

INTEGRATED REPORT 2011



FOR PROFESSIONALS
SINCE 1941

T A B L E O F C O N T E N T S

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PPS INTEGRATED REPORT 2011

Our first Integrated report is not just an account of the PPS Group's performance over the past year. What we hope it will demonstrate is that the values set out in the mission statement of 1941 have remained intact:

'For the foreseeable future, the Society should be a mutual organisation which is committed to providing to a defined group of professional persons, the finest cover in respect of their morbidity and mortality risks, as well as offering them the most comprehensive means of providing for their retirement needs. Furthermore, the Society should be the most prestigious organisation in this field of endeavour.'

Read on, and see how our performance has matched, and continues to match our mission – 71 years on!

ABOUT THE PPS INTEGRATED REPORT

Scope and Boundary

This report covers the 12 months ended 31 December 2011 and subsequent events to reporting date. It includes all the companies listed in the Group structure on page 4. In line with the King report on Corporate Governance for 2009 ('King III'), and the work of The Integrated Reporting Committee of South Africa to date, this report aims to give a concise picture of where the PPS Group has come from, where it is now, and where it is going, with a view to making you, our members and primary stakeholders, better informed. We see this process as a journey, and would welcome your feedback so we can keep on improving our communication and service to you.

In the preparation of this report, PPS' Finance department engaged with all relevant departments in the sourcing of information: company secretarial, actuarial and product development, sales, marketing and stakeholder relations, administration and systems and legal and compliance.

Our policy on assurance is contained on page 52 of this report. Detailed financial statements relating to the operation of the Group are to be found in the Annual Financial Statements.

With the restructuring of the company into a trust last year following amendments to the Companies Act (see organogram on page 4), the introduction of the principle of integrated reporting has come at an opportune time for us, as it has enabled us to take an in-depth look at our operations with the aim of adding value to members. We invite you to share this exciting journey with us as PPS strengthens its position as the leading financial services group catering for all the financial needs of graduate professionals.

The integrated report aims to give a concise picture of where the PPS Group has come from, where it is now, and where it is going.

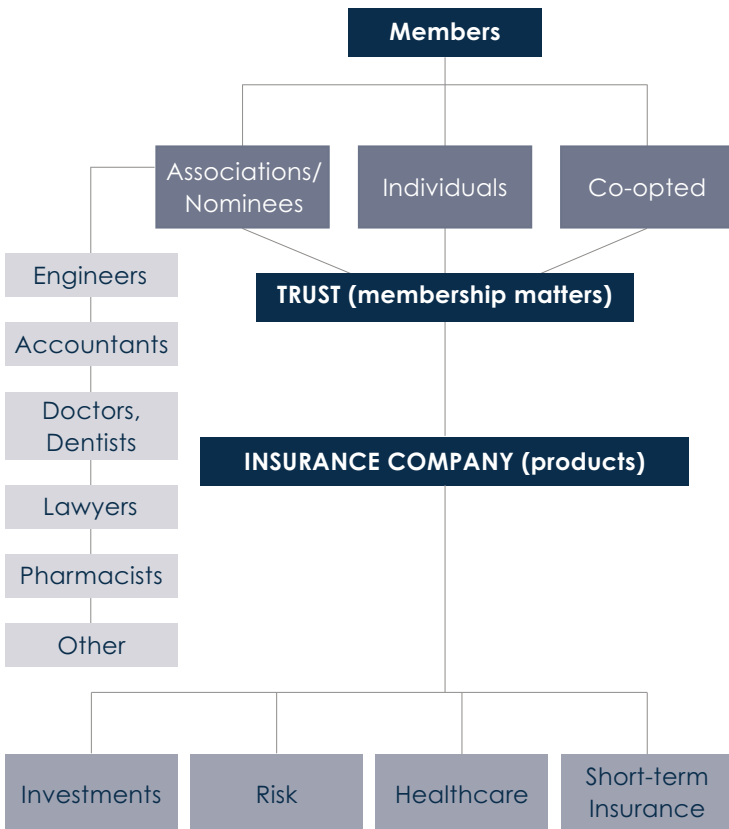


Integrated Report – Includes the account of performance, strategic priorities, future objectives and governance report of the Group.



Annual Financial Statements – Consists of the annual financial statements of the Group prepared in accordance with IFRS and includes the notice of Annual General Meeting.

WHY IS PPS UNIQUE?



Why is PPS unique?

There are three reasons why PPS is unique in the financial services market in South Africa. They are:

- the Mutual model;
- the focus on the Graduate professional market; and
- the Board structure.

The Mutual model

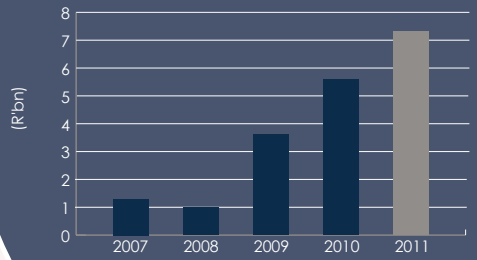
PPS has no outside shareholders. All capital is provided by members and all profits are allocated to members. Members have a Surplus Rebate Account ('SRA'), which consists of a Special Benefit Account ('SBA') and an Apportionment Account ('AA').

Members pay premiums for their insurance benefits and these premiums are also needed to cover the Group's expenses and to reserve for the future. All surplus operating profits are allocated to the members' Apportionment Accounts. Interest earned is also added to these accounts.

PPS' reserves and free assets are invested in the markets and are subject to capital gains and losses. These movements are allocated to the members' SRAs each year. The SRAs are available to members tax free when their membership ceases – whether due to death or retirement. Early termination of membership will result in recovery of expenses from the member.

