying products on an annual basis by way of allocations to their PPS Profit-Share Accounts. PPS believes in the power of professional thinking and how it can change the world for the better.

MUTUALITY



OUR MISSION

To be an exclusive organisation of graduate professionals, belonging to its members, which provides exceptional insurance benefits and a range of financial services to members, their families and associates. We further strive to provide peace of mind, security and consequently wealth for our members during their working lives and in retirement.

OUR VALUES

At PPS, we believe that what we value internally will drive our behaviour externally. We live by the following values:

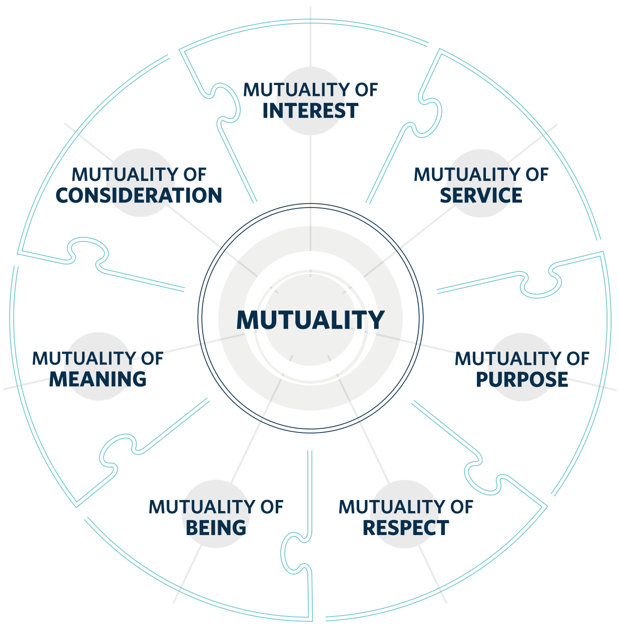
- We have enduring financial strength through a long-term focus
- We recognise the uniqueness of our members by providing them with products to meet their specific needs
- We deliver service excellence to our members
- We conduct our business with the highest standards of governance, integrity, fairness and respect for all

THE MUTUAL ETHOS

Unlike most financial services providers in South Africa, PPS is not listed on any stock exchange and has no external shareholders. Instead, PPS operates under the ethos of mutuality and all profits and investment returns generated are allocated to PPS members with qualifying products on an annual basis through their PPS Profit-Share Accounts.

Mutuality is central to our success. Profits and investment returns are reinvested with a long-term mindset on members' behalf. These funds accumulate in our members' PPS Profit-Share Accounts (irrespective of their claims) and vest free of tax at retirement, or upon death. This benefit has no rival in South Africa.

FOCUS ON THE GRADUATE



PROFESSIONAL MARKET

PPS stands apart from all other financial services providers, distinguished by:

- Only accepting qualifying graduate professionals who meet our criteria
- A business model based on mutuality – our members are the de facto shareholders

As such, member interests inform all our decisions and actions. PPS has operated according to this model since our founding over 77 years ago – and will continue doing so.

LONG-TERM MINDSET

PPS is not focused on delivering short-term returns to members. PPS is focused on creating and sustaining long-term growth and wealth, recognising that there is an alignment of the interests of policyholders – unique to the insurance industry in South Africa.

The mutual structure allows our management team and the Board to adopt a long-term approach to running the business, deploying sustainable long-term strategies, which make the most efficient use of capital, and benefit all the generations of professionals we serve.

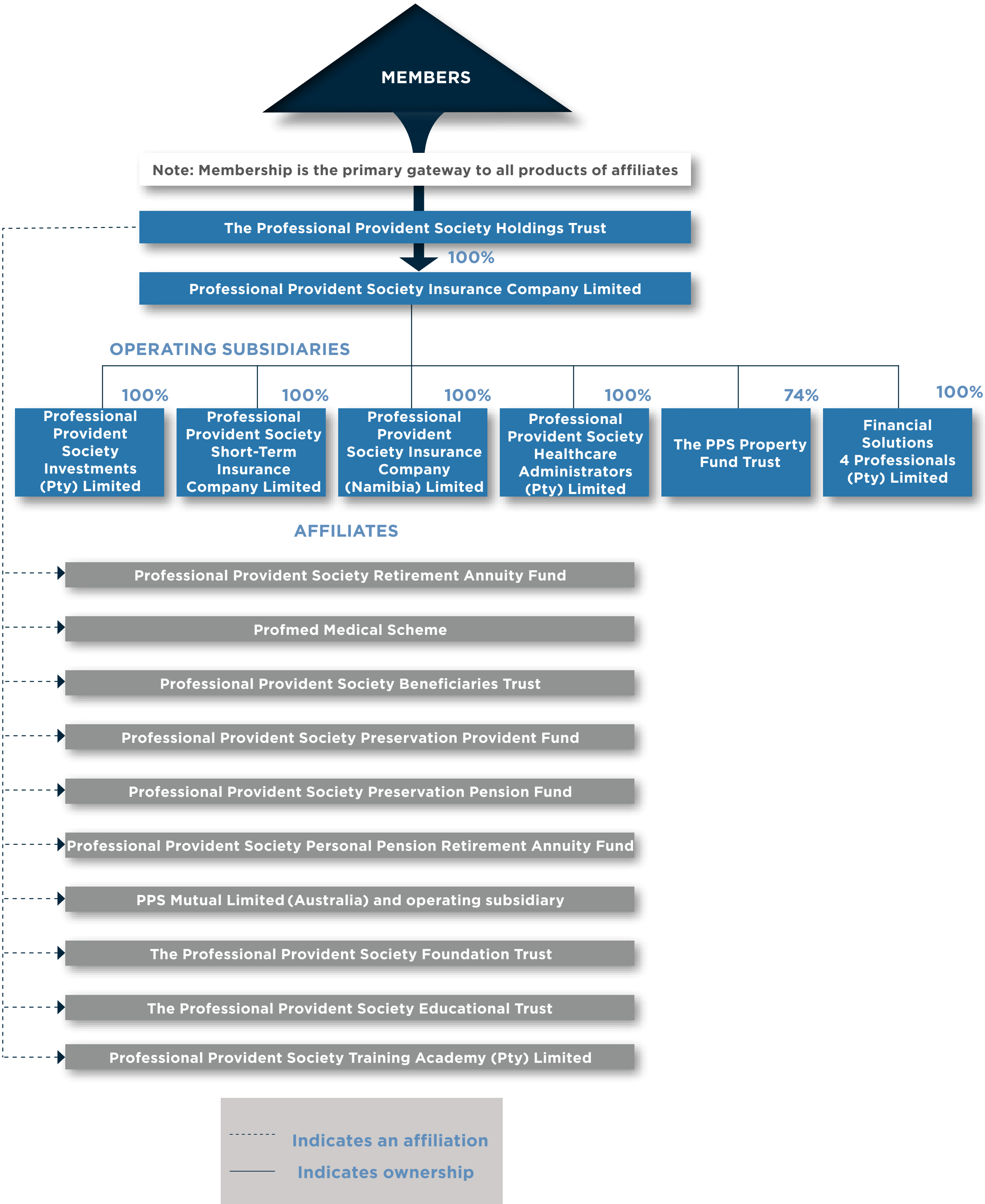
MEMBERS' RETURNS

Once members retire from their PPS Insurance products, the profits they have accumulated over the course of their membership through their PPS Profit-Share Accounts will vest. The profits will become accessible via the Vested PPS Profit-Share Account, *irrespective of whether or not they have claimed,* and vest at retirement from age 60. This is a unique feature in the South African insurance sector. The Vested PPS Profit-Share Account allows members to keep their PPS Profit-Share Account assets invested for longer to generate further returns and supplement their retirement savings.

GOVERNANCE

PPS Insurance is a registered insurer and is subject to the same governance requirements as a listed insurer. A unique additional layer of governance is the fact that our members and professional associations are represented at the PPS Holdings Trust Board level – the ultimate control structure of the Group. There is no other insurance company in South Africa where policyholders are specifically represented at Board level.

GROUP STRUCTURE



INNOVATIVE SOLUTIONS CREATED IN 2018

SAVE AND INVEST

- PPS Horizon online advisory tool
- Successfully introduced the first three funds in our new range of PPS Partnership Funds

PROTECT AND INSURE

- Our Short-Term Insurance mobile app has been developed and is currently being tested, with a full rollout early in 2019
- PPS Healthcare Administrators introduced the concept of a Private Client service experience
- During 2018, we launched our own brokerage, Financial Solutions 4 Professionals (FS4P), which we intend to grow significantly in 2019
- Early 2019 will see PPS Insurance launching our market-leading and innovative business assurance offering in the first quarter

PLAN AND LEARN

- Our Specialist Support Services (S^3) offers support to Financial Advisory and the external independent adviser channel in complex areas of financial planning
- S^3 delivers a holistic member value proposition, including new member socialisation and existing member coaching and support

REWARDS

- Roll-out of our Platinum Credit Card and Payment Solutions for business owners, coupled with a bespoke PPS Rewards platform which will enable members to enhance their Profit-Share Accounts by using the PPS Credit Card
- We aim to further enhance the Rewards platform in 2019 to bring even more value to members, rolling out additional value-added benefits and developing a banking proposition for the young professionals of PPS
- Our new member and adviser platform, PPS PRO-FiT, will also be launched in 2019 and we aim to complement the overall member experience with some enhanced digital capabilities for seamless engagement with members

OUR STRATEGY

Throughout our 77-year history, the needs of graduate professionals have remained at the core of the PPS Group's strategic intent. PPS products and services leverage our mutual status to provide unrivaled long-term benefits to our members. However, we also know that today's professionals want more than smart financial products – they seek a deeper engagement within an inspiring and collaborative community.

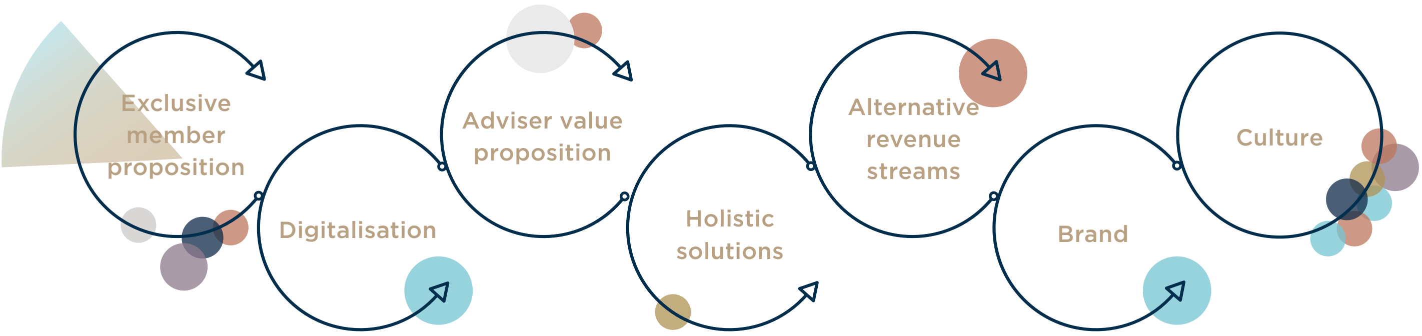
OUR PURPOSE

To help our professional members, and their families, protect their dreams and live the lives that they want to live.

OUR STRATEGIC VISION 2022

Our exclusive PPS brand will be aspirational – an undisputed brand leader in the market

This strategic vision is underpinned by the following seven strategic themes:



STRATEGIC FOCUS AREAS

Focus area	Why it is important	Objectives
Exclusive Member Proposition	As our existence is centred around membership, we create meaning for our members by building and maintaining a PPS community where professionals can network and interact.	Be acknowledged for best-in-class products and solutions. Create a compelling community experience for members and their families. Introduce exclusive community benefits over and above products and services.
Digitalisation	Most professionals are time starved and technology savvy; therefore, they demand efficient and intuitive services.	Develop and deploy an omnichannel sales and service experience for our members.
Adviser Value Proposition	Advisers are integral to our member relationships, which is why PPS is developing apps and tools that enable our advisers to engage their clients more seamlessly and effectively.	Vest PPS as THE brand in the professional market adviser community.

Focus area	Why it is important	Objectives
Holistic Solutions	PPS products are created for the professional, with distinct advantages over similar products in the market. Purchasing more PPS products increases gain from aggregated profit share.	Responsibly build out our financial advisory services. Leverage our Specialist Support Services (S^3) for specialised member and channel support.
Alternative Revenue Streams	Alternative revenue streams boost members' profit share and offer some protection against factors outside our direct control, like political uncertainty and foreign exchange volatility. It adds value to protect members against political and currency impacts by diversifying revenue streams.	Broaden the member value proposition through increased access to income streams and opportunities. Grow member take up of our newly introduced PPS Credit Card, the first credit card in South Africa offering profit share and an implicit private banking experience for younger professionals. Grow PPS Mutual Australia, our first off-shore business which over time will make meaningful contributions to local members' profit share.
Brand	Effective brand positioning is crucial to attracting new members, especially younger professionals who need PPS products and services more than they might appreciate.	Position PPS as a thought leader in the professional market.
Culture	An internal culture that builds empowerment and collaboration is central to our employee value proposition, and ultimately drives our member value proposition.	Promote a high trust culture in which people feel empowered and are engaged. Inculcate a learning mindset that thrives on change.

STRATEGIC PERFORMANCE

Key Performance Indicators (KPIs) for each strategic focus area are allocated to specific individuals. Monthly scorecards for each are submitted to the PPS Executive Committee (Exco) for review.

Key milestones for members included the launch of PPS Horizon, a business assurance product line and a PPS branded platinum credit card for members.

PPS partnered in 2018 with Singularity University, the renowned global thought leader in disruption, to host the first exclusive Exponential Forum for our members. Held in May 2018, this forum covered areas such as robotics, 3D printing, health and medical advances, artificial intelligence, the Internet of Things (IoT), the future of jobs and emerging technologies.

MATERIAL MATTERS

PPS defines a material matter as an item that can directly or indirectly create, preserve or erode financial, economic, environmental and social value for the Group and its stakeholders. Our internal and external influencers were considered when determining and prioritising the materiality of the following matters, and our strategic response.

DEVELOPING RELEVANT PRODUCTS AND SOLUTIONS

Why this is important

The rapid emergence of new technologies enables innovative insurers to analyse customer data and take new products to market quicker. With a deep understanding of our target market, PPS needs to continuously design more appropriate and customised products to remain relevant.

Challenges and opportunities

Challenges

- Cost of developing product prototypes into effective and scalable solutions
- Balance sheet and human resource availability

Opportunities

- Inculcate a learning mindset, continuous improvement and flexible responses to change
- Investigate partnerships for rapid deployment of best-in-class solutions

PPS's response

A 2018 highlight in innovation was launching our own Platinum Credit Card for members and linked Payment Solutions for business owners. Linked to our rewards programme, the PPS card uniquely enables members to grow their Profit-Share Accounts simply by using the credit card. This will be further enhanced in 2019 by a banking proposition that meets the needs of younger professionals.

WEAK ECONOMIC ENVIRONMENT

Why this is important

The sluggish economic environment makes signing up new business difficult, while insurance claims generally rise as the cost of living increases. Short-term insurance products can become less affordable, while newly graduated or younger professionals may not perceive the immediate value in joining PPS, as their profit-sharing rewards seem distant.

Challenges and opportunities

Challenges

- Political uncertainty and currency volatility
- 'Scramble' for clients and a convergence of services around the clients as banks, insurers, mobile phone operators and retailers all compete for share of wallet

Opportunities

- Position PPS as a holistic, comprehensive financial services provider for professionals, increasing member product crossholding
- Grow new overseas markets
- Diversify alternative revenue streams

PPS's response

PPS looks beyond short-term returns to focus on creating and sustaining long-term growth and wealth for our members. This approach yields the best results for our members over the medium to long term, therefore we don't have a knee-jerk response to short-term factors. The weak economic environment is taken into account when developing a long-term investment strategy.

A weak economic environment often leads to higher lapses and more claims. Because PPS only insures graduate professionals, our risk pool is quite benign, leading to superior lapse rates and a good claims experience.

CREATING STAKEHOLDER VALUE

Why this is important

PPS's purpose is to create value and meaning for our members and their families. To fulfil this mission, the PPS member value proposition includes a portfolio of financial products and other services that serve members from graduation to grave. Our holistic wellness proposition has a competitive advantage in the market by addressing two key pain points: time management and financial planning for members and their dependants.

PPS employee attitudes and competencies are key differentiators within an increasingly competitive financial services sector, and must be supported by a strong employee value proposition that facilitates the outcomes of the member value proposition.

Challenges and opportunities

Challenges

- Truly understanding what members need
- Align our internal stakeholders around the value proposition
- Focus on value before features and benefits

Opportunities

- Promote a high trust culture where people feel empowered and are engaged
- Embed PPS brand leadership throughout the organisation
- Position PPS as a thought leader in the professional market, and the only brand for professionals in the broker community

PPS's response

Launching in 2019, PPS PRO-FiT will integrate the PPS online experience for members and their linked advisers, agents and PPS contacts. This innovation will enable members to network and utilise our intellectual resources to grow earnings and reduce the risks implicit in the professional environment.

PPS PRO-FiT is designed to help our members become the best professionals they can be – at work and home.

DIGITAL TRANSFORMATION

Why this is important

Born after 1980, the 'digital generations' are transforming the world as we know it. These 24/7 switched-on potential members measure insurers against the same standards as digital commerce platforms (such as Amazon) and digital service providers (like Airbnb). They expect mobile and omnichannel access, speed, paperless transactions, transparency and remote advice.

Challenges and opportunities

Challenges

- Technology and data are now the industry's biggest disruptors
- Migrating legacy system to new solutions which is expensive and time-consuming

Opportunities

- Develop and deploy a full omnichannel sales and service experience for members
- Create and leverage a data science capability
- Develop a process for digital underwriting assessments

PPS's response

Technology at PPS is now fully integrated into all our business aspects, from conception to delivery. In 2018 we launched innovative projects that included a cloud migration with Microsoft and Google, a data analytics platform being developed with Google, an artificial intelligence security platform and a robotics initiative.

In 2019 we are upgrading our technology infrastructure to reach the stability and speeds expected by younger professionals.

REGULATORY DEVELOPMENTS

Why this is important

Following the introduction of Solvency II regulations in Europe, South Africa has introduced a Solvency II equivalent as part of the prudential oversight of the 'Twin Peaks' framework of regulations.

Although the incoming regulations appear fit for purpose, insurers remain concerned about the risk of overregulation, the cost of compliance and the amount of management time required to comply.

Challenges and opportunities

Challenges

- Money laundering for criminal and terrorist activities
- 'Mis-selling', privacy and data protection, product adequacy and disclosure
- More onerous sanctions for non-compliance

Opportunities

- Robust risk assessments
- Deeper focus on member needs to build our community of professionals

PPS's response

We have submitted the first complete PPS Group ORSA (Own Risk and Solvency Assessment) following a copious work programme conducted over several years. Reaching this new benchmark demonstrates that PPS is managed soundly and prudently.

HOW PPS ADDRESSES PRINCIPAL RISKS AND UNCERTAINTIES

RISKS

PPS takes care of the financial interests of its members by providing advice, products and services to optimally create, protect and manage their wealth. Our risk appetite is determined by our ethos of mutuality and the responsibility to operate ethically and efficiently within legislative parameters to achieve our mandate. PPS risk management – an iterative process applied at strategic, operational and project levels – is integrated throughout all PPS activities.

Risks are identified by ascertaining the causes and sources of events, situations or circumstances which could materially impact the group – negatively or positively. Methods for identifying risk include monitoring of the external environment and industry trends, risk workshops, interviews, and analyses of scenarios, data, assumptions and audits.

Risks identified in terms of PPS criteria are evaluated for likelihood, consequence and velocity, taking into account the effectiveness of existing controls. These factors are combined to determine a level of residual risk that is evaluated against PPS's approved risk appetite. At this point, PPS risk management will register these risks and begin preparing mitigation plans.

Our process of identifying emerging risks will typically include and facilitate:

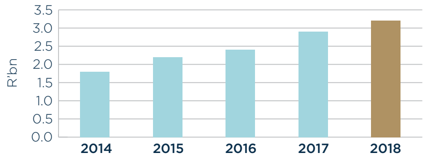
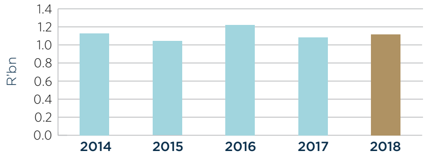
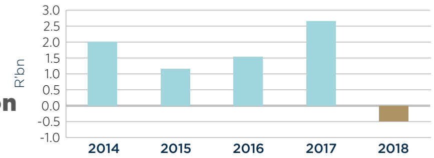
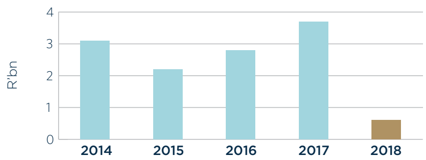
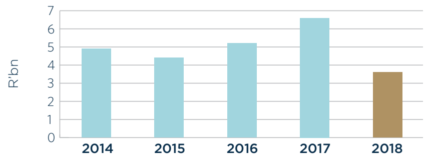
- Discussions on how emerging risk scenarios might impact business strategy.
- Consideration of key trends and developments in the insurance and wider financial services industry. How could this impact PPS in future?
- Reviewing the emerging risks being experienced by other insurers and/or similar financial services institutions .

We track many risks on our various risk scorecards, however the following key risks may be material impacts on our scorecard.

RISK	MITIGATING ACTIONS
1. Slow economic growth	• Grow our brand awareness
	• Continuously review group product and service offerings
	• Expand and enhance distribution channels
	• Data analytics to construct big data relationships
2. Membership growth	• Continue to build member community
	• Digital engagement
	• PPS Credit Card
	• Profit-Share Account benefits
3. Market risk and volatile investment return	• Long-term investment horizon
	• Balanced portfolios with international exposure
	• Multiple asset managers
4. Sustainability	• Strategic opportunities
	• Exploit efficiencies
	• Legislative implementation

GROUP OVERVIEW

GROUP PERFORMANCE AT A GLANCE

THE PPS GROUP	KEY INDICATORS	2018	FIVE-YEAR REVIEW
PROFIT-SHARE ALLOCATIONS AND BENEFIT PAYMENTS			
	Annual gross benefits paid to members	**R3.2 billion**	
	Annual Operating profit allocations	**R1.1 billion**	
Through our unique mutual model, all profits are ultimately attributable to our members. This is achieved by allocating operating profit and investment returns to our members' PPS Profit-Share Account which vest upon retirement, or to their beneficiaries on death.	**Annual Investment profit/(loss) allocations***	**R-0.5 billion**	
	Total annual profit-share allocations	**R0.6 billion**	
	Annual gross benefits paid to members and profit-share allocations	**R3.8 billion**	

**The extent of the profit allocation will vary by individual member dependent inter alia on the accumulated size of their Profit-Share Account*

GROUP OVERVIEW

PPS LIFE INSURANCE

Since inception PPS has catered only to post-graduate professionals, which is a niche market with a distinct risk profile. Our 77 years of unwavering focus on this group has unlocked the deep insights that enable PPS to design and offer superior products that remain cost competitive.

What we do

The PPS Sickness and Permanent Incapacity product – our flagship product – offers more than the traditional income protector package of most other insurers. PPS sickness cover pays out if a member falls ill for a period of time, without having to prove loss of earnings. Unlike certain competitors, we do not deduct from the payment should the member receive any remuneration during the period of disability.

PPS also offers Life Cover, Lump Sum Disability, Accidental Death, Critical Illness and Education Cover products that are all intrinsically superior, due to PPS's built-in profit-share benefit.

Besides profit-sharing, other main differentiators are:

- International cover without loading or exclusions
- No discounting on disability payments or limits to number of claims
- Automatic cover for potentially hazardous pursuits such as scuba diving, flying private airplanes and motorcycle racing. We have made allowances for the fact that many graduates enjoy energetic pursuits outside of their professions

As PPS membership has always been based on educational levels, we reviewed our entry criteria against education systems and standards. Our updated criteria provides more clarity and transparency.

Performance

Membership numbers, market share and adviser support all improved in the year of review. Gross premiums from long-term insurance products grew by 10%, while PPS policy lapse rates remain the lowest in the industry.

Risks, challenges and opportunities

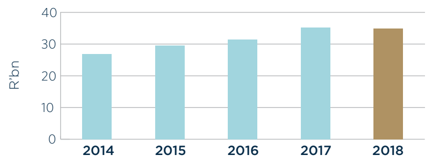
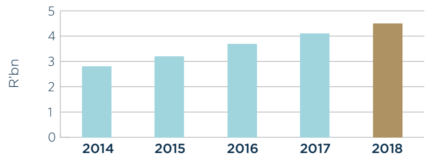
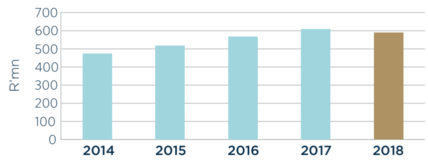
Our biggest challenge over the near future remains the prevailing weak economic conditions over which we have little control. The market environment during 2018 was comparable to the 2008 recession. The advent of a new regulatory distribution environment (RDR) also presented its challenges to PPS and our independent advisers alike, in aligning procedures and practices to new requirements. However, it also presented many opportunities. One of these was to start a wholly owned independent advisory practice, FS4P.

Prospects

In 2019 PPS will be introducing new interfaces to our members to make engagement more seamless and intuitive. These will include an automated membership eligibility tool to speed up the process of adding new members and a projection calculator to enable members to calculate future values of their profit share, including variations from buying more products or cancelling existing products.

In the broader macro-economic context, South Africa's troubled political and economic environment adversely affected consumer confidence levels which was detrimental to new business volumes in the life insurance industry during the year. While PPS was not immune to this trend in 2018, we performed well, especially during the second half of the year, and ended the year more or less on par with 2017 in terms of new business inflow.

In economic challenging times one typically sees an increase in claims. However, these have remained within actuarially determined limits and we have made appropriate provision for possible future claims.

<table>
<tr><th>SICKNESS AND LIFE INSURANCE</th><th>KEY INDICATORS</th><th>2018</th><th>FIVE-YEAR REVIEW</th></tr>
<tr><td rowspan="3">PPS Insurance Company provides long term life, sickness, dread disease and disability insurance to eligible members. In terms of the mutual model, all the profits are ultimately attributable to our members.</td><td>Group Total assets*</td><td>R34.9 billion</td><td>
</td></tr>
<tr><td>Gross premium revenue</td><td>R4.5 billion</td><td>
</td></tr>
<tr><td>New annual premium income</td><td>R588.2 million</td><td>
</td></tr>
</table>

** Excluding unit trusts for third parties*

GROUP OVERVIEW (continued)

PPS INVESTMENTS

PPS Investments (PPSI) provides investments and savings solutions. Investors with PPSI are assured of the highest investment standards, and also earn a portion of the PPSI profit allocation as qualifying PPS members. Purchasing a PPS product and a PPS fund gains access to two layers of profit share.

What we do

Whether investing for retirement, preserving savings or saving for a specific goal, PPSI offers tax-efficient investment solutions for every life stage. Our tax-structured products include living and retirement annuity funds, personal pension funds, preservation funds and investment accounts.

PPS Investments structure clients' solutions using our selection of funds. Our preferred investment approach is multi-management, combining complementary managers to ensure consistency of returns and reduced risk. We conduct thorough research before selecting the best combination of asset managers to operate funds that are diversified across investment strategies.

Performance

Despite weak economic fundamentals, PPSI continued generating healthy metrics, with 46% growth in new business recorded for 2018. The primary growth drivers were improved support from external advisers and distribution channels, along with new wholesale services to advisers.

PPSI grew its investor base to over 41 000 members, with assets of R31.4 billion in the register.

Each year PPS evolves further as a sophisticated, multi-faceted builder and protector of member wealth, from graduation into golden, well-provisioned retirement.

In April 2018 we launched the new PPS Horizon online advisory tool that enables advisers and clients or potential clients to jointly navigate through advice and products to build savings propositions. Face-to-face meetings are not required at any stage, but easily arranged at client request.

Advisers easily customise the PPS Horizon advisory tool to their specific advice framework so that members can use Horizon at leisure to explore their options in their own time.

New distribution strategies have transformed PPSI's new business efforts into the realm of wholesale business services, which are more scalable than the traditional member-by-member approach. Consequently, PPSI is able to contribute to a member's broader financial wellbeing.

A PPSI milestone was our introduction of the first three funds in our new range of PPS Partnership Funds, which are:

- PPS Defensive Fund
- PPS Stable Growth Fund
- PPS Managed Fund

Each of the Funds features an exclusive mandate awarded to a leading boutique asset manager, presenting unique opportunities for investors to access these skills sets.

During the year, and without interruption of service standards, we future-proofed clients and advisers' administration backbone by migrating these functions to Intembeko Investment Administrators, which is South Africa's first 100% black-owned investment administration platform.

Benchmarking against peers

The PPS mutuality ethos requires all PPS products to return contributions with profits, ensuring that members with PPS Investments are getting profits back. This is a major factor in maintaining outflows from member accounts at rates of below 10% of assets, against the industry's 17% average. The persistence of the professional community of professionals allows PPS members to maintain their premiums during tough economic circumstances, particularly as many have control of consistent cash flows.

Risks, challenges and opportunities

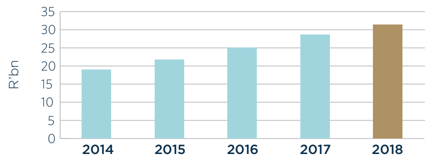
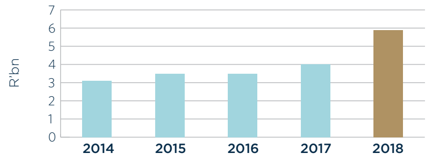
Diminishing returns from systematically volatile markets are PPSI's biggest challenge at this time. While PPSI is structurally well-equipped to deal with volatile markets, prolonged negative returns will understandably dampen investor confidence. Our challenge is to continuously update members and advisers on market implications.

Another issue is the ageing adviser community, which requires robust recruitment and education of new advisory talent to keep the savings and investment industry stable.

Changing regulation has opened the door to a more integrated and productive working relationship with the adviser community.

Prospects

Looking forward to 2019, we will further build efficiencies on the new administration platform. We are also bolstering awareness of the PPS Vested Profit-Share Account, as it is becoming increasingly popular for members using their vested values to augment their retirement income. Many members are finding it easier to maintain post-retirement healthcare costs and short-term insurance premiums through their PPS Vested Profit-Share Account.

PPS INVESTMENTS	KEY INDICATORS	2018	FIVE-YEAR REVIEW
PPS Investments offers investment, retirement and savings products to PPS members.	**Total assets under administration**	**R31.4 billion**	
	New business: flows	**R5.9 billion**	

GROUP OVERVIEW (continued)

PPS SHORT-TERM INSURANCE

What we do

Graduate professionals are a select risk pool of individuals and require specifically targeted insurance solutions. We offer car, home, business and professional indemnity insurance, supported by skilled client care consultants.

Performance

PPS Short-Term Insurance policyholders grew to over 14 000, with significant upside available in the PPS member base. As a start-up business within the bigger PPS Group, STI is building scale and profitability.

Net written premium improved by 20% and we are proud to have maintained our lapse ratio at significantly below industry averages.

In late 2018, we migrated our claims administration function to a new service provider, in pursuit of improved customer service and efficiencies.

Risks, challenges and opportunities

While the trading environment remains tough for short-term insurers in general, emerging technologies create opportunities that enable insurers to create compelling value propositions for their policyholders. There is a definite shift from 'protection' to 'prevention', which allows STI to create additional value for our policyholders over and above standard insurance. We are exploring the benefits that artificial intelligence, machine learning and robotics can bring to the industry.

Prospects

Our focus over the next two years is to create a true private client experience for all our members and intermediaries. We are following a phased approach, with the roll-out of our mobile app during Q1 of 2019 being the first our members will experience. The app places the control of their policies in the hands of PPS members. When in a motor accident, for example, our members can lodge a claim at the scene with step-by-step guidance and assistance, using features like licence disk and ID scanning, taking photos at the accident scene and SOS assistance.

PPS Health Professions Indemnity

Designed for the South African professional registered with the Health Professions Council of South Africa, PPS Health Professions Indemnity offers innovative product features to provide peace of mind to health professionals engaged in clinical practice.

Launched in early 2019, PPS Health Professions Indemnity is an insurance contract-based product, developed in response to rising professional indemnity costs and an increasingly aggressive legal environment. The product provides the security necessary for health professionals to focus on their clinical practice, safe in the knowledge that their indemnity needs are well protected by a brand they know and trust.

PPS Health Professions Indemnity is an insurance solution for health professionals, and is designed to tackle rising professional indemnity costs and the increase in aggressive litigation across South Africa. Besides offering peace of mind, it has the added mutuality benefit of allocating profits to members' PPS Profit-Share Accounts.

Pro-Insure Car	Pro-Insure Home	Pro-Insure Business	PPS Health Indemnity
A comprehensive vehicle insurance offering tailored for professional lifestyles.	Offers a range of cover options that mitigate the inconvenience arising from loss or damage of personal property.	The PPS STI Pro-Insure Business policy protects assets and safeguards the smooth-running of an enterprise in the event of business interruption (and other perils).	This cover provides peace of mind to healthcare professionals in medical practice.

PPS HEALTHCARE ADMINISTRATORS

PPS Healthcare Administrators (PPSHA) is a wholly-owned subsidiary of PPS Insurance that currently administers three medical aid schemes:

- Profmed: a closed scheme for graduates meeting certain criteria
- KeyHealth: an open medical scheme servicing government employees and growing numbers of private members
- Regular Force Medical Continuation Fund (RFMCF): a prefunded medical scheme that mainly provides medical, dental and hospital treatment for retired members of the South African Defence Force

Each scheme caters to specific needs, allowing us to tailor-make our health solutions rather than offering a one-size-fits-all model.

What we do

PPSHA stands apart from our competitors due to our low-cost, high-service model and proven capability to manage closed, open and prefunded schemes through customised solutions.

Member input is critical to accurate decision-making, therefore each scheme conducts multi-channel surveys, focus groups and annual benefit review meetings to address member concerns.

Performance

PPSHA is South Africa's fourth largest medical schemes administrator and our fees track within the industry average range. For the past seven years, PPSHA has contributed to the member profit share.

KeyHealth and Profmed – our two biggest schemes – are comfortably above the 25% solvency ratio and recorded excellent claims ratios.

Our scheme's non-healthcare expenditure remained below the Council for Medical Schemes (CMS) 10% benchmark and Profmed recorded healthy organic growth in membership.

PPSHA has made significant investments into system upgrades over the last few years to improve our efficiencies and increase competitiveness. We are already reaping the benefits which is evident in our return on investment (ROI) from recently introduced technologies.

Although hospital network options introduced by KeyHealth elicited mixed reactions from members, it was critical for the scheme to remain competitive by ensuring affordability of the medical scheme contributions. KeyHealth has increased benefits to its members through its enhanced disease management programme which was received positively.

PPSHA, Profmed and PPS jointly reached out to students through direct marketing campaigns and reduced fees overall. Scheme rates are regularly compared to market averages and our management costs.

We began evaluating alternative reimbursement models for improving medical scheme financials.

Specialist profiling conducted in conjunction with the specialist professional bodies has enhanced our relationships with the medical specialist community.

The RFMCF reacted positively to introducing hospital networks and plans to introduce hospital pre-authorisations in 2019.

Risks, challenges and opportunities

The medical scheme sector remains highly regulated and intensely competitive with no significant membership growth. Regulatory changes to solvency and claims ratio, among others, are compelling medical schemes to merge, adding to the complexity for PPSHA and other administrators in acquiring new business for administration.

At present, 12 administrators are competing for just 80 remaining schemes.

In this period, Profmed has experienced growth in membership in a challenging environment.

Prospects

We are working diligently with Profmed to retain our best talent and continue enhancing customer relationships.

We have provided recommendations to the Medical Schemes Amendment Draft Bill, Council for Medical Schemes Circular on Consolidation of Medical Schemes, the Health Market Inquiry and the unfolding National Health Insurance (NHI) Bill.

GROUP OVERVIEW (continued)

PPS ADVISORY SERVICES

PPS Advisory Services is our internal agency channel which, like our external independent advisers, strives to improve our members' quality of life by providing holistic financial advice. The advice process has been customised to meet the needs of graduate professionals. Many studies have shown the big correlation between financial independence and financial advice interventions.

What we do

We provide recommendations, guidance and proposals to our members on a range of financial planning solutions and offer expert advice on the entire suite of PPS products, designed exclusively for the graduate professional. The table below includes some of the advisory services on offer.

Performance

An internal re-organisation yielded an enhanced structure, where Financial Advisory replaced the former separate Life and Investment Advisory businesses. The new structure allows our advisers, carefully selected for the professional market segment, to provide a range of financial planning solutions that include the entire suite of PPS products. The re-organisation inevitably required some internal focus, leading to negative growth in the channel during the first half of 2018, but there was again positive year-on-year growth in the second half.

The PPS Lifestyle Financial Planning team was also repositioned in 2018 as Specialist Support Services (S^3), offering specialist and holistic support to the internal Financial Advisory Services channel, the external independent advisory channel, and directly to members. This team is product agnostic, enabling a greater partnership and support base for our accredited PPS advisers, both internal and external of the organisation, for the ultimate benefit of our members.

Risks, challenges and opportunities

Financial regulations in many countries are becoming increasingly onerous – and South Africa is no different. The industry has experienced numerous legislative and technological changes, but has generally been able to respond by developing new advice and compliance processes through incoming technologies, such as the deployment of a new internal adviser platform at PPS in 2018.

Prospects

For 2019, we have prioritised growth by expanding and entrenching our footprint in major cities, building our presence in many regions. Growth is also stimulated by deepening relationships with stakeholders such as professional associations and academic institutions.

Financial planning

- Our holistic planning process typically considers various lifestyle and financial areas including income, health, possessions, family, interests and hobbies, career and retirement.
- We partner with members to tailor their specific financial journeys to their unique goals and needs

Risk product advice

- Our advice process adopts a risk management approach to financial advice
- It considers unique member needs and prioritises product solutions accordingly

Investment guidance

- The advice process considers goal orientation and risk appetite to yield product solutions and fund selection with appropriate portfolio management
- Our processes and solutions support advisers, both internal and external, to in turn support members with appropriate investment guidance

Retirement and estate planning

- The advice process considers estate liquidity
- The solutions enable intergenerational wealth planning - securing the future and leaving a legacy

ABRIDGED ANNUAL FINANCIAL STATEMENTS

PPS GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000	DESCRIPTION OF INDIVIDUAL ITEMS
ASSETS						
Property and equipment	**640 330**	593 445	546 196	467 147	142 348	Fixed assets. These include PPS' head office premises, furniture, equipment, computers and vehicles.
Investment property	**408 540**	381 869	356 469	378 506	315 343	Properties which are held for the purpose of rental income and capital appreciation.
Intangible asset	**121 771**	89 941	73 187	63 797	53 402	PPS internally developed insurance software.
Other non-current assets	**43 215 133**	41 395 493	37 149 710	32 911 799	30 193 145	Assets backing insurance liabilities. These mainly include investments in equities and bonds, which assets are managed by investment managers who act in accordance with investment mandates set by the board of directors of PPS Insurance.
Current assets	**3 202 921**	3 530 857	2 382 905	3 369 091	2 005 430	Primarily cash resources of PPS Group.
Total assets	**47 588 695**	**45 991 605**	**40 508 467**	**37 190 340**	**32 709 668**	
EQUITY AND LIABILITIES						
Total equity	**359 791**	449 414	400 086	300 071	202 507	Statutory capital requirement of the insurance entities, revaluation reserve of owner-occupied properties, certain reserves of subsidiaries, and minority interest.
Total insurance policy liabilities	**31 136 462**	31 417 920	28 216 448	26 591 016	24 646 747	
PPS Profit-Share Accounts (DPF Policyholder Liabilities	**26 073 342**	26 614 866	23 948 940	22 223 556	21 014 757	Members' Profit-Share Accounts comprising cumulative operating profits and investment profits/(losses).
Actuarial reserves (Non-DPF Policyholder Liabilities)	**4 537 047**	4 268 376	3 906 807	3 995 846	3 297 366	Capital held to pay future claims.
Current liabilities	**526 073**	534 678	360 701	371 614	334 624	Long-term insurance: Notified claims not yet paid and claims provisions.
Investment contract liabilities	**2 045 946**	1 876 916	1 464 986	1 139 647	825 699	Funds of members invested in PPS living annuities and endowment products.
Liabilities to unit trust holders	**12 670 465**	10 709 000	9 088 757	7 673 934	5 848 820	Value of outsiders' investments in unit trusts in which PPS owns a majority stake.
Other liabilities	**1 376 031**	1 538 355	1 338 190	1 485 672	1 185 895	Primarily short-term liabilities.
Total equity and liabilities	**47 588 695**	**45 991 605**	**40 508 467**	**37 190 340**	**32 709 668**	

PPS Members' Profit-Share Accounts comprising Apportionment and Special Benefit Accounts

PPS GROUP CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2018

	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000	DESCRIPTION OF INDIVIDUAL ITEMS
Net insurance premium revenue	**4 163 102**	3 858 384	3 413 766	2 985 698	2 664 993	Premiums received from policyholders net of reinsurance premiums paid to reinsurers.
Other income	**418 219**	437 165	369 232	356 804	310 713	Administration fees: Long- and short-term insurance, medical aid and retirement annuity. Short-term insurance commissions. Fees earned for asset management.
Investment income and profits/(losses) on financial assets and investment property	**14 220**	4 594 132	2 275 380	2 683 238	3 041 802	Interest, dividends, and realised and unrealised growth on investment assets.
Attributable to unit trust holders	**(154 618)**	(966 613)	(476 512)	(278 818)	(503 228)	Third-party unit trust holders' share of revaluation profits.
Total revenue	**4 440 923**	**7 923 068**	**5 581 866**	**5 746 922**	**5 514 280**	
Gross insurance benefits and claims	**3 166 954**	2 877 157	2 422 710	2 177 256	1 766 617	Gross benefits paid to members.
Reinsurance claims recoveries	**(235 076)**	(177 198)	(160 042)	(132 221)	(75 852)	Insurance benefits recovered from reinsurers.
(Decrease)/Increase in fair value of policyholder liabilities under investment contracts	**(48 342)**	140 060	15 296	69 023	53 319	Investment income, net of expenses, relating to the underlying assets linked to the investment policyholder contracts.
Expenses	**1 910 477**	1 596 492	1 507 437	1 381 401	1 089 494	Group operating expenses, commissions paid on new business written, and investment management fees.
(Loss)/Profit before movement in insurance policy liabilities	**(353 090)**	**3 486 557**	**1 796 465**	**2 251 463**	**2 680 702**	
Movement to insurance policy liabilities	**(333 723)**	3 011 553	1 546 773	1 820 625	2 378 867	The amount allocated to members in their capacity as policyholders.
Tax	**(27 939)**	465 379	226 342	356 304	266 088	Taxes raised in favour of the South African and Namibian Revenue Services.
Surplus after tax and policy movements	**8 572**	9 625	23 350	74 534	35 747	Any adjustment required to maintain capital cover and the result of operations of subsidiaries, other than the long-term insurance subsidiary.