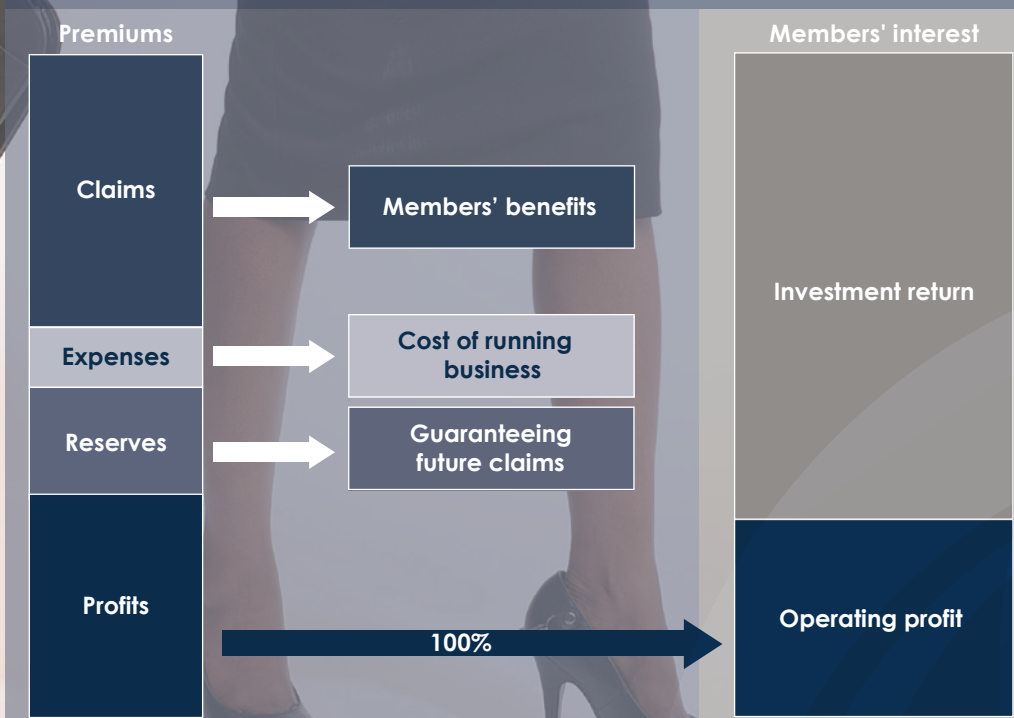


TOTAL CUMULATIVE ALLOCATIONS
– SINCE 2007

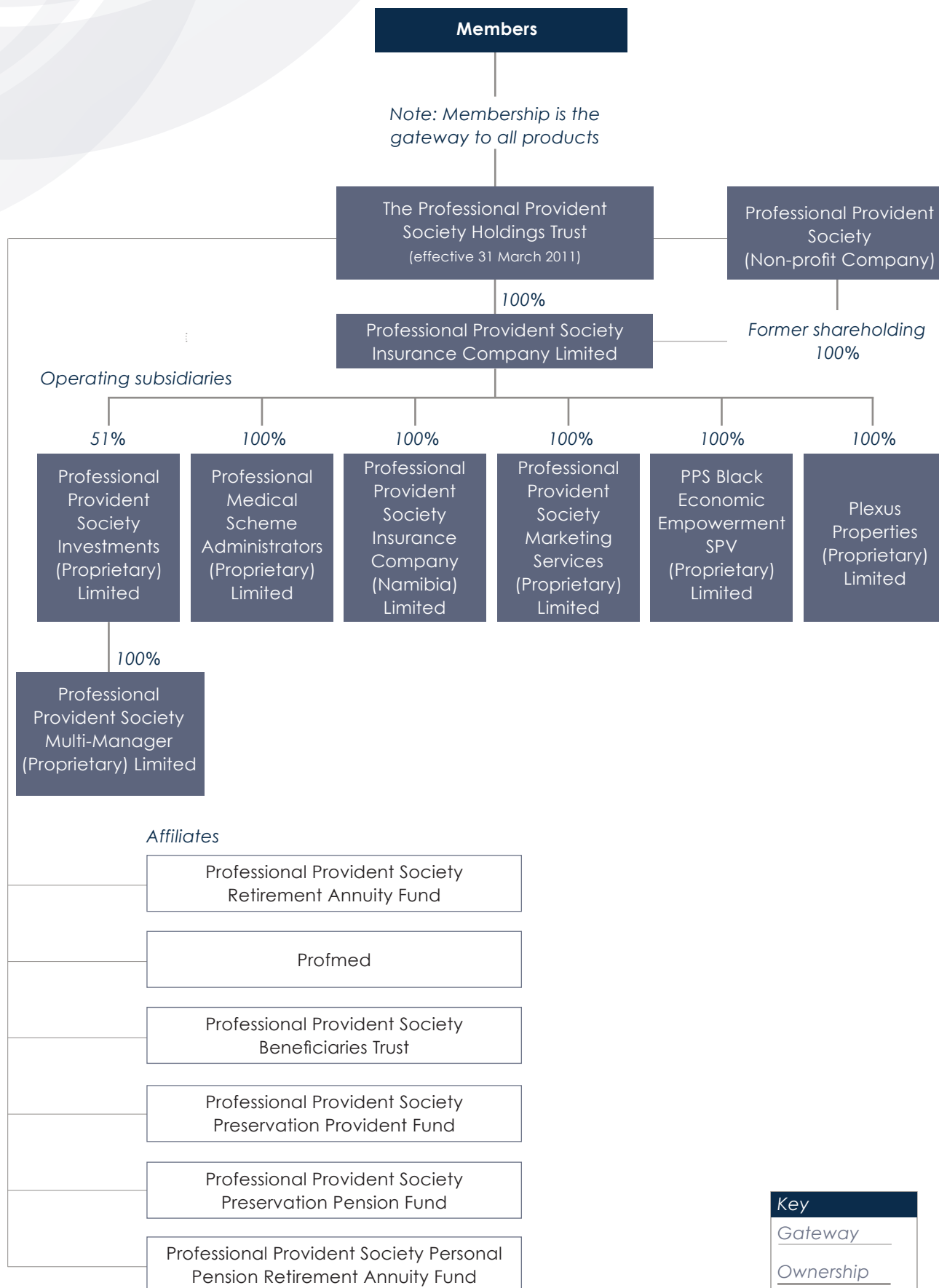


2011
allocation to
members
R1,7bn

ETHOS OF MUTUALITY

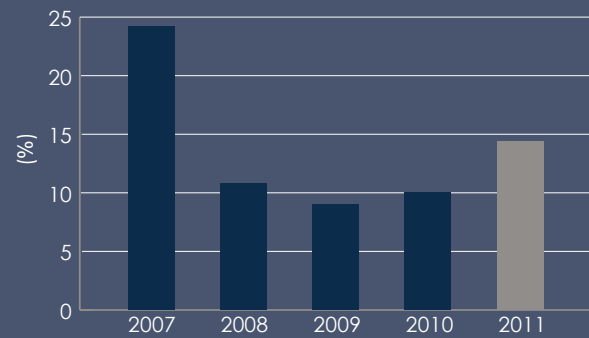


GROUP STRUCTURE





INVESTMENT RETURN (THREE-YEAR ROLLING AVERAGE)



Investment
return for
2011 was
14,4%

Name, size and location of operations falling under The PPS Holdings Trust

Name	Business	Location	Revenue	Total assets	Number of employees	Number of policyholders
PPS Insurance Company Limited	Long-term insurance and investments	Johannesburg – branches in major centres	R1,9bn	R17,1bn	673	114 589
PPS Insurance Company (Namibia) Limited	Long-term insurance	Windhoek	R76,3m	R487,5m	7	4 320
PPS Investments (Pty) Limited	Investment Management	Cape Town	R57,5m	R8,0bn ¹	54	11 756
Professional Medical Scheme Administrators (Pty) Limited	Medical scheme administration	Pretoria	R118,1m	R43,0m	234	81 511 ²
PPS Marketing Services (Pty) Limited	Short-term insurance broking	Johannesburg	R18,4m	R7,2m	38	6 159
PPS Black Economic Empowerment SPV (Pty) Limited	Black Economic Empowerment vehicle	Johannesburg	–	–	–	24 342

¹ Assets under management

² Members under administration

PPS GROUP HIGHLIGHTS

- Record bonus allocation – up from **30,5 cents to 34,5 cents**
- Operating profit – **up 19%**
- Total allocations to members **R1,7 billion**
- Assets grew 10% to **R17,7 billion**
- New investment business up **69%**
- Investment return is **14%**
- New **membership growth** continues

Total assets
R17,7bn

PPS AT A GLANCE

Account of performance

	Key indicators	2011 performance	Five-year compound annual growth rate	Five-year review
Mutuality Through its unique mutuality model, all the profits are ultimately attributable to our members. This is achieved by allocating operating profit and investment returns to the members' Surplus Rebate Accounts	Bonus allocations	R881,5 million	17,8%	
	Investment allocations	R770,3 million	–	
	Total allocations to members' Surplus Rebate Accounts	R1,7 billion	–	

	Key indicators	2011 performance	Five-year compound annual growth rate	Five-year review												
<p>Long-term Insurance</p> <p>PPS Insurance Company and PPS Insurance (Namibia) provide long-term life, sickness, dread disease and disability insurance to eligible members. In terms of the mutual model, all the assets are ultimately attributable to our members</p>	Total assets (Group)	R17,7 billion	10,4%	<table border="1"> <caption>Total assets (Group)</caption> <thead> <tr><th>Year</th><th>Value</th></tr> </thead> <tbody> <tr><td>2007</td><td>12</td></tr> <tr><td>2008</td><td>12</td></tr> <tr><td>2009</td><td>14</td></tr> <tr><td>2010</td><td>16</td></tr> <tr><td>2011</td><td>18</td></tr> </tbody> </table>	Year	Value	2007	12	2008	12	2009	14	2010	16	2011	18
	Year	Value														
	2007	12														
	2008	12														
	2009	14														
	2010	16														
2011	18															
Gross premium revenue	R2,0 billion	12,5%	<table border="1"> <caption>Gross premium revenue</caption> <thead> <tr><th>Year</th><th>Value</th></tr> </thead> <tbody> <tr><td>2007</td><td>1.3</td></tr> <tr><td>2008</td><td>1.5</td></tr> <tr><td>2009</td><td>1.7</td></tr> <tr><td>2010</td><td>1.8</td></tr> <tr><td>2011</td><td>2.0</td></tr> </tbody> </table>	Year	Value	2007	1.3	2008	1.5	2009	1.7	2010	1.8	2011	2.0	
Year	Value															
2007	1.3															
2008	1.5															
2009	1.7															
2010	1.8															
2011	2.0															
Gross benefits paid to members	R1,3 billion	17,7%	<table border="1"> <caption>Gross benefits paid to members</caption> <thead> <tr><th>Year</th><th>Value</th></tr> </thead> <tbody> <tr><td>2007</td><td>0.8</td></tr> <tr><td>2008</td><td>1.1</td></tr> <tr><td>2009</td><td>1.1</td></tr> <tr><td>2010</td><td>1.0</td></tr> <tr><td>2011</td><td>1.2</td></tr> </tbody> </table>	Year	Value	2007	0.8	2008	1.1	2009	1.1	2010	1.0	2011	1.2	
Year	Value															
2007	0.8															
2008	1.1															
2009	1.1															
2010	1.0															
2011	1.2															
New annual premium income: risk	R346,0 million	6,6%	<table border="1"> <caption>New annual premium income: risk</caption> <thead> <tr><th>Year</th><th>Value</th></tr> </thead> <tbody> <tr><td>2007</td><td>280</td></tr> <tr><td>2008</td><td>320</td></tr> <tr><td>2009</td><td>380</td></tr> <tr><td>2010</td><td>390</td></tr> <tr><td>2011</td><td>350</td></tr> </tbody> </table>	Year	Value	2007	280	2008	320	2009	380	2010	390	2011	350	
Year	Value															
2007	280															
2008	320															
2009	380															
2010	390															
2011	350															
Efficiency ratio	17,0%	-	<table border="1"> <caption>Efficiency ratio</caption> <thead> <tr><th>Year</th><th>Value</th></tr> </thead> <tbody> <tr><td>2007</td><td>18</td></tr> <tr><td>2008</td><td>18</td></tr> <tr><td>2009</td><td>16</td></tr> <tr><td>2010</td><td>16</td></tr> <tr><td>2011</td><td>17</td></tr> </tbody> </table>	Year	Value	2007	18	2008	18	2009	16	2010	16	2011	17	
Year	Value															
2007	18															
2008	18															
2009	16															
2010	16															
2011	17															
Investment return (three-year rolling average)	14,4%	-	<table border="1"> <caption>Investment return (three-year rolling average)</caption> <thead> <tr><th>Year</th><th>Value</th></tr> </thead> <tbody> <tr><td>2007</td><td>24</td></tr> <tr><td>2008</td><td>11</td></tr> <tr><td>2009</td><td>9</td></tr> <tr><td>2010</td><td>10</td></tr> <tr><td>2011</td><td>14</td></tr> </tbody> </table>	Year	Value	2007	24	2008	11	2009	9	2010	10	2011	14	
Year	Value															
2007	24															
2008	11															
2009	9															
2010	10															
2011	14															

PPS AT A GLANCE

	Key indicators	2011 performance	Five-year compound annual growth rate	Five-year review												
Investment management PPS Investments is an investment company that manages retirement and savings products for PPS members	Total assets under management	R8,0 billion	503,0%	<table border="1"> <caption>Total assets under management (R billion)</caption> <tr><th>Year</th><td>2007</td><td>2008</td><td>2009</td><td>2010</td><td>2011</td></tr> <tr><th>Value</th><td>0.5</td><td>2.0</td><td>2.0</td><td>6.0</td><td>8.0</td></tr> </table>	Year	2007	2008	2009	2010	2011	Value	0.5	2.0	2.0	6.0	8.0
	Year	2007	2008	2009	2010	2011										
Value	0.5	2.0	2.0	6.0	8.0											
New business flows	R1,6 billion	-	<table border="1"> <caption>New business flows (R billion)</caption> <tr><th>Year</th><td>2007</td><td>2008</td><td>2009</td><td>2010</td><td>2011</td></tr> <tr><th>Value</th><td>0.0</td><td>0.5</td><td>0.4</td><td>0.9</td><td>1.6</td></tr> </table>	Year	2007	2008	2009	2010	2011	Value	0.0	0.5	0.4	0.9	1.6	
Year	2007	2008	2009	2010	2011											
Value	0.0	0.5	0.4	0.9	1.6											
Medical Scheme Administration Professional Medical Scheme Administrators is a company specialising in the administration of medical schemes. There are currently three schemes under administration	Members under administration	81 511	27,7%	<table border="1"> <caption>Members under administration</caption> <tr><th>Year</th><td>2007</td><td>2008</td><td>2009</td><td>2010</td><td>2011</td></tr> <tr><th>Value</th><td>20,000</td><td>22,000</td><td>42,000</td><td>45,000</td><td>81,511</td></tr> </table>	Year	2007	2008	2009	2010	2011	Value	20,000	22,000	42,000	45,000	81,511
	Year	2007	2008	2009	2010	2011										
Value	20,000	22,000	42,000	45,000	81,511											
Operating profit	R15,5 million	30,7%	<table border="1"> <caption>Operating profit (R million)</caption> <tr><th>Year</th><td>2007</td><td>2008</td><td>2009</td><td>2010</td><td>2011</td></tr> <tr><th>Value</th><td>1.5</td><td>3.0</td><td>3.0</td><td>8.0</td><td>15.5</td></tr> </table>	Year	2007	2008	2009	2010	2011	Value	1.5	3.0	3.0	8.0	15.5	
Year	2007	2008	2009	2010	2011											
Value	1.5	3.0	3.0	8.0	15.5											
Short-term insurance brokers PPS Marketing Services offers PPS members the opportunity to obtain short-term insurance at exclusive rates, in partnership with a leading underwriter in the South African market	Number of policyholders	9 743	97,7%	<table border="1"> <caption>Number of policyholders</caption> <tr><th>Year</th><td>2007</td><td>2008</td><td>2009</td><td>2010</td><td>2011</td></tr> <tr><th>Value</th><td>2,500</td><td>4,500</td><td>5,500</td><td>9,000</td><td>9,743</td></tr> </table>	Year	2007	2008	2009	2010	2011	Value	2,500	4,500	5,500	9,000	9,743
	Year	2007	2008	2009	2010	2011										
Value	2,500	4,500	5,500	9,000	9,743											
Premiums: short-term insurance	R103,6 million	122,1%	<table border="1"> <caption>Premiums: short-term insurance (R million)</caption> <tr><th>Year</th><td>2007</td><td>2008</td><td>2009</td><td>2010</td><td>2011</td></tr> <tr><th>Value</th><td>15</td><td>45</td><td>70</td><td>90</td><td>103.6</td></tr> </table>	Year	2007	2008	2009	2010	2011	Value	15	45	70	90	103.6	
Year	2007	2008	2009	2010	2011											
Value	15	45	70	90	103.6											

O V E R V I E W O F P P S G R O U P

Mutuality:

As a company run on a mutual model, PPS is owned by its members. Members are nominated and voted onto The PPS Holdings Trust Board and are entitled to vote at member meetings. Members who are Policy and/or investment holders, are exclusively allocated the entire profits of the PPS Group.

Mutuals represent over 600 distinct insurance organisations internationally with assets approaching US\$1 trillion. Spread across more than 70 countries, these organisations employ over 300 000 people.

Who are we and what makes our business model unique?

Mutuality: the differentiator!

The PPS Holdings Trust and its subsidiaries embody an exclusive society of graduate professionals, belonging to its members. It provides members with exceptional insurance benefits and a range of financial services during their working lives and in retirement to create wealth, peace of mind and security for themselves and their families. As policyholders, members share in the profits of the Group, and this model of mutuality embodies the principle of sustainability which sets PPS apart from its competitors in the South African insurance market.

Being a member-owned Group, there is no pressure from external shareholders to pursue overly-ambitious profit targets for short-term gain. PPS is able to assume a disciplined and prudent investment approach and has

steadily grown its assets to almost R18 billion over the past five years, allocating on average R1 billion a year in profits to its members. During this period, PPS' reserves remained sufficient to pay every member's claim to 'the last man standing', another vital cornerstone of mutuality.

Members in possession of a 'Provider' policy, or invested in products offered by our investment company, PPS Investments (Pty) Limited, are also entitled to an allocation of the annual profits of the insurance and investment companies. These members receive allocations to their Surplus Rebate Accounts.

The SRA consists of two parts: the Apportionment Account, which receives annual operating profit allocations and the Special Benefit Account, which receives investment allocations. The SRA is available tax free on date of retirement. An option of preserving the SRA beyond retirement is also available to members who choose to retain the funds as part of their personal investment portfolio.

PPS and ICMIF: the international link

Since April 2008, PPS has been a member of the International Cooperative and Mutual Insurance Federation ('ICMIF'), a long-established global trade association representing cooperative and mutual insurers from around the world.

The common bond uniting ICMIF members is that, as cooperatives or mutuals, they place the interests of policyholders/members first, working hard to ensure that they offer the best possible range of affordable products for their members. The ICMIF aims to promote and work with this sector globally by being a leader in providing information and services to members, underpinning its commitment to providing 'a *global reach for local strength*'.

With just five member cooperative insurers when it was formed in 1922, the ICMIF has grown significantly in recent years. By 1993, when the present Secretariat was established, 75 organisations from 45 countries were members. Today, individual membership represents over 600 distinct insurance organisations employing over 300 000 people and spread across more than 70 countries, with assets approaching US\$1 trillion.

PPS regularly engages with the ICMIF on issues relating to communicating the benefits of mutuality. The CEO of the ICMIF, Shaun Tarbuck, joined PPS in South Africa at a media conference and employee event on 8 July 2011 – our 70th anniversary celebration – thus strengthening the ties between the two bodies.

OVERVIEW OF PPS GROUP

We will be working with the ICMIF on our communication programme for 2012, being the United Nations 'Year of the Cooperative'. Furthermore, PPS will be hosting the bi-annual ICMIF conference in 2013 in Cape Town, which will assist in spreading the message about the benefits of mutuality, and also making PPS more visible in South Africa.

Our business model

PPS Insurance creates and sustains value mainly through the marketing and selling of profitable insurance policies on a sustainable basis.

Our policies are priced to:

- meet expected claims from policyholders;
- cover acquisition and maintenance costs;
- cover the costs of provision of capital required to support policies;
- provide a reasonable measure of profitability; and
- be competitive.

The long-term sustainability of the business is ensured by:

- monitoring the following factors:
 - sickness, disability, critical illness and death claim rates;

- policy lapse rates by gender and age;
- age and gender profile of in-force policies and claims;
- policy size; and
- profession-specific claims, lapse and profile experience;
- analysing expense experience (future anticipated expenses are particularly closely looked at, as it can have a material impact on reserving requirements for future benefit payments, and hence profitability and sustainability of the overall business); and
- monitoring sales costs.

The value PPS creates is ultimately exclusively for the benefit of its policyholders through their Surplus Rebate Accounts. We retain value in PPS by retaining our members. The graduate professional market is highly sought after and is subject to a great deal of competitor activity. Our members are constantly being approached by other insurers and financial advisors to move their insurance. To address this, PPS has a dedicated division, which is very successful in retaining members who are considering cancelling their policies. This also helps to ensure sustainability of the business.

Before making any decisions regarding your policies, please consult a PPS accredited advisor for reliable financial advice.

Gross Professional Income includes professional fees. For example, should a medical professional (such as a doctor) fall ill, not only does he suffer a loss of his own income but his practice also suffers while he is unable to work. If the doctor does not provide medical services to his patients (possibly through using a locum) while he is off ill, he risks losing many of his patients, which relationships may have taken years to develop. So it is important to professionals such as doctors that their sickness benefits provide them with sufficient income to allow their practices to continue while they are unable to work.

How is PPS' strategic objective of providing for the financial security and wealth of graduate professionals and their families in South Africa supported by our business model?

- We focus exclusively on the four-year plus graduate professional market.
- Our product pricing allows for larger average sums assured and higher annual increases in cover amounts, as well as for lower average claims experience and lower lapse levels, in view of our market being exclusively graduate professionals.
- We engaged in a BBBEE transaction in 2006 in recognition of the importance of transformation. More than 40% of new PPS members are black, and more than 25% of the economic interest of PPS is owned by black members.
- We actively engage with all of the large tertiary education institutions in order to attract new members.
- All value generated by our products is ultimately for the benefit of PPS policyholders and their families.
- Our marketing focuses on the exclusivity of PPS membership as well as the benefits of mutuality.
- To meet the expanding needs of our members, a number of new products have been launched since 2007.
- Our products contain unique features specifically of importance to professional people:
 - There are no exclusions for hazardous pursuits or international travel.
 - Importantly, our definition of Gross Professional Income includes professional fees. This definition is critical for many professions.
- Our annual automatic benefit increases are set to be affordable and fair, albeit incorporating economic trends and the impact of inflation. This is reflected in the member take-up rate which is 99%.
- The design of our products leverages our core mutuality model. We introduced profit sharing on all our core risk product offerings with effect from 1 January 2012 and, with the launch of PPS Investments in 2007, we introduced the only offerings in the market where investors share in the profits of the investment company.

And where does distribution fit in? Our strategy is not to try to support all independent financial advisors (of which there are currently more than 16 000), nor the largest insurance writers and intermediary groups in the country. Rather, we deal only with financial advisors who work primarily in the graduate professional market, or who have a material number of graduates on their books. We develop very close relationships with

these advisors, and this allows us to provide a higher level of service and expertise to them as well as ensuring a thorough knowledge of PPS and its products in view of their difference from other providers (in particular related to mutuality).

Our values

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

- We are a mutual company, established to give peace of mind to graduate professionals throughout their lives.
- We have enduring financial strength through a focus on the long term.
- We recognise the uniqueness of our members by providing them with products and services to meet their specific needs.
- We deliver service excellence to our members and other stakeholders by:
 - working in teams;
 - being personally accountable;
 - recognising and developing our staff; and
 - having fun and enjoying what we do.
- We conduct our business with the highest standards of governance, integrity, fairness and respect for all stakeholders.

Our stakeholders

PPS membership

As a company operating on a mutual model, our members are our main stakeholders, and include medical practitioners, attorneys, engineers, accountants, pharmacists, dentists, physiotherapists, architects, advocates, psychologists, veterinarians, quantity surveyors and other professionals.

Over and above its member base, PPS works closely with representatives of a number of professional associations, many of whom sit on the various boards of Group companies, offering invaluable input on how the organisation is run. Through their dedication and commitment, these representatives indirectly contribute to the expansion of the PPS member base amongst divergent segments of the professional market, by ensuring that the members of their respective associations are acquainted with the products and services that the Group has to offer.

OVERVIEW OF PPS GROUP

PPS' share of the graduate professional market continued to grow in 2011, with an increase of 12 218 members year-on-year, taking the PPS overall membership to 222 830 at year-end.

Communicating the benefits

Over the past year, PPS has made a co-ordinated effort to communicate to its members and other stakeholders the benefits of its mutual business model, and the fact that only members share in its operating and investment profits. This was mostly achieved by way of media liaison and resulted in a significant increase in editorial media coverage in 2011, more than double the coverage achieved in 2010.