This comprises insurance claims paid to members and Profit-Share pay-outs

This amount forms part of the annual allocation to members' PPS Profit-Share Accounts. The balance of R968.3 million is from the movements in the Actuarial Reserve

HUMAN CAPITAL

OVERVIEW

The PPS people strategy is aimed at attracting, developing and retaining select employees capable of delivering our member value proposition (MVP). We require our employees to be as professional as the members they serve.

The PPS employee value proposition (EVP) defines our promise to prospective and current employees. It is the value provided by the organisation in return for the skills, capabilities and experience an employee brings to the Group. It outlines the organisation's intention of creating a professional working environment that supports the delivery of superior member service. The EVP gives life to the principles of the culture that the organisation seeks to build for its employees. A strong EVP and a motivated and engaged workforce support a strong MVP.

HUMAN RESOURCES STATISTICS 2018

Below is a breakdown of PPS employees according to some of the Department of Labour criteria, juxtaposed next to the previous year's figures:

Employment equity statistics	2018	2017	2018 (%)	2017 (%)
African, Coloured and Indian	**992**	941	**72**	71
White	**375**	375	**27**	28
Foreign	**16**	18	**1**	1
Total	**1 383**	1 334	**100**	100

Gender breakdown	2018	2017	2018 (%)	2017 (%)
Male	**493**	478	**36**	36
Female	**890**	856	**64**	64
Total	**1 383**	1 334	**100**	100

PERFORMANCE

Continuous improvement to the performance management methodology at PPS led to the implementation of a revised performance scorecard and rating scale in early 2018.

Workshops were held to train staff on updated performance management practices.

The Culture Journey

Senior leadership met regularly to envisage a desired PPS culture of the future focused on **results**, **caring** and **learning**. Our vision for the future is framed around **brand leadership**, a brand that both members and staff aspire to be part of.

Brand leadership

As a result, we have rolled out our flagship learning solution for 2018 and 2019 titled Brand Leadership, an immersion designed to mobilise our Vision 2022. This two-day learning immersion will be delivered to the entire organisation by the end of 2019. We commenced with the design of the programme in January 2018 and delivered the first session in June 2018 to the PPS Executive team. The personalisation of Group strategy, using an IT-based simulation, is a game changer in our culture journey. Over and above its strategic alignment, it also has a direct impact on critical skills required for the future such as complex problem-solving, systems thinking, decision-making, emotional intelligence and collaboration.

Job Architecture

For most of our history, and in line with most organisations, PPS had a more hierarchically-managed structure. However, to be able to compete today, organisations need to be more flat, nimble and structure needs to be fluid and adaptive. We have responded to this evolving world. PPS has become an organisation with a more collaborative culture, more agile, comfortable with continuous change, more flat in structure with bigger management spans, driven by accountability, creativity and being empowered, rather than by control.

This required a fresh way of working, along with new people capabilities and competencies. Significant work was done to design and implement a model linked to levels of work as an accountability framework. As such, our Job Architecture Project was initiated in 2018 and is being rolled out across the organisation.

PPS is owned by its members and must naturally evolve in line with the demographics of South Africa's professional population.

TRANSFORMATION

Our transformation initiatives prioritise employment equity, skills development and preferential procurement. In 2018 PPS proudly retained its level 3 Broad-Based Black Economic Empowerment (B-BBEE) status, which was largely attributed to:

- An improved demographic profile, especially at senior and top management levels; and
- consistent performance against the skills and development element.

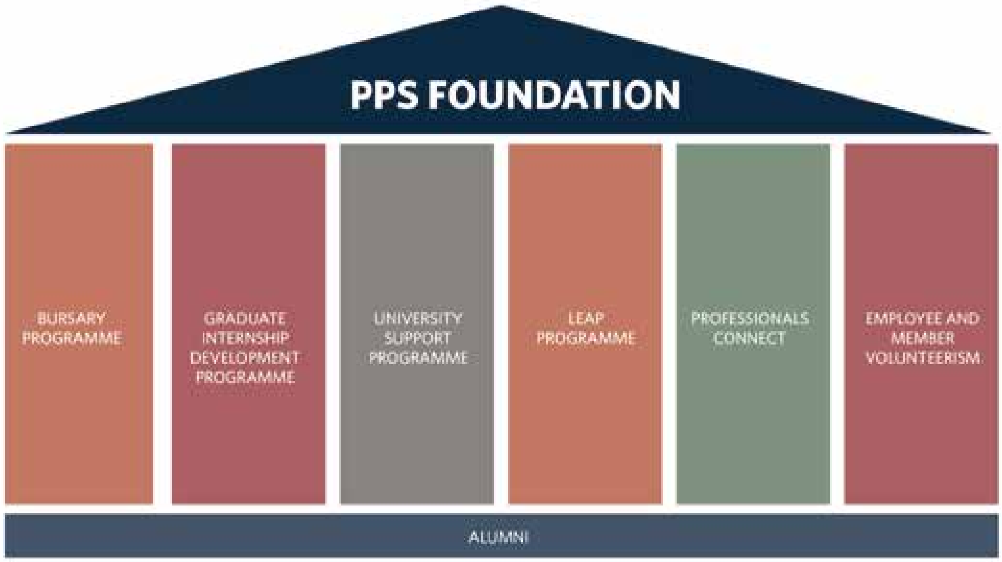
However, a new financial services charter has recently been gazetted and this will impact B-BBEE ratings across the industry, due to new criteria and targets. Our own ratings will also drop, and we are developing strategy and plans to again make progress through the various B-BBEE levels, as we have done in the previous cycle.

LOOKING AHEAD

All our reward and recognition programmes are being redesigned for full inclusivity and clear alignment with PPS's strategic objectives. We are currently implementing a new organisation-wide HR system that will improve employee data management and reporting, enhance recruitment and onboarding, enhance employee experience through self-service tools, and improve employee development and retention.

PPS DOING GOOD

THE PPS FOUNDATION



Bursary Programme

Science, technology, engineering and mathematics (STEM) fields in South Africa are suffering extreme shortage of skills. This negatively impacts the country's innovative and productive capabilities. The PPS Foundation Bursary Programme is one of our most important initiatives, providing financial relief to many underprivileged individuals.

PPS Foundation bursaries are only awarded to those students who have proven their diligence. In 2018 we provided funding to 61 students studying through public universities and universities of technology. Of the 61 beneficiaries, 45 were pursuing qualifications in STEM disciplines. As mandated by the Foundation Trust, our emphasis is especially on empowering those from previously disadvantaged demographic groups.

A major achievement in 2018 was obtaining public benefit organisation status, providing us with the opportunity to cast our funding net wider, including PPS Members.

Graduate Internship Development Programme

The Graduate Internship Development Programme (GIDP) is a programme that introduces graduates to the world of work. It also enables us to bring bright young talent into the PPS Group. In 2018 we hosted 20 graduate interns, who underwent an intensive 12-month learning and development programme while being placed in various departments within the PPS Group, to develop their professional expertise. In 2019 we have taken in 25 such graduates after a rigorous selection process.

University Support Programme

Until 2016, our University Support Programme focused solely on infrastructural projects. With the creation of the PPS Foundation, the programme was updated to fit our mandate, bringing it more in line with the needs of the country, and alleviating the financial void left by dwindling government funding for tertiary institutions. It includes the development of student support programmes and the funding of computer labs. In short, the PPS Foundation seeks initiatives that enhance and enrich the teaching and learning experience for faculties and their students. This requires the PPS Foundation to frequently engage with various stakeholders and beneficiaries.

LEAP

Aimed at unemployed graduates, our LEAP work-readiness programme offers young job-seekers skills and competencies that are likely to make their search a successful one. This innovative programme empowers inexperienced job-seekers with the soft skills necessary to engage with a potential employer. Multiday workshops cover theoretical ground such as personal branding, CV-writing, interview preparation,

PPS DOING GOOD (continued)

communication and presentation skills, as well as the development of emotional intelligence and self-awareness. Multiple facets of financial wellness such as budgeting, saving and debt management are also covered by the LEAP programme. It builds the foundational competencies of *Learned, Engaged and Accelerated Professionals*. It integrates into the wider PPS Foundation skills-development network, ensuring a level of continuity across programmes as methodologies evolve.

Professionals Connect

The Professionals Connect online portal is the platform through which the PPS Foundation links graduates seeking employment, career and industry-specific information, with professionals established in their fields. It also enables mentorship that will help the graduate navigate his or her entry into the working world. In turn, the portal provides established or retired professionals with the opportunity to pay their success forward and make a positive impact on their field's next generation. The Professionals Connect database was used to select certain unemployed graduates for a six-month mentorship programme (GetReady) that developed their capabilities. This afforded graduate participants the opportunity to network and glean professional insights from the extensive experience of the mentors to whom they were assigned. Two cohorts of graduates were inducted into the programme in 2018, and each was awarded a certificate at the end of their participation.

Employee and Member Volunteerism

During 2018 the PPS Foundation partnered with Rise Against Hunger Africa to distribute meal packs to academic institutions facing the daily reality of food vulnerability. The PPS Foundation also partnered with the Imbumba Foundation on their #Caring4Girls initiative. Research has shown that South African girls in underprivileged communities can miss as many as 50 school days a year as a result of the lack of access to sanitary towels. Staff contributed sanitary and hygiene products, which were distributed. In addition, the PPS Foundation undertook a number of blood drives in partnership with South African National Blood Services (SANBS). These initiatives were close to the hearts of PPS staff. A motivated workforce of volunteers supported these initiatives through to their successful ends.

Consumer Financial Education

Financial literacy is sorely lacking in South Africa. While universities might do a good job of imparting the necessary knowledge and skills to master a graduate's chosen profession, there is generally little to pave the way to a future of sound financial decisions. The PPS Foundation facilitated a number of Consumer Financial Education workshops for students across various South African universities. These workshops were well received and sensitised students to the PPS member value proposition.

KEY PERFORMANCE INDICATORS (KPI'S)

The performance of our management and staff is measured on a balanced scorecard basis with an equal weighting for both financial and non-financial measures.

The KPI's are categorised under mutuality, financial stability, service and staff, which in turn tie back to our key strategic priorities for the Group.

HOW DID WE DO IN 2018?

OUR KEY KPI'S		Unit of measure	2018 PERFORMANCE	2018 GOAL	COMMENTARY
FINANCIAL STABILITY	**Gross premium income**	**Rand billions**	**4.5**	4.6	Gross premium income (long-term and short-term) is slightly below expectations.
	Total assets*	**Rand billions**	**34.9**	39.0	Total asset growth expectation is measured over a three year rolling period. Total assets is below the goal due to negative investment returns from markets in 2018.
	Efficiency ratio	**%**	**14.7**	15.2	Cost control remains an imperative of the Group.
	New annual premiums	**Rand millions**	**588.2**	593.7	New long-term risk premiums are in line with prior year, but below the internal target. The economic environment in South Africa has proven to be challenging for the consumer in 2018.
	New investment inflows	**Rand billions**	**5.9**	5.3	Performance is significantly up on prior year, and ahead of internal target.
MEMBERSHIP	**Number of new members recruited during the year**	**Individuals**	**6 931**	7 961	New member recruitment performed below target in 2018.
SERVICE	**Claims processed within Service Level Agreement**	**%**	**100.0**	97.5	PPS aims to provide members with world-class service. Claims processing targets were exceeded during the year.
	Customer satisfaction survey results	**Rating**	**97.8**	> 80	Members are satisfied with our service. The rating is based on two important levers of service: professionalism and first time resolution.
STAFF	**Training spend as a percentage of payroll**	**%**	**6.0**	> 5.2	Training spend is ahead of target.

** Excluding assets in unit trusts for third parties.*

- Achieved
- Partly achieved
- Not achieved

LEADERSHIP AND GOVERNANCE

PPS HOLDINGS TRUST

SEATED:

Ms D L T Dondur
B Acc (Hons), B Compt, CA(SA), MBA
Director of Companies
Independent Non-Executive Trustee

Dr F Mansoor
BDS, MBA
Chief Executive Officer: The Integrated Dental Ecosystem
Independent Non-Executive Trustee

Ms P Natesan
B Com (Acc) (Hons), CA(SA)
Chief Executive Officer: Institute of Directors in Southern Africa
Independent Non-Executive Trustee

Mr E A Moolla
B Iuris
Practising Attorney
Independent Non-Executive Trustee

Dr C M Krüger
MB ChB, M Prax Med, M Pharm Med
Family Physician
Independent Non-Executive Deputy Chairman

Dr S N E Seoka
B Pharm, PhD, FPS
Pharmacist
Independent Non-Executive Chairman

Mr J A B Downie
BSc, MBA, CFP
Asset Consultant and Professional Trustee
Independent Non-Executive Trustee

Mrs N N Nongogo
B Juris, LLB
Practising Attorney
Independent Non-Executive Trustee

Mr N C Nyawo
B Com (Hons), CA(SA), MBA
Standard Bank Group: Head of MIS Global Markets Africa Finance
Independent Non-Executive Trustee

Dr M J Grootboom
MB ChB, FCS (SA) ORTH, CIME (ABIME)
Orthopaedic Surgeon
Independent Non-Executive Trustee

Dr A Coetzee
BMedSci, MBChB, CAHM (Yale)

STANDING:

Mr B R Topham
B Compt (Hons), CA(SA),
B Proc, LLM
Chartered Accountant and Attorney
Independent Non-Executive Trustee

Prof H E Wainer
B Acc, CA(SA)
Chartered Accountant and Registered Auditor
Independent Non-Executive Trustee

Mr S Trikamjee
B Com (Hons), CA(SA)
Chartered Accountant
Independent Non-Executive Trustee

Dr D P du Plessis
B Sc (QS), MBA, DBA
Director of Companies
Independent Non-Executive Trustee

Dr N H P Khosa
MB ChB, MBA
Medical Doctor
Independent Non-Executive Trustee

Mr V P Rimbault
BSc Eng (Mech)
Chief Executive Officer: The South African Institution of Mechanical Engineering
Independent Non-Executive Trustee

Mr I Kotzé
B Pharm
Executive Director: Pharmaceutical Society of South Africa
Independent Non-Executive Trustee

Mr C Erasmus
B Sc, FIA, FASSA
Director of Companies
Independent Non-Executive Trustee

Mr P Ranchod
B Compt (Hons), CA(SA),
MBL, H Dip Business Data Processing
Independent Director and Business Consultant
Independent Non-Executive Trustee

PPS INSURANCE

SEATED:

Mr S Trikamjee
B Com (Hons), CA(SA)
Chartered Accountant
Independent Non-Executive Director

Dr D P du Plessis
B Sc (QS), MBA, DBA
Director of Companies
Independent Non-Executive Director

Dr C M Krüger
MB ChB, M Prax Med, M Pharm Med
Family Physician
Independent Non-Executive Director

Mr I J Smit
B Com (Hons), FASSA
Group Chief Executive Officer
Executive Director

Dr S N E Seoka
B Pharm, PhD, FPS
Pharmacist
Independent Non-Executive Director

Mr J A B Downie
B Sc, MBA, CFP
Asset Consultant and Professional Trustee
Independent Non-Executive Director

Mr N J Battersby
B Sc Eng (Mech), B Com (Hons), CFP, MBA, AMP (Harvard)
Chief Executive: PPS Investments
Executive Director

Mr P Ranchod
B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing
Independent Director and Business Consultant
Independent Non-Executive Director

STANDING:

Prof H E Wainer
B Acc, CA(SA)
Chartered Accountant and Registered Auditor
Independent Non-Executive Deputy Chairman

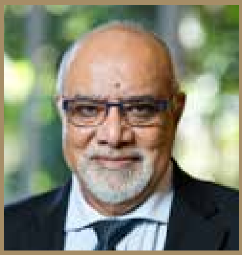
Mrs T Boesch
B Com (Hons), CA(SA)
Group Chief Financial Officer
Executive Director

Dr J A van der Merwe
MB ChB, MBL, DBL, PED. (IMD)
Independent Non-Executive Director

Mr C Erasmus
B Sc, FIA, FASSA
Director of Companies
Independent Non-Executive Chairman

Mr E J S Franklin
B Sc Physics and Applied Mathematics, B Sc Elec Eng, M Sc Elec Eng (Manchester), MBA
Non-Executive Director

Ms D L T Dondur
B Acc (Hons), B Compt, CA(SA), MBA
Director of Companies
Independent Non-Executive Director



Mr E A Moolla
B Iuris
Practising Attorney
Independent Non-Executive Director

PPS GROUP EXECUTIVE COMMITTEE

SEATED:

Mr J A Thomas
B Com (Hons) (Actuarial Science), FASSA
Executive: Actuarial Services

Mrs S Bassudev
B Pharm
Chief Executive: PPS Healthcare Administrators

Mr I J Smit
B Com (Hons), FASSA
Chief Executive Officer

Mr M M Mtshali
B Com, MBA,
Executive: Advisory Services and Enablement

Mr Q J Augustine
B Sc, PG Dip (Actuarial Science), FIA
Executive: Member Value Proposition

Mr W J Mouton
B Proc
Executive: Life Broker Services

Mrs A N Seboni
B Com
Executive: Group Brand Marketing and Communications

Mr W Bosman
B Compt (Hons), CA(SA)
Chief Executive

STANDING:

Mrs T Boesch
B Com (Hons), CA(SA)
Chief Financial Officer

Mr N J Battersby
B Sc Eng (Mech),
B Com (Hons), CFP,
MBA, AMP (Harvard)
Chief Executive: PPS Investments

Mr V E Barnard
B Com
Group Company Secretary

Mr S R Clark
B Com
Executive: Life Administration and Systems

Mr W J Lynch
CAIB(SA), PB(SA),
MDP, PG Dip (Management),
MBA, AMP (Harvard)
Executive: Business Change and Strategic Development

Ms M D Molefe
B Com, MBA
Group Executive: HR

PPS INVESTMENTS

SEATED:

Mr I J Smit
B Com (Hons), FASSA
Non-Executive Director

Mr N J Battersby
B Sc Eng (Mech), B Com (Hons), CFP, MBA, AMP (Harvard)
Chief Executive: PPS Investments

Dr D P du Plessis
B Sc (QS), MBA, DBA
Independent Non-Executive Director

STANDING:

Mrs T Boesch
B Com (Hons), CA(SA)
Non-Executive Director

Mr M J Jackson
BA (Hons), MA
Independent Non-Executive Director

Mr P J Koekemoer
CA(SA), CFP, CFA
Independent Non-Executive Director

Mr A Pillay
B Bus Sc, CA(SA), CFA, AMP
Independent Non-Executive Director

Mrs R G Govender
B Com (Acc), M Com (Tax), Advanced Post Graduate Diploma in Financial Planning, CFP
Independent Non-Executive Director

Mr E A Moolla
B Iuris
Independent Non-Executive Chairman

PPS SHORT-TERM INSURANCE

SEATED:

Mr P Ranchod
B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing
Independent Director and Business Consultant
Independent Non-Executive Director

Mr I J Smit
B Com (Hons), FASSA
Non-Executive Director

Mr M J Jackson
BA (Hons), MA
Non-Executive Chairman

STANDING:

Mrs T Boesch
B Com (Hons), CA(SA)
Non-Executive Director

Mr C Erasmus
B Sc, FIA, FASSA
Director of Companies
Independent Non-Executive Director

Mr W Bosman
B Compt (Hons), CA(SA)
Chief Executive

PPS HEALTHCARE ADMINISTRATORS

SEATED:

Mr S J van Molendorff
B Compt (Hons), CA(SA)
Chief Financial Officer

Mr I J Smit
B Com (Hons), FASSA
Non-Executive Director

Mrs S Bassudev
B Pharm
Chief Executive

Mr M J Jackson
BA (Hons), MA
Chairman

Mr I Kotzé
B Pharm
Non-Executive Director

STANDING:

Mrs T Boesch
B Com (Hons), CA(SA)
Non-Executive Director

Mr N C Nyawo
B Com (Hons), CA(SA), MBA
Non-Executive Director

Dr C M Krüger
MB ChB, M Prax Med,
M Pharm Med
Non-Executive Director

FINANCIAL SOLUTIONS 4 PROFESSIONALS

SEATED:

Mr N J Battersby
B Sc Eng (Mech),
B Com (Hons), CFP,
MBA, AMP (Harvard)
Non-Executive Chairman

Mr W J Mouton
B Proc
Executive Director

Mr M M Mtshali
B Com, MBA
Non-Executive Director

STANDING:

Mrs T Boesch
B Com (Hons), CA(SA)
Non-Executive Director

Mr I J Smit
B Com (Hons), FASSA
Non-Executive Director

FOR PROFESSIONALS

SINCE 1941

PPS NAMIBIA

SEATED:

Mr J A Thomas
B Com (Hons) Actuarial Science, FASSA
Non-Executive Director

Mr J van der Westhuizen
B Com, HDE, CAIB(SA), CFP
Chief Executive

Dr E Maritz
MB ChB
Medical Practitioner
Independent Non-Executive Director

Mr W A Vermeulen
Former Chief Executive

STANDING:

Mr S I de Bruin
B Com (Hons), CA(SA)
Independent Non-Executive Director

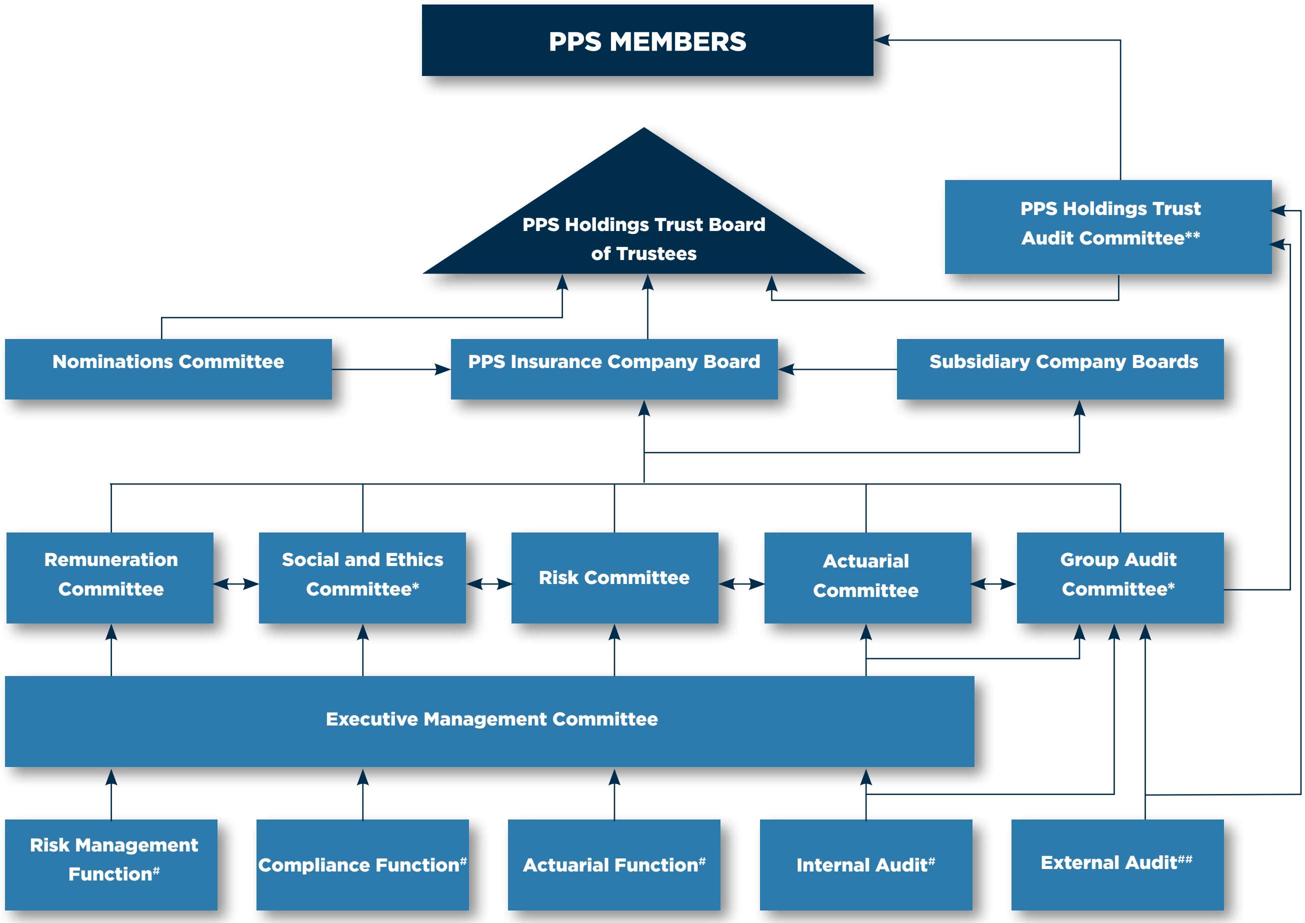
Mr I J Smit
B Com (Hons), FASSA
Non-Executive Director

Mr W J Mouton
B Proc
Non-Executive Director

Ms M D Erkana
BA, LLB
Non-Executive Director

CORPORATE GOVERNANCE REPORT

GOVERNANCE STRUCTURE



* These are statutory committees with a direct reporting line to the PPS Insurance Board.

** This is a statutory committee, required in terms of the Trust Deed of PPS Holdings Trust, with a direct reporting line to the PPS Holdings Trust Board.

\# These functions also have direct reporting lines to the appropriate board committees.

\## External audit also has a direct reporting line to the boards of PPS Holdings Trust, PPS Insurance and its subsidiaries, and to PPS members.

GOVERNANCE

The holding entity of the PPS Group is the Professional Provident Society Holdings Trust (PPS Holdings Trust). Its primary operating subsidiary is Professional Provident Society Insurance Company Limited (PPS Insurance). The key operating subsidiaries of PPS Insurance are Professional Provident Society Short-Term Insurance Company Limited (PPS Short-Term Insurance), Professional Provident Society Investments Proprietary Limited (PPS Investments) and Professional Provident Society Healthcare Administrators Proprietary Limited (PPS Healthcare Administrators). Good corporate governance is an integral part of the PPS Group's operations and the PPS Group is fully committed to the principles of King IV and the Prudential Standards. In terms of the Prudential Standards, Risk Management and Internal Controls for Insurers (GOI 3), PPS Insurance is required to adopt, implement, and document an effective governance framework that provides for the prudent management and oversight of its insurance business and adequately protects the interests of its policyholders.

The governance framework consists of three parts being:

- Boards and board committees – This pertains to the composition, governance and structure of the PPS Holdings Trust Board of Trustees, the PPS Insurance Board of Directors, the boards of directors of the operating subsidiary companies, with well-defined roles and responsibilities, as well as statutory and other board committees, being the PPS Holdings Trust Audit Committee, the Group Audit, Risk, Social and Ethics, Actuarial, Remuneration and Nominations Committees, as well as the Risk and Audit Committees established by certain subsidiaries.

- Risk management system – The risk management system includes the following key policies:
  - Enterprise Risk Management Framework
  - Risk Appetite Policies
  - Fit and Proper Policy
  - Remuneration Policy
  - Asset-Liability Management Policies
  - Investment Management Policies
  - Reinsurance and Other Risk Transfer Policy
  - Financial Risk Policy
  - Insurance Risk Policy
  - Strategic and Operational Risk Policy
  - Fraud and Corruption Policy and Response Plan
  - Own Risk and Solvency Assessment (ORSA) Policy
  - Data and Reporting Policy
  - IT Policy
- Internal control system.

The PPS Governance Framework provides for the prudent management and oversight of PPS, as well as adequately protecting the interests of PPS' members. The framework is appropriate, given the nature, scale and complexity of the PPS Group and its associated risks and is based on key principles as set out in this report.

TRANSPARENT ORGANISATIONAL STRUCTURE

The governance framework provides an adequate, transparent organisational structure with a clear allocation and appropriate segregation of responsibilities. The roles and responsibilities of persons accountable for the management and oversight of PPS are clearly defined. The PPS Group is governed by a unitary board of trustees, assisted by boards of directors, board committees and management committees.

An appropriate system of delegation is in place, in terms of which the direction of the operations of the PPS Group has been delegated to the PPS Insurance Board. The PPS Insurance Board has delegated some of the activities and tasks associated with its role and responsibilities to board committees, the Group Executive Committee, senior management and other employees of the PPS Group.

FIT AND PROPER

The PPS Group Boards are ultimately responsible for ensuring that PPS complies with the fitness and propriety principles and requirements.

The Prudential Standard as outlined in GOI 4 Fitness and Propriety of Significant Owners and Key Persons of Insurers states that the following persons must, at all times, meet Fit and Proper requirements:

- Trustees and directors
- Key Persons, being directors and trustees, the Group Chief Executive (Chief Executive) and persons reporting directly to the Chief Executive with decision-making powers
- Heads of Control Functions
- Auditors
- Principal Officers
- Significant owners of insurance companies in the PPS Group

The Fit and Proper requirements are defined in the Prudential Standard, as well as the PPS Group Fit and Proper Policy, as requirements which are based on the principles of honesty and integrity, competence – including experience, qualifications and knowledge, as well as financial standing for Significant Owners. Fit and Proper checks for the aforementioned persons are conducted on an annual basis.

RISK MANAGEMENT SYSTEM

The risk management system comprises the totality of strategies, policies and procedures for identifying, measuring, monitoring, managing and reporting of all reasonably foreseeable current and emerging material risks, and is part of the day-to-day business activities conducted at the PPS Group. The system takes into account the probability, potential impact, velocity and duration of risks and is adapted as the business and the external environment change. The system supports the boards of directors and trustees in meeting their responsibilities relating to the furtherance of the safe and sound operation of the PPS Group and the protection of its members. The objectives of the PPS Group are aligned with its environmental policies. The risk management system takes into account the alignment of sustaining and growing the business while preserving the environment.

The risk management system comprises the following components:

- A clearly defined and documented risk management strategy, which considers the overall business strategy and business activities.
- Documented procedures which clearly define the decision-making processes within the framework of the risk management system.
- An adequate written overall risk management policy and component policies, consistent with the risk management strategy.
- Appropriate processes, procedures, and tools for identifying, measuring, monitoring, managing, and

reporting (including communication and escalation mechanisms) on all material risks.

- Reports to inform senior management, the Group Risk Committee, and the boards of directors and trustees on all material risks faced by the PPS Group and on the effectiveness of the risk management system itself.
- Processes for ensuring adequate contingency planning, business continuity, and crisis management.

The detailed particulars of the risk management system are set out in the PPS Group Enterprise Risk Management Framework.

INTERNAL CONTROL SYSTEM

The internal control system consists of the totality of strategies, policies, procedures, and controls to assist the boards of directors, trustees and managing executives in the fulfilment of their oversight and management responsibilities. The PPS Group has adopted a Five Lines of Assurance model, supported by a combined assurance framework, to facilitate and ensure effective governance across all processes and functions.

The internal control system provides the boards of directors, trustees, and managing executives with reasonable assurance from a control perspective that the business is operated consistently within the following parameters:

- Business objectives of the PPS Group.
- Strategy determined by the boards of directors and trustees. The detailed particulars of the strategic planning process are set out in the Strategic Planning and Capital Allocation Framework.
- Key business, information technology and financial policies and processes, as well as related risk management policies and procedures, determined by the boards of directors and trustees.
- Applicable laws and regulations.

The internal control system comprises the following components:

- Appropriate segregation of duties, and controls to ensure that segregation is observed.
- Appropriate controls for all key business processes and policies, including for major business decisions.
- End-to-end control processes for complex business activities.
- Controls to provide reasonable assurance over the fairness, accuracy, reliability and completeness of the insurers' financial and non-financial information.
- Board-approved delegations of authority (these are reviewed regularly by the PPS Group boards).
- Controls at the appropriate levels, including at the procedural or transactional levels, and at the legal entity or business unit levels.
- Regular monitoring of all controls to ensure they remain effective.
- An inventory of all key policies and procedures, and the controls in respect of each policy and procedure.
- Training in respect of relevant components of the system of internal controls, particularly for employees in positions of trust or responsibility, or who carry out activities that involve significant risk.

CONTROL FUNCTIONS

In terms of the Prudential Standard GOI 3 Risk Management and Internal Controls, insurance companies must have certain control functions in place and these must be adequately resourced. The following four key control functions are in place within the two PPS Group insurance companies:

- Risk management
- Actuarial
- Compliance
- Internal audit

The control functions are structured to include the necessary authority, independence, resources, expertise, access to the boards and all relevant employees, as well as information to enable them to exercise their authority and perform their responsibilities. The performance of the control functions is reviewed periodically by the PPS Group boards or relevant committee/s. The control functions are required to complete regular self-assessments of their respective functions.

The roles and responsibilities of the control functions are documented and reviewed on an annual basis and are approved by the PPS Group boards. The control functions must avoid conflicts of interest and where conflict arises, it will be brought to the attention of the PPS Group boards.

Where appropriate, the Heads of Internal Audit and Actuarial Control Functions may be outsourced – subject to the provisions of the Outsourcing Policy – in light of the nature, scale, and complexity of the business, risks, and legal and regulatory obligations. The Actuarial Control Functions are performed by Deloitte in terms of outsourced arrangements. Mr G T Waugh of Deloitte serves as the Head of the Actuarial Control Function for PPS Insurance. Mr J van der Merwe of Deloitte serves as the Head of the Actuarial Control Function for PPS Short-Term Insurance. The Internal Audit Control function is performed by KPMG in terms of an outsourced arrangement. Ms I Fourie of

KPMG serves as the Head of the Internal Audit Control Function for both insurance companies in the PPS Group. The Compliance and Risk Management Control Functions are performed in-house. Mrs T Boesch serves as the Head of the Compliance and Risk Management Control Functions for PPS Insurance. For PPS Short-Term Insurance, Mr H van Heerden serves as the Head of the Risk Management Control Function, while Ms S Stuart serves as the Head of the Compliance Control Function.

The existence of the control functions does not relieve the boards of directors and trustees, or Key Persons, from their respective governance and related responsibilities. The governance framework will continue to evolve to ensure compliance with emerging legislation and to enhance the ability of the boards of directors and trustees, managing executives and heads of control functions to manage PPS soundly and prudently. The Actuarial, Audit, Risk, Remuneration and Social and Ethics Committees fulfil a key role in ensuring good corporate governance within the PPS Group. Processes are reviewed regularly to ensure compliance with legal obligations and codes of governance.

The heads of the Control Functions are required to:

- Be fit and proper.
- Have sufficient seniority and authority to be effective.
- Have reporting lines that support their independence.
- Have unrestricted access to relevant information.
- Have direct access to the boards of directors or relevant committee/s, without the presence of senior management if so requested, for the purpose of raising concerns about the effectiveness of the risk management system or system of internal controls.
- Have the freedom to report to the boards of directors or relevant committee without fear of retaliation from senior management.
- Have appropriate segregation of duties from operational business line responsibilities.
- Must report regularly to the PPS Group boards or relevant committee/s, especially on matters of non-compliance with legislation.

There are adequate policies and procedures in relation to the appointment, dismissal and succession of heads of control functions.

The appointment, performance assessment, remuneration, disciplining and dismissal of the head of each control function must be done with the approval of, or after consultation with, the PPS Group boards or relevant committee/s.

GOVERNANCE DEPARTMENTS

The following departments ensure good corporate governance throughout the PPS Group:

Group Company Secretariat

The chairmen of the Boards of PPS Holdings Trust, PPS Insurance and its subsidiaries, the board sub-committees, and the Chief Executive are assisted by the Group Company Secretary in ensuring good corporate governance and adherence to the PPS Group's governance policies. By working closely with the respective board Chairmen and the Chief Executive of the PPS Group, the Group Company Secretary ensures that the agendas for board, board committee and the Group Executive Committee meetings address the key business and governance issues, and that the boards are adequately informed to enable them to discharge their duties and make informed decisions. He is responsible for the determination of the corporate calendar to ensure all required matters are addressed by the respective PPS Group boards and committees. The Group Company Secretary also has a significant role in supporting the Group Nominations Committee in the discharge of its duties to ensure that the PPS Group boards and committees are appropriately constituted and have appropriate Terms of Reference, and that the PPS Group board and committee members, as well the PPS Group Executive Committee members, comply with Fit and Proper requirements, are inducted on appointment, trained and evaluated. The Group Company Secretary co-ordinates the contents and holding of the annual directors' and trustees' strategy and training programme, as well as access to and attendances at governance programmes by external service providers, in accordance with best practice and King IV.

All trustees and directors have direct access to the services of the Group Company Secretary, who is also appointed as the Secretary of PPS Holdings Trust and as a member and Secretary of the Group Executive Committee. He advises them on all corporate governance matters, on board procedures, and on compliance with the Trust Deed of PPS Holdings Trust and PPS Group entities' Memoranda of Incorporation and Trust Deeds.

Comprehensive agendas and papers are provided to the boards by the Group Company Secretary (and by subsidiary Company Secretaries, as applicable) in advance of the meetings of the boards and board committees, including circulation of committee minutes and reports to the appropriate boards. The Group Company Secretary also has responsibility for the secretarial functions of all subsidiary companies, and to ensure that the minutes and statutory records of all PPS Group board and board committee meetings are prepared and maintained in the appropriate PPS Group records.

CORPORATE GOVERNANCE REPORT (continued)

Members of the PPS Group boards have access to independent professional advice, as may be required, through the office of the Group Company Secretary at the PPS Group's expense, in order to discharge their responsibilities as directors and trustees.

Group Legal

The Group Legal Department is the centralised legal function, with the main responsibility of identifying and managing legal risks that may arise during the course of the PPS Group's activities, and ensuring that these risks are appropriately mitigated across all entities. This is achieved by providing or sourcing appropriate legal advice, ensuring that legal risks are optimally negotiated, documented, and monitored, and that the necessary controls are implemented. The Group Legal Department regularly reports to the Group Executive Committee and the Group Risk Committee on the management and status of all material legal risks. All Group Legal Advisers employed in such capacity report to the Head of Group Legal and Compliance.

The Group Legal Department is also responsible for implementing and maintaining legal policy standards throughout the PPS Group and ensuring that the standards are adopted and followed by all subsidiary companies and their internal legal staff (where applicable).

Group Compliance

The PPS Group boards are ultimately accountable for compliance with applicable laws and adopted non-binding rules, codes, and standards. The primary objective of the compliance function is to assist the boards with this responsibility. Management is committed to ensuring that the business is run with integrity, complies with all regulatory and best practice requirements, and is conducted in accordance with the highest ethical standards. The appointed Compliance Officer is responsible for the effective implementation of the Compliance Risk Management Framework and for facilitating compliance throughout the business by creating awareness, independent monitoring, reporting and the provision of practical solutions or recommendations. However, the primary responsibility for complying with any regulatory requirement lies with all members of staff conducting the particular transaction or activity to which the requirement applies.