Other initiatives are:

The quarterly Professional Confidence Index ('PCI') was launched early in 2011, and raised awareness of PPS' unique model. Members were asked to comment on how they perceive the South African socio-political situation. With member participation of well over 3 000 at a time, the surveys provided an intuitive and objective insight into the general trends affecting the decisions that professionals make in South Africa.

Two media programmes: 'What to look for in a professional', in partnership with major professional associations, and a programme on major health issues affecting professionals, also received extensive media coverage.

**'The key to
success lies
in sharing it.'**

For the first time since its formation in 1941, PPS launched a substantial advertising campaign early in 2012. This campaign not only utilises television, print and radio, but



A scene from PPS' television advertisement

also digital media. The campaign was themed around our key differential – mutuality – using the tag-line: 'The key to success lies in sharing it'.

A public announcement in August 2011 that PPS has engaged the international communications agency – Euro RSCG 4D – on a retainer basis, was preceded by extensive market research, including segmentation research. This research showed that not only are our competitors increasing their efforts at engaging those who qualify for PPS membership, but also that greater awareness of our brand is required in several market segments. In January 2012, PPS undertook to revamp its brand with a more contemporary look and feel to appeal to the younger generation. With a view to sharing information with its member base more effectively, we have launched an electronic newsletter, 'PPS Gazette', a quarterly publication that contains important member-related information, as well as interactive sections.

PPS has also been focused on member engagement and simplifying its product and service offering, translating industry jargon into simple language. As part of its efforts to be more relevant and appealing to its members, PPS has also restructured its marketing and stakeholder relations department.

Growing and retaining membership

The importance of improving communication with our members and educating them on the real value of PPS membership is key to maintaining sustainable growth.

Since early 2011, PPS has embarked on interactive forums with members on issues like the Consumer Protection Act, the new Companies Act and National Health Insurance (NHI) and we also made a submission to Government on NHI. This member engagement programme is being taken to a higher level during 2012 on issues like retirement reform and the social security plans of Government which are in the pipeline.

As part of its continuous engagement with members, PPS has hosted annual Roadshows in South Africa, the United Kingdom and Namibia since 2010. These Roadshows have proved to be invaluable forums for interaction between members and executives of the company. Members learn first-hand about the performance of the business and

about the latest trends in the industry, whilst getting the opportunity to network with like-minded individuals from multi-disciplinary backgrounds.

PPS members have 24/7 access, 365 days a year to their insurance portfolios via www.pps.co.za. PPS InTouch enables them to update their personal details, view their latest Statements of Benefit, submit a claim, request a quote, participate in client satisfaction surveys and keep up to date with the latest product developments.



**PPS members
have 24/7 access,
365 days a year
to their insurance
portfolios via
www.pps.co.za.**

PPS' mission is to be the thought and opinion-leader for our members on issues that will impact on their profession. We are confident that all the above measures will not only help to ensure retention and growth of membership, but also make PPS more visible in the highly competitive financial services market.

Reaching our members

At PPS, services and financial advice are provided to our members through our very strong relationships with carefully selected financial planners. In this target market, PPS believes that a very high level of trust is required in providing financial advice and that intermediated services are of critical importance in meeting the needs of members. The ongoing accreditation of our supporting intermediaries

OVERVIEW OF PPS GROUP

provides our members with peace of mind that they are dealing with PPS approved intermediaries. PPS is very proud of the overall quality of our brokers and advisors and we thank them for their loyal support.

PPS also has a fully-fledged internal sales force unit – the Member Relations Division ('MRD'). This division, together with our broker force, make up over 3 000 dedicated intermediaries who form the crucial link between PPS and its members.

Other stakeholders

PPS' stakeholders also include employees, intermediaries, asset managers, university students, regulators, strategic partners, professional associations and suppliers, with whom we interact regularly. Through multiple engagement channels, PPS continues to place the interpersonal relationships with our various stakeholders at the very apex of our overall activities. Our annual calendar of stakeholder commitments reflects the wide diversity of stakeholders with whom we interact and their specific requirements which closely correspond with our niche market approach – 'by professionals, for professionals'.

The Responsible Corporate Citizen

Corporate Social Investment ('CSI')

CSI forms an integral part of the PPS Group's activities, both as a tool of its transformation drive and as a way of giving

back to the community. PPS' CSI budget for 2012 has been set at R2 million, in an attempt to make a lasting impact on skills development, especially amongst the members of previously disadvantaged communities. The current CSI programme encompasses sponsorships of tertiary institution refurbishment projects, as well as granting bursaries and scholarships. R1 million worth of bursaries and scholarships will be awarded in 2012 to help future professionals of this country to complete their studies. Bursaries are awarded based on economic need and scholarships are awarded on academic performance. Our employees have embraced this culture of giving and often participate in well-deserving social causes on their own initiative.

Our eco-friendly environment

PPS strives to be a good corporate citizen by promoting responsible environmental projects. These include drives on minimising the carbon footprint by cutting down the amount of paper used and moving to more greener methodologies within the office environment, including power and water saving initiatives.

PPS has revisited its constitution regarding the printing of annual reports and posting of these to each PPS member. The environmental impact of this practice as well as the costs were factors taken into account. Members are now able to download an electronic version of the Annual Report.

PRODUCT OVERVIEW

Health – Medical Aid



- Profmed ProActive
- Profmed ProActive Plus
- Profmed ProSecure
- Profmed ProSecure Plus
- Profmed ProPinnacle
- Profmed Wellness

Wealth – Retirement and Savings



- PPS Personal Pension
- PPS Retirement Annuity
- PPS Preservation Fund
- PPS Living Annuity
- PPS SRA Retention Option
- PPS Endowment Plan
- PPS Preferred Funds
- PPS Corporate Personal Pension Investments
- PPS Surplus Rebate Account*
- PPS Pre-retirement SRA*
- PPS SRA Retention Option*

*Benefits under PPS Provider™ Policy

Security – Insurance



- PPS Sickness and Permanent Incapacity Benefit
- PPS Professional Life Provider™
- PPS Professional Health Provider™
- PPS Professional Disability Provider™
- PPS Business Provider™
- PPS Home and Car Insurance
- PPS Professional Indemnity Provider™



THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST BOARD OF TRUSTEES

1 Dr J Patel
B ChD
Practising Dentist

2 Mr U D Jivan
BA LLB
Practising Attorney

3 Dr N G Campbell
BDS
Dentist

4 Adv T N Aboobaker
BA LLB
Practising Senior Advocate

5 Mr E A Moolla
B Iuris
Practising Attorney

6 Mr B R Topham
B Compt (Hons), B Proc LLM, CA(SA), CA(UK)
Chartered Accountant and Attorney

7 Mr V P Rimbault
B Sc Eng (Mech)
Chief Executive Officer: The South African
Institution of Mechanical Engineering

8 Mr I Kotzé
B Pharm
Executive Director: Pharmaceutical Society of
South Africa



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

10 Mr J A B Downie
 B Sc, MBA, CFP
 Asset Consultant and Professional Trustee

11 Dr C M Krüger
 MB ChB, M Prax Med, M Pharm Med
 Family Physician

12 Dr S N E Seoka
 B Pharm, PhD
 President: Pharmaceutical Society of South Africa

13 Mr Y N Gordhan
 B Com (Hons), CA(SA), M Sc
 Chartered Accountant

14 Ms D L T Dondur
 B Acc (Hons), B Compt, CA(SA), MBA
 Director of Companies

15 Mr S Trikamjee
 B Com (Hons), CA(SA)
 Chartered Accountant and Entrepreneur

16 Dr D R Anderson
 BDS, Dip, POM, FCD(SA) OMP
 Practising Periodontist

17 Dr D G C Presbury
 MB, BS (London), MRCP (London), FRCP
 Practising Dermatologist

** Absent:
 Dr V K S Bhagwandas, Ms U Botha
 and Dr M N Mabasa*

PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY BOARD OF DIRECTORS

Dr D R Anderson
BDS, Dip POM, FCD(SA) OMP
Practising Periodontist
Non-executive Director
Chairman



Adv T N Aboobaker
BA LLB
Practising Senior
Advocate
Non-executive Director

Mrs T A Boesch
B Com (Hons), CA (SA)
Financial Director



Dr N G Campbell
BDS, Dentist
Non-executive Director

Mr C K de Klerk
B Sc, FIA, FASSA
Executive Director:
Actuarial and Technical



Mr J A B Downie
BSc, MBA, CFP,
Asset Consultant
and Professional
Non-executive Director

Mr C Erasmus
B Sc, FIA
Director of Companies
Non-executive Director





Mr M J Jackson
BA (Hons), MA
Chief Executive

Mr E A Moolla
B Iuris
Practising Attorney
Non-executive Director



Mr N G Payne
B Com (Hons), CA(SA), MBL
Director of Companies
Non-executive Director

Dr D G C Presbury
MB, BS (London), MRCP
(LONDON), FRCP
Practising Dermatologist
Non-executive Director



Dr S N E Seoka
B Pharm, PhD
President: Pharmaceutical
Society of South Africa
Non-executive Director

Prof H E Wainer
B Acc CA(SA)
Practising Chartered
Accountant
Non-executive Director



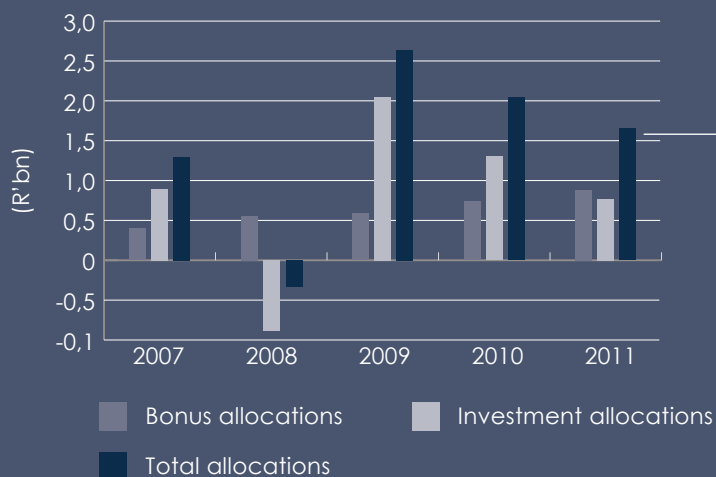
* Absent:
DR V K S Baghwandas

CHAIRMAN'S STATEMENT



Dr David Presbury
Chairman

ALLOCATIONS TO MEMBERS



Members have received cumulative allocations of **R7,3bn** since 2007

'A mood of cautious optimism prevails throughout the economy at the time of writing.'

'The Professional Confidence Index has proved to be a very valuable barometer in positioning PPS as a thought leader.'

This year my comments form part of our first Integrated Report, which marks a significant step forward for the Professional Provident Society. It gives a more detailed account of our activities over the past year to our stakeholders, in line with the King III recommendations regarding improved corporate governance. It is part of a process that will demonstrate the ongoing sustainability of the Group and bring greater transparency to our operations, whilst reinforcing the vital importance of our mutual model in serving the best interests of all our members.

On reflection

To put my remarks in perspective, it is necessary to briefly reflect on the events of the past year and how they have impacted both on the Group and the country as a whole. It is encouraging to record that a mood of 'cautious optimism' prevails throughout the economy at the time of writing, with South Africa, along with some other emerging markets, showing signs of growth as the political cards are substantially reshuffled throughout Africa. The so-called 'Arab Spring', which was heralded by regime overthrows in Tunisia and Egypt in January 2011 and spread to other African dictatorships, demonstrated clearly that as new directions are sought, the overall move towards democracy is certainly a step in the right direction.

On the international front, the 'Occupy Wall Street' movement – an initiative which quickly spread to other countries – signalled the American peoples' exasperation with the negative fall-out from corporate greed resulting in near debt default and an unprecedented downgrading of the US' credit rating. Continuing uncertainty in regard to a long-term resolution of the Eurozone debt crisis, coupled with a high incidence of natural disasters cast shadows over the rest of the world but stock markets continued to recover, suggesting a perception that the threat of a financial crisis, similar to that which occurred in 2008, is unlikely to recur. On the domestic front, high unemployment, corruption, crime and poor service delivery continue to inhibit South Africa's ability to realise its full economic potential, but many companies are still showing good results and, given better leadership than is in evidence at present, it is to be hoped that South Africa can fully justify its recent admittance as a member of the 'BRIC' countries.

The Professional Confidence Index

It is against this backdrop that in the first quarter of 2011, PPS introduced the Professional Confidence Index ('PCI') as a means of engaging with our members on some of the key issues of most concern to them and, as the results which are discussed below show, the PCI has proved to be a very valuable barometer in positioning PPS as a thought leader within this space and highlighting what professionals think about the future.

The Index shows encouraging signs, based on a number of specific questions our members were asked in relation to their perceptions of the future. The initial survey conducted in the first quarter of 2011 reflected an overall confidence level of 60%, and although this reduced slightly to 57% in both the second and third quarters – due mainly to concerns about the economy internationally – an increase to 58% in the final quarter was indicative of a more positive mood prevailing among members. This has continued into the first quarter of 2012, which hopefully also suggests that the world-class benefits PPS provides to its policyholders are indeed 'making a difference'.

CHAIRMAN'S STATEMENT

A cause for concern

There is however one area of concern that needs to be addressed in the present economic climate, particularly if the recovery alluded to above continues: the continuing exodus of professionals, mainly among the medical and dental fraternity, from this country at a time when they are most needed here.

To focus on dentists as evidence of a more general malaise, the South African Dental Association ('SADA') has recently drawn attention to the fact that many South African dentists are seeking more lucrative opportunities abroad. Only about 4 200 practising dentists registered with the Health Professionals Council of South Africa remain in this country. The drastic decrease in pay-outs by medical schemes is demonstrated by the fact that in the late 1990s, dentistry amounted to 8,4% of healthcare expenditure, whereas by 2010, this percentage had dropped to 2,3%, with payments to dental specialists only amounting to 0,6% of all pay-outs. With the costs of dental equipment and materials increasing exponentially, the pressure on profits remains high, especially as the average number of visits per beneficiary per year has stood at 0,5 since 2008. Whilst dentists are of course free to charge above medical aid rates in order to make a fair living, this can drive away patients – many of whom see visits to the doctor as a greater priority – and further reduce practitioners' incomes.

PPS feels particularly strongly about this inequity, bearing in mind that it was founded in 1941 by a group of eight dentists and has remained the insurer of choice for the profession, with over 6 500 practitioners on its books, many of whom are now living abroad. South Africa's medical practitioners are well-trained and held in high regard internationally, but they can only survive and prosper on the home front if their skills are recognised by medical aid schemes and rewarded appropriately.

We need therefore to reverse the flow of professionals who are emigrating so that they can continue to play their vital role in the economy as a whole. No country, particularly a developing one like South Africa, can afford to lose the very people who are best able to contribute to its growth.

Conclusion

South Africa remains delicately balanced between becoming the growth engine of the African Continent, or slipping backwards into the third world as the sound values introduced by the founding

fathers of our democracy that came into being in 1994 continue to be honoured more in the breach than in the observance. PPS, as an organisation catering exclusively for the financial needs of graduate professionals – from cradle to grave – is ideally placed to assist this country in going 'from good to great', but this can only happen if our members feel confident that they will be able to make a decent living here and thereby make a positive contribution to what we ultimately aspire to: 'a better life for all'. Sound leadership and incentivising entrepreneurs are essential to make this possible and ensure sustainability for our own business, the economy and the country as a whole.

It has again been a privilege for me to have led the Group through a challenging but rewarding year, as amplified by the results appearing elsewhere in this report. Despite the adverse economy, PPS continued to improve its operational performance with assets growing by 10% to R18 billion, and allocations to members reaching R1,7 billion.

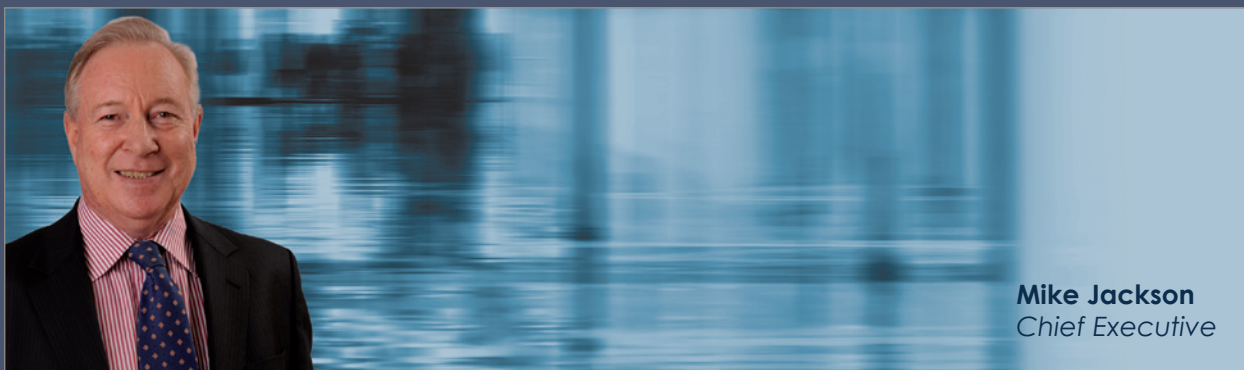
It remains for me to thank my excellent Vice-Chairman Mr Ebi Moolla for his steady wisdom and direction and the members of all our boards and committees for their diligent and positive contribution. My thanks to our CEO, Mike Jackson, and his executives and all who work for PPS; the company has thrived despite a difficult climate. Finally, a special thank you to Dr David Anderson for his great leadership of the Insurance Company Board. His ongoing contribution is immeasurable.

Dr David Presbury
Chairman

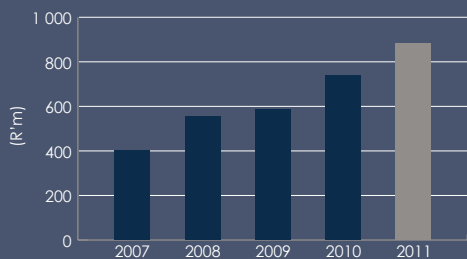
'We need to reverse the flow of professionals who are emigrating.'

Assets growing by 10% to R17,7 billion, and allocations to members reaching R1,7 billion

CHIEF EXECUTIVE'S REPORT

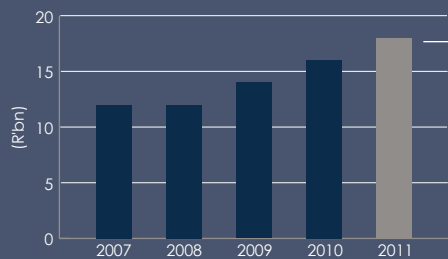


OPERATING PROFIT



Five-year
compound
annual growth
rate of
10,4%

TOTAL ASSETS



CHIEF EXECUTIVE'S REPORT

Overall,
PPS's growth numbers
compare very
favourably with the
industry.

Sales and Membership

2011 was a difficult year from a sales perspective as the economy barely achieved a 3% growth rate and members' finances came under pressure. Members' take-up of the automatic benefit increase was however 99,2% and, although this indicates significant member satisfaction, it can affect new sales. Notwithstanding this, on a like for like basis, new annual risk premiums were up 17,2%, including conversions to the new non-smoker and female rates launched in August. The take-up rate of these new products has been excellent.

Particularly pleasing was the growth of our core product, the SPPI (Sickness, Permanent and Partial Incapacity) benefit, with new ordinary units and additional units increasing by 23%. Our in-house sales/service channel – the Member Relations Division – contributed 16% of our Risk Sales and 25% of our new investment business.

Savings and Investment sales were outstanding – PPS Investments showing a growth in new business of 69% from R945 million to R1,6 billion. PPS Investments' client base now stands at 11 756 and, given PPS's total membership of 222 830, the future potential of investment sales is excellent.

12 218 new members joined PPS during the year, on par with the previous year.

Sales in Namibia were excellent, exceeding the previous year's numbers by 32%, driven primarily by the new whole-life product launched in July 2011.

Overall, the above growth numbers compare very favourably with the industry.

Record Profit Allocation – 34,50c per unit

The operating profits for the year were R881 million – translating into an allocation of 34,50c per ordinary unit of benefit – up from 30,54c in 2010. The increase in operating profit of 19,4% was driven primarily by the continued quality of the existing book and the profitability of new business sold, together with good expense control and improving retention of business. Claims remained within actuarial expectations.

The long-term objective of Management is to grow operating profit above inflation, so that it will act as a significant contributor to members' overall return and a buffer to volatile investment markets. To illustrate this – in 2011 – operating profit exceeded investment return.