PPS has implemented a combination of a centralised and a decentralised compliance function. Group Compliance is the central department, with the main role of developing the compliance policy (the boards approve such policy) and related standards to ensure a consolidated compliance risk management and reporting process throughout the PPS Group. The decentralised compliance function consists of business units which have their own compliance functions that are responsible for implementing the PPS Group policies, monitoring the activities of the business units and reporting the status of compliance to Group Compliance. PPS Investments, PPS Healthcare Administrators, PPS Short-Term Insurance and Professional Provident Society Insurance Company (Namibia) Limited (PPS Namibia) have their own business unit compliance officers with oversight by Group Compliance for compliance-related matters. Group Compliance assumes direct responsibility for compliance risk management in PPS Insurance and its divisions.

The compliance function performs its activities in accordance with these five principles:

- All legislative requirements, such as acts, bills, directives, practice notes, industry codes of conduct, and relevant discussion documents, which impose obligations on PPS are identified and interpreted continuously.
- Compliance requirements are addressed in business processes.
- Management and staff are trained on the compliance requirements relevant to their roles.
- Compliance monitoring is conducted to provide assurance on the level of compliance.
- Compliance incidents or suspected incidents are reported and managed.

Group Risk Management

The taking of risk, in an appropriate manner, is an integral part of business. Success relies on optimising the trade-off between risk and reward, following an integrated risk management process, and by considering all internal and external risk factors. While conducting its business, PPS is exposed to, and needs to take on, a variety of risks. The long-term sustained growth, continued success, and reputation of PPS are critically dependent on the quality of risk management. Management is committed to applying best practice and standards, including the implementation of the ISO 31000 standard on Risk Management, Prudential Standards, Risk Management and Internal Controls for Insurers (GOI 3) and King IV. The PPS Group Enterprise Risk Management Framework is aligned to such standards.

PPS' risk philosophy is underpinned by its objective of member value creation, meeting member benefit expectations and achieving sustainable profitable growth, in a manner that is consistent with members' expectations of PPS' risk appetite. This means the PPS Group must ensure that a high-quality risk management culture is instilled throughout its operations, built on the following main elements:

- Adherence to the value system of PPS.
- Proactive risk management.

- A risk awareness culture via management of the business units.
- Disciplined and effective risk management processes and controls, and adherence to risk management standards and limits.
- Compliance with the relevant statutory, regulatory, and supervisory requirements by way of a robust compliance risk management process.
- Regular monitoring by Compliance.
- Review of control measures by Internal Audit.
- Oversight of the risk management process by the Group Risk Committee.

The PPS Group boards ensure that PPS has implemented an effective ongoing process to identify risk, measure its potential outcome and then implement what is necessary to proactively manage these risks. This responsibility includes setting the risk appetite and tolerance of the PPS Group, measuring the relevant risks against it, and ensuring that the necessary controls and service level agreements are in place, are effective and are adhered to at all times. Assurance of good corporate governance is achieved through the regular measurement, reporting, and communication of risk management performance, which includes progress with risk management plans and improvements to risk management maturity.

Management and employees are responsible for the management of risk in accordance with the Enterprise Risk Management Framework, and incorporating risk management into the day-to-day operations of the PPS Group. Management is assisted by the risk management control function in performing annual risk assessments and updating these quarterly, and agreed mitigating actions are managed utilising CURA software. Risk registers are produced from CURA and reviewed monthly by the Group Executive Committee and quarterly by the Group Risk Committee for strategic and major operational risks. A Risk Report containing the findings and conclusions of the risk environment of the PPS Group is prepared on a quarterly basis and is reviewed by the Group Risk Committee and the respective Boards. Other operational risk registers are continuously managed by the relevant business areas.

An opportunity assessment methodology has been implemented by PPS. The purpose of using this methodology is to identify opportunities and the material risks associated with new opportunities to enhance the quality and depth of the risk management process. This methodology also enables an assessment of current strategic objectives against those derived, based on opportunities and the prioritisation of the efforts to get maximum return based on readily accessible resources.

The PPS Holdings Trust Audit Committee, the PPS Group Risk, Audit, Actuarial, Remuneration, and Social and Ethics Committees, as well as the Risk and Audit Committees of subsidiaries, make reports and recommendations to the PPS Group boards, enabling them to discharge their responsibilities in regard to risk management.

MANAGEMENT OF FRAUD AND CORRUPTION RISK AND CONFIDENTIAL REPORTING

The PPS Group maintains a Fraud and Corruption Policy and Response Plan, and a Confidential Reporting Policy to manage fraud and corruption risk in the PPS Group, and to ensure that employees are able to report suspicious activities without fear of retribution. An anonymous reporting hotline, operated independently from the PPS Group by Deloitte, provides a facility to enable employees to report suspicious activities and unethical behaviour in a safe environment. All financial crime-related suspicious transactions and reports are managed by the Fraud Committee and other unethical behaviour is managed by the Human Resources Department.

PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT

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

INFORMATION TECHNOLOGY (IT) GOVERNANCE

The PPS IT strategy is reviewed by the Group Risk Committee (GRC) and progress is tracked regularly through formal published project plans. This strategy is reviewed annually and progress is highlighted for the GRC along with any adjustments that may have resulted from changed business strategies or environmental developments. This strategy is also regularly reviewed to ensure its alignment with business priorities.

CORPORATE GOVERNANCE REPORT (continued)

PPS Group IT applies the standards recommended by the Information Technology Infrastructure Library (ITIL). ITIL is a set of good practices for IT service management that focuses on aligning IT services with the needs of business. These standards describe procedures, tasks and checklists that are not organisation-specific, and are recommended to be used for establishing a minimum level of competency. They allow the organisation to establish a baseline from which it can plan, implement and measure. They are used to demonstrate compliance and to measure improvement.

PPS Group IT performs annual ITIL maturity reviews which are presented to the GRC. Additionally, Internal Audit and other independent assurance providers regularly perform, inter alia, IT control audits, King IV governance audits and an internal security ethical hack. These reviews are intended to provide the PPS Insurance Board with independent assurance on the effectiveness and state of internal controls, as well as confidence in the ability of IT to deliver the approved strategies.

PPS understands and respects that PPS members' privacy is important to them. PPS limits the collection of personal information to what is necessary. PPS uses and shares personal information provided to it by members only in ways that PPS informs members of. PPS takes all reasonable security measures to prevent personal information from being used and shared for other purposes. The information security objective is to develop a cost-effective strategy that is in alignment with the PPS Group's IT and business strategic objectives. The goal is to deliver this through effective risk management, where the investment in the relevant security controls is proportional to the risk exposure. The value delivery of information security is realised through the secure enablement of new business initiatives and the standardisation from a controls perspective of the environment, thereby reducing the number of incidents related to malicious code and unauthorised end-user modification of systems.

REGULATORY DEVELOPMENTS

During the year under review, there was a significant volume of proposed legislation and amendments to existing legislation, all of which will impact the governance and reporting of governance within the PPS Group. This has placed additional responsibilities on the boards and management to ensure adherence to, and compliance with, the new requirements.

The most important legislative changes for PPS are highlighted below:

1. PRUDENTIAL STANDARDS

The former Financial Services Board (FSB), together with the insurance industry have, through the Solvency Assessment and Management (SAM) project, established a risk-based approach which will ensure that the solvency and liquidity requirements are consistently met by insurers. The former FSB Insurance Prudential team has now been seconded to the Prudential Authority (PA).

The PA published the final Prudential Standards which became effective on 1 July 2018. The Standards consist of Governance and Operational Standards for Insurers and Financial Soundness Standards.

The PPS Group Insurance companies are financially sound under the Prudential Standards and the measures designed have been entrenched in decision-making and the day-to-day operations of the business. Policies were also updated where necessary.

2. TWIN PEAKS

The 'Twin Peaks' model is a strategy to divide the financial regulatory system into two regulatory regimes. These two regimes are headed by the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA). The objectives of this model are financial stability, consumer protection, combating of financial crimes, and transparency. These changes will be funded, among other things, by increasing the levies paid by financial institutions.

The Financial Sector Regulation Act was proclaimed in 2018, with a notable number of its sections commencing on 1 April 2018, while different commencement dates apply in respect of various other sections of the Act.

During September 2018 the new PA also published its regulatory strategy for the period 2018 to 2021. The strategy provides information regarding the PA's approach to regulation and supervision; the principles that will guide its regulatory and supervisory decisions; the PA's key priorities over the next three years; and the key outcomes that the PA intends to achieve.

Similarly, the new FSCA also announced the adoption of its regulatory strategy for the period 2018 to 2021, during October 2018. The strategy sets out the FSCA's regulatory and supervisory priorities for the next three years; the intended key outcomes of the strategy; guiding principles and matters that the FSCA should have regard to when performing its functions; its approach to administrative actions, as well as how it will give effect to requirements of openness to consultation, accountability, and consistency with relevant international standards.

3. RETAIL DISTRIBUTION REVIEW (RDR)

The FSB initially released a discussion paper outlining the Retail Distribution Review (RDR) in 2014.

The newly formed FSCA published a further update on the status of the original RDR proposals during June 2018. The FSCA again reiterated that the RDR proposals will be implemented using an appropriate combination of instruments under existing financial sector laws and standards under the Financial Sector Regulation Act (2017), as well as the planned future Conduct of Financial Institutions (COFI) Act.

During July 2018 the FSCA also published the 'Retail Distribution review: Discussion Document on Investment Related Matters'. The purpose of the discussion document was to elicit stakeholder input on possible regulatory measures to define the activity of investment management and consider the extent to which investment management needs to be demarcated from other forms of discretionary investment mandate; clarify the nature of the legal and business relationships between different types of discretionary investment mandate holders, collective investment scheme management companies and investment advisors; and to provide for fee and remuneration arrangements to conform to the RDR approach of aligning remuneration with actual activities performed and avoiding unnecessary duplication of costs for the end investor.

4. MARKET CONDUCT TREATING CUSTOMERS FAIRLY (TCF)

The FSCA's predecessor, the FSB, first launched its outcomes-based customer protection initiative, Treating Customers Fairly (TCF), with the publication of its TCF Roadmap during March 2011. TCF is a regulatory and supervisory approach that seeks to ensure that financial institutions deliver specific, clearly articulated fairness outcomes for financial services customers throughout the financial product lifecycle.

The Financial Sector Regulation (FSR) Act (2017) formally entrenched the TCF approach in the legislative framework by giving the FSCA an explicit objective to promote fair treatment of financial customers by financial institutions and empowering it to make conduct standards aimed at ensuring that this is achieved.

The FSCA confirmed in its Regulatory Strategy document, published during October 2018, that it will continue to work closely with National Treasury, the PA and other stakeholders to shape the next phase of the legislative framework. The main instrument which will facilitate TCF implementation is the expected Conduct of Financial Institutions (COFI) Act which will comprise a number of chapters specifically focused on ensuring financial institutions deliver TCF outcomes for their customers and will empower the FSCA to make conduct standards to reinforce this objective.

It will, however, still be some time before the COFI Act comes into operation and current indications are that it will only be tabled in Parliament during 2019. Given this, the FSCA has confirmed that its medium-term strategy to deliver on its mandate to promote fair customer treatment is to adopt an incremental approach to working towards an overarching conduct of business framework that promotes TCF outcomes. This incremental approach entails, among others, the following:

- Embedding TCF in existing regulatory frameworks or through conduct standards under the FSR Act.
- Continuing to prioritise a number of key TCF-aligned regulatory projects.
- Embedding TCF in the FSCA's supervisory and enforcement frameworks.

PPS always strives to treat all its clients fairly. Because PPS operates on the ethos of mutuality, with no outside stakeholders or shareholders, it has an added advantage of not having to consider outside parties' interests in its dealings with clients. PPS always ensures that it does not only act in the interest of a single client, but that it also considers the interests of its broader client base, and where appropriate take steps to redress client interests.

5. INSURANCE ACT

The Insurance Act was approved by Parliament on 28 November 2017. The Insurance Act was gazetted in January 2018 and commenced on 1 July 2018. The PA also published prescribed prudential standards for the effective implementation of the Insurance Act. The Prudential Standards similarly took effect on 1 July 2018 and provide for, among others, financial soundness and governance and operational standards.

During June 2018 the PA published the process for the conversion of registrations under the Long-Term Insurance Act 1998 (LTIA), and Short-Term Insurance Act 1998 (STIA), to licenses under the new Insurance Act 2017. As of 1 July 2018, every previously registered insurer that immediately before 1 July 2018 had been registered as a Long-Term Insurer or Short-Term Insurer under the LTIA or STIA, continued to exist as an insurer as if it had been licensed under the new Insurance Act. The PA intends to, within a period of two years from 1 July 2018, convert the registrations of all previously registered insurers to licenses in accordance with the new Insurance Act. The conversion process will take place in phases based on the categories of insurance companies.

6. LONG- AND SHORT-TERM INSURANCE: REPLACEMENT OF POLICYHOLDER PROTECTION RULES

During March 2018 the FSB published a second tranche of proposed amendments to the Policyholder Protection Rules (PPRs). The proposed amendments were aimed at, inter alia, aligning the PPRs with the new Insurance Act 2017; providing for conduct of business rules; and making provision for microinsurance product standards. The second tranche of draft PPR amendments were tabled in parliament on 16 May 2018 and became effective on 1 October 2018.

7. LONG- AND SHORT-TERM INSURANCE: REGULATIONS

During March 2018 the FSB published a second round of proposed amendments to the regulations under the LTIA and STIA. The proposed amendments were aimed at aligning the regulations, specifically terminology, with the new Insurance Act 2017; further strengthening policyholder protection; and amending the binder regulations. The second round of draft amendments to the regulations were tabled in parliament on 20 June 2018 and became effective on 28 September 2018.

8. DETERMINATION OF FIT AND PROPER REQUIREMENTS FOR FINANCIAL SERVICES PROVIDERS

The FSB first published the draft amended fit and proper requirements, applicable to financial services providers in terms of the Financial Advisory and Intermediary Services (FAIS) Act (2002), during 2017. The amendments are applicable to the different categories of financial services providers and their key individuals and representatives within each of those categories. The amendments are designed, among others, to meet the consumer protection objectives of the FAIS Act (2002) and to ensure clarification of applicable requirements.

The majority of the amendments came into effect on 1 April 2018.

APPLICATION OF THE PRINCIPLES OF KING IV

The King IV Report on Corporate Governance replaced King III in its entirety, and unlike its predecessors, the King IV Report is outcome-based. Four governance outcomes, viz: ethical culture, good performance, effective control and legitimacy, are guided and supported by 17 principles and over 400 recommended practices.

An assessment of compliance by the PPS Group with the King IV principles was conducted as part of the 2017 Group Compliance Programme, using the King IV Governance assessment instrument. The results of the assessment indicated that the PPS Group had satisfactorily applied 389 of the recommended practices, with 10 practices not being applicable to PPS and five practices which had not been applied.

Practice 36.a	The chair of the governing body should not be a member of the Audit Committee. **Commentary:** The Chairman of PPS Insurance is a member of the Group Audit Committee where he provides actuarial expertise and a link between the Actuarial and Group Audit Committees. For particulars of the responsibilities and functions of the two audit committees, please refer to the Report of the Audit Committees in this Integrated Report.	Not Applied

Practice 83.a	The notice period stipulated in the CEO's employment contract and the contractual conditions related to termination should be disclosed. **Commentary:** Particulars of the Group Chief Executive's employment contract are considered to be competitive information and are not publicly reported.	Not Applied
Practice 34.c	The overview of the remuneration policy should include a description of the framework and performance measures used to assess the achievement of strategic objectives and positive outcomes, including the relative weighting of each performance measure and the period of time over which it is measured.	Not Applied
Practice 34.d	The overview of the remuneration policy should include an illustration of the potential consequences on the total remuneration for executive management, on a single, total figure basis, of applying the remuneration policy under minimum, on-target and maximum performance outcomes.	Not Applied
Practice 35.b	The implementation report must include an account of the performance measures used and the relative weighting of each, as a result of which awards under variable remuneration incentive schemes have been made, including: the targets set for the performance measures and the corresponding value of the award opportunity; and for each performance measure, how the organisation and executive managers, individually, performed against the set targets. **Commentary:** Detailed particulars of the above remuneration aspects are considered to be competitive information and are not publicly disclosed.	Not Applied

GOVERNANCE OF THE PPS GROUP BY THE BOARDS

The PPS Group is ultimately governed by PPS Holdings Trust, which has a unitary board of trustees, assisted by the boards of directors and trustees of PPS Group entities and the committees as detailed below.

The wholly-owned principal operating subsidiary, PPS Insurance, has a majority of independent non-executive directors, eight of whom are nominated members of the PPS Holdings Trust Board (including two *ex officio* appointees), and includes directors with specialist skills appropriate to the insurance and investment industries. The PPS Insurance Board is accountable to the PPS Holdings Trust Board for the achievement of strategic objectives determined by the PPS Holdings Trust Board in furthering the interests of its members. These objectives pertain to:

- Operational efficiency
- Investment returns
- Membership and sales growth
- Service to PPS members

The primary operating subsidiaries of PPS Insurance are set out in the Trustees' Report and their boards are comprised of executive and non-executive directors and trustees as set out in this report.

BOARD COMPOSITION, APPOINTMENTS AND SUCCESSION PLANNING

The PPS Holdings Trust Board is comprised of 20 trustees, all of whom are independent non-executive trustees. In terms of its Trust Deed, PPS Ordinary Members may nominate and elect 10 Ordinary Members to the PPS Holdings Trust Board at its annual general meeting. At the invitation of the PPS Holdings Trust Board, a further six members of the current Board of PPS Holdings Trust are, subject to the recommendations of the Group Nominations Committee and the approval of the PPS Holdings Trust Board in accordance with the provisions of the Trust Deed, nominated to serve on the PPS Holdings Trust Board by professional associations whose members are significantly represented in the PPS membership base. The PPS Holdings Trust Board has co-opted a further two members for their specific skills, as provided for in the Trust Deed, which also stipulates that the Chairman and Deputy Chairman of PPS Insurance are appointed *ex officio* to the PPS Holdings Trust Board. All PPS Holdings Trust Board members are appointed for specific terms and re-appointment is not automatic.

The PPS Holdings Trust Board appoints the members of its board committees, as well as the members of the PPS Insurance, the PPS RA Fund and the PPS Beneficiaries Trust Boards. In turn, the PPS Insurance Board appoints the members of its board committees and the members of its subsidiaries' boards.

CORPORATE GOVERNANCE REPORT (continued)

Under delegated authority of the PPS Holdings Trust Board, the Group Nominations Committee, within its powers, evaluates, selects and recommends for appointment the PPS Group trustees and directors, including the Chief Executive, executive directors and non-executive directors/trustees and board committee members, taking into account the Fit and Proper and other regulatory requirements for the appointment of directors/trustees of long-term and short-term insurance companies and their holding entities.

The Group Nominations Committee considers trustee and director succession planning and makes appropriate recommendations to the PPS Group boards. This encompasses an evaluation of the skills, knowledge and experience required to add value to the PPS Group, as well as compliance with Fit and Proper requirements, for all trustees and directors, including PPS Holdings Trust trustees standing for re-election, as well as new candidates standing for election for the first time. All elections of trustees of PPS Holdings Trust are made in terms of a formal and transparent procedure and are subject to approval by the Ordinary Members of PPS Holdings Trust at its annual general meeting.

The Nominations Committee periodically considers the factors determining the suitability of professional associations for invitation to nominate representatives to serve on the PPS Holdings Trust Board, to further the relationship of the PPS Group with the members of such professional associations, and makes recommendations in this regard to the PPS Holdings Trust Board. During 2018, the PPS Holdings Trust Board reviewed the representation of professional associations on the PPS Holdings Trust Board, pursuant to which representation from the Law Society of South Africa was invited, in place of the General Council of the Bar of South Africa.

The PPS Holdings Trust Board has considered and is of the view that the PPS Group boards and committees are appropriately constituted to meet statutory requirements and the PPS Group's needs.

Candidates who have been nominated for service on PPS Group boards are required to clearly identify any conflict, or potential conflict, of interest with the activities of PPS Holdings Trust, its subsidiaries and affiliates. Candidates who are financial advisors or intermediaries, or hold any office or interest, directly or indirectly, in any entity which competes in the same sphere of business as the PPS Group, do not qualify for appointment to any of the PPS Group Boards.

CHAIRMAN AND DEPUTY CHAIRMAN OF THE PPS HOLDINGS TRUST BOARD OF TRUSTEES

Mr E A Moolla, who had held the position of Chairman of the PPS Holdings Trust Board since 2012, stepped down as Chairman of the PPS Holdings Trust Board at the 22 May 2018 annual general meeting. The PPS Holdings Trust Board elected Dr S N E Seoka, who had held the position of Deputy Chairman of the PPS Holdings Trust Board since 2012, as Mr Moolla's successor on 13 June 2018. Dr C M Krüger, who has served on the PPS Holdings Trust Board since 2004, was elected as Deputy Chairman of the PPS Holdings Trust Board, as successor to Dr Seoka.

In terms of PPS Insurance's Memorandum of Incorporation, the Chairman and Deputy Chairman of PPS Holdings Trust are appointed *ex officio* to the PPS Insurance Board and form part of the eight trustees of PPS Holdings Trust nominated annually by the PPS Holdings Trust Board to serve on the PPS Insurance Board.

CHAIRMAN AND DEPUTY CHAIRMAN OF THE PPS INSURANCE BOARD OF DIRECTORS

Mr C Erasmus has held the position of Chairman of the PPS Insurance Board since 2014. Prof H E Wainer was appointed as Deputy Chairman of the PPS Insurance Board in 2015. In terms of the Trust Deed of PPS Holdings Trust, the Chairman and Deputy Chairman of PPS Insurance are appointed *ex officio* to the PPS Holdings Trust Board.

CHIEF EXECUTIVE OF THE PPS GROUP

Mr I J Smit was appointed as the Chief Executive of the PPS Group on 25 July 2016.

BOARD CHARTERS AND TRUST DEED

In accordance with the principles of sound corporate governance, the Board Charters for the PPS Holdings Trust, the PPS Insurance and the subsidiary boards – modelled on the charter principles recommended by King IV and adapted to the requirements of PPS – incorporate the powers of the boards, providing a clear and concise overview of the division of responsibilities and accountability of PPS Group board members, collectively and individually, to ensure a balance of power and authority. The Board Charters are reviewed regularly to ensure continued compliance with regulation and best practice.

The Trust Deed of PPS Holdings Trust incorporates key elements of the Companies Act, 2008, and its trustees have similar responsibilities and duties to those of company directors, including the statutory responsibilities imposed on directors by the Companies Act, in addition to their responsibilities and duties as trustees.

Committees of the boards act within board approved Terms of Reference and the Chairman of each committee reports, as appropriate, to the board which constituted such committee at the scheduled meetings of that Board. These Terms of Reference are reviewed annually to ensure continued compliance with regulation and best practice. Where appropriate, the minutes of the committee meetings are tabled at subsequent board meetings. The chairmen of the PPS Holdings Trust and PPS Insurance Boards are independent non-executive trustees/directors. At PPS Insurance, the roles of Chairman and Chief Executive are separated, with a clear division of responsibility to ensure distinction between their respective duties and responsibilities. The Chairmen have no executive functions. The role of all trustees and directors is to bring independent judgement and experience to the boards' decision-making process and to act in the best interests of the trust or company on whose board such trustee/director serves.

FUNCTIONING OF THE BOARDS AND BOARD COMMITTEES

The Group Executive Committee and various other management sub-committees, established by the Group Executive Committee, provide ongoing input and support to the boards, board committees and Chief Executive as and when required.

The members of the boards receive timely, accurate and relevant information to enable them to fulfil their duties. All new directors and trustees undergo a formal induction process, which includes meeting the PPS Group's senior management to discuss key aspects of the business and the governance thereof, with comprehensive documentation regarding the governance and management structures of the PPS Group. All directors and trustees are encouraged to undertake continuing professional development, training and education throughout their term of office. The PPS Group sponsors membership of the Institute of Directors for its board members. Board members are provided on an ongoing basis with information and training relevant to the business of the PPS Group and the industries in which it operates. Board members also attend an annual strategy day, which includes training on pertinent aspects of the business, regulation and the environment in which the PPS Group operates.

The Chairmen's key responsibilities are to provide leadership to the boards, to oversee the determination of strategy, to guide the process to ensure a balance in the composition of the boards, to ensure sufficient and open discussion of matters before the boards and to promote effective communication between executive and non-executive directors/trustees.

The Chief Executive has overall responsibility for the management of the PPS Group's business and its operations, in line with the policies and strategic objectives set and agreed on by the PPS Insurance Board. The Chief Executive reports to the PPS Insurance Board on the performance of the PPS Group and any other material matters at regular Board meetings, which are scheduled six times per annum. He reports on how the PPS Group has performed against key indicators following the monthly meetings of the Group Executive Committee, which manages the PPS Group's business on a day-to-day basis. Key reports are reviewed at the meetings of the PPS Insurance Board when the Chief Executive highlights significant issues and other executive and non-executive directors, as well as members of senior management who attend by invitation, are invited to contribute, as appropriate. Additional meetings of the boards are scheduled as may be required.

The Chief Executive also reports on the performance of PPS Insurance to the PPS Holdings Trust Board against the strategic objectives determined for PPS Insurance by the PPS Holdings Trust Board.

Additional papers on issues upon which the boards are required to make decisions are submitted, as appropriate, and members of senior management regularly attend board meetings by invitation to present papers and to deal with issues raised by the boards.

BOARD PERFORMANCE ASSESSMENT

The Group Nominations Committee is mandated by the PPS Holdings Trust and PPS Insurance Boards to institute formal and comprehensive board evaluation programmes for the assessment of the PPS Group's trustees and directors in accordance with regulatory requirements. In terms of these programmes, the PPS Group Boards, as well as the individual trustees and directors serving on those boards, are evaluated regularly with the assistance of independent consultants, in accordance with best local and international governance and board evaluation practices, including the Fit and Proper requirements stipulated by the PA.

CORPORATE GOVERNANCE REPORT (continued)

The results of the evaluations are reported to the boards and any identified areas for improvement are incorporated into the board training programmes and agendas for scheduled meetings of the boards and the annual PPS Group Board Strategy Day. The most recent evaluations of the boards were performed in November 2018 by an independent assessor, The Board Practice. The assessments indicated that the PPS Group boards were effective in discharging their duties.

RETIREMENT OF BOARD MEMBERS BY ROTATION

One-third of the maximum of ten elected PPS Holdings Trust trustees, who are not representatives of a professional association or co-opted, and are appointed in terms of clause 5.3.1 of the Trust Deed, and who are in office as at the date of the annual general meeting, are subject to retirement by rotation at least every three years, but may stand for re-election at the annual general meeting, subject to the approval of the Group Nominations Committee. There are currently eight elected trustees in office, following the resignations of Mr M Pillay and Mr B R Topham. The names and abbreviated curricula vitae of the two trustees who are retiring by rotation and are eligible for re-election, as well as of new nominees standing for election, at the forthcoming annual general meeting to be held on 20 May 2019, are stated in the notice of annual general meeting commencing on page 186 and up to page 188 of this Integrated Report.

In accordance with the provisions of the Trust Deed, PPS Holdings Trust trustees who are representatives of professional associations and trustees who are co-opted to the board are also appointed for a three-year term, after which they are required to retire, but may be nominated by the professional associations, or be co-opted, subject to the Nominations Committee's recommendation, for re-appointment by the PPS Holdings Trust Board.

INTERESTS IN CONTRACTS AND CONFLICTS OF INTEREST

PPS Group trustees and directors are required to avoid conflicts of interest, where possible, and where it cannot be avoided, to inform the respective board/s on which they serve timeously of any conflicts or potential conflicts of interest that they may have in relation to particular items of business and they are obliged to recuse themselves from discussions or decisions in relation to such matters. Trustees and directors are also required to disclose their interests in, and directorships of, other companies/entities in accordance with statutory requirements and to inform the boards when any changes occur.

During the year ended 31 December 2018, none of the directors/trustees had disclosed any interest in contracts or arrangements entered into by the PPS Group. The Chief Executive is required to disclose any appointments to non-PPS Group boards. Directors and trustees are required to submit and maintain written declarations of interests, which are presented to the respective boards at each board meeting and board members are required to acknowledge in writing that they have read the written disclosures submitted.

PROFESSIONAL INDEMNITY INSURANCE

Adequate Directors and Officer's liability insurance and indemnity cover has been effected by the PPS Group in respect of all its trustees, directors and officers. No claims under the relevant policies were lodged during the year under review.

TRUSTEES OF THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST

Trustee	Age*	Qualification	Classification	Term of Office
Dr S N E Seoka (Chairman) Independent Non-executive (Appointed Chairman 13 June 2018)	63	B Pharm, PhD, FPS	Co-opted for a three-year term	Appointed 15 August 2005 Ends AGM 2020
Dr C M Krüger Independent Non-executive (Appointed Deputy Chairman 13 June 2018)	53	MB ChB, M Prax Med, M Pharm Med	Elected for a three-year term	Appointed 21 June 2004 Ends AGM 2021
Dr A Coetzee Independent Non-executive	59	B Med Sc, MB ChB, CAHM, ABCD	Nominated for a three-year term(6)	Appointed 1 March 2019 Ends AGM 2022
Ms D L T Dondur Independent Non-executive	52	B Acc (Hons), B Compt, CA(SA), MBA	Nominated for a three-year term(1)	Appointed 6 July 2011 Ends AGM 2020
Mr J A B Downie Independent Non-executive	60	B Sc, MBA, CFP	Co-opted for a three-year term	Appointed 15 April 2010 Ends AGM 2020
Dr D P du Plessis Independent Non-executive	64	B Sc, MBA, DBA	Elected for a three-year term	Appointed 3 June 2013 Ends AGM 2019
Mr C Erasmus Independent Non-executive	67	B Sc, FIA, FASSA	Appointed *ex officio*	Appointed 1 June 2015 Ends N/A
Dr N H P Khosa Independent Non-executive	37	MB ChB, MBA	Elected for a three-year term	Appointed 19 June 2018 Ends June 2021
Mr I Kotzé Independent Non-executive	62	B Pharm	Nominated for a three-year term(2)	Appointed 27 August 2001 Ends AGM 2020
Dr F Mansoor Independent Non-executive	39	BDS, MBA	Nominated for a three-year term(3)	Appointed 17 July 2017 Ends AGM 2020
Mr E A Moolla Independent Non-executive (Stepped down as Chairman 13 June 2018)	68	B Iuris	Elected for a three-year term	Appointed 11 March 2002 Ends AGM 2021
Ms P Natesan Independent Non-executive	42	B Com (Hons), CA(SA)	Elected for a three-year term	Appointed 17 July 2017 Ends AGM 2020
Mrs N N Nongogo Independent Non-executive	47	B Juris, LLB	Nominated for a three-year term(4)	Appointed 16 October 2018 Ends AGM 2021
Mr N C Nyawo Independent Non-executive	39	B Com (Hons), CA(SA), MBA	Elected for a three-year term	Appointed 2 June 2014 Ends AGM 2019
Mr P Ranchod Independent Non-executive	63	B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing	Elected for a three-year term	Appointed 6 June 2011 Ends AGM 2020

CORPORATE GOVERNANCE REPORT (continued)

Trustee	Age*	Qualification	Classification	Term of Office
Mr V P Rimbault Independent Non-executive	55	B Sc Eng (Mech)	Nominated for a three-year term(5)	Appointed 12 September 2011 Ends AGM 2020
Mr S Trikamjee Independent Non-executive	40	B Com (Hons), CA(SA)	Elected for a three-year term	Appointed 8 June 2009 Ends AGM 2020
Prof H E Wainer Independent Non-executive	57	B Acc, CA(SA), Registered Auditor	Appointed *ex officio*	Appointed 1 June 2015 Ends N/A
Adv T N Aboobaker Independent Non-executive	65	BA, LLB	Nominated for a three-year term(7)	Appointed 4 December 2006 Resigned 21 May 2018
Dr M J Grootboom Independent Non-executive	67	MB ChB, FCS (SA) ORTH, CIME (ABIME)	Nominated for a three-year term(6)	Appointed 10 May 2018 Resigned 3 December 2018
Mr U D Jivan Independent Non-executive	56	BA, LLB	Elected for a three-year term	Appointed 8 June 2009 Retired 22 May 2018
Mr M Pillay Independent Non-executivee	42	HDE, B SC Eng, MBA	Elected for a three-year term	Appointed 17 July 2017 Resigned 5 September 2018
Prof M W Sonderup Independent Non-executive	50	B Pharm, MB ChB, FCP (SA)	Nominated for a three-year term(6)	Appointed 29 March 2012 Resigned 22 May 2018
Mr B R Topham Independent Non-executive	47	B Compt (Hons), CA(SA), B Proc, LLM	Elected for a three-year term	Appointed 2 June 2014 Resigned 31 January 2019

** As at 2 April 2019*

N/A = Not applicable

Note: Trustee nominated by:
1. The South African Institute of Chartered Accountants
2. The Pharmaceutical Society of South Africa
3. The South African Dental Association
4. The Law Society of South Africa
5. The Professional Engineers' Societies
6. The South African Medical Association
7. The General Council of the Bar of South Africa

DIRECTORS OF PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY LIMITED

Director	Age*	Qualification	Appointed
Mr C Erasmus (Chairman) Independent Non-executive	67	B Sc, FIA, FASSA	19 February 2007
Prof H E Wainer (Deputy Chairman) Independent Non-executive	57	B Acc, CA(SA), Registered Auditor	30 November 2009
Ms D L T Dondur Independent Non-executive	52	B Acc (Hons), B Compt, CA(SA), MBA	24 June 2013
Mr J A B Downie Independent Non-executive	60	B Sc, MBA, CFP	24 June 2013
Dr D P du Plessis Independent Non-executive	64	B Sc (QS), MBA, DBA	19 June 2017
Mr E J S Franklin Independent Non-executive	56	B Sc Physics and Applied Mathematics, B Sc Elec Eng, M Sc Elec Eng (Manchester), MBA	01 March 2019
Dr C M Krüger Independent Non-executive	53	MB ChB, M Prax Med, M Pharm Med	29 June 2015
Mr E A Moolla Independent Non-executive	68	B Iuris	24 February 2003
Mr P Ranchod Independent Non-executive	63	B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing	24 June 2013
Dr S N E Seoka Independent Non-executive	63	B Pharm, PhD, FPS	26 June 2006
Mr S Trikamjee Independent Non-executive	40	B Com (Hons), CA(SA)	29 June 2015
Dr J A van der Merwe Independent Non-executive	63	MB ChB, MBL, DBL, PED. (IMD)	18 June 2018
Mr I J Smit (Chief Executive) (Executive)	51	B Com (Hons), FASSA	25 July 2016
Mr N J Battersby (Executive)	51	B Sc, B Com (Hons), MBA, CFP, AMP (Harvard)	28 September 2016
Mrs T Boesch (Chief Financial Officer) (Executive)	44	B Com (Hons), CA(SA)	04 May 2009
Mr N G Payne Independent Non-executive	59	B Com (Hons), CA(SA), MBL	25 June 2007 (Resigned 30 April 2018)

As at 2 April 2019

CORPORATE GOVERNANCE REPORT (continued)

DIRECTORS/TRUSTEES OF SUBSIDIARIES AND AFFILIATES:

PPS Namibia	PPS Healthcare Administrators	PPS Short-Term Insurance
Director	**Director**	**Director**
Mr I J Smit (Acting Chairman)	Mr M J Jackson (Chairman)	Mr M J Jackson (Chairman)
Mr S I de Bruin (Appointed 1 November 2018)	Mrs T Boesch	Mrs T Boesch
Ms M D Erkana (Appointed 1 March 2019)	Mrs S Bassudev (Chief Executive) (Appointed 1 April 2018)	Mr W Bosman (Appointed as Chief Executive 1 July 2018)
Dr E Maritz	Mr I Kotzé	Mr C Erasmus
Mr W J Mouton	Dr C M Krüger	Mr P Ranchod
Mr J A Thomas (Appointed 1 November 2018)	Mr N C Nyawo	Mr I J Smit
Mr J van der Westhuizen (Chief Executive) (Appointed 1 December 2018)	Mr I J Smit	Mr H J R de Jongh (Resigned 7 December 2018)
Adv N Bassingthwaighte (Resigned 26 October 2018)	Mr S J van Molendorff (Chief Financial Officer)	Mr N Hoosen (Former Chief Executive) (Resigned 30 June 2018)
Mr W A Vermeulen (Former Chief Executive) (Retired 30 November 2018)	Dr H D P Hoffman (Former Chief Executive) (Retired 1 April 2018)	Ms F Jabaar (Resigned 13 May 2018)
		Mr P D V Rademeyer (Resigned 7 December 2018)
		Mr N Slabbert (Appointed 21 June 2018 and Resigned 7 December 2018)

PPS Retirement Annuity Fund	PPS Beneficiaries Trust
Trustee	**Trustee**
Mr J A B Downie (Chairman)	Mr S Trikamjee (Chairman)
Mrs R G Govender (Deputy Chairman)	Ms D L T Dondur
Ms D L T Dondur	Dr D P du Plessis
Mr H P du Toit	
Dr S N E Seoka	
Mr S Trikamjee	
Mr U D Jivan (Resigned 22 May 2018)	
Mr B R Topham (Resigned 31 January 2019)	

PPS Investments	PPS Investment Administrators	PPS Multi-Managers	PPS Management Company	PPS Nominees
Director	**Director**	**Director**	**Director**	**Director**
Mr E A Moolla (Chairman)	Mr N J Battersby (Chairman)	Mr N J Battersby (Chairman)	Mr N J Battersby (Chairman)	Mr N J Battersby (Chairman)
Mr N J Battersby (Chief Executive)	Mr A J Fraser	Mr D R Crosoer	Mr A J Fraser	Mr S M Gerber
Mrs T Boesch			Mr S M Gerber	Mr A J Woolfson
Dr D P du Plessis (Appointed 18 June 2018)			Mr A J Woolfson	
Mrs R G Govender (Appointed 18 June 2018)				
Mr M J Jackson				
Mr P J Koekemoer				
Mr A C Pillay				
Mr I J Smit				
Mr N G Payne (Resigned 30 April 2018)				

PPSI Foundation (RF) NPC	Intembeko Investment Administrators
Directors	**Directors**
Mrs T Conceivious (Chairman) (Appointed 1 July 2018)	Mr E A Moolla (Chairman)
Mr W A Davids (Appointed 19 February 2018)	Mr A J Bester
Mr A J Fraser (Appointed 19 February 2018)	Mrs T Conceivious (Appointed 1 August 2018)
Mrs R G Govender (Appointed 19 February 2018)	Mr R Fenner (Appointed 1 August 2018)
Mr S Trikamjee (Appointed 19 February 2018)	Mr T F Molteno (Managing Director) (Appointed 1 March 2018)
	Mr M Nhlumayo
	Mr L Potgieter (Appointed 1 August 2018)

CORPORATE GOVERNANCE REPORT (continued)

PPS Personal Pension Retirement Annuity Fund	PPS Preservation Provident Fund	PPS Preservation Pension Fund
Trustee	**Trustee**	**Trustee**
Mrs R G Govender (Chairman)	Mrs R G Govender (Chairman)	Mrs R G Govender (Chairman)
Mr A Bosch	Mr A Bosch	Mr A Bosch
Mr J A B Downie	Mr J A B Downie	Mr J A B Downie
Mr H P du Toit	Mr H P du Toit	Mr H P du Toit
Mr S Trikamjee	Mr S Trikamjee	Mr S Trikamjee

PPS Property Fund Trust	PPS Foundation Trust	PPS Educational Trust	PPS Training Academy
Trustee	**Trustee**	**Trustee**	**Director**
Mr I J Smit (Chairman)	Dr S N E Seoka (Chairman)	Dr S N E Seoka (Chairman)	Dr S N E Seoka (Chairman)
Mr N J Battersby	Dr D P du Plessis	Dr D P du Plessis	Dr D P du Plessis
Mrs T Boesch	Mr N C Nyawo	Mr N C Nyawo	Mr N C Nyawo
Mr V Schroeder	Mr P Ranchod	Mr P Ranchod	Mr P Ranchod
	Ms M D Molefe (Appointed 1 March 2019)	Ms M D Molefe (Appointed 1 March 2019)	Ms M D Molefe (Appointed 1 March 2019)
	Mrs L A Dlamini (Resigned 31 October 2018)	Mrs L A Dlamini (Resigned 31 October 2018)	Mrs L A Dlamini (Resigned 31 October 2018)

Plexus Properties	Financial Solutions 4 Professionals	Six Anerley Road Holdings
Director	**Director**	**Director**
Mr I J Smit (Chairman)	Mr N J Battersby (Chairman) (Appointed 19 June 2018)	Mr I J Smit (Chairman) (Appointed 27 March 2018)
Mrs T Boesch	Mr I J Smit (Former Chairman)	Mrs T Boesch (Appointed 27 March 2018)
	Mrs T Boesch	Dr S N E Seoka (Former Chairman) (Resigned 27 March 2018)
	Mr W J Mouton (Appointed 26 February 2018)	Mrs L A Dlamini (Resigned 27 March 2018)
	Mr M M Mtshali (Appointed 19 June 2018)	Dr D P du Plessis (Resigned 27 March 2018)
	Mr N J Coetzee (Appointed 26 February 2018 and Resigned 6 April 2018)	Mr N C Nyawo (Resigned 27 March 2018)
	Mr S R Ruiters (Appointed 26 February 2018 and Resigned 31 October 2018)	Mr P Ranchod (Resigned 27 March 2018)

MEETINGS AND ATTENDANCE

The schedules below set out the PPS Holdings Trust and PPS Insurance Board meetings held during the year and attendance thereat were as follows:

The PPS Holdings Trust	28 Mar 2018	13 Jun 2018	26 Sep 2018	22 Nov 2018
Dr S N E Seoka (Appointed Chairman 13 June 2018)	✓	✓	✓	✓
Dr C M Krüger (Appointed Deputy Chairman 13 June 2018)	✓	✓	✓	✓
Ms D L T Dondur	✓	✓	✓	✓
Mr J A B Downie	✓	✓	✓	✓
Dr D P du Plessis	✓	✓	✓	✓
Mr C Erasmus	✓	✓	✓	✓
Dr N H P Khosa (Appointed 19 June 2018)	N/A	N/A	✓	✓
Mr I Kotzé	✓	✓	✓	✓
Dr F Mansoor	✓	✓	✓	✓
Mr E A Moolla (Former Chairman)	✓	✓	✓	✓
Ms P Natesan	✓	✓	✓	✓
Mrs N N Nongogo (Appointed 16 October 2018)*	N/A	N/A	✓	✓
Mr N C Nyawo	✓	✓	✓	✓
Mr P Ranchod	✓	✓	✓	AP
Mr V P Rimbault	AP	✓	✓	✓
Mr B R Topham	✓	✓	✓	✓
Mr S Trikamjee	✓	✓	AP	✓
Prof H E Wainer	✓	✓	✓	✓
Adv T N Aboobaker (Resigned 21 May 2018)	✓	N/A	N/A	N/A
Dr M J Grootboom (Appointed 10 May 2018 and Resigned 3 December 2018)	N/A	AP	✓	✓
Mr U D Jivan (Retired 22 May 2018)	✓	N/A	N/A	N/A
Mr M Pillay (Resigned 5 September 2018)	✓	✓	N/A	N/A

AP = Apology
N/A = Not applicable
**Mrs N N Nongogo was appointed 16 October 2018 and attended the 26 September 2018 meeting by invitation*

CORPORATE GOVERNANCE REPORT (continued)

PPS Insurance Company Limited	23 Jan 2018#	26 Feb 2018	13 Mar 2018#	26 Mar 2018	18 Jun 2018	3 Sep 2018	25 Sep 2018	19 Nov 2018
Mr C Erasmus (Chairman)	N/A	✓	N/A	✓	✓	✓	✓	✓
Prof H E Wainer (Deputy Chairman)	✓	✓	✓	✓	✓	✓	✓	✓
Mr N J Battersby	✓	✓	✓	✓	✓	✓	✓	✓
Mrs T Boesch	✓	✓	✓	✓	✓	✓	✓	✓
Ms D L T Dondur	N/A	✓	N/A	✓	✓	✓	AP	AP
Mr J A B Downie	AP	✓	✓	✓	✓	✓	✓	✓
Dr D P du Plessis	N/A	AP	N/A	✓	✓	✓	✓	✓
Dr C M Krüger	N/A	✓	N/A	✓	✓	✓	✓	✓
Mr E A Moolla	N/A	✓	N/A	✓	✓	✓	✓	✓
Mr P Ranchod	N/A	✓	N/A	✓	✓	✓	✓	✓
Dr S N E Seoka	N/A	✓	N/A	✓	AP	✓	✓	✓
Mr I J Smit	✓	✓	✓	✓	✓	✓	✓	✓
Mr S Trikamjee	✓	✓	✓	✓	✓	✓	✓	✓
Dr J A van der Merwe (Appointed 18 June 2018)	N/A	N/A	N/A	N/A	N/A	✓	✓	✓
Mr N G Payne (Resigned 30 April 2018)	N/A	✓	N/A	✓	N/A	N/A	N/A	N/A

= *Ad hoc* Committee meeting
AP = Apology
N/A = Not applicable

BOARD COMMITTEES

A number of standing board committees have been established to assist the boards in discharging their responsibilities. The boards are satisfied that the members of the respective committees have sufficient recent and relevant experience and are appropriately qualified to enable them to discharge their respective duties and responsibilities.