Investment Return

The ALSI started the year on 32 118 and ended the year flat. PPS's total investment return for the year was 7% (R770 million) and assets grew from R16 billion to R18 billion. PPS's R18 billion assets reside in two main categories – Risk Reserves and 'Free Reserves'. Risk Reserves are there to ensure the long-term claims paying ability of the Society, and are invested to broadly match the liability profile of the risk pool. Free reserves provide

an additional buffer and are invested more aggressively (52% equities) to provide long-term growth. The Society's total assets have grown by 15% compound over the last 10 years.

Members are reminded, once again, that investment returns can be positive or negative during any particular year. Since 2000 there have been 2 negative investment allocations and 10 positive investment allocations.

Total Return to Members

Combining the operating profit and the investment return resulted in a total return to members of R1,7 billion. Over the last 5 years, members have received cumulative allocations of R7,3 billion. This is over and above the insurance benefits they receive as policyholders.

Claims and Premiums

16 017 sickness, disability and dread disease claims were paid during the year as well as 162 death claims, for a total amount of R1,3 billion. Retirement claims were significantly up from R104 million to R224 million. Resignations and terminations increased by only 1,2% from R262 million to R266 million. Premiums increased 10,7% from R1,8 billion to R2,0 billion. The five-year compound annual growth rate in premiums received is 12,5%.

Expenses

The efficiency ratio – expenses as a percentage of premiums – deteriorated from 15,5% to 17,0%. This was largely due to the absorption of the Members Relations Division into the Insurance Company's expenses. Previously these costs were in the Professional Marketing Services (Pty) Limited costs. This change was made for tax efficiency reasons. On a like for like basis the ratio remained approximately the same during the year.

Significant increases in governance costs were experienced – including Legal, Compliance and Risk management. The cost of operating a Financial Services business continues to escalate significantly above inflation.

The average salary increase granted to staff was 7%. Commissions and related costs increased by 3,5%.

Service to Members

Improving the quality of our data was a major initiative during the year. Professionals tend to be geographically and electronically mobile and keeping all data up to date

is a major challenge. Electronic self-service via the web is becoming increasingly popular with members, and in addition, the hours of the call centre have been extended, and now operate from 07h00 – 19h00.

The centre received about 11 600 calls per month with an overall abandonment rate of only 0,9%. Service level agreements on service requests were achieved 96,0% of the time. Our system availability was 99,7%.

Subsidiaries

a) PPS Investments ('PPSI')

This company was launched halfway through 2007 to better meet the savings and investment needs of our members. By the end of 2011, 11 756 members had placed investments with PPSI. New business increased from R945 million to R1,6 billion (+69%) and assets grew from R6,1 billion to R8,0 billion (+31%). Once the company has achieved profitability, participating members will receive a profit allocation, specifically related to the extent of their investment with PPSI.

b) PPS Marketing Services – Short-term Insurance ('PPS-ST')

Gross written premium exceeded R100 million for the first time in 2011 – an increase of 19%. However, new sales were slow and ended the year slightly behind 2010. Members seeking cheaper premiums, together with a systems migration which slowed down the quotation process, were the main reasons for the slow sales. The quality of the book is however excellent and retention ratios are significantly ahead of industry averages. Profitability was down on the previous year due to a significant investment in additional staff and new systems. However, this investment was essential to build service capacity and sustainability.

c) Professional Medical Scheme Administrators ('PMSA')

PMSA achieved a significant growth in members under administration with the take-on of an additional scheme and its 38 000 principal members and 55 000 dependents. This scheme will add considerable scale to PMSA and improve its ability to invest in quality service to all of the schemes it administers.

Service to Profmed's 26 000 principal members and to the other existing schemes with 17 500 principal members remained at a high level, despite the inevitable disruption which the take-on of a new scheme can cause.

CHIEF EXECUTIVE'S REPORT

The large number of new initiatives implemented in the last few years are now bearing fruit.

Our value proposition – where we distribute all profits to our members – remains unchallenged and our focus will be on accelerating membership growth.

Regulatory Impacts

The PPS Group has made progress on the review of all its activities in relation to significant pending legislation. The mutual nature of the Group places it in a unique position in the industry, since all our activities are designed with member benefits and fairness in mind. There are no potential conflicts with outside shareholders, whose return on investment objectives might impact on customer outcomes.

Members should be aware that the numerous consumer and data protection laws, although laudable, require significant investment in systems and people to ensure full compliance. Regarding the new 'Treating Customers Fairly' regulations, structures have been put in place to ensure that the key TCF outcomes continue to be achieved.

Human Resources

The PPS Group employs 975 staff in locations throughout South Africa and Namibia. 55% are black, Asian and coloured and 60% are female. The rapid growth of the insurance business and the creation of new entities has generated significant employment opportunities in recent years.

The company entered the 'Best Company to Work For' competition for the first time, and received a 'Standard of Excellence' award. The competition is based on quality of employment as assessed by independent staff interviews conducted by Deloitte. We are firmly of the view that staff satisfaction is a key contributor to excellent member customer service.

Shortages of skills remains a serious problem, especially as the demand for actuarial, risk and compliance skills are escalating in the industry. Rewarding and retaining top talent remains a challenge in a non-listed entity, but the Group has implemented both short and long-term incentive schemes to address this issue.

Broadening Mutuality

In recent years PPS has progressed from a society with one core product – (allowing other needs to be met by the rest of the Industry) – to a society where there are few financial services needs of members which are not met by PPS. In the past the bulk of the operating profit emerged from the core sickness product, whereas other products and services are now also becoming important sources of surplus. To ensure that we continue to distribute profit equitably, recognition will be in future given to all members – not just SPPI unit holders. This change commenced on 1 January 2012 and will be reflected in members' benefit statements at the beginning of 2013.

The impact of the changes in distribution of allocations will affect each member differently, depending on the number of insurance products each member has with PPS, and the extent of the contribution of these products to overall profitability. It is not anticipated that the impact on SPPI – only members will be significant – but other members who do not have SPPI will receive an allocation for the first time in 2013.

Looking Forward

The large number of new initiatives implemented in the last few years are now bearing fruit. For example, the profitability of new products written in the recent past is now emerging and our new business ventures are beyond the initial investment stage and into profit. Our large investment in computer systems is now paying off and we have stabilised IT costs and can now use our platform for better service delivery and innovation.

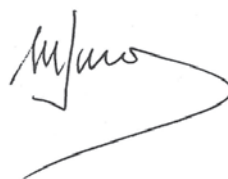
Our direct sales operation, MRD, now has stable management and is on track to deliver 20% of our new sales in 2012. Member communications remains a challenge and our successful Roadshows of 2011 will be continued into 2012 together with enhanced advertising and brand building activities.

Our value proposition – where we distribute all profits to our members – remains unchallenged and our focus will be on accelerating membership growth.

Fault free service to members 100% of the time, remains our goal, but is extremely difficult to achieve. State of the art computer systems certainly contribute, but our members really appreciate the personal touch. I would like to thank all the staff at PPS and its subsidiaries for the efforts they have made to keep our members at the centre of everything we do.

Our Board structure, with a Trust representing members and Professional Associations, and an operating board running the business, works extremely well. This success is in no small measure due to the outstanding leadership of our two chairmen – Dr David Presbury of the Trust and Dr David Anderson of the Insurance Business. They both constantly drive management to do better in all spheres affecting our members.

I would like to thank them and all the Board members for their dedication to PPS.



Mike Jackson
Chief Executive

PPS has appointed an executive sponsor to oversee the successful implementation of TCF within the Group.

PPS is committed to the principles of King III and has achieved a AAA IOD rating.

Key Governance Aspects

Good corporate governance is an integral part of the Group's operations and we are fully committed to the principles of 'King III'.

The Actuarial, Audit and Risk 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 Group Compliance Department supports all the business and governance structures in the PPS Group, but it is the responsibility of each entity within the Group to ensure a coherent and consistent governance approach.

Regulatory Developments

During the year under review, there was a significant increase in the volume of new legislation and amendments to existing legislation, all of which will impact on the governance and reporting of governance within the PPS Group. This has placed additional responsibilities on the Board and Management to ensure adherence to, and compliance with, the new requirements, and consequently significant additional resources were made available for the compliance and risk management functions during 2011.

Details of all the relevant regulatory changes can be found on page 37. Five of the most important developments are highlighted below:

Solvency Assessment and Management

During 2011, the Financial Services Board ('FSB') introduced a new methodology for statutory reporting of assets, liabilities and solvency capital requirements for South African insurers, aligned to the European Union Solvency II standard. Solvency Assessment and Management ('SAM') is planned to come into effect from 1 January 2015, but prior year comparatives will also be required at that time. PPS has established a project team to ensure the successful implementation of SAM. PPS elected to participate in the FSB's consultative process preceding the implementation of SAM and submitted the first Quantitative Impact Study ('QIS 1') as at 31 December 2010, which will determine formulation of the new regulations and enable PPS to plan for the impact of the implementation of SAM. Based on QIS 1, PPS Insurance would remain financially sound under the SAM framework and is well-positioned to deal with SAM requirements.

Treating Customers Fairly

The FSB is implementing an additional programme for regulating the market conduct of financial services organisations, entitled 'Treating Customers Fairly' ('TCF'). This seeks to ensure that fair treatment of customers is embedded within the culture of financial firms, and the new regulatory regime will formally commence early in 2013. TCF will use a combination of market conduct principles and explicit rules to drive the delivery of clear and measurable fairness outcomes, and will enforce the delivery of these outcomes through imposing a range of visible and credible deterrents to unfair treatment.

PPS has appointed an executive sponsor to oversee the successful implementation of TCF within the Group, and a TCF Forum ('TCFF') with a steering committee and ten TCF sub-committees covering all customer activities, were created during 2011. These sub-committees have commenced a gap analysis, using the pilot study questionnaire issued by the FSB. The Group will complete the implementation of TCF in line with the FSB deadline for completion.

Protection of Personal Information Bill

The Bill aims to give effect to the right to privacy, by introducing measures to ensure that the personal information of an individual (such as a member of PPS) is safeguarded when it is processed by responsible parties (such as PPS). The Bill also aims to balance the right to privacy against other rights, particularly the right of access to information, and to generally protect important interests, including the free flow of information within and across the borders of the Republic of South Africa. The Bill limits the processing of personal information and protects the right of individuals to safeguard their personal information against misuse and unsolicited marketing and contact. The Bill was passed in 2009 and is expected to be enacted in 2012. PPS relies on the ability to collect and process member information in conducting its business and has various measures currently in place to protect our members' personal information. PPS

embarked on a process to ensure personal information is treated and protected in accordance with the Bill.

Companies Act, 2008

The Companies Act, 2008, came into effect on 1 May 2011, substantially reinventing corporate legislation in South Africa by introducing many new concepts and changed reporting requirements.

As the new Act no longer provides for companies limited by guarantee, PPS was required to restructure its holding company, Professional Provident Society Limited ('PPS Limited'), into a trust, as it was the only entity suitable to preserve the rights of PPS members and its ethos of mutuality. More particulars of this restructuring are provided in the Trustees' report on page 11 of the 2011 Financial Statements.

Management performed a gap analysis to identify any compliance shortcomings with the requirements of the new Companies Act and the PPS Group is fully compliant with the Act.

The newly introduced statutory requirements for the PPS Group Audit Committee and the PPS Holdings Trust Audit Committee have been complied with and have been incorporated into the Terms of Reference of the audit committees.

A statutory Social and Ethics Committee was established on 26 March 2012 pursuant to the requirements of the Act.

King III

PPS is committed to the principles of King III and has implemented a number of initiatives to address the requirements. PPS assessed its adherence to King III by using the IOD ('Institute of Directors') on-line assessment tool and achieved the highest rating provided by the tool (AAA).

Amendment and restatement of the Trust Deed

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

The Notice of Annual General Meeting incorporated in the 2011 Financial Statements includes a special resolution for approval by members authorising the proposed amendment and restatement of the Trust Deed. The First Amended and Restated Trust Deed for The Professional

Provident Society Holdings Trust, together with an annexure setting out the proposed salient amendments thereto, are enclosed with the 2011 Financial Statements and accompany the Notice of Annual General Meeting.

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. In the course of conducting its business, the PPS Group is exposed to a variety of risks, including underwriting and insurance, counterparty, credit, market, operational, strategic and reputational risks. The long-term sustained growth, continued success and reputation of the Group are critically dependent on the quality of risk management. Management is committed to applying best practice and standards in managing risk. The PPS Group's risk philosophy is underpinned by its objective of the creation of value for members through sustainable profitable growth, in a manner that is consistent with members' expectations of its risk-bearing capacity and its risk appetite. The PPS Group's objective in this regard is to ensure that a quality risk management culture is sustained throughout its operations.

Executive management and business units are responsible for the management of risks across the PPS Group. Extensive work has been done and in-depth consultations have been held with internal auditors, the Statutory Actuary and executive management, which culminated in a risk matrix being approved by the Group Risk Committee and the Board. The risk matrix sets out the process for capturing all risks relevant through five key stages: identification, assessment, monitoring, mitigation and reporting. Executive management is responsible for the collation of this information and reporting thereon to the Group Risk Committee, and where appropriate, the Group Audit Committee. Executive management is entrusted to ensure that the risk management framework is embedded at all levels and overseen, independently and objectively, at an appropriate level. The Group Risk Committee and the internal audit function, keep the adequacy and effectiveness of the Group's risk management framework and systems of internal control under continuous review. Internal Audit takes the risk matrix into consideration when preparing the internal audit plan for the PPS Group.

Due to the complexity and volume of current and new legislation applicable to the Group, the compliance risk management structure and methodology were reviewed in 2010, pursuant to which compliance resources were substantially enhanced through the appointment of skilled compliance management personnel and the implementation of the Cura compliance risk management system during the course of 2011. Further developments are taking place in accordance with a compliance plan approved by the Executive and Group Risk Committees.

SUMMARY FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF INCOME for the year ended 31 December 2011

	2011 R'000	2010 R'000	Change %	Description of individual items
Net insurance premium revenue	1 914 399	1 731 383	11	Premiums received from policyholders net reinsurance premiums paid to reinsurers
Other income	197 654	139 862	41	Administration fees: long-term and short-term insurance, medical aid administration, short-term insurance commissions, fees earned for asset management
Investment income	654 435	945 244	(31)	Interest and dividends
Net fair value profits on financial assets held at fair value through profit or loss	494 825	1 147 376	(57)	Realised and unrealised growth on investment assets representing risk reserves and members' Surplus Rebate Accounts
Revenue	3 261 313	3 963 865	(18)	
Net insurance benefits and claims	1 172 620	977 307	(20)	Claims paid to members, net of recoveries from reinsurers and Surplus Rebate Accounts paid to exited members
Movement in fair value of policyholder liabilities under investment contracts	8 876	8 586	(3)	Investment income, net of expenses directly allocated to investment policyholders
Expenses	793 554	676 809	(17)	Commissions paid on new risk policies written and all other operating expenses
Profit before movement in insurance policy liabilities	1 286 263	2 301 163	(44)	
Movement to insurance policy liabilities	1 125 824	2 125 126	(47)	The amount allocated to members in their capacity as policyholders
Tax	113 818	169 396	33	Taxes raised in favour of South African and Namibian Revenue Services
Surplus after tax	46 621	6 641	602	The result of operations of non-insurance subsidiaries and any adjustment required to maintain capital

These are the benefits you receive for being a policyholder.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2011

	2011 R'000	2010 R'000	Movement R'000	Description of individual items
ASSETS				
Property and equipment	110 445	84 727	25 718	Assets which are not a cash resource. These include PPS head office premises, furniture, equipment, computers and vehicles
Intangible asset	32 892	32 015	877	PPS's world-class internally developed insurance software known as Insurance Application Architecture ('IAA')
Other non-current assets	16 280 221	14 375 459	1 904 762	Assets backing up insurance liabilities. These mainly include equities, bonds and unit trusts. Assets are managed by specialist investment management firms who act in accordance with investment mandates set by the board of directors of PPS Insurance
Current assets	1 258 980	1 664 109	(405 129)	Cash resources of the PPS Group
Total assets	17 682 538	16 156 310	1 526 228	
EQUITY AND LIABILITIES				
Total equity	89 488	96 858	(7 370)	Accumulated profit or losses of PPS Insurance's subsidiary companies as well as the statutory capital requirement of the insurance entities
Insurance policy liabilities	16 278 928	15 267 029	1 011 899	Policyholders' funds consisting of two parts: (a) capital held to settle future insurance claims and (b) members' Surplus Rebate Accounts
Investment contract liabilities	221 311	131 755	89 556	Funds of members who utilise PPS' investment offerings
Third-party financial liabilities arising on consolidation of unit trusts	711 633	295 277	416 356	Value of outsiders' investments in unit trusts in which PPS owns a majority stake
Borrowings	20 946	18 808	2 138	Coronation Fund Managers' share of loan funding provided to PPS Investments (Pty) Limited as a minority shareholder of that company
Other liabilities	360 232	346 583	13 649	Liabilities to be settled within one year
Total equity and liabilities	17 682 538	16 156 310	1 526 228	

STRATEGIC PRIORITIES

Summary

How have we performed over the past year in relation to our goals?

		Unit of Measure	2011 Performance	2011 Goal		Commentary
Mutuality	Number of new members recruited during the year	Individuals	12 218	10 000	●	A very good result achieved and focus will remain to recruit new members in 2012
	Gross premium income	Rand thousand	2 025 525	2 007 588	●	Gross premium income was in line with expectation. Focus in 2012 will remain on new business and retention of current policyholders
Financial Stability	Total assets	Rand thousand	17 682 538	17 158 001	●	A prudent investment policy yielded positive returns in 2011 and will remain in the year to come
	Efficiency ratio	%	17	19	●	Savings on staff costs resulted in an improvement on the budgeted efficiency ratio. Costs are strictly monitored
	Investment return	%	14	13	●	Investment return outperformed the benchmark of 5.6% above inflation on a rolling three-year basis
	New annual risk premiums excluding annual benefit increase	Rand thousand	259 981	260 778	●	New risk premiums has not performed as targeted as a result of tough economic conditions
	New investment inflows	Rand thousand	1 602 080	900 000	●	PPS Investment products have proven to be very popular amongst our members
Service	Average number of monthly ombudsman queries	Number of queries	3	<5	●	PPS strive to treat members fairly and to create long-term financial security
	Customer satisfaction survey	Rating	95	>80	●	The customer survey results are at an acceptable level and continued focus on service excellence is on management's agenda for 2012
Staff	Employee satisfaction survey results	%	74,5	70,8	●	The results are very positive and PPS is a desirable place to work
	Training spend as a percentage of payroll	%	2,6	>1,5	●	PPS focuses on developing staff and generous amounts are set aside for training each year

- Achieved
- Partially achieved
- Not achieved

Broadening of Mutuality

In late 2011 PPS members were advised that the Group had revamped its business model to enable members to share in the profits of the company not only through their units of benefit held through their *PPS Provider™* policies, but also based on the number of products that they have with the PPS Group of companies – an additional feature to attract and retain graduate professionals to PPS. Profit share is an added 'bonus' to the insurance cover and investment products that they have with PPS. The first profit allocation will be awarded to members in 2013 based on the 2012 results and it is anticipated that this feature will prove attractive to many professionals.

Financial Sustainability

Long-term insurance and investments (South Africa and Namibia)

PPS Insurance and PPS Insurance Namibia are long-term insurance companies registered in South Africa and Namibia, governed by the Financial Services Board and Namibian Financial Institution Supervisory Authority, respectively. The companies offer a broad range of insurance and investment 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 members.

The long-term insurance company is pivotal to the PPS Group as it generates over 90% of business. Its core products have been on offer since the inception of PPS and are the flagship products of the Group.

Key to the Group's financial sustainability is its prudent investment mandate and factors related to its professional policyholder base, which include retention, beneficial premium settlement and the benefits of the Surplus Rebate Account.

PPS uses established investment managers (Coronation, Investec Asset Managers and PPS Investments), who adhere to prudent mandates approved by the boards of PPS South Africa and PPS Namibia. A long-term growth strategy is followed, which has proven successful over the years, as PPS managed to absorb periods of high volatility in the investment markets with relative ease, compared to other companies in our market segment.

Our professional market forms the community from which we attract policyholders. Due to the SRA – effectively giving every policyholder a stake in the profits of the PPS Group – we manage to attract and retain professionals for a long period, ensuring sustainability of the top line.