The membership and principal functions of these committees are set out below.

The various committee members as well as their attendance at the relevant committee meetings are provided in this Corporate Governance Report, the Report of the Audit Committees and the Report of the Group Social and Ethics Committee.

PPS HOLDINGS TRUST STANDING BOARD COMMITTEES

The PPS Holdings Trust Board has established the following standing board committees:

- PPS Holdings Trust Audit Committee
- Group Nominations Committee

PPS INSURANCE STANDING BOARD COMMITTEES

The PPS Insurance Board has established the following standing board committees:

- Group Actuarial Committee
- Group Audit Committee
- Group Remuneration Committee
- Group Risk Committee
- Group Social and Ethics Committee

PPS HOLDINGS TRUST AUDIT COMMITTEE (TAC) AND GROUP AUDIT COMMITTEE (GAC)

The composition, roles, responsibilities and attendance at meetings of the TAC and GAC are set out in the Audit Committees' Report on pages 90 to 93 of this Integrated Report.

GROUP RISK COMMITTEE (GRC)

Members

Dr J A van der Merwe MB ChB, MBL, DBL, PED. (IMD) (Chairman) (Appointed 18 June 2018)

Mr C Erasmus B Sc, FIA, FASSA

Dr D P du Plessis B Sc (QS), MBA, DBA (Appointed 18 June 2018)

Mr I J Smit B Com (Hons), FASSA

Mr N G Payne B Com (Hons), CA(SA), MBL (Former Chairman) (Resigned 30 April 2018)

The role of the GRC is to assist the PPS Group boards in discharging their fiduciary duties regarding risk management within the PPS Enterprise Risk Management and Governance Frameworks, which include:

- Risk policy and the implementation of risk management
- Risk governance structures
- Risk infrastructure, processes and culture
- The setting of risk appetite and tolerances
- Risk assessment, profiling, mitigation and reporting
- Assurance and stakeholder disclosures.

The GRC is comprised of three independent non-executive PPS Insurance directors, who are risk management specialists, and the Chief Executive. The GRC is chaired by an independent non-executive director. The GRC is scheduled to meet at least four times a year. There is overlap in the non-executive membership of the GRC, the GAC and the Group Actuarial Committee. The internal auditors and Heads of Group Compliance and Risk Management are present at each meeting, when reports are tabled outlining the progress in terms of the risk management framework, internal audit plans and an overview of the PPS Group's risk profile. The GRC is satisfied that the risk assessments, responses and interventions for the PPS Group are effective. The GRC is responsible for the statutory compliance monitoring functions and makes reports to the GAC and Group Social and Ethics Committee on risk matters pertaining to those committees. The GRC considers and recommends the PPS Group SAM ORSA Report for approval by the PPS Insurance Board. The GRC also receives reports by the Risk and Audit Committees of the PPS Insurance subsidiaries which have such committees.

The GRC meetings held during the year and the attendance thereat were as follows:

Group Risk Committee	6 Mar 2018	7 Jun 2018	4 Sep 2018	7 Nov 2018
Dr J A van der Merwe (Chairman) (Appointed 18 June 2018)	N/A	N/A	✓	✓
Dr D P Du Plessis (Appointed 18 June 2018)	N/A	N/A	✓	✓
Mr C Erasmus	✓	✓	✓	✓
Mr I J Smit	✓	✓	✓	✓
Mr N G Payne (Former Chairman) (Resigned 30 April 2018)	✓	N/A	N/A	N/A

N/A = Not applicable

GROUP ACTUARIAL COMMITTEE (AC)

Members

Mr C Erasmus B SC, FIA, FASSA (Chairman)

Prof H E Wainer B Acc, CA(SA), Registered Auditor

Mr N G Payne B Com (Hons), CA(SA), MBL (Resigned 30 April 2018)

The AC is chaired by an independent non-executive director and is comprised solely of independent non-executive directors of PPS Insurance.

The AC has an important role in ensuring the integrity of actuarial processes and the proper assessment of PPS Insurance Group Companies' risk philosophy from an actuarial perspective, strategy, policies, financial and operational processes and controls, as well as assessments

CORPORATE GOVERNANCE REPORT (continued)

of major risks from an actuarial perspective. The AC's activities are focused on considering actuarial assumptions and experience, product pricing and design, valuation results, risk metrics and reporting guidelines and practices adopted by the Head of Actuarial Control Function and the Company Actuaries, as well as other actuarial matters as applicable to PPS Insurance and any of its subsidiaries operating a life or short-term insurance licence.

The AC acts as an independent adviser to the PPS Insurance, PPS Namibia and PPS Short-Term Insurance Boards and has the following primary responsibilities:

- To assist the boards in fulfilling their oversight responsibilities regarding:
  - the accuracy and integrity of the actuarial statements;
  - compliance with actuarial, legal and regulatory requirements; and
  - the performance of the Actuarial Functions of PPS Insurance and PPS Short-Term Insurance.
- To assist the PPS Insurance, PPS Namibia and PPS Short-Term Insurance Boards in the execution of their fiduciary duties regarding the oversight of the reinsurance arrangements and risk transfer processes.
- To assist the PPS Insurance and PPS Short-Term Insurance Boards with the execution of their responsibilities relating to the Own Risk and Solvency Assessment (ORSA).
- To provide a sounding board for the Head of Actuarial Control Function and the Company Actuaries in making recommendations to the boards and to consider, for tabling at board meetings, the recommendations of the Head of Actuarial Control Function and the Company Actuaries.

The AC meetings held during the year and attendance thereat were as follows:

Group Actuarial Committee	22 Feb 2018	28 May 2018	4 Sep 2018	19 Nov 2018
Mr C Erasmus (Chairman)	✓	✓	✓	✓
Prof H E Wainer	✓	✓	✓	✓
Mr N G Payne (Resigned 30 April 2018)	✓	N/A	N/A	N/A

N/A = Not applicable

GROUP REMUNERATION COMMITTEE (REMCO)

Members

Dr D P du Plessis B Sc (QS), MBA, DBA (Appointed 25 September 2018) (Chairman)

Mr C Erasmus B Sc, FIA, FASSA

Mr E A Moolla B Iuris

Prof H E Wainer B Acc, CA(SA), Registered Auditor (Acting Chairman 1 May to 24 September 2018)

Mr N G Payne B Com (Hons), CA(SA), MBL (Former Chairman) (Resigned 30 April 2018)

Chaired by an independent non-executive PPS Insurance director and comprising solely of non-executive directors of PPS Insurance, the Group Remuneration Committee (REMCO) has been established as a sub-committee of the PPS Insurance Board with delegated responsibility for ensuring the implementation of the PPS Group Remuneration Policy, as approved by the PPS Insurance Board from time to time, and making recommendations to the PPS Group boards, including the PPS Short-Term Insurance Board, in regard to employee and non-executive remuneration for consideration and final approval. REMCO is responsible for advising the PPS Group in relation to:

- Matters of executive, senior management and staff remuneration
- The remuneration of non-executive directors and trustees of PPS Holdings Trust and its subsidiaries, as well as their respective related entities (with the exception of PPS Insurance subsidiaries which have appointed their own Remuneration Committees)
- Key human resources and employee-related matters, including employment equity and transformation.

The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management. The role of REMCO is to assist the PPS Group boards to ensure that:

- The PPS Group remunerates non-executive directors and trustees, the CEO, executives, management and staff fairly, responsibly and competitively
- The disclosure of director/trustee and executive remuneration by the PPS Group is accurate and in accordance with the Companies Act and the recommendations of the PPS Group Audit Committee
- The functions prescribed by the Prudential Authority in terms of the Prudential Standards are performed.

The PPS Group is committed to a remuneration philosophy that is applied consistently across the PPS Group and focuses on rewarding consistent and sustainable individual, team and corporate performance. PPS complies with the 'Equal Pay for Work of Equal Value' concept, as defined in the amended Employment Equity Act. The Remuneration Policy underpins the reward strategy and is key to the PPS Employee Value Proposition. Taking due cognisance of the market and the highly developed and competitive Financial Services Sector, where a multitude of skills are critical and scarce, REMCO is responsible for developing a remuneration philosophy and remuneration policies and practices that aim to set appropriate remuneration levels which enable PPS to attract, engage, motivate, reward and retain executives, senior managers, key talent and other competent staff with the appropriate values. The Remuneration Policy forms an integral part of PPS's corporate strategy and risk profile and maintains a sustainable balance between short-term and long-term value creation, building on the PPS Group's long-term responsibility towards its stakeholders, being members, employees, society and other stakeholders.

The detailed responsibilities of REMCO are set out in its Terms of Reference as approved by the PPS Insurance Board from time to time, and include ensuring that the Remuneration Policy:

- Is aligned to the PPS Group's strategy, values and goals and the interests of members, staff and other stakeholders
- Retains key skills to promote short-term performance objectives and long-term value creation
- Is consistent with the PPS Group's risk appetite and does not induce excessive or inappropriate risk-taking
- Is consistent with and promotes sound and effective risk management
- Achieves the most effective returns for total employee expenditure
- Addresses diverse employee needs within and across different business units
- Appropriately balances the interests of members, operational and strategic requirements and provides attractive and appropriate remuneration packages for executive directors, executives, senior management and employees.

REMCO's duties also include:

- Ensuring that the mandates of remuneration committees, remuneration policies and practices of subsidiaries of the PPS Group are aligned to the PPS Group remuneration philosophy
- The approval of the average annual percentage increases to guaranteed packages of staff
- The approval of all short-term and long-term incentive scheme designs, as well as any amendments thereto
- The approval of recommended payments and allocations to be made in terms of any short-term and long-term incentive scheme
- Ensuring that the Remuneration Policy is appropriate, considering the desired culture, size of the PPS Group, its organisational structure and the complexity of its activities
- Ensuring that the Remuneration Policy forms part of the PPS Enterprise Risk Management Framework and component policies
- The determination of the remuneration of the non-executive trustees and directors of PPS Holdings Trust and its subsidiaries and related entities for recommendation to the respective PPS Group boards for approval, and ultimate approval by the respective entities' members by special resolution at their respective annual general meetings, in advance of making payment of such remuneration to the board members.

Non-executive directors/trustees are remunerated on the basis of annual retainers, as well as attendance fees for each meeting attended. The value of the annual retainers and the attendance fees are benchmarked against fees paid in the insurance industry by companies of a similar size to PPS. Non-executive directors/trustees do not participate in the PPS Group's long-term or short-term incentive schemes. The trustees' fees for the PPS Holdings Trust Board and its committees are subject to the ultimate approval by the Ordinary Members of PPS Holdings Trust at its annual general meeting.

No employee included in the scope of this policy is involved in deciding his or her own remuneration. The Chief Executive and the Group Executive: Human Resources attend the meetings of REMCO by invitation. The Chief Executive and Group Executive: Human Resources are recused from any discussion and/or decision pertaining to their own remuneration.

The need for continued focus on driving new initiatives and long-term key performance indicators in line with the vision, strategy, and key financial and risk parameters of the organisation, as well as the war for talent in the industry, resulted in REMCO approving the implementation of a Key Employee Retention Scheme in 2017. Participation in the Retention Scheme is limited to key employees in the PPS Group and employees in critical roles, to incentivise the retention of those employees, as well as to reward long-term sustained performance aligned with member

CORPORATE GOVERNANCE REPORT (continued)

interests and outcomes. The Retention Scheme will operate over a five-year period. REMCO has final discretion over the participation of eligible employees in the scheme, as well as the approval of any payments made in terms of the plan. Ensuring that PPS maintains fair and equitable remuneration and benefits for all staff continues to be a priority and focus area for the PPS Group.

The REMCO meetings held during the year and the attendance thereat were as follows:

Group Remuneration Committee	26 Feb 2018	22 May 2018	6 Sep 2018
Prof H E Wainer (Acting Chairman)	✓	✓	✓
Mr C Erasmus	✓	✓	✓
Mr E A Moolla	✓	✓	✓
Mr N G Payne (Former Chairman) (Resigned 30 April 2018)	✓	N/A	N/A

N/A = Not applicable

GROUP NOMINATIONS COMMITTEE (GNC)

The GNC is a sub-committee of the PPS Holdings Trust Board, mandated with responsibility for PPS Holdings Trust and its subsidiaries.

Members

Dr S N E Seoka (Chairman) (Appointed 13 June 2018)

Mr C Erasmus (Deputy Chairman)

Dr C M Krüger

Mr V P Rimbault (Appointed 13 June 2018)

Mr S Trikamjee

Mr E A Moolla (Retired as Chairman of the Committee 24 May 2018)

The GNC is chaired by an independent non-executive trustee and comprises solely of independent non-executive trustees of PPS Holdings Trust.

It is the responsibility of the GNC to ensure that succession plans are in place for appointments to the Boards of PPS Holdings Trust and its subsidiaries that will maintain an appropriate balance of qualifications, skills and experience and achieve compliance with Fit and Proper requirements.

The GNC leads the process for appointment and re-election of trustees and directors and makes recommendations to the boards for the appointment of PPS Group boards and committees, except in regard to the appointment of the members of the GNC itself, which is the sole prerogative of the PPS Holdings Trust Board, ensuring that there is a formal, rigorous and transparent procedure for all appointments. The PPS Holdings Trust Board is satisfied that the range and balance of expertise, experience and qualifications of the PPS Group Board members are appropriate for the current needs of the business, but keeps these matters under regular review.

The GNC annually considers the continued service of board members with a period of appointment in excess of nine years and is satisfied that such board members still meet the requirements for independence. The GNC considers the suitability of trustees nominated by professional associations at the invitation of the PPS Holdings Trust Board, for appointment to the PPS Holdings Trust Board and makes recommendations in this regard for consideration by the PPS Holdings Trust Board.

The PPS Holdings Trust Board is responsible for ensuring that an effective system for succession planning and development is in place, covering trustees and directors. It has delegated this task to the GNC. In considering an appointment, the GNC assesses and defines the characteristics, qualities, skills and experience it believes would complement the overall balance and composition of the PPS Holdings Trust Board, subsidiary boards and board committees, ensuring compliance with Fit and Proper requirements. The GNC may appoint external consultants to assist it in the identification and recruitment of an individual who satisfies the GNC's criteria. Where the GNC is considering matters relating to an individual who is a member of the GNC, such individual is recused from the discussion of that item.

The GNC is satisfied that each non-executive trustee and director achieves the commitment required to properly discharge their responsibilities. The PPS Group directors and trustees have continued to update their skills and knowledge, both within the PPS Group and externally. The GNC has been mandated to perform, and is responsible for, the evaluation of the boards and board members, including ethics, performance and compliance with the enhanced requirements regarding independence and being Fit and Proper for serving on an insurance company board in terms of regulation.

The GNC meetings held during the year and the attendance thereat were as follows:

Group Nominations Committee	20 Feb 2018	14 Mar 2018	23 May 2018	3 Sep 2018
Dr S N E Seoka (Chairman) (Appointed as Chairman 13 June 2018)	✓	✓	✓	✓
Mr C Erasmus (Deputy Chairman)	✓	✓	✓	✓
Dr C M Krüger	✓	✓	✓	✓
Mr V P Rimbault (Appointed 13 June 2018)	N/A	N/A	N/A	✓
Mr S Trikamjee	✓	✓	✓	✓
Mr E A Moolla (Former Chairman, stepped down from the Committee on 12 June 2018)	✓	✓	✓	N/A

N/A = Not applicable

GROUP SOCIAL AND ETHICS COMMITTEE (SEC)

Particulars of the composition, role and responsibilities of the SEC and attendance at meetings are set out in the SEC's Report on pages 94 to 95 of this Integrated Report.

GROUP EXECUTIVE COMMITTEE (GROUP EXCO)

Members

Mr I J Smit (Chairman) (Group Chief Executive)

Mr Q J Augustine (Executive: Member Value Proposition)

Mr V E Barnard (Group Company Secretary)

Mrs S Bassudev (Chief Executive: PPS Healthcare Administrators) (appointed 1 April 2018)

Mr N J Battersby (Chief Executive: PPS Investments)

Mrs T Boesch (Group Chief Financial Officer)

Mr W Bosman (Chief Executive: PPS Short-Term Insurance) (appointed 1 July 2018)

Mr S R Clark (Executive: Life Administration and Systems)

Mr N J Coetzee (Former Executive: Internal Distribution) (resigned 6 April 2018)

Mrs L A Dlamini (Former Group Executive: Human Resources) (resigned 31 October 2018)

Dr H D P Hoffman (Former Chief Executive: PPS Healthcare Administrators) (retired 1 April 2018)

Mr N Hoosen (Former Chief Executive: PPS Short-Term Insurance) (resigned 30 June 2018)

Mr W J Lynch (Executive: Business Change and Strategic Development)

Mrs M D Molefe (Executive: Human Resources) (appointed 1 February 2019)

Mr M M Mtshali (Executive: Advisory Services and Enablement) (appointed 1 June 2018)

Mr W J Mouton (Executive: External Distribution)

Mr B Thomas (Executive: Actuarial Services) (appointed 1 July 2018)

Mrs A N Seboni (Group Executive: Group Brand Marketing and Communication)

Composition and meeting procedures

Group Exco is chaired by the Chief Executive and has regular input from executives in Operations, Internal and External Distribution, Finance, Actuarial, IT, Human Resources, Compliance, Governance, Marketing, Business Change and Strategic Development, Member Value Proposition, the Group Company Secretary, the subsidiary businesses of PPS Investments, PPS Short-Term Insurance and PPS Healthcare Administrators, as well as the associate PPS Mutual Australia. Group Exco meetings are held at least monthly and additional meetings are scheduled as required. Group Exco is responsible for the implementation of day-to-day strategy and the operations of the PPS Group, within the parameters defined by the PPS Group boards.

Group Exco is supported by a number of management committees throughout the PPS Group.

2018 ANNUAL FINANCIAL STATEMENTS

CONTENTS

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

The report was prepared under the supervision of T Boesch CA(SA). An audit was performed by PricewaterhouseCoopers Inc. in line with requirements of the Trust Deed.

Published: 2 April 2019

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

for the year ended 31 December 2018

The Trustees accept responsibility for the fair presentation of the financial statements of The Professional Provident Society Holdings Trust, comprising the financial statements of the trust itself and the consolidated financial statements of the trust and its subsidiaries. These financial statements have been prepared in accordance with International Financial Reporting Standards, and in the manner required by the Insurance Act of 2017, the South African Companies Act of 2008, and the Trust Deed. The Trustees are of the opinion that the financial statements are fairly presented in the manner required. The independent auditors are responsible for reporting on these financial statements and were given unrestricted access to all financial records and related data including minutes of all meetings of members of the Board of Trustees and Committees of the Board. The Trustees have no reason to believe that any representations made to the independent auditors during the audit were not valid and appropriate. The Trustees accept responsibility for the maintenance of accounting records and systems of internal financial control.

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

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

The annual financial statements, which appear on pages 96 to 184, were approved by the Board of Trustees and are signed on its behalf by:

Dr S N E Seoka
Chairman

Mr I J Smit
Chief Executive

Mrs T Boesch
Financial Director

The Professional Provident Society Holdings Trust

Johannesburg

2 April 2019

CERTIFICATE BY THE SECRETARY

In my capacity as the Secretary of The Professional Provident Society Holdings Trust, I hereby certify in terms of section 88(2)(e), of the Companies Act of 2008 and the Trust Deed that for the year ended 31 December 2018, the Group has lodged with the Companies and Intellectual Property Commission all such returns as are required in terms of this Act. I also confirm that all returns to the Master of the High Court's office, required for The Professional Provident Society Holdings Trust in terms of its Trust Deed and the Trust Property Control Act of 1988, are to the best of my knowledge and belief true, correct and up to date.

V E Barnard
Group Company Secretary
The Professional Provident Society Holdings Trust

2 April 2019

INDEPENDENT AUDITOR'S REPORT

TO THE TRUSTEES OF THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of The Professional Provident Society Holdings Trust (the Trust) and its subsidiaries (the Group) as at 31 December 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Trust Deed.

WHAT WE HAVE AUDITED

The Professional Provident Society Holdings Trust's consolidated and separate financial statements set out on pages 96 to 184 comprise:

- The Consolidated and Separate Statements of Financial position as at 31 December 2018;
- The Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income for the year then ended;
- The Consolidated and Separate Statements of Changes in Equity for the year then ended;
- The Consolidated and Separate Statements of Cash Flows for the year then ended; and
- The Notes to the Consolidated Financial Statements and Separate Financial Statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

INDEPENDENCE

We are independent of the Trust in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

OTHER INFORMATION

The trustees are responsible for the other information. The other information comprises the information included in the Annual Financial Statements. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE TRUSTEES FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The trustees are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Trust Deed and for such internal control as the trustees determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the Group and the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the Group and/or Trust or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT (continued)

- Obtain an understanding of internal control relevant to the audit 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 Group and the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust and/or Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of the Professional Provident Society Holdings Trust for 18 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: J Goncalves
Registered Auditor

Johannesburg

2 April 2019

INVESTMENT RETURNS AND PROFIT ALLOCATION TO POLICYHOLDERS' PPS PROFIT-SHARE ACCOUNT

for the year ended 31 December 2018

At the end of each year policyholders' PPS Profit-Share Account, comprising the Apportionment Accounts and the Special Benefit Accounts, are allocated a share of the profit or loss, net of movements in insurance policy liabilities earned over that year. The PPS Profit-Share Account accumulates from year to year until a policyholder reaches retirement age. **On retirement, death or exit, policyholders can access an amount based on the balance accumulated in their PPS Profit-Share Account at that time. This is over and above the cover enjoyed by them as policyholders. For retiring members, in particular, this represents a valuable pool of retirement assets.**

The PPS Profit-Share Account represents an allocation of surplus and investment returns only. This account does not belong to the policyholders, or their nominated beneficiaries (or become a 'vested benefit') until retirement, death or exit. The total assets backing the PPS Profit-Share Account belong to PPS Insurance or PPS Namibia at all times.

The investment returns or losses and net operating income allocated each year may be positive or negative, depending on investment return as well as the operating experience of PPS Insurance and/or PPS Namibia. Therefore, the PPS Profit-Share Account may increase or decrease in any year. Possible variations in the PPS Profit-Share Account are set out in the accounting policies and notes to these financial statements. No guarantees can be given by PPS Insurance or PPS Namibia that the allocations of operating results or investment returns will always be positive, or that the PPS Profit-Share Account will not reduce in any year.

The net operating income is allocated with reference to the qualifying products a policyholder holds and in accordance with the allocation rules for the specific products held. The investment returns are allocated in proportion to the size of the policyholders' PPS Profit-Share Account.

For all policyholders from age 60 to 65, the full balance of the PPS Profit-Share Account is available through the Vested Profit-Share Account to such policyholders on termination of cover or resignation, subject to the vesting rules as contained in the policy document, and it is paid to the policyholders' beneficiaries or their estates on death. For all policyholders aged 66 or older, the full balance of the PPS Profit-Share Account is available through the Vested Profit-Share Account to such policyholders, and it is paid to the policyholders' beneficiaries or their estates on death. 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 PPS Profit-Share Account at the time.

TOTAL ALLOCATIONS TO PPS PROFIT-SHARE ACCOUNTS

PPS Insurance	2018 R'000	2017 R'000
Allocation (from) / to Special Benefit Accounts	**(745 019)**	2 261 415
Allocation to Apportionment Accounts	**1 372 696**	1 304 885
Total allocations to PPS Profit-Share Accounts	**627 677**	**3 566 300**

PPS Namibia	2018 N$'000	2017 N$'000
Allocation (from) / to Special Benefit Accounts	**(76 098)**	99 586
Allocation to Apportionment Accounts	**82 994**	69 085
Total allocations to PPS Profit-Share Accounts	**6 896**	**168 671**

INVESTMENT RETURNS AND PROFIT ALLOCATION TO POLICYHOLDERS' PPS PROFIT-SHARE ACCOUNT (continued)

for the year ended 31 December 2018

ALLOCATION TO SPECIAL BENEFIT ACCOUNTS

The following investment allocations (note 1) for 2018 were made to the Special Benefit Accounts:

PPS Insurance	2018 R'000	2017 R'000
PPS BEE investment income gains	(6 162)	10 973
Investment income and gains	(727 347)	2 214 846
PPS Vested Profit-Share	(11 510)	35 596
Total allocated	**(745 019)**	**2 261 415**

PPS Namibia	2018 N$'000	2017 N$'000
Total allocated	**(76 098)**	**99 586**

Note 1 – Investment return allocated to policyholders' Special Benefit Accounts as a percentage of the PPS Profit-Share Account at the beginning of the year.

ALLOCATION TO APPORTIONMENT ACCOUNTS

The allocations at 31 December 2018 to policyholders' Apportionment Accounts are set out as follows:

PPS Insurance	2018 R'000	2017 R'000
Total investment income allocation	**305 315**	**261 489**
PPS Sickness and Permanent Incapacity Benefit		
Ordinary (Full)	436 210	509 436
Ordinary (Reduced)	2 327	4 606
Supplementary A	97 023	87 123
Supplementary B	2 478	3 165
Deferred	80 968	68 961
Accident	2 933	3 317
Hospital benefits		
Ordinary (Full)	33 116	38 960
Ordinary (Reduced)	257	484
Supplementary A	10 387	9 231
Supplementary B	273	346
Accident	886	1 031

PPS Insurance	2018 R'000	2017 R'000
PPS Provider		
Sickness and Permanent Incapacity Plan	**20 733**	14 184
Professional Life Provider	**231 521**	193 422
Professional Health Provider	**72 504**	54 544
Professional Disability Provider	**31 050**	18 826
Accident Benefit	**215**	137
Bonus allocation for PPS Investments' portfolios and products	**12 000**	15 123
Bonus allocation for PPS Medical Aid products	**30 818**	18 587
BEE allocation	**1 682**	1 913
Total profit allocation	**1 067 381**	**1 043 396**
Total allocated	**1 372 696**	**1 304 885**

PPS Namibia	2018 N$'000	2017 N$'000
Total investment income allocation	**17 563**	**14 110**
PPS Sickness and Permanent Incapacity Benefit		
Ordinary (Full)	**42 614**	38 568
Ordinary (Reduced)	**1 423**	1 379
Supplementary A	**6 814**	4 357
Supplementary B	**200**	192
Deferred	**7 820**	4 882
Accident	**206**	203
Hospital Benefits		
Ordinary (Full)	**4 004**	3 640
Ordinary (Reduced)	**121**	115
Supplementary A	**893**	567
Supplementary B	**30**	28
Accident	**72**	74
Sickness and Permanent Incapacity	**1 007**	536
PPS Retirement Annuity	**227**	434
Total profit allocation	**65 431**	**54 975**
Total allocated	**82 994**	**69 085**

TRUSTEES' REPORT

HOLDING ENTITY

The holding entity for the PPS Group is The Professional Provident Society Holdings Trust, registration number IT 312/2011 ('PPS Holdings Trust'), which controls all the entities in the PPS Group.

PRINCIPAL ACTIVITIES

PPS Holdings Trust is a trust registered by the Master of the High Court in terms of the Trust Property Control Act of 1988. PPS Holdings Trust's sole investment is 100% of the shares of Professional Provident Society Insurance Company Limited ('PPS Insurance'). The beneficiaries of PPS Holdings Trust are the PPS Group companies. Membership of PPS Holdings Trust is acquired through participation in PPS Group products. The Ordinary Members of PPS Holdings Trust control the Group through the election of trustees. Ordinary Members participate in all the profits of the PPS Group through their participation in their policyholder PPS Profit-Share Accounts.

PPS Insurance Company Limited ('PPS Insurance') is a wholly-owned subsidiary of PPS Holdings Trust and is a long-term insurance company registered in South Africa in terms of the Insurance Act, which offers a broad range of insurance products, including sickness and incapacity benefits, life and disability benefits, critical illness benefits and business assurance policies. PPS Insurance also issues linked living annuities and endowment policies to PPS members.

Professional Provident Society Insurance Company (Namibia) Limited ('PPS Namibia') is a wholly-owned subsidiary of PPS Insurance and provides insurance products exclusively to the Namibian market. A reinsurance agreement with PPS Insurance is in place for PPS Namibia. In terms of this reinsurance arrangement, PPS Namibia partially reinsures its obligations to the Namibian policyholders with PPS Insurance. This arrangement was put in place in order to protect the security and benefit expectations of the Namibian policyholders by effectively including Namibian policyholders in a risk pool of over 124 000 policyholders. Without this reinsurance arrangement, the Namibian subsidiary with over 4 900 Namibian policyholders would be exposed to higher volatility from participating in a significantly smaller risk pool.

Professional Provident Society Healthcare Administrators (Pty) Limited ('PPS Healthcare Administrators') is a wholly-owned subsidiary of PPS Insurance, which administers Profmed and other medical schemes. PPS Healthcare Administrators' objective is to provide professional service and to support the sustainability of the schemes by applying scheme, benefit and tariff rules properly and managing clinical risk, to enable medical schemes to provide for the health care needs of members when they need it most.

Professional Provident Society Short-Term Insurance Company Limited ('PPS Short-Term Insurance') is a wholly-owned subsidiary of PPS Insurance, following the acquisition of Santam Limited's former 49% interest during December 2018. PPS Short-Term Insurance is a fully-fledged short-term insurer, offering Personal Lines, Commercial Lines and Professional Indemnity products to PPS members.

Professional Provident Society Investments (Pty) Limited ('PPS Investments') and its subsidiaries are wholly-owned subsidiaries of PPS Insurance which provide, *inter alia*, savings and investment products to PPS members.

PPS Mutual Limited and its operating subsidiary are affiliates of PPS Insurance launched in Sydney, Australia in February 2016. The company's operating model replicates the PPS Group in South Africa's mutual model, focusing on the insurance needs of graduate professionals in Australia.

The PPS Property Fund Trust ('PPS Property Trust') is a trust controlled by PPS Insurance, registered in terms of the Trust Property Control Act of 1988, which invests in certain investment property for the benefit of PPS Insurance.

Financial Solutions 4 Professionals is a wholly-owned subsidiary of PPS Insurance. PPS established its own brokerage, Financial Solutions 4 Professionals (Pty) Limited (FS4P) during 2018, to provide a vehicle for supporting agents that are not able to sell PPS due to Retail Distribution Review regulation, which came into effect on 1 January 2018. The company also facilitates a defensive strategy to protect members linked to these agents against competitor activity.

The Professional Provident Society Foundation Trust is a trust founded by PPS Insurance and registered by the Master of the High Court in 2016 in terms of the Trust Property Control Act of 1988. It has the principal objectives of working with strategic partners to improve access to Science, Technology, Engineering and Mathematics (STEM) related professions and build the professional pipeline, especially the scarce skills disciplines, making a measurable contribution to sustainable development within South Africa's communities (as defined in the DTI B-BBEE Codes of Good Practice) and the Financial Sector Charter and ensuring that the Foundation's funds are spent on real sustainable, measurable benefits in support of the professional pipeline being created.

The Professional Provident Society Educational Trust is a trust founded by PPS Insurance and registered by the Master of the High Court in 2016 in terms of the Trust Property Control Act of 1988. It has the principal objectives of securing financial support that makes a meaningful impact on public education in South Africa by improving access to STEM and related professions in order to build the professional pipeline, serve as a repository for all the donations from the donors, making grants to the Beneficiaries from the Trust Fund to make a measurable contribution to sustainable development by obtaining and deploying funding to advance education and offering bridging programmes between secondary and tertiary education and the workplace.

Professional Provident Society Training Academy (Pty) Limited was incorporated by PPS Insurance and registered by the CIPC on 19 July 2016, and is a 51% subsidiary of The Professional Provident Society Educational Trust and operates as a training academy for the PPS Group.

GOING CONCERN

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

FINANCIAL RESULTS

The financial results on pages 96 to 184 set out the results of the Trust and the PPS Group (comprising PPS Holdings Trust and all its subsidiaries) for the financial year ended 31 December 2018.

AUDIT COMMITTEES' REPORT

INTRODUCTION

The PPS Holdings Trust Audit Committee ('TAC') and the PPS Group Audit Committee ('GAC') are committees of the PPS Holdings Trust and PPS Insurance Boards, respectively. The responsibilities of these committees are prescribed by the Trust Deed and the Companies Act, and are outlined in their written Terms of Reference, which are in line with King IV, and are reviewed and updated annually. The Committees have an independent role, with accountability to both the Boards and members in terms of the Companies Act and the Trust Deed of PPS Holdings Trust.

The TAC has oversight over PPS Holdings Trust and the PPS Group, while the GAC has oversight over PPS Insurance and its subsidiaries. This includes oversight over the respective Risk and Audit Committees of PPS Investments and PPS Short-Term Insurance, which make reports to the GAC.

The report of the TAC and GAC is presented to the members in terms of section 94(7)(f) of the Companies Act, No 71 of 2008 ('the Companies Act'), and a similar provision in the Trust Deed.

COMPOSITION OF THE PPS HOLDINGS TRUST AUDIT COMMITTEE

Members:

Independent non-executive Trustees of PPS Holdings Trust:

Ms D L T Dondur (Chairman), B Acc (Hons), B Compt, CA(SA), MBA, Member of the TAC since 2012

Mr E A Moolla, B Iuris, Member of the TAC since 2011

Mr P Ranchod, B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing, Member of the TAC since 2014

The appointment of the current Members of the TAC was confirmed by PPS members at the annual general meeting held on 22 May 2018.

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

Meetings of the TAC held during the year and attendance thereat:

PPS Holdings Trust Audit Committee	7 March 2018	9 November 2018
Ms D L T Dondur (Chairman)	✓	✓
Mr E A Moolla	✓	✓
Mr P Ranchod	✓	✓

COMPOSITION OF THE PPS GROUP AUDIT COMMITTEE

Members:

Independent non-executive directors of PPS Insurance:

Prof H E Wainer (Chairman), B Acc, CA(SA), Member of GAC since 2001

Ms D L T Dondur, B Acc (Hons), B Compt, CA(SA), MBA, Member of GAC since 2013

Mr C Erasmus, B Sc, FIA, FASSA, Member of GAC since 2009

Mr E A Moolla, B Iuris, Member of GAC since 2015

Mr P Ranchod, B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing, Member of the GAC since 2014

Dr J A van der Merwe, MB ChB, MBL, DBL, PED. (IMD), appointed as a Member of the GAC on 18 June 2018

Mr N G Payne, B Com (Hons), CA(SA), MBL, Member of GAC since 2007 (resigned 30 April 2018)

Specialist consultant:

Dr C E Rabin, D Phil, CA(SA), specialist consultant to the GAC since 2011, formerly a member of the GAC from 2005 to 2011.

Meetings held during the year and attendance thereat:

Group Audit Committee	7 March 2018	28 May 2018	6 September 2018	9 November 2018
Prof H E Wainer (Chairman)	✓	✓	✓	✓
Ms D L T Dondur	✓	✓	✓	✓
Mr C Erasmus	✓	✓	✓	✓
Mr E A Moolla	✓	✓	✓	✓
Mr P Ranchod	✓	✓	✓	✓
Dr J A van der Merwe (Appointed 18 June 2018)	N/A	N/A	AP	✓
Dr C E Rabin*	✓	✓	✓	✓
Mr N G Payne (Resigned 30 April 2018)	✓	N/A	N/A	N/A

**Consultant*

AP = Apology

N/A = Not applicable

The GAC comprises six non-executive PPS Insurance directors, all of whom are independent. Dr Rabin, who is not a member of the PPS Insurance Board, and was formerly a member of the GAC, was appointed as a specialist consultant to the GAC pursuant to the requirement of the Companies Act, 2008, that all members of the GAC have to be Board members. Three of the members of the GAC and the specialist consultant are Chartered Accountants. The remaining members of the GAC are an actuary, a lawyer and a risk management specialist, respectively.

The Boards are satisfied that the members of these Committees have sufficient recent and relevant financial experience to enable them to carry out their duties and responsibilities and that the members of the Committees bring a wide range of relevant experience and expertise. The GAC meets at least four times a year, while the TAC is scheduled to meet at least twice a year. The Chairmen of the Group Risk Committee and the Group Actuarial Committee are also members of the GAC. The Head of the Actuarial Control Function and Statutory Actuary, the Company Actuary, the external auditors, the Head of the Internal Audit Function and other relevant role players are present at each meeting of the GAC. The external auditors are present at each meeting of the TAC.

AUDIT COMMITTEES' REPORT (continued)

The TAC and GAC meet both the external and internal auditors separately in private sessions, without executive management being present. The Chief Executive and the Chief Financial Officer, along with other members of senior management, attend Committee meetings, as necessary, at the invitation of the Chairmen of the Committees.

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

Both committees have satisfied themselves:

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

ROLE OF THE AUDIT COMMITTEES

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

The Committees performed their functions required in terms of the Companies Act and the Trust Deed and executed their responsibilities in accordance with their terms of reference. The Committees performed, among others, the following functions:

- Reviewed and recommended for approval the annual financial statements
- Considered the factors and risks that might affect the financial reporting
- Confirmed the going-concern basis of preparation of the annual financial statements
- Reviewed and recommended for approval the integrated report
- Assessed the effectiveness of internal financial controls systems and formed the opinion that there were no material breakdowns in internal control
- Ensured that a combined assurance model was applied to provide a coordinated approach to all assurance activities
- Reviewed the Internal Audit Policy in line with King IV recommendations, and recommended the approval thereof to the PPS Insurance Board
- Approved the internal audit plan for the financial year
- Reviewed and evaluated reports relating to internal audit and risk management
- Nominated PricewaterhouseCoopers Inc. ('PwC') as the PPS Group's external auditors
- Approved the external audit engagement letter and determined the audit fees payable to the external auditors
- Reviewed the quality and effectiveness of the external audit process and the audit plan and assessed the competence of the external auditors
- Obtained and considered a statement from the independent auditors confirming that its independence was not impaired
- Confirmed that no reportable irregularities had been identified or reported by the independent auditors under the Auditing Profession Act

- Ensured no limitations were imposed on the scope of the external audit
- Determined the nature and extent of non-audit services that the external auditors may provide and pre-approved any such services
- Maintained oversight over fraud and corruption risk management and established a protocol for confidential reporting
- Considered whether there were any concerns or complaints whether from within or outside the PPS Group relating to the accounting practices and internal audit of the PPS Group, the content or auditing of the PPS Group's financial statements, the internal financial controls of the PPS Group or any related matter
- Made submissions to the Boards on matters concerning the PPS Group's accounting policies, financial control, records and reporting.

EXTERNAL AUDITORS

PwC served as the PPS Group's external auditors for the 2018 financial year. The auditors' terms of engagement were approved prior to the audit. The Committees satisfied themselves that the external auditors' appointment complies with the Companies Act and in particular Section 90(2) thereof, as well as the Auditing Profession Act.

The Committees are satisfied that both PwC and the audit partner are independent. The external auditors provided assurance that their internal governance processes within their audit firm support and demonstrate their claim to independence.

The GAC was comfortable that non-audit services work was justified and necessary and that it did not give rise to any self-review threat for the external auditors.

EXPERTISE AND EXPERIENCE OF THE FINANCIAL DIRECTOR AND THE FINANCE TEAM

The Committees are satisfied that the expertise and experience of the Chief Financial Officer are appropriate to meet the responsibilities of the position.

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

APPROVAL OF THE REPORT

The TAC and GAC confirm for the 2018 financial year that they have functioned in accordance with their Terms of Reference and as required by the Companies Act and Trust Deed of PPS Holdings Trust and that their reports have been approved by the directors and trustees.

On behalf of the Audit Committees:

Ms D L T Dondur
Chairman of TAC

2 April 2019

Prof H E Wainer
Chairman of GAC

2 April 2019

GROUP SOCIAL AND ETHICS COMMITTEE'S REPORT

INTRODUCTION

The PPS Group Social and Ethics Committee ('SEC') is a statutory committee of the PPS Insurance Board established by the Board in terms of section 72(4) of the Companies Act (71 of 2008) ('Companies Act') and has the functions set out in Regulation 43(5) of the Companies Act.

The SEC is tasked with monitoring specific activities of the PPS Insurance Group as set out below and to advise the PPS Insurance Group Boards in relation to such matters. The SEC meets at least twice a year. The SEC is supported in discharging its duties by the Group Remuneration Committee, the Group Risk Committee and the Group Audit Committee.

Members

Ms D L T Dondur (Chairman), Independent Non-Executive Director (Appointed as Chairman of the Committee on 18 June 2018)

Mrs T Boesch, Executive Director

Mr C Erasmus, Independent Non-Executive Director

Mr I J Smit, Chief Executive

Mr N G Payne (Former Chairman), Independent Non-Executive Director (Resigned 30 April 2018)

Functions

The SEC performs all the functions as are necessary to fulfil the following statutory duties:

Monitoring the PPS Insurance Group's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:

- social and economic development
- good corporate citizenship
- assessment of the ethical risk profile
- labour and employment
- consumer relationships
- the environment, health and public safety
- the implementation of Treating Customers Fairly regulation
- drawing matters within its mandate to the attention of the PPS Insurance Group boards as may be required.

Reporting, through one of its members, to the members of PPS Insurance at its annual general meeting on the matters within its mandate.

The SEC meetings held during the year and attendance thereat were as follows:

Group Social and Ethics Committee	6 Mar 2018	9 Nov 2018
Ms D L T Dondur (Chairman) (Appointed 18 June 2018)	N/A	✓
Mrs T Boesch	✓	✓
Mr C Erasmus	✓	✓
Mr I J Smit	✓	✓
Mr N G Payne (Former Chairman) (Resigned 30 April 2018)	✓	N/A

N/A = Not applicable

Report to PPS Insurance members by the SEC

During 2018, the committee discharged its statutory duties and considered reports from the various contributors regarding the relevant functions and the following items were specifically noted:

Social and economic development	• The United Nations Global Compact Principles are not legislation but reflect international best practice. PPS conducts its business in accordance with the principles regarding human rights, labour standards, the environment and anti-corruption. • Compliance with the Employment Equity Act is managed in accordance with a report and a plan submitted to the Department of Labour, which are frequently tracked at executive management and board level. • Various action plans are in place to address the requirements of the sectoral Broad-based Black Economic Empowerment Act and Financial Services Charter.
Good corporate citizenship	• PPS promotes equality and prevents unfair discrimination against both employees and members. • Various corporate social investment initiatives are in place to develop the professional community and students studying towards qualifying degrees. • Various sponsorships, donations and charitable initiatives are undertaken and are regularly reviewed.
Assessment of the ethical risk profile	• Corruption and fraud management is a priority for PPS and a Fraud and Corruption Policy, as well as a confidential reporting facility, operated by an independent third party, are in place, and have been appropriately communicated to staff.
Consumer relationships	• PPS has implemented Treating Customers Fairly (TCF) and has fully integrated it into its operations, achieving a high score using the self-assessment tool provided by the FSCA for this purpose. • Industry-specific consumer protection legislation is in place (FAIS, Insurance Act, etc.) and compliance therewith is actively managed and high levels of compliance have been achieved.
The environment, health and public safety, labour and employment	• The impact of the activities of the various PPS Group entities on the environment is considered and projects to minimise the environmental impact of the operations of the organisation continue. • The occupational health and safety of employees and clients in buildings occupied by PPS are monitored and a high level of compliance is achieved. • Excellent working conditions are in place for all employees. • Employment relationships are valued at PPS and programmes for continued improvements to maintain best employee practice are in place and effective, as evidenced by the results of regular employee surveys. • Educational development of employees is achieved through various initiatives including internal and external training, induction programmes and bursary schemes.

The committee is satisfied with the reporting and governance framework to ensure compliance with its statutory responsibilities in terms of the Companies Act.

No complaints were received by the SEC during the year ended 31 December 2018 and based on the above monitoring reports, the SEC concluded that there were no specific issues under its purview which required reporting to the PPS Insurance Board or members of the PPS Group.

On behalf of the PPS Group Social and Ethics Committee:

Ms D L T Dondur
Chairman of SEC

2 April 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Note	Group 2018 R'000	Group 2017 R'000
ASSETS			
Property and equipment	2	**640 330**	593 445
Investment property	3	**408 540**	381 869
Intangible asset	4	**121 771**	89 941
Deferred tax	17	**144 279**	107 022
Financial assets – Investments at fair value through profit or loss	5	**42 988 508**	41 188 646
Reinsurance assets	6,12,13	**82 346**	99 825
Insurance and other receivables	7	**583 884**	502 007
Current income tax asset		**64 130**	12 189
Cash and cash equivalents	8	**2 554 907**	3 016 661
TOTAL ASSETS		**47 588 695**	45 991 605
EQUITY AND LIABILITIES			
Accumulated funds	9	**299 188**	323 663
Revaluation Reserve	10	**49 543**	48 609
Non-controlling interest	11	**11 060**	77 142
TOTAL EQUITY		**359 791**	449 414
LIABILITIES			
Long-term insurance policy liabilities, including PPS Profit-Share Accounts	12	**31 114 654**	31 389 041
Short-term insurance policy liabilities	13	**21 808**	28 879
Investment contract liabilities	14	**2 045 946**	1 876 916
Liabilities to outside unit trust holders	15	**12 670 465**	10 709 000
Borrowings	16	**173 688**	180 702
Deferred tax	17	**57 462**	373 415
Retirement benefit obligations	18	**5 587**	6 818
Employee related obligations	19	**220 074**	198 132
Insurance and other payables	20	**915 762**	777 757
Current income tax liabilities		**3 458**	1 531
TOTAL LIABILITIES		**47 228 904**	45 542 191
TOTAL EQUITY AND LIABILITIES		**47 588 695**	45 991 605

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

		Group	
	Note	**2018 R'000**	2017 R'000
Net insurance premium revenue	21	**4 163 102**	3 858 384
Other income	22	**418 219**	437 165
Investment income	23	**2 097 695**	1 823 561
(Losses)/profits on financial assets and investment property	24	**(2 083 475)**	2 770 571
Attributable to unit trust holders	15	**(154 618)**	(966 613)
		4 440 923	7 923 068
Net insurance benefits and claims	25	**2 931 878**	2 699 959
Movement in fair value of policyholder liabilities under investment contracts	14	**(48 342)**	140 060
Expenses	26	**1 910 477**	1 596 492
(Loss)/profit before movement in insurance policy liabilities		**(353 090)**	3 486 557
Movement in insurance policy liabilities	12	**(333 723)**	3 011 553
Tax (credit)/charge	28	**(27 939)**	465 379
Surplus after tax and policy movements		**8 572**	9 625
Other comprehensive income:			
Revaluation of owner-occupied property net of deferred tax		**4 648**	18 608
Total comprehensive income for the year		**13 220**	28 233

The mutual nature of PPS should be noted. The allocation to policyholders – described above as 'Movement to insurance policy liabilities' – is a portion of the annual allocation to members' PPS Profit-Share Account in their capacity as policyholders. The balance of R968.3 million is from the movements in the Actuarial Reserve (Non-Discretionary Participation Features ('Non-DPF') liability). The surplus after tax is the result of operations of the non-insurance subsidiaries and any increase required to maintain capital.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Note	Accu-mulated funds R'000	Reval-uation reserve R'000	Non-controlling interest R'000	Total R'000
Group					
Balance at 1 January 2017		313 085	31 936	55 065	400 086
Transfer to DPF liability	12.2	–	(1 935)	–	(1 935)
Issue of shares by subsidiary to minority		–	–	23 030	23 030
Total comprehensive income/(loss) for the year		10 578	18 608	(953)	28 233
Surplus for the year		10 578	–	(953)	9 625
Other comprehensive income for the year		–	18 608	–	18 608
Balance at 31 December 2017		323 663	48 609	77 142	449 414
Transfer to DPF liability	12.2	**–**	**(3 714)**	**–**	**(3 714)**
Issue of shares by subsidiary to minority		**–**	**–**	**14 994**	**14 994**
Purchase of minority interest in subsidiary		**(51 620)**	**–**	**(62 503)**	**(114 123)**
Total comprehensive income/(loss) for the year		**27 145**	**4 648**	**(18 573)**	**13 220**
Surplus/(loss) for the year		**27 145**	**–**	**(18 573)**	**8 572**
Other comprehensive income for the year		**–**	**4 648**	**–**	**4 648**
Balance at 31 December 2018		**299 188**	**49 543**	**11 060**	**359 791**

The DPF liability comprises PPS Profit-Share accounts.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Note	Group 2018 R'000	Group 2017 R'000
Cash flows from operating activities			
Cash generated from operations	29	**173 554**	494 191
Interest received		**1 324 493**	1 237 127
Dividend received		**637 782**	516 921
Tax paid	30	**(375 675)**	(347 208)
Net cash from operating activities		**1 760 154**	1 901 031
Cash flows from investing activities			
Purchases of property and equipment	2	**(86 734)**	(71 232)
Improvements to investment property	3	**(43 441)**	(3 816)
Software development	4	**(53 382)**	(35 865)
Purchase of financial assets	5,15	**(20 106 331)**	(19 893 027)
Proceeds from sale of furniture and equipment		**600**	338
Proceeds from disposal of financial assets		**18 173 523**	19 185 240
Net cash used in investing activities		**(2 115 765)**	(818 362)
Cash flows from financing activities			
Proceeds from issue of share capital of subsidiary to minority		**14 994**	23 030
Purchase of minority's interest in subsidiary		**(114 123)**	–
Decrease in borrowings	16	**(7 014)**	(5 677)
Net cash (outflow)/inflow from financing activities		**(106 143)**	17 353
Net increase/(decrease) in cash and bank		**(461 754)**	1 100 022
Cash and cash equivalents at beginning of year		**3 016 661**	1 916 639
Cash and cash equivalents at end of year	8	**2 554 907**	3 016 661

GROUP ACCOUNTING POLICIES

The principal accounting policies applied are set out below.

1. BASIS OF PRESENTATION

These financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS').

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 34.

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

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2018:

- Amendments to IFRS 9, 'Financial instruments'
- Amendments to IFRS 4, 'Insurance contracts'
- IFRS 15, 'Revenue from contracts with customers'
- Amendments to IFRS 15, 'Revenue from contracts with customers'
- Amendments to IAS 40, 'Investment property'
- IFRIC 22, 'Foreign currency transactions and advance consideration'
- Annual improvements 2014-2016

These do not have a material impact on the Group's overall results and financial position.

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

- IFRS 16 – Leases: This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

  For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

  Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  The new Standard will not result in a material impact on the Group's financial statements.

- IFRS 17, 'Insurance contracts' (Annual periods beginning on or after 1 January 2021): Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements.

  Under IFRS 17, for insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

The general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are re-measured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.

The new Standard will result in a material impact on the Group's financial statements.

2. CONSOLIDATION

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

Subsidiaries

Subsidiaries are entities over which the Group directly or indirectly has control. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investee.

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

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

All unit trusts which are managed by a controlled subsidiary of the Group are consolidated, irrespective of the Group's economic interest. Third Party unit trust holders' interests in unit trusts are liabilities of the unit trust and are classified as such in the Group.

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

Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. In the Parent's separate annual financial statements, the interests in subsidiaries are accounted for at cost. A provision for impairment is created if there is evidence of impairment.

Non-controlling interest

This is the minority shareholders' interest in the surplus/deficit after tax since acquisition, and the net assets of entities controlled by the group. In the Statement of Financial Position, the non-controlling interest is disclosed as part of equity in terms of IFRS.

3. FINANCIAL INSTRUMENTS

3.1 **General**

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

Financial instruments recognised in the Statement of Financial Position include investments, other receivables, cash and cash equivalents, investment contract liabilities, borrowings, accruals, third party liabilities arising on consolidation of unit trusts, and other payables.

GROUP ACCOUNTING POLICIES (continued)

3. FINANCIAL INSTRUMENTS (continued)

3.2 Financial assets

The Group has the following financial asset categories: financial assets at fair value through profit or loss, as well as financial assets at amortised cost.

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

Financial instruments at fair value through profit or loss

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

Financial assets designated at fair value through profit or loss, consist of local and foreign equities, money market instruments, government bonds, corporate bonds and unit trusts. Subsequent to initial recognition, these financial assets are accounted for at fair value. Fair value gains and losses arising from changes in fair value are included in the Statement of Profit or Loss and other Comprehensive Income as net fair value gains on financial assets in the period in which they arise.

Equity fair values are based on regulated exchange quoted bid prices at the close of business on the last trading day on or before the reporting date. Bond fair values are based on regulated exchange quoted closing prices at the close of business on the last trading day, on or before the reporting date. Unit trust fair values are based on the net asset value (price) on the reporting date.

Financial assets at amortised cost

Insurance and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Insurance and other receivables are initially measured at fair value and subsequently at amortised cost using the effective interest rate method less impairment adjustments (accounting policy note 12).

3.3 Financial liabilities

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

Financial liabilities include other payables, borrowings categorised as financial liabilities at amortised cost, investment contract liabilities (accounting policy note 4.2.3) and third-party financial liabilities arising on consolidation of unit trusts (accounting policy note 2), designated on initial recognition as at fair value through profit and loss.

Other payables are initially measured at fair value less transaction costs that are directly attributable to the raising of the funds, and are subsequently stated at amortised cost using the effective interest rate method. Any difference between the proceeds, net of transaction costs and the redemption value is recognised in the Statement of Profit or Loss and other Comprehensive Income over the period of borrowing.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Profit or Loss and other Comprehensive Income over the period of the borrowings using the effective interest method.

Investment contract liabilities are initially measured at fair value less transaction costs, and are subsequently measured at fair value.

Third-party financial liabilities arising on consolidation of unit trusts are measured at fair value, which is the unquoted unit values as derived by the fund administrator, with reference to the rules of each particular fund. Fair value gains or losses are recognised in the Statement of Profit or Loss and other Comprehensive Income.

3.4 **Derecognition of financial assets and financial liabilities**

The Group derecognises an asset:

- when the contractual rights to the cash flows from the asset expires;
- where there is a transfer of contractual rights to receive cash flows on the asset in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred; or
- where the Group retains the contractual rights to the cash flows from these assets, but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers all or substantially all the risks and benefits associated with the assets.

Where the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3.5 **Financial Instruments, owner occupied property (accounting policy note 8) and insurance and investment contract (accounting policy note 4) analysis**

IFRS 13 indicates a three tier hierarchy for fair value measurement disclosures:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. These are the readily available in the market and are normally obtainable from multiple sources.

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

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

4. INSURANCE AND INVESTMENT CONTRACTS

4.1 **Classification of contracts**

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Such contracts may also transfer financial risk. The Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is significantly more than the benefits payable if the insured event did not occur. Insurance contracts are classified in three main categories, depending on the type of insurance risk exposure, namely long-term insurance, short-term insurance and investments.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. These are contracts where the Group does not actively manage the investments of the policyholder over the lifetime of each policy contract. Benefits are linked to the performance of a designated pool of assets, selected based on the policyholder risk appetite.

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

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer; and

GROUP ACCOUNTING POLICIES (continued)

4. INSURANCE AND INVESTMENT CONTRACTS (continued)

4.1 **Classification of contracts** (continued)

- that are contractually based on:
  - i. the performance of a specified pool of contracts or a specified type of contract;
  - ii. realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - iii. 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 is treated as an extinguishment of the existing contract and the issuance of a new contract.

Insurance contracts

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

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

Short-term insurance contracts provide benefits under short-term policies, which include motor, household and professional indemnity, or a combination of any of those policies. Short-term insurance contracts are further classified into the following categories:

– Personal insurance, consisting of insurance provided to individuals and their personal property; or

– Commercial insurance, providing cover on the assets and liabilities of business enterprises.

4.2 **Valuation and recognition**

4.2.1 **Long-term Insurance contracts**

Principles of valuation and profit recognition

The accounting policy for the measurement of liabilities in respect of insurance contracts has been determined having regard to the Standard of Actuarial Practice (SAP's) and Advisory Practice Notes (APN's) issued by the Actuarial Society of South Africa (ASSA). Of particular relevance to the insurance liability calculations, are the following actuarial guidance notes:

SAP 104: Life Offices – Valuation of Long-Term Insurers;

APN 102: Life Offices – HIV/AIDS;

APN 105: Recommended AIDS extra mortality bases.

Valuation

The insurance contracts are valued in terms of the financial soundness valuation ('FSV') basis contained in SAP 104 issued by the ASSA. A liability for contractual benefits that are expected to be incurred in the future, (the non-DPF component of the policy liabilities) is recorded in respect of the existing policy book when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the premiums to be paid in terms of the policy contract. The liability is based on best-estimate assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued and updated on an annual basis at reporting date to reflect current expectations. The policy liabilities also make provision for future profit declarations to policyholders. The profits provided for are in line with the Group's interpretation of policyholder reasonable benefit expectations. The policy liabilities are discounted using an asset-backed rate.

Compulsory margins for adverse deviations are included in the assumptions as required in terms of SAP 104.

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

Where the same policy includes both insurance and investment components and the policy is classified as an insurance policy in terms of IFRS 4, the liability for the insurance benefits and investment benefits are valued. To avoid premature recognition of future profit, in the policy valuation, compulsory and discretionary margins are added to the best estimate assumptions, profits are only recognised to the extent of the initial acquisition costs, thus no separate deferred acquisition cost is recognised.

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

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

Recognition: insurance contracts

Premiums

From inception of the policy, premiums are recognised on a monthly basis. Premiums are 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.

Insurance benefits

Insurance benefits and claims are recorded as an expense gross of any reinsurance recovery when they relate to 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) are 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 measured using a management estimate, 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 calculation is based primarily on a weighted average historic claims payout rate. The profile of claims run-off (over time) is modelled by using historic data of the Group. The profile is then applied to actual claims data of recent periods for which the run-off is not complete. The IBNR is included in the insurance policy liabilities.

GROUP ACCOUNTING POLICIES (continued)

4. INSURANCE AND INVESTMENT CONTRACTS (continued)

4.2 **Valuation and recognition** (continued)

4.2.1 **Long-term insurance contracts** (continued)

Claims payable

A claims payable liability is held in respect of sickness and permanent incapacity policies, and the professional preserver policies, where the Group has been notified of a claim before reporting date, and the claim has not been paid at reporting date. Claims payable are estimated by claims assessors for individual cases reported to the Group and are included in insurance policy liabilities.

Expenses for the acquisition of insurance contracts

Expenses for the acquisition of insurance contracts consist of commission and marketing management costs paid by the Group upon the acquisition of new and additional insurance business. These costs are expensed in full in the financial period during which the new policies are acquired.

Liability adequacy test

At each reporting date, liability adequacy tests are required to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future premiums, claims, and claims handling and administration expenses are used. Since the insurance policy liabilities are calculated in terms of the financial soundness valuation ('FSV') basis, as described in SAP 104, which meets the minimum requirements of the liability adequacy test, it is not necessary to perform an additional liability adequacy test.

Recognition: Reinsurance contracts

Reinsurance contracts outwards

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more insurance contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are recognised as reinsurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets, which are dependent on the expected reinsurance claims and benefits arising under the related reinsured insurance contracts. These assets consist of short-term balances due from reinsurers (classified as insurance and other receivables) and long-term receivables (classified as reinsurance assets).

Amounts recoverable from or due to reinsurers are measured in terms of each reinsurance contract.

Reinsurance assets are assessed for impairment at each statement of financial position date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in profit and loss for the period.

Reinsurance liabilities consist of premiums payable for reinsurance contracts and are recognised as an expense when due.

Reinsurance premiums

Reinsurance premiums paid are recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income when they become due for payment in terms of the contracts at the undiscounted amounts payable in terms of the contracts.

Reinsurance recoveries

Reinsurance recoveries are recognised in the statement of Profit or Loss and Other Comprehensive Income in the same period as the related claim at the undiscounted amount receivable in terms of the contracts.

Reinsurance inwards

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

Receivables and payables related to insurance contracts

Insurance receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

4.2.2 **Short-term insurance contracts**

Principles of valuation and profit recognition

The accounting policy for the measurement of liabilities in respect of insurance contracts has been determined having regard to both Advisory Practice Note 401 (APN 401) issued by the Actuarial Society of South Africa (ASSA), as well as Insurance Act 18 of 2017 issued by the Prudential Authority.

Gross written premium

Gross premiums exclude value added tax and any other foreign indirect taxes. Premiums are accounted for as income when the risk related to the insurance policy incepts and are spread over the risk period of the contract. This also includes premiums received in terms of inward reinsurance arrangements. All premiums are shown before deduction of commission payable to intermediaries.

Expenses for the acquisition of insurance contracts

Commissions on securing new contracts and renewals are deferred and recognised as expenses over the period in which the related premiums are recognised as revenue.

Provision for unearned premiums (UPR)

The provision for unearned premiums represents the portion of the current year's premiums that relate to risk periods extending into the following year. Unearned premium is calculated using a method which approximates the 365th method, except for insurance classes where allowance is made for uneven exposure which consist of crop and alternative risk business.

Provision for unexpired risk

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims-handling fees and related administrative costs. This liability adequacy test is performed annually to ensure the adequacy of general insurance liabilities.

Provision for claims (OCR)

Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. The Group's own assessors or contracted external assessors individually assess claims. The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges. Claims provisions are not discounted.

GROUP ACCOUNTING POLICIES (continued)

4. INSURANCE AND INVESTMENT CONTRACTS (continued)

4.2 **Valuation and recognition** (continued)

4.2.2 **Short-term insurance contracts** (continued)

Provision for claims incurred but not reported (IBNR)

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the company at that date. This provision is calculated using actuarial modelling (refer note 13.1). This reserve is undiscounted.

Reinsurance contracts outwards

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more insurance contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Reinsurance premiums

Reinsurance premiums are recognised as an expense in the Statement of Profit of Loss and Other Comprehensive Income when they become due for payment in terms of the contracts at the undiscounted amounts payable in terms of the contract.

Reinsurance claims

The benefits to which the Group are 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) that are calculated based on the gross OCR and IBNR reserves.

Amounts recoverable from or due to reinsurers are measured in terms of each reinsurance contract.

Reinsurance UPR

The reinsurer's share of unearned premiums represents the portion of the current year's outward reinsurance premiums that relate to risk periods covered by the related reinsurance contracts extending into the following year. The reinsurers' share of unearned premium is calculated using the 365th method except in the case of non-proportional treaties where unearned premiums on minimum and deposit premiums are calculated using the eighth method.

Reinsurance Commission Revenue/Deferred Revenue Liability

Income from reinsurance contracts ceded, that varies with and is related to obtaining new reinsurance contracts and renewing existing reinsurance contracts, is deferred over the period of the related reinsurance contracts and is recognised as a current liability.

Reinsurance assets

Reinsurance assets are assessed for impairment at each statement of financial position date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in profit and loss for the period.

Reinsurance liabilities

Reinsurance liabilities consist of premiums payable for reinsurance contracts and are recognised as an expense when due.

4.2.3 **Investment contracts**

Investment contracts are recognised as financial liabilities in the Statement of Financial Position at fair value when the Group becomes party to their contractual provisions. Contributions received from policyholders are not recognised in profit or loss but are accounted for as deposits. Amounts paid to policyholders are recorded as deductions from the investment contract liabilities.

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

Changes in the fair value of investment contracts are included in profit or loss in the period in which they arise. The change in fair value represents a change in the fair value of the assets linked to these investment contracts. The fair value of the Investment contract liability is equal to that of the assets in the unitised fund underlying the policies, as reflected by the value of units held by each policyholder. The carrying amount of the assets backing the investment contract liabilities under investment contracts reflect the fair value of the assets concerned, thus the actuarial valuation of the investment contract liabilities under unmatured investment contracts also reflect the fair value of the contractual liabilities.

Receivables and payables related to investment contracts

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

5. FOREIGN CURRENCY TRANSLATION

5.1 **Transactions and balances**

The consolidated financial statements are presented in Rands, which is the Group's presentation currency. Foreign currency transactions are translated into Rands ('the functional currency' in terms of IFRS) using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

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

5.2 **Group companies**

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that entity's most recent statement of financial position;
- income and expenses for each Statement of Profit or Loss and Other Comprehensive Income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

GROUP ACCOUNTING POLICIES (continued)

6. DIRECT AND INDIRECT TAX

Direct tax includes South African and foreign jurisdiction corporate tax payable, as well as capital gains tax.

The charge for current tax is based on the results for the year. It is calculated using taxation rates that have been enacted or substantively enacted by the reporting date, in each particular jurisdiction within which the Group operates.

Tax in respect of South African life insurance operations is determined using the five-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 offices held for administrative purposes and for capital appreciation, occupied by the Group. Owner-occupied property is initially recorded at cost, and is subsequently shown at fair value, based on annual year-end valuations by external independent appraisers. 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. To avoid an accounting mismatch, the related movement in insurance policy liabilities is mirrored to the revaluation reserve.

Changes to the carrying amount arising on revaluation of land and buildings are recognised through other comprehensive income.

Other fixed assets are 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 profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Buildings 50 years;
- Vehicles 5 years;
- Computer hardware 3 years;
- Furniture and fittings 6 years;
- Office equipment 5 years;
- Leasehold improvements the lesser of 5 years or the period of the lease.

Land is not depreciated.

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are included in the Statement of Profit or Loss and Other Comprehensive Income and are determined by comparing sales proceeds with the carrying amount.

9. 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 an intangible asset when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Direct costs include the external software development team's costs. Computer software acquired as part of the software development project is capitalised on the basis of the acquisition costs and related costs to bring it to use. All other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised, from the date the asset is brought into use, using the straight-line method over their useful lives, not exceeding a period of five years. The useful lives of the assets are reviewed at each reporting date and adjusted if appropriate.

10. INVESTMENT PROPERTY

Investment properties are held for the purpose of earning rental income and for capital appreciation. Investment properties are initially recorded at cost and include transaction costs on acquisition. Subsequent expenditure is capitalised to the asset's carrying value, only when it is probable that the future economic benefits associated with the item will flow to the group and the cost can be measured reliably.

Investment properties are valued annually, by external independent valuers, and adjusted to fair value as at the reporting date, except for properties purchased within six months of the year-end which are valued at cost, unless an independent valuation is performed.

Properties under construction, which are excluded from investment property valuations, are carried at cost where the Group is satisfied that cost is a reasonable approximation of fair value. On completion, the cost is transferred to the carrying value of investment property and subsequently valued independently.

Any gain or loss arising from the fair value of the investment property is included in the Statement of Profit or Loss and Other Comprehensive Income for the period to which it relates.

Gains and losses on the disposal of investment properties are recognised in the Statement of Profit or Loss and Other Comprehensive Income and are calculated as the difference between the sale price and the carrying value of the property.

GROUP ACCOUNTING POLICIES (continued)

11. LEASES

Operating leases where a Group company is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Profit or Loss and other Comprehensive Income on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

Operating leases where a Group company is the lessor

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Rental income from other property is classified as other income.

12. IMPAIRMENT OF ASSETS

Financial assets

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For insurance and other receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables (see note 35.3 for further details).

Non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such indicators include continued losses, changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of fair value less costs to sell and value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. The carrying amount of the asset is reduced directly against the asset. The amount of the loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the impairment provision account. The amount of the reversal is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

13. DEFERRED TAXATION

Deferred tax is provided, using the liability method, on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not recognised on initial recognition of the assets and liabilities where it does not impact either accounting or taxable profit. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. For Investment Property measured at fair value, deferred tax is provided at rates applicable to capital gains. The principal temporary differences arise from the revaluation of financial assets held at fair value through profit or loss and provisions.

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 contribution pension and provident fund. The assets are held in separate funds controlled by trustees appointed by the Group and employees.

14.2 **Post-retirement medical obligations**

The Group provides for the unfunded post-retirement healthcare benefits of a small number of retirees, their spouses and dependents. 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 using interest rates with reference to the market yield of government bonds at reporting date.

An independent actuary performs valuations of the defined benefit obligation, annually at reporting date, using the projected unit credit method to determine the present value of its post-retirement medical obligations and related current and past service costs.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

14.3 **Termination benefits**

Termination benefits are recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income and a liability in the statement of financial position when the Group has a present obligation relating to termination.

14.4 **Leave pay provision**

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

14.5 **Management bonuses**

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

14.6 **Long-term incentive and retention schemes**

Long-term incentive and retention schemes for certain employees are in place. The entitlement to these benefits is based on the employee remaining in service of the Group for a period of three to five years, depending on the scheme.

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

The growth of the benefit under the retention scheme is based on the five-year historical rolling average growth rate of the PPS Profit-Share account.

GROUP ACCOUNTING POLICIES (continued)

15. REVENUE

15.1 **Insurance premium revenue**

See accounting policies 4.2.1 and 4.2.2.

15.2 **Other income**

Other income is recognised in line with IFRS 15, "Revenue from contracts with customers". There are no material changes to revenue recognition of other income which is recognised under IFRS 15.

Other income is measured at the fair value of the consideration received or receivable.

Policy administration and collection services fee income are fees arising from services rendered in conjunction with the administration of long-term insurance policies which are underwritten by other insurance companies as well as Retirement Annuities housed in the PPS Retirement Annuity Fund.

Administration fees include fees charged to medical aid schemes and PPS Beneficiaries Trust, for administration services rendered to these entities.

Investment management fees include service fees earned in respect of investment management services rendered.

Commission received is recognised in the accounting period in which it accrues.

All fees and commission are recognised as services are rendered.

15.3 **Investment income**

Investment income comprises interest, dividends, as well as net fair value gains or losses on financial assets held at fair value through profit or loss.

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

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

15.4 **(Losses)/profits on financial assets and investment property**

Profits and losses (both realised and unrealised) on financial assets held at fair value through profit or loss comprise of gains and losses on disposal or revaluation of assets to fair values and are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. FINANCIAL INSTRUMENT AND INSURANCE CONTRACT ANALYSIS

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

R'000	Note	Financial assets and liabilities designated at fair value through profit or loss on initial recognition	Financial assets and liabilities at amortised cost	Insurance contract assets and liabilities (IFRS 4)	Pre-payments	Total carrying amount	Fair value
Group 2018							
Equity securities							
Local listed	5	**13 683 791**	**-**	**-**	**-**	**13 683 791**	**13 683 791**
International listed	5	**104 144**	**-**	**-**	**-**	**104 144**	**104 144**
Debt securities							
Government and local bonds	5	**8 974 934**	**-**	**-**	**-**	**8 974 934**	**8 974 934**
International listed	5	**381 367**	**-**	**-**	**-**	**381 367**	**381 367**
Unit trusts and pooled funds	5	**19 844 272**	**-**	**-**	**-**	**19 844 272**	**19 844 272**
Reinsurance assets	6	**-**	**-**	**82 346**	**-**	**82 346**	**N/A**
Insurance receivables	7	**-**	**80 697**	**-**	**-**	**80 697**	**80 697**
Prepayments	7	**-**	**-**	**-**	**35 364**	**35 364**	**35 364**
Other receivables	7	**-**	**388 272**	**-**	**-**	**388 272**	**388 272**
Reinsurance receivables	7	**-**	**79 551**	**-**	**-**	**79 551**	**79 551**
Cash and cash equivalents	8	**2 087 525**	**467 382**	**-**	**-**	**2 554 907**	**2 554 907**
Insurance contract liabilities	12	**-**	**-**	**31 105 404**	**-**	**31 105 404**	**N/A**
Short-term insurance policy liabilities	13	**-**	**-**	**21 808**	**-**	**21 808**	**N/A**
Investment contract liabilities	14	**2 045 946**	**-**	**-**	**-**	**2 045 946**	**2 045 946**
Liabilities to unit trust holders	15	**12 670 465**	**-**	**-**	**-**	**12 670 465**	**12 670 465**
Borrowings	16	**-**	**173 688**	**-**	**-**	**173 688**	**173 688**
Reinsurance payables	20	**-**	**35 448**	**-**	**-**	**35 448**	**35 448**
Insurance payables	20	**-**	**71 620**	**-**	**-**	**71 620**	**71 620**
Accruals and sundry creditors	20	**-**	**808 694**	**-**	**-**	**808 694**	**808 694**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

1. FINANCIAL INSTRUMENT AND INSURANCE CONTRACT ANALYSIS (continued)

R'000	Note	Financial assets and liabilities designated at fair value through profit or loss on initial recognition	Financial assets and liabilities at amortised cost	Insurance contract assets and liabilities (IFRS 4)	Pre-payments	Total carrying amount	Fair value
Group 2017							
Equity securities							
Local listed	5	14 711 830	–	–	–	14 711 830	14 711 830
International listed	5	96 834	–	–	–	96 834	96 834
Debt securities							
Government and local bonds	5	7 094 137	–	–	–	7 094 137	7 094 137
International listed	5	328 108	–	–	–	328 108	328 108
Unit trusts and pooled funds	5	18 957 737	–	–	–	18 957 737	18 957 737
Reinsurance assets	6	–	–	99 825	–	99 825	N/A
Insurance receivables	7	–	58 161	–	–	58 161	58 161
Prepayments	7	–	–	–	32 185	32 185	32 185
Other receivables	7	–	369 030	–	–	369 030	369 030
Reinsurance receivables	7	–	42 631	–	–	42 631	42 631
Cash and cash equivalents	8	2 616 774	399 887	–	–	3 016 661	3 016 661
Insurance contract liabilities	12	–	–	31 389 041	–	31 389 041	N/A
Short-term insurance policy liabilities	13			28 879	–	28 879	N/A
Investment contract liabilities	14	1 876 916	–	–	–	1 876 916	1 876 916
Liabilities to unit trust holders	15	10 709 000	–	–	–	10 709 000	10 709 000
Borrowings	16	–	180 702	–	–	180 702	180 702
Reinsurance payables	20	–	22 770	–	–	22 770	22 770
Insurance payables	20	–	50 715	–	–	50 715	50 715
Accruals and sundry creditors	20	–	704 272	–	–	704 272	704 272

2. PROPERTY AND EQUIPMENT

	Owner-occupied property R'000	Computer hardware R'000	Vehicles, office furniture & equipment R'000	Leasehold improve-ments R'000	Total R'000
Year ended 31 December 2017					
Opening net book amount	428 022	49 794	48 012	20 368	546 196
Revaluation surplus	19 259	–	–	–	19 259
Depreciation relating to revaluation	(503)	–	–	–	(503)
Additions	17 498	23 669	29 118	947	71 232
Disposals: Cost	–	(43 552)	(17 862)	–	(61 414)
Disposals: Accumulated Depreciation	–	43 542	17 685	–	61 227
Depreciation charge	(854)	(24 410)	(13 885)	(3 403)	(42 552)
Closing net book amount	463 422	49 043	63 068	17 912	593 445
At 31 December 2017					
Cost or valuation	478 026	129 778	124 630	28 607	761 041
Accumulated depreciation	(14 604)	(80 735)	(61 562)	(10 695)	(167 596)
Net book amount	463 422	49 043	63 068	17 912	593 445
Non-current	463 422	49 043	63 068	17 912	593 445
Year ended 31 December 2018					
Opening net book amount	**463 422**	**49 043**	**63 068**	**17 912**	**593 445**
Additions	**14 366**	**37 262**	**34 346**	**760**	**86 734**
Disposals: Cost	**–**	**(38 055)**	**(26 669)**	**–**	**(64 724)**
Disposals: Accumulated Depreciation	**–**	**38 055**	**26 203**	**–**	**64 258**
Depreciation charge	**(860)**	**(26 804)**	**(13 241)**	**(3 516)**	**(44 421)**
Revaluation surplus	**5 038**	**–**	**–**	**–**	**5 038**
Closing net book amount	**481 966**	**59 501**	**83 707**	**15 156**	**640 330**
At 31 December 2018					
Cost or valuation	**481 966**	**128 985**	**132 307**	**29 367**	**772 625**
Accumulated depreciation	**–**	**(69 484)**	**(48 600)**	**(14 211)**	**(132 295)**
Net book amount	**481 966**	**59 501**	**83 707**	**15 156**	**640 330**
Non-current	**481 966**	**59 501**	**83 707**	**15 156**	**640 330**

The land and buildings revaluation represents the capital appreciation on the owner-occupied properties. 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 directly in equity.

2. PROPERTY AND EQUIPMENT (continued)

Deferred tax has been provided on the revaluation difference arising on owner-occupied property owned by PPS Insurance Company Limited, based on the amounts and at the rate applicable to capital gains.

Owner occupied property is carried at fair value and is classified as level 3 in terms of the IFRS 13 hierarchy.

The Group's owner-occupied property owned by PPS Insurance Company Limited, consisting of an office block situated at 6 Anerley Road, Parktown was revalued at 31 December 2018 by Mills Fitchet Valuations (Pty) Limited.

Owner-occupied properties owned by the PPS Property Fund Trust consist of PPS Centurion Square and 11 Eton Road, and were valued at 31 December 2018 by Mills Fitchet (Pty) Limited and Quadrant Properties (Pty) Limited respectively.

Independent valuations were performed using the discounted cash flow of future income stream method. The discounted cash flow method takes projected cash flows and discount them at a rate which is consistent with comparable market transactions. Refer to note 34.5 for valuation assumptions. The opening carrying value is depreciated and then adjusted to reflect market value at year end.

If the owner-occupied properties were stated on a historical cost basis, the amounts would be as follows:

	Group	
	2018 **R'000**	2017 R'000
Cost	**375 030**	360 664
Accumulated depreciation	**(12 098)**	(11 238)
Net book amount as at 31 December	**362 932**	349 426

3. INVESTMENT PROPERTY

	Group 2018 R'000	Group 2017 R'000
Opening net book amount	**381 869**	356 469
Additions	**43 441**	3 816
Revaluation (deficit)/surplus	**(16 770)**	21 584
Net carrying value at end of year	**408 540**	381 869

Investment properties were valued using the discounted cash flow of future income stream method. Investment property is carried at fair value and is classified as level 3 in terms of the IFRS 13 hierarchy.

Investment property under construction is carried at cost.

4. INTANGIBLE ASSET – SOFTWARE DEVELOPMENT COSTS

	Group 2018 R'000	Group 2017 R'000
Cost beginning of year	**238 680**	205 739
Accumulated amortisation beginning of year	**(148 739)**	(132 552)
Net carrying value at beginning of year	**89 941**	73 187
Opening net carrying value	**89 941**	73 187
Additions	**53 382**	35 865
Obsolete: Cost	**(105 542)**	(2 924)
Obsolete: Accumulated amortisation	**105 542**	2 924
Amortisation	**(21 552)**	(19 111)
Closing net carrying value	**121 771**	89 941
Cost	**186 520**	238 680
Accumulated amortisation	**(64 749)**	(148 739)
Net carrying value at end of year	**121 771**	89 941

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

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

	Group	
	2018 R'000	2017 R'000
Analysis of financial assets held at fair value through profit or loss		
Level 1 fair value financial assets		
Equity securities:		
– local listed	**13 683 791**	14 711 830
– international listed	**104 144**	96 834
	13 787 935	14 808 664
Level 2 fair value financial assets		
Debt securities – fixed interest rate:		
– government bonds and local listed	**8 974 934**	7 094 137
– international listed	**381 367**	328 108
	9 356 301	7 422 245
Unit trusts and pooled funds:		
– local pooled funds and unit trusts	**13 805 341**	12 620 444
– international equity unit trusts	**3 532 610**	3 595 646
– international fixed interest unit trusts	**38 608**	145 800
– international balanced unit trusts	**2 467 713**	2 595 847
	19 844 272	18 957 737
Total level 2 fair value financial assets	**29 200 573**	26 379 982
Total financial assets at fair value through profit or loss	**42 988 508**	41 188 646
The investment in local pooled funds and unit trusts comprises mainly of:		
Debt securities	**6 356 534**	5 697 315
Cash and cash equivalents	**189 286**	199 166
Equities	**5 454 349**	5 313 187
International	**1 805 172**	1 410 776

International investments denominated in foreign currencies were translated to Rands at the closing exchange rates at 31 December 2018 of:

$1 = R14.35 (2017: $1 = R12.38)

N$1 = R1.00 (2017: N$1 = R1.00)

At 31 December 2018, investments classified as Level 2 comprise approximately 67.9% (2017: 64.0%) of financial assets measured at fair value. Debt securities are classified as Level 2 as directly observable market inputs other than level 1 inputs have been used to value these bonds. The observable inputs used to determine the fair value of unit trusts and pooled funds classified as Level 2 are the unit prices published by the unit trust fund managers.

At 31 December 2018, no financial assets are classified as Level 3 (2017: nil).

	Group	
	2018 R'000	2017 R'000
Analysis of movements in financial assets held at fair value through profit or loss:		
Opening balance	**41 188 646**	36 990 318
Additions	**25 665 587**	22 467 133
Disposals at carrying value	**(21 428 722)**	(20 187 960)
Fair value net (losses) / gains excluding net realised (losses) / gains	**(2 563 915)**	1 831 231
Accrued interest movements	**126 912**	87 924
Closing balance	**42 988 508**	41 188 646
The spread of investments by sector:		
Industrial (%)	**49.0%**	49.0%
Financial (%)	**32.6%**	32.6%
Resources (%)	**18.4%**	18.4%
Maturity profile of fixed interest investments:		
Due in 1 year or less	**1 216 759**	757 252
Due between 1 year and 5 years	**3 469 618**	3 277 861
Due between 5 years and 10 years	**1 439 626**	1 498 518
Due after 10 years	**3 230 298**	1 888 614
	9 356 301	7 422 245

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

6. REINSURANCE ASSETS

	Group	
	2018 R'000	2017 R'000
Total assets arising from reinsurance contracts at beginning of the year	**99 825**	75 706
Reinsurers' share of long-term insurance policy liabilities (note 12.2)	**(17 357)**	25 275
Reinsurers' share of short-term insurance policy liabilities (note 13.2)	**(122)**	(1 156)
Total assets arising from reinsurance contracts at end of the year	**82 346**	99 825
Non-current	**82 346**	99 825

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

7. INSURANCE AND OTHER RECEIVABLES

	Group	
	2018 R'000	2017 R'000
Receivables arising from insurance and reinsurance contracts:	**160 248**	100 792
due from contract holders	**91 105**	70 903
less allowance for impairment losses on receivables from contract holders	**(10 408)**	(12 742)
due from reinsurers	**79 551**	42 631
Other receivables:	**388 272**	369 030
accrued interest	**17 927**	20 397
accrued dividends	**67 998**	57 020
loan to PPS Mutual	**212 723**	153 691
less allowance for impairment loss on loan to PPS Mutual	**(91 629)**	–
deferred acquisition costs	**112**	64
other receivables	**181 141**	137 858
Prepayments	**35 364**	32 185
Total receivables including insurance receivables and prepayments	**583 884**	502 007
Current	**583 884**	502 007
Fair value of receivables held at amortised cost	**548 520**	469 822
Allowances for impairment losses on receivables from contract holders		
Specific allowances for impairment		
At beginning of year	**(12 742)**	(13 100)
Impairment loss recognised	**(1 020)**	(5 136)
Impairment loss reversals	**3 354**	5 494
At end of year	**(10 408)**	(12 742)
Allowances for impairment losses on loan to PPS Mutual		
Specific allowances for impairment		
At beginning of year	**–**	–
Impairment loss recognised	**(91 629)**	–
At end of year	**(91 629)**	–

8. CASH AND CASH EQUIVALENTS

	Group	
	2018 R'000	2017 R'000
Cash at bank and in hand	**467 382**	399 887
Cash on call	**2 087 525**	2 616 774
Total cash and cash equivalents	**2 554 907**	3 016 661

The proportion of cash held to fund the working capital of the Group as part of the investment portfolio is 18.3% (2017: 13.3%) 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 6.75% (2017: 6.5%).

9. ACCUMULATED FUNDS

The accumulated funds balance represents the amount of reserves which is not distributable as this is part of the amount the Group must retain to cover the long-term insurance solvency capital requirement ('SCR'). The Group has maintained its level of SCR cover at 2.6 times (2017: 2.6 times) which has resulted in R56.7 million (2017: R9.5 million) being allocated to accumulated funds in the current year from the surplus after tax. Additional allocations to accumulated funds arise from the surplus after tax and non-controlling interests of subsidiaries.

10. REVALUATION RESERVE

	Group	
	2018 R'000	2017 R'000
Opening balance	**48 609**	31 936
Revaluation surplus	**5 038**	19 259
Deferred tax	**(390)**	(148)
Depreciation relating to cumulative revaluation	**-**	(503)
Transfer to Long-Term Insurance Policy Liabilities	**(3 714)**	(1 935)
Closing balance	**49 543**	48 609

Revaluation reserve consists of fair value gains/losses on the revaluation of owner-occupied properties.

11. NON-CONTROLLING INTEREST

	Group	
	2018 R'000	2017 R'000
Non-controlling interest	**11 060**	77 142

Non-controlling interest consists of a minority's share of the Net Asset Value of PPS Property Fund Trust (2017: PPS Property Fund Trust and PPS Short-Term Insurance Company Limited).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

12. LONG-TERM INSURANCE POLICY LIABILITIES, INCLUDING PPS PROFIT-SHARE ACCOUNTS

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

(a) Process used to decide on assumptions

The sickness and disability insurance contracts issued by the Group include a non-DPF and a DPF component. The non-DPF component includes sickness, disability, death and dreaded disease 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 Corporate Actuarial Department. Any changes in estimates will impact on the size of the non-DPF policy liabilities and on the bonus rates the Group declares to the DPF component of the policy liabilities. Hence the changes in estimates will impact on the balance between the DPF component of the liabilities and the non-DPF component of the liabilities. In aggregate the changes will have no impact on the value of the total policy liabilities.

The assumptions used for the insurance contracts disclosed in this note are as follows:

- *Mortality*

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

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

- *Morbidity*

  Estimates are made as to the expected number of temporary and permanent incapacity claims for each of the years in which the Group is exposed to risk. These estimates of permanent incapacity are based on 01/01/2017 to 31/12/2018 experience and the estimates of temporary incapacity are based on 01/01/2017 to 31/12/2017 experience of the Group. The main source of uncertainty is epidemics such as AIDS, Severe Acute Respiratory Syndrome, 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 and dread disease claims are derived from the experience of the Group over the preceding four years.

- *Persistency*

  Estimates are made as to the future rate at which policyholders will terminate their contracts prior to the original maturity date. These estimates are based on the 01/01/2017 to 31/12/2018 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 redemption yield of the Prudential Authority's nominal yield curve.

- *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 2.75% (2017: 2.75%) less than the Prudential Authority's nominal yield curve.

- *Tax*

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

- *Future profit allocations*

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

(b) IBNR

The IBNR liability calculation is based on run-off tables using historical data from 2012 to 2018. 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.

(c) 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 decrease in liabilities of R11.0 million (2017: R129.8 million increase). The non-economic changes amounted to a Rnil effect (2017: R11.2 million decrease) in liabilities.

(d) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

12. LONG-TERM INSURANCE POLICY LIABILITIES, INCLUDING PPS PROFIT-SHARE ACCOUNTS (continued)

12.1 **Long-term life insurance contracts – assumptions, change in assumptions and sensitivity** (continued)

Variable	Change in variable %	Change in liability 2018 R'000	% change	Change in liability 2017 R'000	% change
Liability per note 12.2		**4 430 343**		4 140 414	
Worsening in mortality	**10**	**1 442 596**	**32.56**	1 564 920	37.80
Worsening in morbidity rates	**10**	**2 012 256**	**45.42**	1 762 532	42.57
Worsening in PI inception rate	**10**	**687 823**	**15.53**	536 608	12.96
Lowering of investment returns	**(1)**	**1 972 397**	**44.52**	1 519 359	36.70
Lowering of terminations	**(10)**	**612 328**	**13.82**	359 322	8.68
Worsening of maintenance expense level	**10**	**1 346 858**	**30.40**	1 000 196	24.16
Worsening of expense inflation rate	**10**	**2 288 258**	**51.65**	1 106 407	26.72

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

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

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

(e) ***Compulsory margins***

The published liabilities are on the FSV basis and include the following margins that need to be added to the best estimate margins. The following compulsory margins which have not changed since 2005 were added for both 2017 and 2018:

Assumption	Margin
Mortality	7.5% (increase or decrease, depending on which alternative increases liabilities)
Morbidity	10%
Medical	15%
Lapse	25% (increase or decrease, depending on which alternative increases liabilities)
Terminations for disability income benefits in payment	10%
Surrenders	10% (increase or decrease, depending on which alternative increases liabilities)
Expenses	10%
Expense inflation	10% (of estimated escalation rate)
Charge against investment return	25 basis points in the investment performance-based margin

12.2 **Movements in long-term insurance policy liabilities and re-insurance assets – Long-term insurance contracts with and without DPF**

	Group					
	2018			2017		
	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)	**19 292**	**–**	**19 292**	13 956	–	13 956
– Unintimated claims (IBNR)	**74 260**	**–**	**74 260**	59 311	–	59 311
– Non-DPF liability	**4 233 454**	**93 040**	**4 140 414**	3 884 523	67 944	3 816 579
– Cessation benefits (notified claims)	**161 375**	**–**	**161 375**	143 318	–	143 318
– DPF liability	**26 614 866**	**–**	**26 614 866**	23 948 940	–	23 948 940
Life policies						
– Claims payable (notified claims)	**160 435**	**–**	**160 435**	54 766	–	54 766
– Unintimated claims (IBNR)	**40 648**	**5 554**	**35 094**	27 691	5 139	22 552
– Life assurance policy reserve	**489**	**152**	**337**	682	388	294
Other liabilities	**84 222**	**–**	**84 222**	66 798	–	66 798
Total at beginning of the year	**31 389 041**	**98 746**	**31 290 295**	28 199 985	73 471	28 126 514
Change in Insurance policy liabilities per Statement of Comprehensive Income	**(351 080)**	**(17 357)**	**(333 723)**	3 036 828	25 275	3 011 553
Transfer from Revaluation Reserve	**3 714**	**–**	**3 714**	1 935	–	1 935
Movement in claims liabilities						
– arising from current year claims	**44 022**	**–**	**44 022**	132 619	–	132 619
– arising from prior year claims	**28 957**	**–**	**28 957**	17 674	–	17 674
Total movement in insurance policy liabilities	**(274 387)**	**(17 357)**	**(257 030)**	3 189 056	25 275	3 163 781
Total movement allocated	**(274 387)**	**(17 357)**	**(257 030)**	3 189 056	25 275	3 163 781

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

12. LONG-TERM INSURANCE POLICY LIABILITIES, INCLUDING PPS PROFIT-SHARE ACCOUNTS (continued)

12.2 **Movements in long-term insurance policy liabilities and re-insurance assets – Long-term insurance contracts with and without DPF** (continued)

	Group					
	2018			2017		
	Gross R'000	**Re-insurance R'000**	**Net R'000**	Gross R'000	Re-insurance R'000	Net R'000
Sickness and disability policies						
Claims payable (notified claims)	**14 518**	**–**	**14 518**	5 336	–	5 336
Unintimated claims (IBNR)	**(4 344)**	**6 001**	**(10 345)**	14 949	–	14 949
Non-DPF liability	**271 205**	**(22 231)**	**293 436**	348 931	25 096	323 835
Cessation benefits (notified claims)	**46 039**	**–**	**46 039**	18 057	–	18 057
DPF liability	**(541 524)**	**–**	**(541 524)**	2 665 926	–	2 665 926
Life policies						
Claims payable (notified claims)	**26 457**	**–**	**26 457**	105 669	–	105 669
Unintimated claims (IBNR)	**(2 027)**	**(975)**	**(1 052)**	12 957	415	12 542
Life assurance policy reserve	**(489)**	**(152)**	**(337)**	(193)	(236)	43
Other liabilities	**(84 222)**	**–**	**(84 222)**	17 424	–	17 424
Analysis of balance at the end of the year:						
Sickness and disability policies						
Claims payable (notified claims)	**33 810**	**–**	**33 810**	19 292	–	19 292
Unintimated claims (IBNR)	**69 916**	**6 001**	**63 915**	74 260	–	74 260
Non-DPF liability	**4 504 659**	**70 809**	**4 433 850**	4 233 454	93 040	4 140 414
Cessation benefits (notified claims)	**207 414**	**–**	**207 414**	161 375	–	161 375
DPF liability	**26 073 342**	**–**	**26 073 342**	26 614 866	–	26 614 866
Life policies						
Claims payable (notified claims)	**186 892**	**–**	**186 892**	160 435	–	160 435
Unintimated claims (IBNR)	**38 621**	**4 579**	**34 042**	40 648	5 554	35 094
Life assurance policy reserve	**–**	**–**	**–**	489	152	337
Other liabilities	**–**	**–**	**–**	84 222	–	84 222
Total at the end of the year	**31 114 654**	**81 389**	**31 033 265**	31 389 041	98 746	31 290 295
Current	**536 653**	**10 580**	**526 073**	540 232	5 554	534 678
Non-current	**30 578 001**	**70 809**	**30 507 192**	30 848 809	93 192	30 755 617
Total	**31 114 654**	**81 389**	**31 033 265**	31 389 041	98 746	31 290 295

	Group	
	2018 **R'000**	2017 R'000
The non-DPF liabilities developed as follows:		
Liabilities at beginning of the year	**4 140 414**	3 816 579
Unwinding of discount rate	**353 967**	370 175
Expected cash flows	**1 220 806**	953 964
Expected risk liability at year-end	**5 715 187**	5 140 718
Impact of movements	**(151 339)**	(82 064)
Change in valuation assumptions	**(258 380)**	(118 588)
Asset value adjustments	**(41 250)**	(623)
Risk benefit liability for new business issued	**(830 368)**	(799 029)
Liabilities at end of the year	**4 433 850**	4 140 414
The DPF liabilities developed as follows:		
Liabilities at beginning of the year	**26 614 866**	23 948 940
Claims paid during the year	**(1 203 249)**	(1 026 456)
Allocation of profits	**634 573**	3 734 971
Asset value adjustments	**27 152**	(42 589)
Liabilities at end of the year	**26 073 342**	26 614 866
Analysis of total insurance policy liabilities, net of reinsurance:		
Non-DPF liabilities	**4 433 850**	4 140 414
DPF liabilities	**26 073 342**	26 614 866
Life assurance policy reserve	**-**	337
Current liabilities	**526 073**	534 678
Liabilities at end of the year	**31 033 265**	31 290 295

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

13. SHORT-TERM INSURANCE POLICY LIABILITIES

13.1 **Short-term insurance contracts – assumptions**

Insurance risks are unpredictable and the Group recognises that it is not always possible to forecast, with absolute precision, future claims payable under existing insurance contracts. Over time, the Group has developed a methodology that is aimed at establishing insurance provisions that have an above-average likelihood of being adequate to settle all its insurance obligations.

Unearned premium provision

Unearned premiums represent the proportion of premiums written in the current year, which relate to risks that have not expired by the end of the financial year. The Group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires. All of the Group's insurance contracts have an even risk profile. Therefore, the unearned premium provision is released evenly over the period of insurance using a time proportion basis. The provision for unearned premiums is first determined on a gross level and thereafter the reinsurance impact is separately recognised based on the relevant reinsurance contract. Deferred acquisition costs and Reinsurance commission revenue are recognised on a basis that is consistent with the related provision for unearned premiums. At each reporting date an assessment is made of whether the provisions for unearned premiums are adequate. A separate provision can be made, based on information available at the reporting date, for any estimated future underwriting losses relating to unexpired risks (unexpired risk provision).

Unexpired risk provision

If the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to those policies, after deduction of any deferred commission expenses, management assesses the need for an unexpired risk provision. The need for an unexpired risk provision is assessed on the basis of information available at the reporting date. Claims events occurring after the statement of financial position date in relation to the unexpired period of policies in force at that time are not taken into account in assessing the need for an unexpired risk provision. Management will base the assessment on the expected outcome of those contracts, including the available evidence of claims experience on similar contracts in the past year, as adjusted for known differences, events not expected to recur, and the normal level of seasonal claims.

Outstanding claims

Outstanding claims represent the Group's estimate of the cost of settlement of claims that have occurred and were reported by the reporting date, but that have not yet been finally settled. Claims provisions are determined based on previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on the interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard for the specific circumstances, information available from the insured and/or loss adjuster, past experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions. The Group employs employees experienced in claims handling and rigorously applies standardised policies and procedures to claims assessment. The ultimate cost of reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Therefore, case estimates are reviewed regularly and updated when new information becomes available. The provision for outstanding claims is initially estimated at a gross level. A separate calculation is performed to estimate reinsurance recoveries. The calculation of reinsurance recoveries considers the type of risk underwritten, the year in which the loss claim occurred, under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or formed part of a catastrophe reinsurance claim. On the inwards reinsurance business, reliance is placed on the expertise and processes applied by the cedant in arriving at the relevant individual case estimates that have been reported. Again a separate calculation is performed to estimate reinsurance recoveries where applicable. The calculation of reinsurance recoveries considers the type of risk underwritten, the year in which the loss claim occurred, under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or formed part of a catastrophe reinsurance claim.

Claims incurred but not reported (IBNR)

There is also considerable uncertainty concerning the eventual outcome of claims that have occurred but had not yet been reported to the insurer by the reporting date. The IBNR provision relates to these events. The stochastic chain-ladder methodology assists in developing a greater understanding of the trends inherent in the data being projected to estimate the ultimate cost of claims. This process is performed separately for each line of business. Gross IBNR uses actuarial projections and a formula based calculation that considers the Earned Premium (EP), excluding VAT, per line of business and development year where sufficient data is not available to perform actuarial projections. In addition, a risk factor per line of business and development year is required. The calculation considers 6 development years. The first development year is the 12 months immediately preceding the valuation date, the second development year is the 12 months immediately preceding the first development year, etc. The risk factors applied per line of business and development year are shown in the table below:

		Non-motor			Motor
		Liability	Miscellaneous	Property	
Factors per development period	0	12.49%	7.18%	5.98%	3.43%
	1	4.47%	1.17%	0.88%	0.47%
	2	1.65%	0.25%	0.15%	0.09%
	3	0.66%	0.11%	0.04%	0.04%
	4	0.31%	0.09%	0.03%	0.03%
	5	0.19%	0.08%	0.02%	0.03%

The risk factors used correlate to a best estimate IBNR plus a risk margin. The implicit risk margin is expected to result in an IBNR at the 75th percentile. The IBNR reserve is held to be at least sufficient at the 75th percentile of the ultimate cost distribution.

The appropriate reinsurance structures are applied to the gross IBNR to calculate the reinsured portion of the IBNR.

Adjustments to the amounts of claims provisions established in prior underwriting years are reflected in the Financial Statements for the period in which the adjustments are made.

Stochastic chain-ladder methodology

The basic technique involves analysing historical claims development factors and selecting estimated development factors based on this historical pattern. The selected development factors are applied to cumulative internal claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year. It is the nature of this technique that a weighted average of claims inflation within the past data will be projected into the future.

A stochastic process is applied to the choice of development factors for each accident year in accordance with standard statistical practices. Numerous simulations are performed to obtain a distribution of the ultimate claims cost. The IBNR reserve is held so as to be at least sufficient at the 75th percentile of the ultimate cost distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

13. SHORT-TERM INSURANCE POLICY LIABILITIES (continued)

13.1 **Short-term insurance contracts – assumptions** (continued)

As this method uses historical claims development information, it assumes that the historical claims development pattern is a predictor of future claim developments. There are reasons why this may not be the case. Such reasons include:

- change in processes that affect the development/recording of claims paid and incurred;
- economic, legal, political and social trends;
- changes in mix of business; and
- random fluctuations, including the impact of large losses.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder. There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. The establishment of insurance liabilities is an inherently uncertain process and as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims can vary substantially from the initial estimates. The Group seeks to provide appropriate levels of claims provisions taking the known facts and experience into account. It should be emphasised that the estimation techniques for the determination of insurance liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate.

13.2 **Short-Term insurance policyholder liabilities**

	Group					
	2018			2017		
	Gross R'000	**Re-insurance R'000**	**Net R'000**	Gross R'000	Re-insurance R'000	Net R'000
Notified claims	**21 092**	**1 079**	**20 013**	10 501	2 235	8 266
Incurred but not reported	**6 769**	**–**	**6 769**	5 836	–	5 836
Unearned premiums	**1 018**	**–**	**1 018**	126	–	126
Liabilities at beginning of the year	**28 879**	**1 079**	**27 800**	16 463	2 235	14 228
Movement in claims liabilities:						
Notified claims	**(8 318)**	**(122)**	**(8 196)**	10 591	(1 156)	11 747
Incurred but not reported	**992**	**–**	**992**	933	–	933
Movement in unearned premiums	**255**	**–**	**255**	892	–	892
Total movement in insurance policy liabilities	**(7 071)**	**(122)**	**(6 949)**	12 416	(1 156)	13 572
Notified claims	**12 774**	**957**	**11 817**	21 092	1 079	20 013
Incurred but not reported	**7 761**	**–**	**7 761**	6 769	–	6 769
Unearned premiums	**1 273**	**–**	**1 273**	1 018	–	1 018
Liabilities at end of the year	**21 808**	**957**	**20 851**	28 879	1 079	27 800
Current	**21 808**	**957**	**20 851**	28 879	1 079	27 800

	Group	
	2018 R'000	2017 R'000
Claims and loss adjustment expenses developed as follows:		
Notified claims	**20 013**	8 266
Incurred but not reported	**6 769**	5 836
Total at the beginning of the year	**26 782**	14 102
Increase in liabilities:		
– arising from current year claims settled	**159 349**	87 043
– movement in insurance liabilities and current year claims	**(166 553)**	(74 363)
Liabilities at the end of year	**19 578**	26 782
Notified claims	**11 817**	20 013
Incurred but not reported	**7 761**	6 769
Total	**19 578**	26 782
Unearned premiums is developed as follows:		
Total at the beginning of the year	**1 018**	126
Charged to the Statement of Profit or Loss and Other Comprehensive Income	**255**	892
Liabilities at the end of year	**1 273**	1 018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

14. INVESTMENT CONTRACT LIABILITIES

	Group	
	2018 R'000	2017 R'000
Level 2 fair value investment contract liabilities		
Linked investment contracts	**2 045 946**	1 876 916
Non-current	**2 045 946**	1 876 916

All investment contracts are designated on initial recognition as at fair value through profit or loss.

The liabilities relating to linked contracts are measured with reference to the underlying assets linked to these contracts. PPS is contractually required to pay linked investment contract holders an amount equal to the fair value of the assets linked to these contracts. Linked contracts do not include any minimum guarantees and hence, there will be no difference between the carrying amount and the amount payable at the maturity date.

Investment contract liabilities are classified as Level 2, as the assets backing up these liabilities are unit trust funds of which the fair values are derived from the unit prices published by the unit trust fund managers.

	Group	
Movement table for investment contract liabilities	**2018 R'000**	2017 R'000
Linked contracts		
Balance at 1 January	**1 876 916**	1 464 986
Contributions received during the year	**433 522**	460 178
Fair value of policyholder liabilities under investment contracts	**(48 342)**	140 060
Net investment return (debited)/credited to account balances	**(25 996)**	158 669
Net fees and charges deducted from account balances	**(22 346)**	(18 609)
Benefit payments	**(216 150)**	(188 308)
Balance at 31 December	**2 045 946**	1 876 916

15. LIABILITIES TO OUTSIDE UNIT TRUST HOLDERS

	2018 R'000	2017 R'000
Liabilities to outside unit trust holders		
Balance at 1 January	**10 709 000**	9 088 757
Investment by outside unit trust holders	**5 559 256**	2 574 106
Redemptions by outside unit trust holders	**(3 752 409)**	(1 920 476)
Total comprehensive income attributable to outside unit trust holders	**154 618**	966 613
Balance at 31 December	**12 670 465**	10 709 000
Current	**12 670 465**	10 709 000

Liabilities to outside unit trust holders are classified as Level 2, as the fair value of the unit trust funds are derived from unit prices published by the unit trust fund managers.

The total comprehensive income attributed to outside unit trust holders are their share of the gains/losses in the unit trust.

16. BORROWINGS

	Group Carrying amount and fair value	
	2018 R'000	2017 R'000
Amortised cost		
Mortgage loans (Secured)	**147 168**	157 309
Minority shareholder loans in PPS Property Fund Trust (Unsecured)	**26 520**	23 393
Total borrowings	**173 688**	180 702
Current	**24 602**	24 050
Non-current	**149 086**	156 652

Mortgage loans bear interest at between prime less 0.5% and prime less 1% and are payable over the period to 2028.

Minority shareholder loans in PPS Property Fund Trust carry interest at prime less 1%. These loans are payable between 31 October 2032 and 31 October 2035.

17. DEFERRED TAX

	Group	
	2018 R'000	2017 R'000
Deferred tax assets:		
Provisions	**70 280**	49 836
Tax losses carried forward	**73 999**	57 186
End of year	**144 279**	107 022
Deferred tax liabilities:		
Unrealised gains on investments	**54 138**	370 481
Unrealised gains on land and buildings revaluation	**3 324**	2 934
End of year	**57 462**	373 415
Current asset	**70 280**	47 228
Non-current asset	**73 999**	59 794
Non-current liability	**57 462**	373 415

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

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

	Group
	R'000
At 1 January 2017	83 686
Recognised in profit or loss	23 336
At 31 December 2017	107 022
Recognised in profit or loss	**37 257**
At 31 December 2018	**144 279**

The utilisation of the deferred tax asset in respect of the tax losses is dependent on the relevant group entities making future taxable profits. It is assessed as recoverable based on the probability of the future taxable profits of the entity.

(b) Deferred tax liabilities

	Group		
	Deferred tax liability on revaluation of investments R'000	**Deferred tax liability on cumulative revaluation of land and buildings R'000**	**Total R'000**
At 1 January 2017	260 797	2 786	263 583
Recognised in profit or loss	204 614	–	204 614
Recognised directly in equity	–	148	148
Transfer to current income tax liabilities	(94 930)	–	(94 930)
At 31 December 2017	370 481	2 934	373 415
Recognised in profit or loss	**(221 413)**	**–**	**(221 413)**
Recognised directly in equity	**–**	**390**	**390**
Transfer to current income tax liabilities	**(94 930)**	**–**	**(94 930)**
At 31 December 2018	**54 138**	**3 324**	**57 462**

18. RETIREMENT BENEFIT OBLIGATIONS

	Group	
	2018 R'000	2017 R'000
Statement of Financial Position obligations for:		
– post-retirement medical benefits	**5 587**	6 818
	5 587	6 818
Statement of Profit or Loss and Other Comprehensive Income charge for (note 27):		
– post-retirement medical benefits	**(664)**	690
	(664)	690

Post-employment medical benefits

The Group provides for the unfunded post-retirement healthcare benefits of those employees and a small number of 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 latest actuarial valuation of the Group's post-employment benefits, carried out at 31 December 2018 indicated a present value of projected future benefits amounting to R5.6 million (2017: R6.8 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

18. RETIREMENT BENEFIT OBLIGATIONS (continued)

	Group	
	2018	2017
The principal actuarial assumptions used were as follows:		
Discount rate based on the Long-term Bond Index (%)	**9.38**	8.99
Medical cost inflation (%)	**7.42**	7.77

The assumed rates of mortality are as follows:

During employment: SA85-90 (Light) ultimate table ; and

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

19. EMPLOYEE RELATED OBLIGATIONS

	Group	
	2018 R'000	2017 R'000
Leave pay accrual		
Opening balance	**30 343**	25 870
Charged to the Statement of Profit or Loss and Other comprehensive income – additional provisions	**24 097**	19 368
Used during the year	**(18 282)**	(14 895)
Closing balance	**36 158**	30 343
Current	**36 158**	30 343
Provision for performance related incentives		
Opening balance	**167 790**	131 340
Additional provisions (executive directors and employees)	**108 294**	124 507
Used during the year	**(92 168)**	(88 058)
Closing balance	**183 916**	167 789
Current	**99 124**	86 636
Non-current	**84 792**	81 153
Total employee related obligations	**220 074**	198 132

20. INSURANCE AND OTHER PAYABLES

	Group	
	2018 R'000	2017 R'000
Payables arising from insurance and reinsurance contracts:		
– due to contract holders	**64 825**	44 454
– reinsurance payables	**35 448**	22 770
– subscriptions received in advance	**6 795**	6 261
Other payables:		
– accruals	**755 265**	665 557
– employees tax	**19 501**	12 496
– sundry creditors	**33 928**	26 219
Total insurance and other payables	**915 762**	777 757
Current	**915 762**	777 757

21. NET INSURANCE PREMIUM REVENUE

	Group	
	2018 R'000	2017 R'000
Individual premiums from policyholders	**4 527 538**	4 046 567
Long-term	**4 355 564**	3 936 341
Short-term	**171 974**	110 226
Group reinsurance premiums inwards	**15 232**	75 320
Long-term	**13 535**	44 848
Short-term	**1 697**	30 472
Premium revenue arising from insurance contracts issued	**4 542 770**	4 121 887
Individual premium revenue ceded to reinsurers on insurance contracts issued	**(379 668)**	(263 503)
Long-term	**(372 271)**	(257 900)
Short-term	**(7 397)**	(5 603)
Total net insurance premium revenue	**4 163 102**	3 858 384
Long-term	**3 996 828**	3 723 289
Short-term	**166 274**	135 095

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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22. OTHER INCOME

	Group	
	2018 R'000	2017 R'000
Policy administration and collection services	**14 574**	38 287
Administration fees	**255 635**	245 204
Investment management services	**67 525**	59 487
Commission	**23 024**	15 314
Rental income	**54 249**	47 233
Sundry income	**3 212**	31 640
Total other income	**418 219**	**437 165**

23. INVESTMENT INCOME

	Group	
	2018 R'000	2017 R'000
Financial assets held at fair value through profit or loss		
– Interest income	**1 448 935**	1 338 941
– Dividend income	**648 760**	484 620
Total investment income	**2 097 695**	1 823 561

24. (LOSSES)/PROFITS ON FINANCIAL ASSETS AND INVESTMENT PROPERTY

	Group	
	2018 R'000	2017 R'000
Financial assets held at fair value through profit or loss		
– Net realised gains on disposal of financial assets	**484 984**	1 014 642
– Net realised foreign exchange gains/(losses)	**12 226**	(96 886)
– Net unrealised (losses)/gains on revaluation of financial assets	**(2 563 915)**	1 831 231
Investment property		
– Fair value (losses)/gains on investment property	**(16 770)**	21 584
Total Investment (losses)/gains	**(2 083 475)**	**2 770 571**

25. NET INSURANCE BENEFITS AND CLAIMS

	Group	
	2018 R'000	2017 R'000
Gross		
Long-term insurance contracts with and without DPF		
– Individual sickness and incapacity benefits: Current year	**1 231 269**	1 045 854
– Individual sickness and incapacity benefits: Under/(over) provision for prior year	**28 957**	17 674
– Group non-DPF component of death benefits	**627 438**	697 526
– Individual DPF component of death, retirement and resignation benefits	**1 146 536**	1 018 036
Short-term insurance contracts		
– Personal lines	**122 447**	96 168
– Commercial	**10 307**	1 899
Total gross insurance benefits and recoveries	**3 166 954**	**2 877 157**
Reinsurance recoveries		
Long-term insurance contracts with and without DPF		
– Individual sickness and incapacity benefits	**(100 241)**	(79 789)
– Death benefits	**(134 835)**	(96 330)
Short-term insurance contracts		
– Personal lines	**-**	(1 073)
– Commercial	**-**	(6)
Total reinsurance recoveries	**(235 076)**	(177 198)
Total net insurance benefits and claims	**2 931 878**	2 699 959

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

26. EXPENSES

	Group	
	2018 R'000	2017 R'000
Costs incurred for the acquisition of insurance contracts expensed in the year:		
– Long-term insurance	**267 561**	236 511
– Short-term Insurance	**10 579**	8 341
Multi-managers' fees in PPS Investments	**92 614**	74 671
Marketing and administrative expenses include:		
– Amortisation of intangible asset (note 4)	**21 552**	19 111
– Auditors' remuneration	**8 925**	7 886
– Audit fees	**8 140**	7 159
– Other services	**785**	727
– Data processing and information technology systems maintenance	**158 465**	142 800
– Depreciation on property and equipment (note 2)	**44 421**	42 552
– Directors'/Trustees' and executives' remuneration	**28 241**	24 714
– Directors/Trustees – non-executive	**8 797**	8 254
– Executive directors of PPS Insurance	**17 099**	14 353
– Directors of other subsidiaries	**2 345**	2 107
– Employee costs (note 27)	**815 812**	738 083
– Fees for services	**20 256**	16 396
– Actuarial	**12 696**	9 298
– Legal	**4 805**	4 608
– Internal audit	**2 755**	2 490
– Investment management fees	**114 155**	62 228
– Other administration, maintenance and product development expenses	**293 000**	189 156
– Operating lease rentals	**34 896**	34 043
Total expenses	**1 910 477**	1 596 492

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

27. EMPLOYEE COSTS

	Group	
	2018 R'000	2017 R'000
Salaries and related costs	**645 741**	586 874
Pension costs – defined contribution plans	**62 144**	57 131
Other post-employment benefits (note 18)	**(664)**	690
Performance related incentives	**108 591**	93 388
Total employee costs (excluding executives)	**815 812**	738 083

28. TAX

	Group	
	2018 R'000	2017 R'000
Current tax	**137 699**	223 442
– Current year tax	**139 644**	223 438
– Prior years (overprovision)/underprovision	**(1 945)**	4
Deferred tax	**(258 670)**	181 278
Dividend withholding tax on deemed dividends	**93 032**	60 659
Total tax	**(27 939)**	465 379
Tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to South African/Namibian companies as follows:		
(Loss)/profit before movement in policy liabilities	**(353 090)**	3 486 557
Tax calculated at domestic tax rates applicable to (losses) profits in South Africa/Namibia	**(112 520)**	1 004 894
Tax effect of income not subject to tax	**(1 052 934)**	(1 541 112)
Tax effect of non-deductible expenses	**1 076 503**	952 455
Tax effect of tax rate on Dividend Withholding Tax on deemed dividends being different to tax rate on the individual policyholder fund ('IPF')	**55 817**	36 396
Prior year (overprovision)/underprovision	**(1 945)**	4
Tax effect of CF tax rate being different to IPF tax rate	**7 140**	12 742
Total tax per Statement of Profit or Loss and Other Comprehensive Income	**(27 939)**	465 379

The applicable tax rate was 28% (2017: 28%) for South African companies and 32% (2017: 32%) for Professional Provident Society Insurance Company (Namibia) Limited. Professional Provident Society Insurance Company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

28. TAX (continued)

Limited has four separate tax funds: the individual policyholders' fund (taxed at 30%), the Company policyholders' fund (taxed at 28%), the untaxed policyholder's fund (not taxed) and the corporate fund (taxed at 28%). Professional Provident Society Insurance Company Limited does not qualify as having a Risk Policy Fund as defined under Section 29A of the Income Tax Act No. 58 of 1962. The tax reconciliation is done on total tax on all funds. The Professional Provident Society Holdings Trust is taxed at 45%.

Dividend withholding tax is payable on dividends received in the individual policy fund.

The Group has accumulated losses of R290.4 million (2017: R192.0 million) available in certain subsidiaries for offset against future taxable income in those subsidiaries.

29. CASH GENERATED FROM OPERATIONS

	Group	
	2018 R'000	2017 R'000
Reconciliation of profit before movement in insurance policy liabilities to cash generated by operations:		
	(198 472)	4 453 170
Profit before movement in policy liabilities	**(353 090)**	3 486 557
Attributable to unit trust holders	**154 618**	966 613
Investment contract receipts	**433 522**	460 178
Investment contract surrenders	**(216 150)**	(188 308)
Adjustments for:		
– Depreciation	**44 421**	42 552
– Fair value of policyholder liabilities under investment contracts	**(48 342)**	140 060
– Amortisation of intangible asset	**21 552**	19 111
– Realised profit on disposal of property and equipment	**(134)**	(151)
– Impairment losses from loan to associate company	**91 629**	–
– Investment income	**(2 097 695)**	(1 823 561)
– Net unrealised gains on financial assets held at fair value through profit or loss	**2 083 475**	(2 770 571)
Changes in working capital:		
– Insurance and other receivables	**(164 998)**	(99 434)
– Insurance and other payables	**158 716**	97 281
– Short-term policy liabilities	**(6 949)**	13 572
– Insurance policy liabilities	**72 979**	150 292
Cash generated from operations	**173 554**	494 191

30. TAX PAID

	Group	
	2018 R'000	2017 R'000
Tax receivable at beginning of year	**(10 658)**	(42 481)
Current tax as per Statement of Profit or Loss and Other Comprehensive Income	**230 731**	284 101
Transfer from deferred tax liability	**94 930**	94 930
Tax receivable at end of year	**60 672**	10 658
Total tax paid	**375 675**	347 208

31. COMMITMENTS

	Group	
	2018 R'000	2017 R'000
(a) Capital expenditure contracted for at the reporting date but not yet incurred is as follows:		
– Committed but not contracted for	**109 736**	104 622
(b) Operating lease commitments – where a Group entity is the lessee		
The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.		
The lease expenditure charged to the Statement of Profit or Loss and Other Comprehensive Income during the year is disclosed in note 26.		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Due in one year or less	**36 249**	34 754
Due between one year and five years	**68 862**	123 259
Due after five years	**–**	12 270
(c) Operating lease commitments – where a Group entity is the lessor		
The Group leases out its investment property (see note 3) under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.		
The lease revenue charged to the Statement of Profit or Loss and Other Comprehensive Income during the year is disclosed in note 22.		
The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:		
Due in one year or less	**28 473**	**36 050**
Due between one year and five years	**48 408**	**77 279**
Due after five years	**2 077**	**9 998**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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32. TRUSTEES' REMUNERATION

The PPS Holdings Trust trustees' remuneration from the Group

	2018			2017		
Trustees	**The PPS Holdings Trust (including committees) R'000**	**Subsidiary Companies (including committees) R'000**	**Total remuneration (including committees) R'000**	The PPS Holdings Trust (including committees) R'000	Subsidiary Companies (including committees) R'000	Total remuneration (including committees) R'000
Adv T N Aboobaker	**60**	**–**	**60**	161	–	161
Dr N Campbell	**–**	**–**	**–**	80	41	121
Ms D L T Dondur	**262**	**175**	**437**	220	239	459
Mr J A B Downie	**399**	**137**	**536**	225	260	485
Dr D P du Plessis	**192**	**190**	**382**	181	90	271
Mr C Erasmus	**79**	**1 511**	**1 590**	84	1 412	1 496
Dr M J Grootboom	**116**	**–**	**116**	60	10	70
Mr U D Jivan	**72**	**–**	**72**	170	74	244
Dr N H P Khosa	**97**	**–**	**97**	–	–	–
Mr I Kotzé	**181**	**29**	**210**	161	17	178
Dr C M Krüger	**307**	**147**	**454**	221	133	354
Dr F Mansoor	**171**	**–**	**171**	91	–	91
Mr E A Moolla	**415**	**245**	**660**	589	230	819
Ms P Natesan	**180**	**–**	**180**	91	–	91
Mrs N N Nongogo	**72**	**–**	**72**	–	–	–
Mr N Nyawo	**181**	**70**	**251**	170	39	209
Dr J Patel	**–**	**–**	**–**	60	–	60
Mr M Pillay	**109**	**–**	**109**	91	–	91
Mr P Ranchod	**193**	**559**	**752**	189	509	698
Mr V P Rimbault	**183**	**–**	**183**	170	–	170
Dr S N E Seoka	**524**	**193**	**717**	369	253	622
Dr M W Sonderup	**45**	**–**	**45**	161	–	161
Mr B R Topham	**261**	**–**	**261**	161	44	205
Mr S Trikamjee	**317**	**156**	**473**	213	154	367
Prof H E Wainer	**35**	**934**	**969**	33	798	831
Total	**4 451**	**4 346**	**8 797**	**3 951**	**4 303**	**8 254**

33. RELATED PARTIES

Holding Company

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

Subsidiaries

PPS's related parties are its subsidiary company Professional Provident Society Insurance Company Limited, as well as Professional Provident Society Insurance Company (Namibia) Limited, Plexus Properties Proprietary Limited, Professional Provident Society Healthcare Administrators Proprietary Limited, Professional Provident Society Short-Term Insurance Company Limited, Professional Provident Society Investments Proprietary Limited, Professional Provident Society Multi-Manager Proprietary Limited, Professional Property Trust Investment Administrators Proprietary Limited, Professional Provident Society Management Company (RF) Proprietary Limited, Professional Provident Society Property Fund Trust, Financial Solutions 4 Professionals Proprietary Limited and Six Anerley Road Holdings Proprietary Limited, which are subsidiary companies/trusts of Professional Provident Society Insurance Company Limited.

Other controlled entities

Entities listed below are controlled through board representation:

PPS Foundation Trust, PPS Education Trust, PPS Training Academy Proprietary Limited, Professional Provident Society Collective Investment Scheme and Professional Provident Society Investments Foundation NPC.

Associates

PPS Mutual Limited and PPS Mutual Insurance Proprietary Limited (Australian entities) are Associates of the Group. PPS Insurance Company has significant influence over PPS Mutual Limited Group, through its representation on their boards. The PPS Group has no shareholding in PPS Mutual Limited Group and therefore no rights to either net profits/losses, or net assets. The Group received R8.2 million (2017: R7.5 million) of interest for the year on loan funding of R282.1 million (2017: R153.7 million) provided to PPS Mutual Limited Group, of which R91.6m has been impaired in 2018.

Intembeko Investment Administrators Proprietary Limited (Intia) is an associate of the Professional Provident Society Group due to Professional Provident Society Investments (Pty) Limited deemed to having significant influence over the operations of Intia as a result of a) loan funding provided of R22.3 million during 2018 (2017: Nil), b) technical know-how made available, as well as c) board representation through its subsidiary Professional Provident Society Investments Foundation NPC. No profits at 31 December 2018 (2017: NIL) have accrued to the Group from this associate.

33. RELATED PARTIES (continued)

Transactions between Group entities

Transactions between related parties are made on terms equivalent to those that prevail in arm's-length transactions. Transactions that take place between Group entities, are eliminated on consolidation, and are disclosed in the separate annual financial statements of those entities.

Key management information

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

The PPS Group appoints its prescribed officers at the PPS Insurance entity level.

Aggregate details of insurance between The Professional Provident Society Holdings Trust, any of its subsidiaries, and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management personnel are set out below:

	Group	
	2018 R'000	2017 R'000
Life and disability cover	**335 611**	327 126
– Premiums	**1 598**	1 551
Sickness benefit cover	**6 108**	7 364
– Premiums	**1 180**	1 303
– Claims	**198**	–
PPS Profit-Share Account	**15 458**	17 660
Motor and household cover	**343 266**	308 136
– Premiums	**511**	734
– Claims	**227**	477
Investment contracts	**39 880**	82 606

The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions.

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

	Group	
	2018 R'000	2017 R'000
Salaries and other employee benefits	**30 491**	30 405
Performance payments	**26 036**	19 322
Trustees' remuneration	**8 797**	8 428
	65 324	58 155

34. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

34.1 Valuation of long-term insurance policy liabilities

The determination of the liabilities under insurance contracts is dependent on estimates and assumptions made by the Group. In determining the value of these insurance policy liabilities, assumptions regarding mortality, persistency, investment returns, expense level and inflation, tax and future profit allocations have been made. For details on these assumptions refer to note 12.1.

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

34.2 Valuation of short-term insurance policy liabilities

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events.

Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of the insurance company, principally in respect of the insurance liabilities of the company. Insurance liabilities include the provisions for unearned premiums (including an evaluation of the necessity for an unexpired risk provision), outstanding claims and incurred but not reported (IBNR) claims. For details on these assumptions refer to note 13.1.

34.3 Income tax

The Group is subject to tax in South Africa and Namibia. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination was made. The corporate tax rate in South Africa was 28% for the year under review, 32% in Namibia and 45% for trusts in South Africa. PPS Insurance Company Limited has four separate tax funds, the individual policyholders' fund (taxed at 30%), the company policyholders' fund (taxed at 28%), the corporate fund (taxed at 28%) and the untaxed policyholders' fund (taxed at 0%). PPS Insurance Company Limited in South Africa does not meet the requirements of the Risk Policy Fund. Dividend withholding tax is payable on dividends received in the individual policyholders' fund (taxed at 20%).

34. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

34.4 Employee benefit liabilities

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

The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the post-retirement medical obligations. In determining the appropriate discount rate, the Group considers the interest rate on high quality corporate bonds and government bonds that have terms to maturity approximating the terms of the related liability. Additional information is provided in note 18 of these financial statements.

34.5 Valuation of owner-occupied property and investment property

The value of the owner-occupied property and investment property depends on a number of factors that are determined using a number of assumptions. The assumptions used in determining the value was based on a yield range of 8.50% to 10.25% (2017: 8.75% to 9.50%). Any change in these assumptions will impact the values of the buildings.

34.6 Deferred tax asset

Deferred tax assets are recognised for unused tax losses and on deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised.

34.7 Valuation of long-term incentive and retention schemes

The cost of the benefits of the long-term incentive scheme depends on a number of assumptions used in calculating the present value under the projected unit credit method. The assumptions used in determining the charge to the Statement of Profit or Loss and Other Comprehensive income arising from these obligations include the expected growth in the apportionment account (rolling five-year average historical growth 11.5% (2017: 12.4%), the turnover of staff participating in the scheme (nil) (2017: nil) and the discount rate (an appropriate market-related yield curve as at the reporting date). Any changes in these assumptions will impact the charge to the Statement of Profit or Loss and Other Comprehensive income.

The assumptions used in determining the charge to the Statement of Profit or Loss and Other Comprehensive income arising from obligations in terms of the Retention Scheme include the expected growth in the PPS Profit-Share Account (rolling five-year average historical growth 16.7% (2017: 13.6%), and the turnover of staff participating in the scheme (nil) (2017: nil).

34.8 Consolidation of entities in which the group holds less than 50%

The trustees have concluded that the Group controls, in the manner contemplated by IFRS, unit trusts managed by Professional Provident Society Investments Proprietary Limited, even though it holds less than half of the economic interest in some of these funds.

34.9 Impairment of loan to PPS Mutual

Assumptions used to determine the impairment of loan to PPS Mutual are unbiased and probability-weighted and includes consideration of a range of possible outcomes. Time value of money is taken into account by the discounting of future losses to the reporting date at a risk-adjusted discount rate. Reasonable and supportable information is used about past events, current conditions and forecasts of future economic conditions.

35. MANAGEMENT OF RISKS

35.1 **General**

The Board has overall responsibility for the Group's systems of internal control and risk management. The Chief Executive and executive management are responsible for the management and implementation of the PPS Group Enterprise Risk Management Framework and Governance Frameworks.

To assist the Board in the execution of its fiduciary duties in regard to risk management, legal and compliance accountabilities, as set out in detail in policies and frameworks adopted by the PPS Group, the **Group Risk Committee** has the following responsibilities:

- Assisting the Board in setting risk strategy policies in liaison with management and in the discharge of its duties relating to corporate accountability and associated risk in terms of management assurance and reporting;
- Assisting the Board in overseeing the Group's compliance with applicable legal and regulatory requirements, industry standards and the Group's Codes of Conduct;
- Facilitating and ensuring appropriate segmentation of duties of the risk management function from operational business line responsibilities and ensuring that the segregation is observed;
- Assisting the Board in identifying any build-up and concentration of the various risks to which the Group is exposed;
- Monitoring external developments relating to the practice of corporate accountability and the reporting of specifically associated risk, including emerging and prospective impacts;
- Providing an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk, also taking account of reports by management, the Group Actuarial Committee and the Group Audit Committee to the Board on all categories of identified risks facing PPS;
- Performing the functions as may be prescribed by the Regulator and in particular, ensuring that PPS has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to activate what is necessary to proactively manage these risks and to recommend to the Board, PPS' appetite and tolerance for risk;
- To discharge the specific responsibilities ascribed to the Committee in terms of policies and frameworks adopted by the Group in compliance with Solvency Assessment and Management regulation;
- Recommending the risk policy and framework to the Board for approval;
- Recommending the risk appetite and tolerance framework to the Board for approval;
- Ensuring the establishment of an independent risk management control function, reviewing its adequacy and effectiveness as well as introduce measures to enhance the function;
- Recommending the risk management plan for approval by the Board and reviewing progress against it;
- Overseeing the monitoring of risk management on an enterprise-wide and individual business unit basis;
- Approving the combined assurance plan and reviewing the effectiveness of combined assurance arrangements;
- Annually reviewing the risk bearing capacity of the Group in the light of its reserves, insurance coverage, guarantee funds or other such financial structures for approval by the Board;
- Ensuring that regular periodic independent assessments of the risk management function and risk management system are performed;
- Reviewing the risk report and adequate disclosure of the organisations risk and opportunity;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

35. MANAGEMENT OF RISKS (continued)

35.1 **General** (continued)

- Considering, in particular, the management of Information Technology risks;
- Considering the Opportunities Register and making recommendations in this regard to the Board;
- Providing feedback to other PPS Boards and committees on identified risks that may be relevant for those particular Boards and committees.

The Board has delegated to the PPS Group Audit Committee an oversight role of financial reporting, accounting, the external auditor, appropriate internal controls and the internal auditors, and regulatory compliance, *inter alia* to ensure the integrity of reporting and financial controls. The internal control systems continue to be enhanced and developed to safeguard the assets of PPS and to ensure timely and reliable monitoring and reporting. These controls encompass suitable policies, processes, tasks and behaviours with the aim of ensuring compliance with applicable laws and regulations to meet the needs of an ever-changing business environment. The **PPS Group Audit Committee's** mandate from the Board is to, *inter alia*:

- ensure compliance with all statutory duties imposed in terms of the Companies Act, the Insurance Act, the Prudential Standards and the recommendations of the King Code;
- oversee the preparation of an integrated report annually that conveys adequate information about the operations of the Group and its integrated sustainability and financial reporting;
- ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities;
- review the expertise, resources and experience of the Group's finance function, and disclose the results of the review in the integrated report;
- oversee internal audit and consider the effectiveness of internal audit at least annually and report to the Board on the assessment from internal audit on the adequacy of the internal controls;
- as an integral component of the risk management process, oversee the financial reporting risks; internal financial controls; IT risks as it relates to financial reporting; and fraud and corruption risk management;
- deal with all aspects of the annual financial statements of the company and the Group and ensure compliance with relevant legislation and, where appropriate, the King Code; make submissions to the board on any matter concerning the Group's accounting policies;
- oversee and monitor financial and internal control, reporting and regulatory compliance; and
- ensure compliance with all statutory requirements in relation to the external auditors including to review the quality and effectiveness of the audit process and assess whether the external auditors have performed the audit as planned.

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

Risk management

- Directing and assisting in the co-ordination and monitoring of risk management activities within PPS.
- Ensuring adherence to the Risk Management Plan.
- Maintaining the Enterprise Risk Management Framework and Plan for approval by the Board in terms of the appropriate international standards (ISO 31000) and the King Code of Governance Principles.

- Update the PPS Group Enterprise Risk Management Framework.
- Attend to recommendations from the Board, Risk Committee, Management and applicable regulators.
- Providing technical guidance to management in executing their risk management duties.
- Maintain and update the risk matrix for the Group. This includes the identification, assessment, monitoring, mitigation and reporting around the key risks on an individual and aggregated level.
- Report on the Group's risk profile, material changes to the risk profile and details on the risk exposure and mitigating actions.
- Assist with all systematic, documented and formal risk assessments.
- Develop systems for monitoring risk management including regular self-assessments of the risk management control function.
- Drive risk management in PPS by promoting awareness of risk management to both management and employees.
- Ensure effective risk management training programmes are established.
- Assist management with the embedding of risk management in the day-to-day business activities of the Group.
- Ensure that risk management is considered when setting strategic goals and objectives.

Compliance

- Monitors and reports on compliance with regulatory requirements.
- Monitors that systems and controls are in place to ensure that the Group's exposure to legal and/or regulatory risk is minimised.
- Has a risk based compliance monitoring plan/risk matrix.
- Coordinates the Group's relationship with its regulators.
- Evaluates the impact of forthcoming legislative regulatory changes and provides advice on potential process and control changes required and whether the proposed control will be adequate.
- Reports to Group Risk Committee on the status of compliance of the Group.
- Operates in accordance with an approved Compliance Plan.

Internal audit

- Provides independent and objective assurance on, and evaluation of, the overall effectiveness of the Group's systems of internal financial control.
- Develops a risk based annual audit plan based on a three-year testing rotation of the control environment for review at the Group Risk Committee and approval at the Group Audit Committee.
- Provides an independent assessment of the effectiveness of management's implementation of the PPS Group Enterprise Risk Management Framework to the Group Risk Committee.

35.2 Insurance product risk management

General

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

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

35. MANAGEMENT OF RISKS (continued)

35.2 **Insurance product risk management** (continued)

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

Type of contract	Terms and conditions
Sickness and permanent incapacity benefit (PPS Provider Policy)	The PPS Provider Policy offers a variety of sickness and incapacity benefit options. The premiums for these benefits are level or age-rated premiums and are payable monthly. However, premiums are level for the old unit of benefit product. Premium rates and benefits are not guaranteed and may be revised at the discretion of the insurer. These benefits entitle a policyholder to claim for periods of sickness and incapacity. The amount of cover obtainable is limited by the applicant's annual gross professional income and maximum limits applied by the Company. The sickness benefit continues as long as the member continues to practice their occupation. The sickness and incapacity benefits are non-DPF benefits.
Professional Life Provider (PPS Provider Policy) PPS Life And Disability Policy	The PPS Provider Policy also offers lump sum life and disability cover for a specified term or whole life. The premiums are payable monthly, and either an age rated or level option may be selected as the premium pattern. PPS Insurance is the risk carrier. The PPS Life and Disability Policy which replaced the previous PPS Life Disability Assurance Scheme, is insured by PPS Insurance and is closed to new business. The previous generation of policies (PPS Life and Disability Assurance Scheme) was classified as being part of a grouped individual policy. The premiums and benefits under both generations of policies are not guaranteed and may be revised at the discretion of the insurer. Reinsurance agreements are in place to reduce the impact on PPS of variability in claims experience. The life and disability benefits are non-DPF benefits.

Type of contract	Terms and conditions
Professional Health Provider (PPS Provider Policy) Professional Health Preserver	These products pay a lump sum benefit according to severity levels on assessment of standard dread disease conditions and physical impairment events. The premiums are payable monthly and are age rated. The Professional Health Preserver is closed to new business. The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer. Reinsurance agreements are in place to reduce the impact on PPS of variability in the claims experience. The dread disease and physical impairment benefits are non-DPF benefits.
Professional Disability Provider (PPS Provider Policy)	The Professional Disability Provider offers lump sum disability cover for a specified term. At age 66, or earlier retirement (if this is over the age of 59), the Professional Disability Provider converts automatically into a severe illness benefit. This is a benefit that pays a one-off lump sum benefit on diagnosis of a severe dread disease (such as a stage 3 or 4 cancer). The premiums are payable monthly and are level or age-rated. The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer. Reinsurance policies are in place to reduce the variability of the claims experience. The disability benefits are non-DPF benefits.
PPS Provider Policy	The PPS Provider Policy contains a DPF component, being the PPS Profit-Share Account™. This component continues until retirement, or earlier cancellation of the policy. No premium is payable for the DPF component.

35. MANAGEMENT OF RISKS (continued)

35.2 **Insurance product risk management** (continued)

Type of contract	Terms and conditions
Business Provider (PPS Provider Policy)	The Business Provider Policy provides for the Business Life Provider and the Business Health Provider. The Business Life Provider product provides benefits very similar to those of the Professional Life Provider. The Business Health Provider product provides benefits similar to those of the Professional Health Provider, but tailored to payout for the more severe critical illness and physical impairment conditions only. The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer. Both products are closed for new business. Reinsurance policies are in place to reduce the variability of the claims experience. The policies transfer insurance risk only and do not contain a DPF component.
PPS Education Cover	The Education Cover Policy pays the actual public or private school and university fees of the child beneficiary, up to PPS determined maximums, directly to the education facility at the beginning of the academic year, upon receipt of a valid invoice, in the event of death, disability or Severe illness of the life insured. The premiums and benefits under both generations of policies are not guaranteed and may be revised at the discretion of the insurer. Reinsurance agreements are in place to reduce the impact on PPS of variability in claims experience. The Education Cover benefits are non-DPF benefits.
PPS Corporate Endowment	The PPS Endowment and PPS Corporate Endowment afford policyholders the ability to save in a cost effective, transparent and flexible manner. The underlying investments are unit trusts, and no guarantees are offered on these products. The policies do not transfer insurance risk and do not contain a DPF component. These products are available to individuals and corporates respectively.
PPS Living Annuity	The PPS Living Annuity is a compulsory purchase linked living annuity and does not offer risk benefits or investment guarantees. The underlying investments are unit trusts. The policies do not transfer insurance risk and do not contain a DPF component.

The PPS Provider Policy includes a DPF element. The participating nature of these contracts results in the insurance risk being carried by the insured parties. All variations in claims, persistency or termination rates are carried by the insured parties by means of variations in the amounts allocated to the DPF element.

However, the Group continues to manage the insurance risk in order to sustainably provide for the insurance benefits and to grow the DPF benefits available to policyholders.

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

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

The Group has implemented a comprehensive reinsurance strategy to mitigate the risks of variability in the frequency and severity of claims on different portfolios of insurance contacts. This strategy continues to be effective in reducing the impact on PPS of variability in claims.

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

Type of contract	Terms and conditions
Motor	Covers risks relating to the possession, use or ownership of a motor vehicle. This cover can include risks relating to vehicle accident, theft or damage to third-party property or legal liability arising from the possession, use or ownership of the insured vehicle.
Property	Covers risks relating to the use, ownership, loss of or damage to movable or immovable property other than a risk covered more specifically under another insurance contract.
Liability	Provides cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.
Miscellaneous	Covers damage to or loss resulting from a risk not addressed under any other class or sub-class referred to in Table 2 (classes and sub-classes of insurance business for non-life insurance) in the Insurance Act 18 of 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

35. MANAGEMENT OF RISKS (continued)

35.2 **Insurance product risk management** (continued)

Insurance contracts – Long-term

(a) Frequency and severity of claims

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

The Group has comprehensive claims assessing processes and protocols in terms of which all claims received are assessed. Delegation of authority levels are applied to ensure that larger claims and repeat claims are assessed by senior assessors and management, and the forensics team if required, before being paid. The Group also conducts regular claims investigations to monitor experience.

The Group manages these risks through its underwriting strategy. The underwriting strategy ensures that the risks accepted are in line with PPS' risk appetite. Medical risk selection is included in the underwriting protocols. Premium loadings and benefit exclusions may be imposed which reflect the health and medical history of the applicant. The Group has maximum exposure limits in respect of any single life insured. Maximum exposures are determined relative to gross professional income to ensure that policyholders are not overinsured. These limits are increased annually in line with expected salary inflation for professionals. Policyholders are reminded each year of their benefits and asked to review these benefits to ensure they are not over insured relative to their income as this may impact on future claims.

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

Where appropriate, reinsurance contracts are in place to limit the Group's liability. There is a Board approved reinsurance strategy in place, which is regularly reviewed by the Actuarial Committee for its ongoing appropriateness.

The table below presents the total insured benefits per month and the average benefit per month per individual life assured on the basic sickness and disability contract.

Group	Total insured monthly benefit R'000	Benefit per month per life Rand
2018	**7 274 121**	**67 934**
2017	6 034 694	66 866

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 12).

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

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

The Group uses appropriate base tables of standard mortality and morbidity rates. An investigation into the actual experience of the Group over the last or previous year is carried out, to produce a best estimate of the expected morbidity and mortality for the future. The best estimate of future mortality is based on standard industry tables adjusted for the Group's overall experience and where no such table exists, tables are developed specifically on PPS historic experience.

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

Risk exposure and concentrations of risk

The following table shows the Group's exposure to insurance risk (based on the carrying value of the long-term insurance liabilities at the reporting date) per category of business. The table also shows the geographical concentration of these risks and the extent to which the Group has covered these risks by reinsurance:

Group 2018 R'000	Non-DPF component of insurance liabilities	DPF component of insurance liabilities	Total
South Africa			
Gross	**4 160 658**	**25 001 473**	**29 162 131**
Net of reinsurance	**4 096 524**	**25 001 473**	**29 097 997**
Namibia			
Gross	**344 001**	**869 076**	**1 213 077**
Net of reinsurance	**337 326**	**869 076**	**1 206 402**

Group 2017 R'000	Non-DPF component of insurance liabilities	DPF component of insurance liabilities	Total
South Africa			
Gross	3 899 142	25 617 553	29 516 695
Net of reinsurance	3 811 388	25 617 553	29 428 941
Namibia			
Gross	334 312	909 386	1 243 768
Net of reinsurance	329 026	909 386	1 238 412

35. MANAGEMENT OF RISKS (continued)

35.2 **Insurance product risk management** (continued)

Insurance contracts – Short-term

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

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

Pricing for the Group's short-term insurance products is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes trended forward to recognise anticipated changes in claims patterns. While claims remain the Group's principal cost, the Group also makes allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance and for a profit loading that adequately covers the cost of the capital.

Underwriting limits are set to ensure that the underwriting policy is consistently applied. Underwriting performance is monitored continuously and the pricing policy is revised accordingly. Risk factors considered as part of the review would typically include factors such as age of the insured person, past loss experiences, past insurance history, type and value of asset covered, security measures taken to protect the asset and major use of the covered item. The Group has the right to reprice and change the conditions for accepting risks on renewal and/or 30 days.

Expenses are monitored by business unit based on an approved budget and business plan. The underwriting strategy aims to ensure that the risks underwritten are well diversified in terms of type and amount of risk, size and geography.

Insurance risk is further mitigated by ensuring that reserve and reinsurance risk is adequately managed. Reserve risk relates to the risk that the claim provisions held for both reported and unreported claims as well as their associated expenses may prove insufficient.

The Group currently calculates its short-term insurance technical reserves on two different methodologies, namely the 'percentile approach' and the 'cost-of-capital approach'. The 'percentile approach' is used to evaluate the adequacy of technical reserves for financial reporting purposes, while the 'cost-of-capital approach' is used as one of the inputs for regulatory reporting purposes.

***(a)* Percentile approach**

Under this methodology, reserves are held to be at least sufficient at the 75th percentile of the ultimate loss distribution. The first step in the process is to calculate a best-estimate reserve. Being a best-estimate, there is an equally likely chance that the actual amount needed to pay future claims will be higher or lower than this calculated value. The next step is to determine a risk margin. The risk margin is calculated such that there is now at least a 75% probability that the reserves will be sufficient to cover future claims. For more detail on the reserving techniques used in this approach, refer to note 34.2.

(b) **Cost-of-capital approach**

The cost-of-capital approach to reserving is aimed at determining a market value for the liabilities on the statement of financial position. This is accomplished by calculating the cost of transferring the liabilities, including their associated expenses, to an independent third party. The cost of transferring the liabilities off the statement of financial position involves calculating a best-estimate of the expected future cost of claims, including all related run-off expenses, as well as a margin for the cost of capital that the independent third party would need to hold to back the future claims payments.

Two key differences between the percentile and cost-of-capital approaches are that under the cost-of-capital approach, reserves must be discounted using a term-dependent interest rate structure and that an allowance must be made for unallocated loss adjustment expenses.

The cost-of-capital approach will result in different levels of sufficiency per class underwritten so as to capture the differing levels of risk inherent within the different classes. This is in line with the principles of risk-based solvency measurement.

The net claims ratio for the Group, which is important in monitoring short-term insurance risk is summarised below:

Loss history	2018	2017
Net claims paid and provided % of net earned premiums	**76.90%**	71.80%

Reinsurance Risk Management

Reinsurance risk is the risk that the reinsurance cover placed is inadequate and/or inefficient relative to the Group's risk management strategy and objectives. The Group obtains third-party short-term reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or the Group's capital. It is believed that the reinsurance programme suits the risk management needs of the business.

The core components of the reinsurance programme comprise:

- A Personal Lines Risk, Clash and Catastrophe Excess of loss treaty with five layers. PPS Short-term Insurance retains the first R2.5 million of each and every claim, excluding reinstatement premiums as a result of a claim against the cover.
- A Personal Lines Liability Insurance and Extended Legal Liability (Personal Umbrella) treaty whereby PPS Short-term Insurance effectively cedes all risk in excess of R1 million to reinsurers by means of a 100% Quota Share Treaty for claims in excess of R1 million.
- A Commercial Liability Risk and Catastrophe Excess of Loss Treaty. PPS Short-term Insurance retains the first R1 million of each and every claim as a result of a claim against the cover.

The PPS Short-term Insurance board approves the reinsurance renewal process on an annual basis. The reinsurance programme is placed with external reinsurers that are registered with the Prudential Authority and have a domestic credit rating of no less than A-.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

35. MANAGEMENT OF RISKS (continued)

35.2 **Insurance product risk management** (continued)

Risk exposure and concentrations of risk

The following table shows the Group's exposure to short-term insurance risk (based on the carrying value of the insurance liabilities at the reporting date) per category of business:

Group 2018	Motor R'000	Property R'000	Liability R'000	Miscellaneous R'000
Gross	**101 322**	**29 080**	**374**	**8**
Reinsurance	**34**	**88**	**–**	**–**
Net of reinsurance	**101 356**	**29 168**	**374**	**8**
Group 2017	**Motor R'000**	**Property R'000**	**Liability R'000**	**Miscellaneous R'000**
Gross	67 103	30 659	306	(2)
Reinsurance	(290)	(790)	–	–
Net of reinsurance	66 813	29 869	306	(2)

Risk management relating to investment contracts

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

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

35.3 **Financial risk management**

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

These financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The primary risk that the Group 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 a regular review of the assets held to back the insurance policy liabilities using asset liability modelling techniques. The asset-liability risk management policy allows for asset liability modelling to drive the optimal long-term asset class composition. This approach ensures the expected return on assets is sufficient to fund the required return on the risk reserves and to maximise the rate of return on the balance of the policy liabilities subject to acceptable levels of risk. Asset class composition is reviewed on a quarterly basis with the respective asset managers.

Credit and counterparty risk

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

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

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

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

The Group only enters into insurance contracts with eligible professional individuals. PPS Group operates a Credit Control Policy regarding outstanding long-term insurance premiums, which is formulated on the relevant provisions of the Policyholder Protection Rules ("PPRs") made under section 62 of the Long-Term Insurance Act 52 of 1998, as substituted and/or amended from time to time and agreed in contracts with our members. In terms of this policy, a formal communication is sent to members after the first month and second month of premium defaults. In the third month of default, members are informed that premium collections have ceased and all benefits are suspended. In the event of default on the part of the individual, where the Apportionment Accounts has vested to the individual, there is a legal right of offset of the Apportionment Account against any outstanding premiums payable. This significantly reduces the credit risk on insurance policyholder recoverables.

The Group only enters into reinsurance agreements with reinsurers registered with the Prudential Authority. The reinsurers contracted with, represent subsidiaries of large international reinsurance companies. No instances of default have been encountered. As such the Group has selected reinsurers with a minimum credit rating of A+ for Long-Term insurance and A- for Short-Term insurance.

Cash and cash equivalents are invested with financial institutions holding credit ratings within the guidelines set by the Board, similar to corporate and government debt indicated below, as well as restrictions in the Collective Investment Schemes Control Act, No. 45 of 2002, as amended. The spread of cash between financial institutions is determined in line with limits specified in the Insurance Act 18 of 2017, as substituted and/or amended from time to time. The financial soundness of counterparties holding the Group's cash is monitored by management on a monthly basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

35. MANAGEMENT OF RISKS (continued)

35.3 Financial risk management (continued)

Exposure to credit risk

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

Group R'000	2018	2017
Debt securities	**15 712 835**	13 119 560
Reinsurance assets	**82 346**	99 825
Insurance receivables	**80 697**	58 161
Cash and cash equivalents	**2 744 193**	3 215 827
Other receivables	**388 272**	369 030
Reinsurance receivables	**79 551**	42 631
Total	**19 087 849**	16 905 034

Corporate and government debt

Included in the category designated at fair value through profit or loss are interest instruments of corporate and government debt. Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt. To mitigate this risk, management has formulated guidelines based on ratings from Standard & Poor's, an industry accepted credit ratings agent.

The Group's total exposure to corporate debt amounted to R15.7 billion (2017: 13.1 billion) at 31 December 2018. The following represent the major industry sectors to which the Group is exposed as at 31 December 2018:

Group R'm	2018	2016
Government	**6 963**	4 991
Banks	**6 667**	3 835
Utilities	**116**	105
Corporate	**1 967**	4 189
Total	**15 713**	13 120

Concentrations of credit risk

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

Group **2018** **R'000**	**AAA** **and Government**	**Below AAA but no lower than A**	**Below A but no lower than BBB-**	**BBB- and Below**	**Unrated**	**Total**
Debt securities	**7 694 248**	**5 949 692**	**1 496 240**	**235 812**	**336 843**	**15 712 835**
Reinsurance assets	**-**	**81 389**	**957**	**-**	**-**	**82 346**
Insurance receivables	**-**	**-**	**-**	**-**	**80 697**	**80 697**
Cash and cash equivalents	**63 000**	**2 220 198**	**2 260**	**410 273**	**48 462**	**2 744 193**
Other receivables	**-**	**-**	**-**	**-**	**388 272**	**388 272**
Reinsurance receivables	**-**	**79 551**	**-**	**-**	**-**	**79 551**

Group **2017** **R'000**	**AAA** **and Government**	**Below AAA But no lower than A**	**Below A but no lower than BBB-**	**BBB- and Below**	**Unrated**	**Total**
Debt securities	5 664 814	4 832 128	516 301	2 106 318	–	13 119 561
Reinsurance assets	–	98 746	1 079	–	–	99 825
Insurance receivables	–	–	–	–	58 161	58 161
Cash and cash equivalents	158 080	2 143 119	81 818	832 810	–	3 215 827
Other receivables	–	–	–	–	369 030	369 030
Reinsurance receivables	–	42 631	–	–	–	42 631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

35. MANAGEMENT OF RISKS (continued)

35.3 **Financial risk management** (continued)

Ageing of financial assets

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

Group 2018 R'000	Neither past due nor impaired	Financial assets that are past due 0 – 2 months	3 – 5 months	More than 5 months	Carrying value
Insurance receivables	**67 256**	**2 432**	**278**	**10 731**	**80 697**
Reinsurance assets	**82 346**	**–**	**–**	**–**	**82 346**
Reinsurance receivables	**73 098**	**869**	**2 697**	**2 887**	**79 551**
Other receivables	**330 753**	**55 120**	**476**	**1 923**	**388 272**
Cash and cash equivalents	**2 744 193**	**–**	**–**	**–**	**2 744 193**

Group 2017 R'000	Neither past due nor impaired	Financial assets that are past due 0 – 2 months	3 – 5 months	More than 5 months	Carrying value
Insurance receivables	48 884	628	91	8 558	58 161
Reinsurance assets	99 825	–	–	–	99 825
Reinsurance receivables	42 612	19	–	–	42 631
Other receivables	339 967	27 669	1 394	–	369 030
Cash and cash equivalents	3 215 827	–	–	–	3 215 827

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

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

Individually impaired assets

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

Group R'000	2018 Gross	2018 Impairment losses	2018 Net	2017 Gross	2017 Impairment losses	2017 Net
Due from contract holders	**91 105**	**10 408**	**80 697**	70 903	12 742	58 161
Loan to associate company	**190 439**	**91 629**	**98 810**	–	–	–

Liquidity risk

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

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

- Policyholder funds are invested in assets that in aggregate match the reasonable benefit expectation of policyholders, which includes the expectation that funds will be available to pay out benefits as required by the insurance contract.
- Policyholder funds are primarily invested in assets that are listed financial instruments on various stock and bond exchanges and cash or cash equivalents that are actively traded on the various stock and bond exchanges, resulting in the ability to liquidate most of these investments at relatively short notice to be able to timeously pay out benefits as required by the policy contract. Some policyholder funds are invested in less liquid assets, such as fixed property, but not to the extent that this creates a material liquidity risk in meeting commitments to policyholders.
- Furthermore, the operational cash flow is sufficient to cover cash flow of a normal operational nature for example, in order to settle outstanding trade creditor balances.

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

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

Group			**Contractual cash flows**				
2018 R'000	**Carrying amount**	**Total cash flows**	**Within 1 year**	**2 - 5 years**	**6 - 10 years**	**11 - 20 years**	**Over 20 years**
Insurance contract liabilities - DPF	**26 073 342**	**26 073 342**	**1 512 736**	**3 784 285**	**5 551 165**	**9 719 624**	**5 505 532**
Insurance contract liabilities - non-DPF	**4 433 850**	**(53 613 043)**	**886 638**	**2 547 662**	**1 397 611**	**(665 271)**	**(57 779 683)**
Short-term Insurance liabilities	**21 808**	**21 808**	**21 292**	**516**	**-**	**-**	**-**
Reinsurance payables	**35 448**	**35 448**	**35 448**	**-**	**-**	**-**	**-**
Third-party financial liabilities arising on consolidation of unit trusts	**12 670 465**	**12 670 465**	**12 670 465**	**-**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

35. MANAGEMENT OF RISKS (continued)

35.3 **Financial risk management** (continued)

Group 2018 R'000	Carrying amount	Total cash flows	Contractual cash flows Within 1 year	2 – 5 years	6 – 10 years	11 – 20 years	Over 20 years
Investment contract liabilities	**2 045 946**	**2 045 946**	**2 045 946**	**–**	**–**	**–**	**–**
Other financial liabilities	**808 694**	**808 694**	**808 694**	**–**	**–**	**–**	**–**

Group 2017 R'000	Carrying amount	Total cash flows	Contractual cash flows Within 1 year	2 – 5 years	6 – 10 years	11 – 20 years	Over 20 years
Insurance contract liabilities – DPF	26 614 866	26 620 929	1 421 247	3 925 404	5 672 309	9 830 546	5 771 423
Insurance contract liabilities – non-DPF	4 140 414	(13 330 002)	685 691	1 952 632	1 119 245	115 577	(17 203 147)
Short-term Insurance liabilities	28 879	28 879	26 368	2 511	–	–	–
Reinsurance payables	22 770	22 770	22 770	–	–	–	–
Third-party financial liabilities arising on consolidation of unit trusts	10 709 000	10 709 000	10 709 000	–	–	–	–
Investment contract liabilities	1 876 916	1 876 916	1 876 916	–	–	–	–
Other financial liabilities	704 272	704 272	704 272	–	–	–	–

Market risks

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

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

Management of market risk

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

(a) Interest rate risk

Interest rate risk arises primarily from the Group's investments in debt securities, cash and cash equivalents and its long-term debt obligations. However, changes in investment values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of insurance and investment contract liabilities. As a result of this, the exposure to interest rate risk is managed by the asset managers though the limit in the investment mandates with regard to investing in debt securities, as well as the internal benchmark performance that the asset managers are measured against.

The nature of the Group's exposure to interest rate risk and its objectives, policies and procedures for managing interest rate risk have not changed significantly from the prior period.

The cash and cash equivalents and debt securities interest rate sensitivity on profit before movement in insurance liabilities is shown below:

Group	2018 R'000	2017 R'000
Cash and cash equivalents		
Interest rate decrease: 1%	**(27 442)**	(32 158)
Interest rate increase: 1%	**27 442**	32 158
Debt Securities		
Interest rate decrease: 1%	**(157 128)**	(132 654)
Interest rate increase: 1%	**157 128**	132 654
Total interest rate risk		
Interest rate decrease: 1%	**(184 956)**	(164 812)
Interest rate increase: 1%	**184 956**	164 812

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

35. MANAGEMENT OF RISKS (continued)

35.3 **Financial risk management** (continued)

Fluctuations in the value of assets held to back the DPF component of the policy liabilities will affect the allocations to DPF benefits each year. The choice of assets to back the DPF component of the policy liabilities reflects the Group's interpretation of the investment risk appetite of the policyholders. The assets held in this regard are as follows:

Group 2018	Total Portfolio excluding Investment Choice R'000	%	Investment Choice R'000	%
Local				
Equity	**12 925 783**	**54.3**	**1 034 523**	**27.9**
Fixed interest	**4 134 492**	**17.4**	**1 614 361**	**43.6**
Cash	**1 637 542**	**6.9**	**208 015**	**5.6**
International				
Equity	**5 110 675**	**21.4**	**846 878**	**22.9**
Total	**23 808 492**	**100.0**	**3 703 777**	**100.0**

Group 2017	Total Portfolio excluding Investment Choice R'000	%	Investment Choice R'000	%
Local				
Equity	13 992 052	55.5	1 238 284	35.9
Fixed interest	4 049 471	16.1	1 293 046	37.5
Cash	1 899 831	7.5	267 063	7.7
International				
Equity	5 275 034	20.9	654 173	18.9
Total	25 216 388	100.0	3 452 566	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 asset liability modelling exercises undertaken in the past. 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 liabi\lities will be transferred to policyholders by adjusting the allocations made to the DPF component of their benefits.

Younger policyholders have more time to recover from the volatility in the financial markets. For that reason the strategic asset allocation for the invested portfolio representing these policyholders has a higher exposure to equity and thus risk. Older policyholders have less time to recover from negative market performance, and are thus given a voluntary option each year to switch to more conservative investment portfolios from age 55 ('Investment Choice'), i.e. portfolios where there is reduced exposure to equities.

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

Group	2018 R'000	%	2017 R'000	%
Local				
Equity	**688 653**	**15.5**	716 332	17.3
Fixed interest	**3 491 682**	**78.8**	3 114 570	75.2
Cash	**54 444**	**1.2**	101 829	2.5
International				
Equity	**199 070**	**4.5**	207 683	5.0
Total	**4 433 849**	**100.0**	4 140 414	100.0

(b) *Currency risk*

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

The asset managers actively manage the currency risk when decisions are made in regard to investing internationally. All international investment returns are shown in US Dollars and the effect of the trading in different currencies is reflected in the investment performance which is measured against an internal benchmark. In terms of legislation, up to 30% of the South African long-term insurance company's investments may be invested in foreign currency and hence that Company has less than 30% exposure to currency risk. The limit for the Namibian long-term insurance company is 35% in terms of local legislation.

The potential impact of currency movements on the share prices of domestic equities with significant foreign currency earnings is addressed by the asset managers in their assessment of the appropriate equities to hold in their mandates with PPS.

The international assets' currency sensitivity on profit before movement in insurance liabilities is shown below:

Group	2018 R'000	2017 R'000
Currency risk		
South African Rand exchange rate decrease: 1%	**(78 441)**	(77 481)
South African Rand exchange rate increase: 1%	**78 441**	77 481

(c) *Equity price risk*

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

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

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

35. MANAGEMENT OF RISKS (continued)

35.3 Financial risk management (continued)

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

The Equity price risk sensitivity on profit before movement in insurance liabilities is shown below:

Group	2018 R'000	2017 R'000
Equity Price risk		
Price decrease: 1%	**(270 477)**	(277 241)
Price increase: 1%	**270 477**	277 241

Market risk sensitivity analysis

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

For the DPF insurance liabilities and investment contracts the assets and liabilities are matched. The market risk is thus carried by policyholders. The impact of any change in the market risk will be in the movement to/from insurance policy liabilities on the Statement of Profit or Loss and Other Comprehensive Income.

The only other impact is the change in the investment management fees, which will fluctuate as a percentage of the movement in the assets.

This is also disclosed within the movement in policy liabilities on the Statement of Profit or Loss and Other Comprehensive Income. Therefore a market risk sensitivity analysis has not been included for this component of the business.

The market risk sensitivity is shown below:

	Contracts with non-DPF Impact on profit/(loss) before movement in insurance policy holder liability	
Group	2018 R'000	2017 R'000
Interest rate risk		
Decrease of 1% in Yield Curve	**(1 814 064)**	(1 482 318)
Increase of 1% in Yield Curve	**1 365 076**	1 106 453

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

Assumptions, methodology and limitations of sensitivity analysis

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

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

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

Underwriting risk: Long-Term Insurance

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 Head of Actuarial ('HAC') reviews and attests annually on the reliability and adequacy of technical provisions and the Solvency Capital Requirement. He expresses an opinion on the Underwriting Policy as well as the 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 Executive: Actuarial prior to being issued. Regular investigations into the mortality and morbidity experience are conducted. All risk-related mortality lump sum, disability and critical illness liabilities in excess of specified monetary limits are reinsured. A sickness experience report is annually presented analysing claim patterns and trends. The latest report indicated no significant deterioration in claim patterns.

Reinsurance outwards: Long-Term Insurance

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

Claims risk: Long-Term Insurance

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: Long-Term Insurance

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.

35. MANAGEMENT OF RISKS (continued)

35.3 **Financial risk management** (continued)

- Non-guaranteed rates allows the Group to change its rates should the experience worsen significantly or be anticipated to worsen significantly.
- The thorough testing of proposed products upfront, including testing expected expenses and volumes of business, provides a sense of the expected parameters within which the product pricing will remain appropriate. If expenses or volumes are significantly different from the business plan then the overall offering and position will be revisited and consideration given to making appropriate changes to remedy worsening positions.
- Valuation – the annual valuation provides valuable information about changing parameters (such as mortality, morbidity, long term investment returns, yields, etc).

Expense risk

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

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

Business volume risk

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

Data and model risk

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

Capital management

Long-Term Insurance

The Group's capital management objectives are:

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

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

The level of accumulated funds required by the Group is determined by the Insurance Act 18 of 2017 in South Africa and Namibian legislation (Act 5 of 1998) in Namibia, together with the Group's licence requirements.

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

Group	**2018**		**2017**	
R'000	**South Africa**	**Namibia**	**South Africa**	**Namibia**
Capital held	**434 287**	**6 000**	377 573	6 000
Regulatory capital	**165 341**	**4 000**	143 528	4 000

The Board considers the capital of the Group to be the total of all accumulated funds held as well as the DPF Insurance Liabilities (refer note 13) as the policy holders are also the members of the Group. A detailed Asset Liability Matching (ALM) investigation is conducted regularly to better understand the potential impact on the capital of the Group of different market conditions, such as interest rate fluctuations and volatility in equity prices. The impact of varying operational conditions (such as variations in deaths, withdrawals and profits) on the Group's capital is also presented to the Board. The results of the ALM investigations may lead to changes in the approved asset class mixes contained in the Investment Policy, in order to address any increases in the risk of volatility identified in the ALM investigation.

There have been no material changes in the Group's management of capital during the period. The Group has maintained its level of regulator capital cover at 2.6 times. This decision has resulted in R56.7 million (2017: R9.5 million) being allocated to accumulated funds.

Short-Term Insurance

The Board's policy is to maintain an adequate capital base to protect policyholders' and creditors' interests and satisfy regulators whilst still creating value for shareholders.

The level of accumulated funds required by the Company is determined by the Short-Term Insurance Act 18 of 2017.

The minimum capital requirements must be maintained at all times during the year.

The Group has a level of CAR cover at 1.43 times (2017: 1.93 times).

The Group has complied with all externally and internally imposed capital requirements throughout the period.

PPS Collective Investment Scheme funds managed by PPS Multi-Managers Pty Ltd

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

Each fund has its own legal constitution and operates within a defined fund mandate delegated to the appointed fund manager. Market and credit risks assumed within the assets held are controlled by various protection mechanisms within the mandate and in law. For example, the Collective Investment Schemes Control Act, No. 45 of 2002 as amended, in South Africa prescribes maximum limits for the concentration of risk exposures.

The Collective Investment Scheme's oversight board appoints administrators who are responsible to ensure that the fund's mandate and any internal and legislated control procedures are adhered to. In the event of a breach they are obligated to immediately bring it to the attention of the fund's trustees, Board and management for remedial action.

35. MANAGEMENT OF RISKS (continued)

35.3 **Financial risk management** (continued)

The unit trust fund vehicle and related procedures for offering investments is mature within South Africa and is well-regulated.

The unit trust funds which are defined as portfolios can be grouped under the group company, namely Professional Provident Society Investments Pty Ltd ('PPS Investments'), a Professional Provident Society Insurance Company Ltd subsidiary. Described below is the unit trust subsidiary and its respective mandate and objective.

Funds managed by PPS Multi-Managers Pty Ltd

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

- thorough and ongoing quantitative and qualitative research process of potential managers in the domestic market;
- selecting specialist asset managers, taking their investment style and specific areas of expertise into consideration;
- determining the optimal blend of selected managers within the portfolio through a portfolio construction and optimisation process;
- writing segregated investment mandates with selected managers to tightly control portfolio risk;
- continuous monitoring of the portfolio risk and return characteristics of each selected manager as well as of the overall portfolio; and
- making manager changes where PPS Investments feels this is in the best interest of investors.

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

(a) PPS Conservative Fund of Funds

Investment objective

To maximise total portfolio return while outperforming a conservative real return target of CPI + 2% per annum over the medium term.

Investment mandate

This multi-managed fund invests in a number of underlying managers with the specific mandate to employ real return strategies to provide real capital growth. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 40% of the portfolio value.

Typical investments

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

Risk exposure

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

(b) PPS Moderate Fund of Funds

Investment objective

To maximise total portfolio return while outperforming a moderate real return target of CPI + 4% per annum over the medium term.

Investment mandate

This multi-managed fund invests in a number of underlying managers with the specific mandate to employ real return strategies to provide real capital growth. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 60% of the portfolio value.

Typical investments

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

Risk exposure

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

(c) PPS Enhanced Yield Fund

Investment objective

To provide an enhanced level of income in excess of a broad short-term fixed interest benchmark.

Investment mandate

This specific mandate to actively manage the fund by investing in less than three-year maturity limits. Asset allocation is defensive with exposure to fixed interest instruments, including high-yielding corporate bonds and securities, government bonds, listed property, preference shares and inflation-linked bonds.

Typical investments

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

Risk exposure

An enhanced yield income fund exposed to credit risk and interest rate risk.

(d) PPS Flexible Income Fund

Investment objective

To provide investors with a total return with a strong income bias while also seeking to protect capital in terms of bond market index.

Investment mandate

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

35. MANAGEMENT OF RISKS (continued)

35.3 **Financial risk management** (continued)

(d) PPS Flexible Income Fund (continued)

Typical investments

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

Risk exposure

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

(e) PPS Equity Fund

Investment objective

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

Investment mandate

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

Typical investments

This multi-manager invests in equities and cash.

Risk exposure

An equity fund exposed to local equity price risk, company specific risk and indirect currency risk.

(f) PPS Balanced Fund of Funds

Investment objective

To maximise total portfolio returns while outperforming a peer-relative benchmark over the medium to long term.

Investment mandate

This multi-managed fund invests in a number of underlying managers who invest in a spectrum of local and international securities within the parameters of Regulation 28 of the Pension Funds Act, No. 24 of 1956 with the specific focus on long-term growth.

Typical investments

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

Risk exposure

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

(g) PPS Managed Flexible Fund of Funds

Investment objective

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

Investment mandate

This multi-managed fund invests in a number of underlying managers who invest in a spectrum of local and international securities with the specific mandate to provide real capital growth. Flexible asset allocation provides diversification across all asset classes and sectors.

Typical investments

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

Risk exposure

A medium to high risk fund, exposed to credit risk, interest rate risk, local and international equity price risk and currency risk. The fund can hold up to 100% offshore, but is expected to be between 40% and 60% invested in international assets.

(h) PPS Global Balanced Fund of Funds

Investment objective

To maximise total portfolio returns while outperforming a composite industry benchmark over the medium to long term.

Investment mandate

This multi-managed fund invests in a number of underlying managers who invest in a spectrum of international securities with the specific focus on long-term capital and income growth.

Typical investments

The managers invest in international bonds and property, as well as international money market instruments and equities.

Risk exposure

A medium to high risk fund, exposed to credit risk, interest rate risk, international equity price risk and currency risk.

(i) PPS Balanced Index Tracker Fund

Investment objective

To track the customised PPS Balanced Index, a published multi-asset high equity composite index that is diversified across a number of constituent indices, and calculated and published daily by a recognised index compiler.

Investment mandate

This index tracker invests in the type of securities necessary to effectively track the index.

Typical investments

The multi-asset, high equity composite index that the PPS Balanced Index Tracker Fund tracks includes local and international equities, domestic bonds, domestic cash and domestic property.

Risk exposure

A medium to high risk fund, exposed to credit risk, interest rate risk, international equity price risk and currency risk.

(j) PPS Institutional Multi-Asset Low Equity Fund

Investment objective

Deliver a consistent benchmark beating return over a rolling 36-month period, while aiming to minimise capital loss over any 12-month period.

Investment mandate

This institutional multi-managed fund has a focus on capital protection and diversification. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 40% of the portfolio value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

35. MANAGEMENT OF RISKS (continued)

35.3 **Financial risk management** (continued)

(j) PPS Institutional Multi-Asset Low Equity Fund (continued)

Typical investments

The manager invests in fixed instruments such as money market and bonds, as well as local property and equities.

Risk exposure

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

(k) PPS Institutional Bond Fund

Investment objective

To outperform the broad bond market index within defined duration limits relative to the benchmark, with more consistency than a typical bond fund.

Investment mandate

This institutional multi-managed bond fund invests in underlying managers that invests in a spectrum of fixed interest securities with the focus on benchmark relative performance, together with a regular and high level of income.

Typical investments

The portfolio will invest in a spread of listed and unlisted bonds, fixed deposits and other interest-bearing securities. The portfolio may invest in short, intermediate and long-dated securities.

Risk exposure

A bond fund exposed to credit risk, interest rate risk and inflation risk.

(l) PPS Institutional Multi-Asset Flexible Fund

Investment objective

To maximise total portfolio return while outperforming CPI for all urban areas over a rolling three-year period. The portfolio has a focus on capital protection and diversification.

Investment mandate

This institutional multi-managed fund invests in a number of underlying managers with a specific mandate to allocate assets based on their best view. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 75% of the portfolio value.

Typical investments

The managers may invest in a flexible combination of listed and unlisted investments in equity, bond, money market and property market.

Risk exposure

A moderate to high risk fund exposed to credit risk, interest rate risk and local equity price risk.

(m) PPS Stable Growth Fund

Investment objective

The primary objective to outperform ASISA SA MA Medium equity while preserving capital over the medium to long-term. The investment horizon for this fund is greater than five years.

Investment mandate

This portfolio will be managed using a single-manager investment process. This fund has an absolute return focus and the fund will aim for medium to long term growth.

Typical investments

The portfolio can include domestic equities, domestic bonds, domestic cash and domestic property. The portfolio may also invest in any listed or unlisted financial instruments, and international cash, international bonds, international property and international equities.

Risk exposure

A medium risk fund exposed to equity price risk, credit risk, currency risk, liquidity risk and interest rate risk, both domestically and internationally.

(n) PPS Defensive Fund

Investment objective

To outperform the ASISA SA Multi Asset Low Equity category average and will aim for low short-term volatility with long-term capital growth. The investment horizon for this fund is greater than three years.

Investment mandate

This portfolio will be managed using a single-manager investment process with a risk conscious mindset and a focus on protecting capital by maintaining a diversified asset class exposure to the extent that the act allows.

Typical investments

The portfolio can include domestic equities, domestic bonds, domestic cash and domestic property. The portfolio may also invest in any listed or unlisted financial instruments, and international cash, international bonds, international property and international equities.

Risk exposure

A low to medium risk fund exposed to equity price risk, credit risk, currency risk, liquidity risk and interest rate risk, both domestically and internationally.

(o) PPS Managed Fund

Investment objective

To aim for medium to long term capital growth of at least CPI for all urban areas plus 5%. The benchmark of the portfolio will be CPI for all urban areas plus 5% per annum, with an investment horizon greater than six-years. The portfolio will aim for low short-term volatility and long-term capital growth.

Investment mandate

This portfolio will be managed using a single-manager investment process that seeks to achieve medium to long-term capital growth with a flexible asset allocation, that provides diversification across asset classes to the extent that the act allows.

Typical investments

The portfolio can include domestic equities, domestic bonds, domestic cash and domestic property. The portfolio may also invest in any listed or unlisted financial instruments, and international cash, international bonds, international property and international equities.

Risk exposure

A medium to high risk fund exposed to equity price risk, credit risk, currency risk, liquidity risk and interest rate risk, both domestically and internationally.

ANNUAL FINANCIAL STATEMENTS

PPS HOLDINGS TRUST

STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Note	Trust 2018 R'000	Trust 2017 R'000
ASSETS			
Investment in 100% of PPS Insurance Company Limited, at cost		**10 000**	10 000
Prepayments and Receivables from PPS Insurance Company Limited		**4 752**	961
Current income tax asset		**53**	1 271
Cash at bank		**4 087**	1 597
TOTAL ASSETS		**18 892**	13 829
EQUITY AND LIABILITIES			
Accumulated funds	1	**18 572**	13 147
TOTAL EQUITY		**18 572**	13 147
LIABILITIES			
Accruals and Value Added Tax payable		**320**	682
TOTAL LIABILITIES		**320**	682
TOTAL EQUITY AND LIABILITIES		**18 892**	13 829

STATEMENT OF PROFIT OR LOSS, OTHER COMPREHENSIVE INCOME AND EQUITY

for the year ended 31 December 2018

	Note	Trust 2018 R'000	Trust 2017 R'000
Administration fees received from PPS Insurance Company Limited		**11 595**	11 388
Income from PPS Members Forum		**10 757**	–
Total income	2	**22 352**	11 388
Total expenses		**14 126**	14 061
Trustees' fees		**4 451**	3 951
Professional fees		**624**	544
Marketing expenses		**5 875**	6 511
Administration fees		**3 176**	3 055
Surplus/(Deficit) before tax		**8 226**	(2 673)
Tax	3	**2 801**	–
Surplus/(Deficit) after tax		**5 425**	(2 673)
Total comprehensive income/(loss) for the year		**5 425**	(2 673)
Accumulated funds at the beginning of the year		**13 147**	15 820
Accumulated funds at the end of the year	1	**18 572**	13 147

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Trust	
	2018 R'000	2017 R'000
Cash flows from operating activities		
Cash generated from operations	**4 073**	822
– Surplus/(Deficit) before tax	**8 226**	(2 673)
– Changes in Receivables	**(3 791)**	3 355
– Changes in Payables	**(362)**	140
Tax paid	**(1 583)**	(675)
– Tax receivable at beginning of year	**1 271**	(596)
– Current tax as per Statement of Profit or Loss, Other Comprehensive Income and Equity	**(2 801)**	–
– Tax receivable at end of year	**(53)**	1 271
Net cash from operating activities	**2 490**	147
Net increase in cash and bank	**2 490**	147
Cash and bank at beginning of year	**1 597**	1 450
Cash and bank at end of year	**4 087**	1 597

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. EQUITY

PERMANENT CAPITAL

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

ACCUMULATED FUNDS

The Accumulated funds balance represents the cumulative profits and losses of the trust since inception.

2. TOTAL INCOME

Income is recognised in line with IFRS 15 "Revenue from contracts with customers". There are no material changes to revenue recognition of administration fees income which is recognised under IFRS 15.

Total income comprises of administration fees received from PPS Insurance Company Limited and income from the PPS Members Forum which comprises sponsorship and entrance fees.

Income from the PPS members forum was recognised after the conclusion of the event.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

3. TAX

	Trust	
	2018 R'000	2017 R'000
Current tax		
– Current year tax	**2 558**	–
– Prior years underprovision	**243**	–
Total tax	**2 801**	–
Tax on the Trust's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to South African trusts:		
Surplus/(Deficit) before tax	**8 226**	(2 673)
Tax calculated at domestic tax rates applicable to trust profits in South Africa (45%)	**3 702**	(1 203)
Tax effect of non-deductible expenses	**8**	51
Prior years underprovision	**243**	–
(Decrease)/Increase in accumulated losses for which no deferred tax asset was recognised	**(1 152)**	1 152
Total tax per Statement of Profit or Loss, Other Comprehensive Income and Equity	**2 801**	–

ACTION REQUIRED BY MEMBERS IN REGARD TO THE 2019 ANNUAL GENERAL MEETING

The annual general meeting (AGM) of members of The Professional Provident Society Holdings Trust ('PPS Holdings Trust') will be held at 18:00 on Monday, 20 May 2019 in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg. This AGM will consider and, if deemed fit, approve the ordinary and special resolutions set out in the notice convening the AGM, which is attached to and forms part of this Integrated Report. A form of proxy, enabling members to vote on the respective resolutions proposed, has also been included in this Integrated Report.

In terms of the Trust Deed of PPS Holdings Trust, only Ordinary Members of PPS Holdings Trust have the right to vote at meetings of its members. The votes of Ordinary Members of PPS Holdings Trust are determined in the manner set out in clause 22.6.2.2 of the Trust Deed, which is available at www.pps.co.za.

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

You may attend and vote at the AGM in person or you may appoint a proxy to represent you by completing the form of proxy on page 197 of this Integrated Report (please also refer to the notes to the form of proxy) and forwarding it to one of the following addresses or via facsimile or email, to be received by the Trust Secretary by no later than 18:00 on Wednesday, 15 May 2019, marked for the attention of the Trust Secretary:

Physical address
6 Anerley Road
Parktown
Johannesburg

Postal address
PO Box 1089
Houghton
2041

Telephone
011 644 4200

Facsimile
011 644 4641

Email
companysecretary@pps.co.za

NOTICE TO THE MEMBERS OF THE ANNUAL GENERAL MEETING

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST

(Registration number: IT312/2011)
('the Trust')

Notice is hereby given that the ninth annual general meeting ('the meeting') of the members of the Trust will be held on Monday, 20 May 2019 at 18:00, in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg, for the following purposes:

1. **To adopt, by ordinary resolution, the annual financial statements for the year ended 31 December 2018, including the reports of the trustees and the auditors of the Trust.**
2. **To re-appoint, by ordinary resolution, PricewaterhouseCoopers Inc. as the auditors of the Trust.**
3. **To elect and appoint trustees, by ordinary resolutions, in place of those trustees retiring in accordance with the trust deed which established and governs the Trust ('Trust Deed').**

   Dr D P du Plessis and Mr N C Nyawo retire by rotation at the meeting in terms of the Trust Deed.

   The following Trustees, being eligible for re-election and appointment, offer themselves for re-election and appointment as trustees of the Trust:

   3.1 Dr D P du Plessis
   3.2 Mr N C Nyawo

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

   3.3 Adv H Cassim
   3.4 Mr G Y Naidoo
   3.5 Ms J D N Ndaba
   3.6 Dr R Putter
   3.7 Dr L C Snyman
   3.8 Prof M W Sonderup

   (Abbreviated biographical details of the persons referred to above are set out on pages 189 to 196 of this Integrated Report).

EXPLANATORY NOTE ON THE APPOINTMENT OF THE TRUSTEES

The Trust Deed provides for a maximum of 20 Trustees, all of whom are appointed in accordance with the Trust Deed. There are currently 8 elected Trustees, following the resignation of two elected Trustees, of whom two are required to retire by rotation in terms of clause 7.2.1 of the Trust Deed. Following these retirements by rotation, there will be six elected trustees in office. In terms of clause 5.3.1 of the Trust Deed, a maximum of ten Trustees may be appointed by the members in general meeting. There are therefore four vacancies and there are eight nominees for these vacant positions (including the two Trustees who retire by rotation and who offer themselves for re-election and appointment). The Trust Deed provides that:

I. each candidate will be voted upon by a separate election resolution and if the election resolution is not approved then that candidate is not appointed.

II. if the number of candidates whose election resolutions are approved exceeds the abovementioned number of vacancies, the result of the voting shall be determined in accordance with the number of votes cast in favour of each approved election resolution so that the vacancies will be filled by those candidates whose approved election resolutions received the highest number of favourable votes.

4. **To elect the Audit Committee of the Trust by ordinary resolution. The following trustees, who meet the requirements of paragraph 26.1 of the Trust Deed, nominated by the Group Nominations Committee and recommended by the Board, have offered themselves for election:**
   4.1 Ms D L T Dondur
   4.2 Mr E A Moolla
   4.3 Mr P Ranchod
5. **To approve, by special resolution, the following remuneration of the trustees (exclusive of VAT) for the period 1 July 2019 until such time as this remuneration is amended by a further special resolution:**
   - remuneration of the chairman, comprising an annual retainer of R450 000 and an attendance fee of R19 440 per meeting;
   - remuneration of the deputy chairman, comprising an annual retainer of R300 000 and an attendance fee of R14 580 per meeting;
   - remuneration of the co-opted members of the Board of Trustees, comprising an annual retainer of R225 000 and an attendance fee of R9 720 per meeting;
   - remuneration of the remainder of the members of the Board of Trustees, comprising an annual retainer of R150 000 and an attendance fee of R9 720 per meeting;
   - remuneration of the chairman of the Trust Audit Committee, being an attendance fee of R24 300 per meeting;
   - remuneration of the members of the Trust Audit Committee, being an attendance fee of R12 150 per meeting;
   - remuneration of the chairman of the Group Nominations Committee, being an attendance fee of R24 300 per meeting;
   - remuneration of the deputy chairman of the Group Nominations Committee, being an attendance fee of R18 225 per meeting; and
   - remuneration of the members of the Group Nominations Committee, being an attendance fee of R12 150 per meeting.

VOTING

In voting or passing any resolution:

- **Associate Members** (as defined in clause 18 of the Trust Deed) do not have any votes; and
- **Ordinary Members** (as defined in clause 18 of the Trust Deed) shall have 100 (one hundred) votes each, plus 1 (one) additional vote for each completed R200 (two hundred Rand) standing to his/her credit in his/her Apportionment Account (as defined in the Trust Deed), as at the most recent date prior to the meeting when the Apportionment Accounts of Ordinary Members were adjusted, provided that an Ordinary Member who is at the date of the vote 3 (three) months or more in arrear with the payment of his/her premiums (payable in terms of the Master Contract (as defined in clause 1.2.25 of the Trust Deed)) shall only have 1 (one) vote at the meeting.

A member who has more than 1 (one) vote may not split votes to exercise his/her votes in voting on any particular resolution but shall exercise all his/her votes either for or against the resolution or the member may abstain from voting on it. An ordinary resolution is a resolution approved by a majority of votes exercised on that resolution. A special resolution is a resolution approved by 75% of the votes exercised on that resolution.

PROXIES

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

A form of proxy is included in this Integrated Report on pages 197 to 198 and is also available for downloading from www.pps.co.za. **The form of proxy is accompanied by notes indicating the requirements for its completion. Forms of proxy which do not comply with these requirements will be rejected.**

Forms of proxy must be delivered at one of the following addresses physically or via facsimile or email, to be received by, and marked for the attention of, the Trust Secretary, by no later than 18:00 on Wednesday, 15 May 2019 (please note that additional requirements apply to proxies submitted in terms of a Power of Attorney or Order of Court, as set out in the notes to the Proxy Form):

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

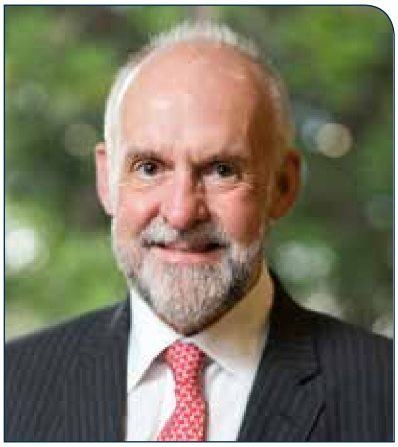
By order of the Board of Trustees

V E Barnard
Trust Secretary
The Professional Provident Society Holdings Trust

2 April 2019

ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE

Dr Dirk Prieur du Plessis



Date of birth

14 March 1955

Profession

Businessman

Tertiary qualifications

- Risk Management for Corporate Leaders, Harvard Business School (2016)
- Business Risk Management, University of Cape Town (2016)
- Chartered Director (South Africa), Institute of Directors (Southern Africa) (2015)
- IDP (International Directors Programme), Insead Business School, France (2013)
- DBA (Doctor of Business Administration – Finance), Stellenbosch University (1984)
- MBA (*Cum Laude*), Stellenbosch University (1982)
- B Hons (Business & Administration) (*Cum Laude*), Stellenbosch University (1981)
- B Sc (Quantity Surveying), University of Cape Town (1979)

Current positions

- Non-Executive Director of PPS Investments (Chairman of Audit and Risk Committee) (since 2018)
- Non-Executive Director of PPS Insurance (Chairman of Remuneration Committee and member of Risk Committee) (since 2017)
- Member of the Investment Committee of the Legal Practitioners Insurance Indemnity Fund (since 2017)
- Institute of Directors (Southern Africa) – Chairman (Chairman of the Nominations Committee, former Member of the Audit and Risk Committee and Investment Committee) (since 2013)
- Non-Executive Director: Distell Group (Chairman of Risk Committee, Member of Audit and Member of Social and Ethics Committee) (since 2015)
- Trustee – PPS Holdings Trust, PPS Beneficiaries Trust, PPS Educational Trust and Non-Executive Director of PPS Training Academy (since 2013)
- Chairman, Combined Finance Holdings (since 2012)
- Chairman of the Audit and Risk Committee and Member of the Investment Committee of Stellenbosch University (since 2012)
- Member of the Advisory Board of the University of Stellenbosch Business School (since 2012)
- President of the Alumni Association of the University of Stellenbosch Business School (since 2012)
- Chairman, Bridge Fund Managers (formerly Grindrod Asset Management/Plexus Asset Management) (Member of the Risk Committee) (since 2012)
- Professor extraordinaire, University of Stellenbosch Business School (since 2010)
- Honorary Consul General of Slovenia (since 2009)
- Chairman – Plexus Holdings (since 2008)

Former positions

- Member of the Council and Executive Committee of Stellenbosch University (2012 – 2016)
- Chief Executive Officer, Plexus Asset Management (1995 – 2008)
- General Manager: Portfolio Management, Sanlam (1984 – 1995)
- Research Assistant, University of Stellenbosch Business School (1983)
- Quantity Surveyor, Paul Maré & Partners (1979 – 1982)

ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE (continued)

Mr Njabulo Charles Nyawo

Date of birth

21 July 1979

Profession

Chartered Accountant

Tertiary qualifications

- B Com (Accounting) (2000)
- B Com (Hons) (2002)
- CA(SA) (2006)
- Postgraduate Diploma in Business Management, Heriot Watt University (Edinburgh Business School) (2011)
- MBA (Finance), Heriot Watt University (Edinburgh Business School) (2012)

Current positions

- Executive: Financial Insights Lead: Corporate and Investment Banking – Africa Regions – Standard Bank Group (since 2016)
- Trustee of the Professional Provident Society Holdings Trust (2014 – current)
- Trustee of the PPS Foundation Trust (2017 – current)
- Trustee of the PPS Educational Trust (2017 – current)
- Non-executive Director of PPS Training Academy (Pty) Ltd (2017 – current)
- Non-executive Director of PPS Healthcare Administrators (Pty) Ltd (2017 – current)

Former positions

- Head of MIS: Corporate and Investment Banking – Global Markets Rest of Africa – Standard Bank (2013 – 2016)
- Head: Group Regulatory Reporting – Group Finance – Standard Bank (2010 – 2013)
- Consultant: Capital Management and Balance Sheet Optimisation – Absa Group Treasury (2008 – 2010)
- Group Financial Manager – Drake and Scull (2007 – 2008)
- Accountant/Financial Manager – Rand Merchant Bank (2006 – 2007)
- Senior Trainee Accountant – PricewaterhouseCoopers Inc. (2003 – 2006)
- Assistant Accountant – Msgm Masuku Chartered Accountants (2001)
- Bankmed: Member of the Board (2015 – 2018)
  - Investment Committee
  - Audit Committee
- The Chief Justice of South Africa: Member of the Audit Committee of the Office (2014 – 2017)
- Board Sub-Committee: Member of the Members In Business (MIB) (2013 – 2016)
- Board Sub-Committee: Member of the SAICA Initial Professional Development (IPD) (2013)
- SAICA Banking Project Group: Member (2010 – 2012)

Adv Hasina Cassim

Date of birth

22 November 1967

Profession

Practising Advocate and registered pharmacist

Tertiary qualifications

- B Pharm (1990)
- LLB (2011)
- Pharmacoepidemiology (Newcastle University Australia)
- Executive Leadership Programme (Said Business School – Oxford University)
- Certified Mediator (UCT@law)

Current positions

- Advocate at the Thulamela Chambers and member of the Johannesburg Bar Council (since 2015)
- Member of the South African Medicine Pricing Committee (since 2016)
- Member of the South African Health Products Regulatory Authority (SAHPRA) (since 2017)

Former positions

- Pupil Advocate at the Johannesburg Bar Council (2015)
- Risk Manager at Discovery Health (2005 – 2015)
- Pharmaceutical and Medical Devices Access and Reimbursement Consultant at Metrics (2005)
- Access and Reimbursement Manager at Eli Lilly SA (2000 – 2005)
- Managing Director of Careways (1997 – 2000)
- General Manager at SA Homepatient (Presmed) (1993 – 1997)
- Pharmacist at MBS Hospital (1992 – 1993)
- Pharmacist at Afrox Brenthurst (1991 – 1992)

ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE (continued)

Mr Geshie Yogasvaran Naidoo

Date of birth

17 October 1977

Profession

Industrial Engineer

Tertiary qualifications

- B Sc (Electrical Engineering) (2001)
- Masters in Industrial Engineering (2003)
- Masters in Business Administration (2012)

Current positions

- Chief Commercial Officer, Postbank (since 2015)

Former positions

- Strategist: Market Analysis: Investment Banking Division, Development Bank of Southern Africa (2010 – 2014)
- Senior Manager and Head: Sales Strategy and Planning, Personal and Business Banking, Standard Bank (2008 – 2010)
- Business Process Engineer, Africa Operations, Standard Bank Africa (2006 – 2008)
- Fund Manager, Enablis Financial Corporation (2005 – 2006)
- Manager, Business Advisory, Business Development, Standard Bank (2004 – 2005)
- Business Consultant, Strategic Project Management, Standard Bank (2003 – 2004)
- IT Process Engineer, Technology and Operations, Nedcor Bank (2000 – 2003)

Ms Judith Diana Nokuthula Ndaba

Date of birth

10 March 1982

Profession

Computer Scientist

Tertiary qualifications

- BA Computer Science (2002)
- BA (Hons) Computer Science (2004)

Current positions

- Business Sales Operations Manager – Cell C Limited (since 2015)

Former positions

- Acting Executive Head: Corporate and SME – Cell C Limited (2015 – 2016)
- Internal Communications Manager – Mobile Telephone Networks Proprietary) Limited (2011 – 2015)
- Senior Business Analyst/Acting Senior Manager – Mobile Telephone Networks Proprietary Limited (2009 – 2011)
- Senior Strategy Consultant – CapGemini South Africa (T/A Gemini Consulting) (2009)
- Management Consultant – Accenture South Africa (2005 – 2008)

ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE (continued)

Dr Renier Putter

Date of birth

29 April 1978

Profession

Dentist

Tertiary qualifications

- B ChD (2007)
- M Sc (Dent) (Public Dental Health) (2016)
- Certified Financial Officer (CFO(SA)) 2017

Current positions

- Dentist in private practice (since 2009)
- Chairperson – South African Dental Association (SADA)
- Chairperson – Msaada Trust
- Member of Appeals Board – South African Institute for Drug-Free Sport

Former positions

- Vice-Chairperson and Non-Executive Director (SADA)
  - Chairperson –Audit and Risk Committee
  - Member – Strategy, Social and Ethics Committee
  - Member – Nominations Committee
  - Member – Dental Practice Committee
- National Councillor (SADA)
- Trustee – The Dentistry Development Foundation Trust (DDFT)
- Member of Editorial Board of the International Journal of Dentistry and Oral Health (IJDOH)

Prof Leon Cornelius Snyman

Date of birth

28 June 1962

Profession

Medical Doctor

Tertiary qualifications

- B Med Sci (1984, UP)
- MB ChB (1988, UP)
- M Prax Med (1996, UP)
- M Med O&G (2002, UP)
- The Colleges of Medicine of SA (FCOG, 2002)
- Phd (2017, UP)

Current positions

- Principal specialist and Acting HOD, Department O&G, Kalafong Provincial Tertiary Hospital (since 2018)
- President of the College of Obstetricians and Gynaecologists of SA (since 2015)
- Chairman of the Examinations and Credentials Committee of the CMSA
- Member of the Board of Directors of the CMSA

Former positions

- Senior specialist, UP and Kalafong Hospital Gynaecological Oncology Unit, Kalafong Hospital (2003 – 2007)
- Registrar, UP and Kalafong Hospital (1998 – 2002)
- General Practitioner, private practice, Louis Trichard (1993 – 1998)
- Medical Officer, 1 Military Hospital (1991 – 1992)
- Medical Officer, Livingstone Hospital PE (1990)
- Intern, Livingstone Hospital PE (1989)

ABBREVIATED CURRICULUM VITAE FOR NOMINATED CANDIDATE (continued)

Prof Mark Wayne Sonderup

Date of birth

4 February 1969

Profession

Medical Doctor

Tertiary qualifications

- B Pharm (*cum laude*, 1990, UPE)
- MB ChB (first class honours, 1995, UCT)
- Fellowship of the College of Physicians of South Africa (FCP SA, 2002)
- Masters in Medicine (2013, UCT)
- Fellowship of the Royal College of Physicians (London FRCP) (2018)

Current positions

- Associate Professor, Senior Specialist and Lecturer of the Department of Medicine and Division of Hepatology at the University of Cape Town and Groote Schuur Hospital (since 2007)
- National Council Member of the South African Gastroenterology Society (2009 to current)
- Member of the SA Rugby Medical Advisory Committee (2017 to current)
- Board Member of the WHO Strategic Advisory Committee of Viral Hepatitis, Geneva (2014 to current)

Former positions

- Vice-Chairman of the South African Medical Association, SAMA (2009 – 2018)
- Board Member of the South African Medical Association, SAMA (2000 – 2004, 2009 to 2018)
- Trustee of The Professional Provident Society Holdings Trust Board (2012 – 2018)
- Council Member of the World Medical Association (WMA, 2011 – 2016)
- Chairman of the SAMA Western Cape Branch (2008 – 2012)
- Specialist in the Department of Medicine, New Somerset Hospital (2006 – 2007)
- Senior Registrar and Fellow of the MRC/UCT Liver Research Centre at the Groote Schuur Hospital (2002 – 2004)
- Medical Registrar Rotation at the Groote Schuur Hospital (1998 – 2002)
- Senior House Officer at the Groote Schuur Hospital (1997 – 1998)
- Medical Intern in Medicine, Surgery and O&G at the Livingstone Hospital (1996)

FORM OF PROXY

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST

(Registration number IT312/2011) (the Trust)

PPS Member's details:

Full name:

Identity number:

Membership number:

Email address:

Postal address:

Cellphone number:

I, the above member of the Trust, hereby appoint:

Proxy's name: **Proxy's identity number:**

or failing him/her, the Chairman of the meeting, as my proxy to attend, speak and on a poll vote for me and on my behalf at the annual general meeting of the Trust to be held at 18:00 on Monday, 20 May 2019 in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg, and at any adjournment thereof, as follows:

No.	Business		In favour of	Against	Abstain
1.	Ordinary resolution for the adoption of the annual financial statements of the Trust for the year ended 31 December 2018				
2.	Ordinary resolution for the reappointment of the auditors of the Trust				
3.	Ordinary resolutions for the election and appointment of trustees#:				
	3.1	Dr D P du Plessis*			
	3.2	Mr N C Nyawo*			
	3.3	Adv H Cassim			
	3.4	Mr G Y Naidoo			
	3.5	Ms J D N Ndaba			
	3.6	Dr R Putter			
	3.7	Dr L C Snyman			
	3.8	Prof M W Sonderup			
4.	Ordinary resolution for the appointment of the members of the Trust Audit Committee				
5.	Special resolution for the approval of trustees' remuneration for the period commencing 1 July 2019 as set out in the notice of the annual general meeting**				

\# *There will be four vacancies on the Board of Trustees to be filled by elected Trustees. These four vacancies will be filled by the four candidates receiving the highest number of favourable votes. Refer to the Notice of the Annual General meeting for an explanation in this regard.*

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

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

Signed this day of 2019

Signature

NOTES TO FORM OF PROXY

Instructions and requirements for completion of the form of proxy

1. **The form of proxy must be signed, dated and returned so as to be received at the registered office of the Trust by 18:00 on Wednesday, 15 May 2019.**
2. **Forms of proxy are required to be completed and signed by the Member appointing the proxy, or by his attorney or agent duly authorised in terms of a court order, or a power of attorney which was signed by the Member. If the form of proxy is completed in terms of a power of attorney or authority, the ORIGINAL, OR A CERTIFIED COPY of such power of attorney or authority has to be lodged with the form of proxy by 18:00 on Friday, 10 May 2019.**
3. **The signatory may insert the name of any person whom the signatory wishes to appoint as his/her proxy in the blank space provided for that purpose. If no name is inserted, the chairman of the meeting shall be appointed as the member's proxy.**
4. By completing and lodging of the form of proxy, it will not preclude the member who is appointing the proxy from attending the annual general meeting and speaking and voting in person thereat, to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.
5. If the member does not indicate in the appropriate places 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. In regard to the ordinary resolutions for the election of trustees, any indication of how the member wishes to vote in regard to the candidates will be deemed to be the entire vote of the member, i.e. if the member has only indicated a vote for, or against, or to abstain for one or more candidate(s), the proxy holder shall not be entitled to exercise additional votes in respect of candidates for whom no votes were indicated by the member.
6. In respect of the election of Trustees, each candidate will be voted upon by a separate resolution, either "For", "Against" or Abstain". In terms of the Trust Deed, if the number of persons approved by such resolutions exceeds the number of vacancies (being four), 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 elected candidates receiving the highest number of favourable votes, as set out in the Notice of the Annual General Meeting.

RETURN OPTIONS

Either:

Deliver to:	The Trust Secretary 6 Anerley Road Parktown, 2193 Johannesburg
or Post to:	The Trust Secretary PO Box 1089 Houghton 2041
or Fax to:	The Trust Secretary at 011 644 4641
or Email to:	companysecretary@pps.co.za

ADMINISTRATIVE INFORMATION

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST AND

PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY LIMITED

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

PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY (NAMIBIA) LIMITED

Principal place of business	18 Robert Mugabe Avenue Windhoek Namibia
Postal address	PO Box 1407 Windhoek, Namibia
Web address	www.pps.com.na

HEAD OF ACTUARIAL FUNCTION AND STATUTORY ACTUARY OF PPS INSURANCE AND PPS NAMIBIA

(in terms of the Insurance Act)
Mr G T Waugh

HEAD OF ACTUARIAL FUNCTION OF PPS SHORT-TERM INSURANCE

(in terms of the Insurance Act)
Mr J van der Merwe

EXTERNAL AUDITOR

PricewaterhouseCoopers Inc.
4 Lisbon Lane
Waterfall City, Jukskei View, 2090, South Africa

INTERNAL AUDITOR

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

LEGAL ADVISORS

Webber Wentzel
90 Rivonia Road
Sandton, Johannesburg, 2196, South Africa

ACTUARIAL ADVISORS

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

FUND MANAGERS

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

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

Allan Gray South Africa (Pty) Limited
1 Silo Square, V&A Waterfront
Cape Town, 8001, South Africa

PPS Multi-Managers (Pty) Limited
PPS House, Boundary Terraces
1 Mariendahl Lane
Newlands, 7700, South Africa

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

Old Mutual Investment Group (Pty) Limited
10th Floor, Mutual Tower, 223 Independence Avenue
Windhoek, Namibia

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www.pps.co.za