Important milestones

- 1941 – Professional Provident Society of South Africa was founded
- 1960 – Professional Provident Society Retirement Annuity Fund was established
- 1972 – The eligibility rules were amended to provide membership for students
- 1980 – Eligibility rules were amended to provide membership to professionals who were not members of a recognised professional association
- 1998 – The Board agreed that persons with certain Technikon degrees could also be considered for membership
- 2001 – PPS was effectively transformed into the PPS Group, consisting of PPS Limited (Limited by Guarantee) and PPS Insurance Company Limited that was registered to provide benefits as a long-term insurance company
- 2003 – Professional Provident Society Insurance Company (Namibia) Limited – a subsidiary of PPS Insurance – was established
- 2005 – Professional Medical Scheme Administrators (Pty) Limited was established to administer Profmed
- 2006 – Professional Provident Society Investments (Pty) Limited was established to service the savings and investment needs of PPS members
– BEE transaction announced in 2006, well ahead of the 2010 schedule set out by the DTI's Codes of Good Practice
- 2007 – PPS Investments' range of products launched
– PPS Insurance launched a new range of risk products
- 2009 – Professional Medical Scheme Administrators (Pty) Limited started administering multiple schemes
- 2011 – PPS Limited (Limited by Guarantee) is transformed into The PPS Holdings Trust
- 2012 – Broadening of mutuality

STRATEGIC PRIORITIES

The risk of competitors' offerings to the same market, as well as professionals emigrating, are risks affecting financial sustainability. To ensure future growth, PPS is focusing on attracting professionals in the younger age segment as well as offering products to the ever-growing black professional population.

Another important factor impacting financial sustainability is the diversification of our product offering to cater for an increased share of the professional person's wallet in so far as financial services products are concerned. For this purpose, PPS has created various separate subsidiaries with unique product offerings.

Other ways we ensure sustainability include:

- an underwriting policy, process and division which ensures the consistent take-on of new business at terms in line with the product design;
- a claims policy, process and division which ensures that claims received are properly vetted and paid in accordance with the policy terms;
- a forensics function which identifies fraudulent claims and business submissions, and establishes protocols in the business to detect and prevent fraudulent transactions; and
- segregation of operations and assessment functions, so that claims assessors cannot process their own assessments of claims.

PPS Investments

In line with our mission to look after the savings and retirement needs of members, the PPS Investments business was launched in 2007. To ensure a high level of initial expertise and administrative capability, a joint venture with Coronation was formed with PPS owning 51%. Coronation Fund Managers is highly regarded in the Investment Industry and has a long history of exceptional investment performance. A senior executive from Coronation was appointed to set up the new entity and it has gone from strength to strength.

PPS Investments offers a comprehensive suite of retirement and savings products, designed to serve graduate professionals throughout their careers and also in retirement. These products are tailored to offer simple yet sophisticated solutions that make the complexities of financial planning more manageable. The company's investment platform provides access to a range of multi-managed unit trusts managed by PPS Multi-Managers, who evaluate individual asset managers and the unit trusts they offer to structure funds of funds that most appropriately serve a range of investment needs. This same platform also provides a single point of access to a selection of the country's premium single manager unit trusts, all of which have been included based on a very strict selection process. We therefore not only seek to serve our clients' investment needs throughout all life stages, but also to offer reassurance on the quality of the investment alternatives available to them.

As the company gets closer to marking its fifth year in existence, PPS Investments has over R8 billion under

management and the PPS multi-managed unit trusts have solid investment track records of over four years. In total, we've launched 11 of our own multi-managed unit trusts to date. All of these are managed by PPS Multi-Managers, a wholly-owned subsidiary.

The sustainability of the unique PPS business model requires a comprehensive member offering in order to remain relevant in the current consumer environment. As a PPS subsidiary, and in applying the same focus on our investors' long-term interests, PPS Investments has ensured that our product range is comprehensive but simply structured, that our fees are highly competitive and fully disclosed and that our investments offer flexibility and a refreshing level of transparency. The success of PPS Investments to date, as a product provider based on integrity and quality, is particularly valuable to PPS members.

By making available the PPS Pre-retirement SRA Option and the PPS SRA Retention Option, PPS Investments also assists PPS members in aligning their portion of the PPS SRA to their overall retirement savings strategy and in optimally managing this unique retirement asset when the time comes. PPS Investments therefore assists members in deriving the greatest benefit from the exclusive advantage their PPS membership affords them.

Through our shareholders, our loyal intermediary base and our own endeavours, we are consistently reminded of, or introduced to 'best of market' standards. This serves to ensure that we evolve our product offering and business practices accordingly. Our simple philosophy of focusing our staff on high performance and on best serving the interests of our investors has established a progressive, energetic culture where integrity is key. We continue to promulgate this culture and the high standards we have set for ourselves through careful recruitment and firm performance management.

Regulatory challenges are increasing the complexity burden on the investment industry as a whole, and resultant compliance is resource-intensive. It also means that our accredited intermediaries need to re-evaluate our investors' requirements and ultimate goals, in ensuring that, in addition to maintaining regulatory compliance, these investors continue to be well-placed in targeting their objectives. Policy uncertainty around the Taxation Laws Amendment Bill and retirement reform is also concerning, as benefits currently available to many of our investors may be jeopardised in future. However, having kept pace with industry developments and having in the past ensured that we apply legislative changes timeously and in the spirit with which they are intended, we hope to ease the possible impacts these reforms may have as far as possible.

While we do anticipate further migration of contractual savings to new generation offerings such as ours, the headwinds of any eventual rulings on retirement fund reform will still be felt. In addition, with the global economy still depressed and deep-seated structural issues still prevailing, it's difficult to predict when the challenging trading

conditions the industry is currently faced with, will improve. Markets have always been volatile – and always will be. But we expect this uncertainty, and so our investment portfolios are structured around that expectation. We ensure that these portfolios are well-diversified and continue to focus on investments that are likely to offer the best long-term value.

PPS Investments has been fortunate to have enjoyed a successful first five years in operation. We will therefore continue on our current path for the next five years, and seek to further grow our net investment inflows to the equivalent share that PPS enjoys in the insurance field.

Professional Medical Scheme Administrators

Professional Medical Scheme Administrators ('PMSA') is the professional market's specialist medical scheme administrator and health risk management provider. Founded in 2005, its focus is on providing excellent service and highly competitive fee structures in the administration of medical scheme contribution and claims management. It also offers expert financial and clinical risk management services to our client schemes. Our core focus is to act unfalteringly during those crucial times when it is needed the most by members of the medical schemes and their families.

The past financial year was, once again, a very eventful year for the company. At the end of 2011 the company had grown its client base to the administration of three client schemes. The latest addition was a significant contract awarded for the administration of 40 000 additional principal members, effectively increasing the size of the company by 100%. Additional diversified services were also awarded to PMSA from current clients. This was achieved in line with the company's strategic objective to compete in the open market as a multi-scheme administrator.

During the current year PMSA embarked on a major project to change its operational system to a new and state of the art information technology system. Two of our client schemes were migrated in phases in the current year and the third will migrate to the new system in 2012. This change positions the company as a strong competitor in the industry, staying abreast of technology and using it to provide cost-effective and world-class services to our clients.

The company once again retained its ISO certification with two clean audits in 2011. All service level agreements with our clients were not only met but also exceeded.

PMSA created 100 additional employment opportunities as a result of the growth of the company during the year. The current staff to member ratio is 1:357, compared to an industry norm of 1:270, this indicates increased efficiency while maintaining service levels.

PMSA's profitability has increased significantly in the current year and should again in the foreseeable future.

We are extremely proud of the quality of service delivered through PMSA to members, as medical schemes are high-volume transaction businesses and also highly regulated, which necessitates complex systems and database interfaces.

In the long-term it will remain moderate and in line with our philosophy of providing efficient and cost effective services to the medical schemes we administer and thereby maximising the funds spent on the healthcare of members.

The company's sustainability is largely dependent on the sustainability of its client schemes, therefore it is crucial that scheme rules are applied correctly and benefits are paid accurately. PMSA has several value-added initiatives and tools to assist the schemes and their actuaries to ensure the long-term sustainability of the schemes.

Short-term Insurance

PPS members have always been keen to accept new financial services offerings from the Society. After considerable research into different business models, it was decided five years ago to launch PPS Short-term Insurance ('STI') structured as a brokerage. This would ensure no exposure to underwriting loss and would allow critical mass to be built up and experience to be gained. Hollard Insurance was selected as a business partner who would bring pricing and clients' experience to the business.

The company introduced a basic personal lines product to service the core short-term insurance requirements of a professional household with regards to its motor and household content cover. In addition, the company, in association with the Pharmaceutical Society of South Africa, introduced a Personal Indemnity product for the Pharmaceutical fraternity two years ago which is underwritten by Etana Insurance.

STRATEGIC PRIORITIES

The financial year 2011 has proven to be a challenging year for STI as it undertook a project to implement a new system that would allow it to firstly be consistent with the Group IT architecture and secondly to provide a more robust solution to expand its services beyond its base product. This resulted in a slowdown of business which was necessary to bed down the system. Further enhancements are envisaged as STI pursues its objectives.

The financial results for the business was positive with an increase in the coverage of clients to 9 743 members covered with a premium base of R103,6 million for the year.

The growth and sustainability of the business is dependent on its expansion of services to cater for its members' short-term insurance requirements and, as such, STI will be embarking on a strategy to expand its product range to cater for this.

STI does not expect any significant changes to its financial result over the coming year as it continues to build capability, and looks forward to 2013 to be a significant year for its expansion of services to result in a growth of members covered, and a more positive outlook for earnings for the future thereafter.

Service Excellence

It is safe to say that none of our strategic objectives can be achieved and maintained without service, and excellence is what we strive for. What are our guiding principles?

The servicing strategy at PPS is based on our values: to give peace of mind through providing easy access for members to their information and demonstrating transparency throughout the service process. PPS expects all our employees to be personally accountable when servicing our members and to deliver a unique experience. We have applied ourselves to taking every precaution against fraudulent activity that may impact on our members and have ensured traceability of all transactions and activity. Members are formally communicated with when changes are made to their information as a result of any process that may not have been initiated by them. Our employees understand that our members are not simply customers but also owners, which enhances the need for service excellence.

PPS was for a long period a single product provider, but has expanded its offerings in recent years across the full spectrum of financial services which has necessitated removing the complexity traditionally found in legacy environments. It now has a single fully integrated platform that imposes the highest level of integrity and security on all data. The implementation of this significant change initially resulted in a chequered service delivery, which inconvenienced some members, but PPS has managed to correct shortcomings and are positioned to extend improvements in 2012.

The key words in our service delivery strategy are 'convenience' and 'control', with the overall goal of ensuring that all relevant information is available to members and financial advisors in a protected space. This has meant developing a robust

internet portal which enables professionals who have little time during working hours to attend to personal matters. It is not our intention however, to impose a 'one size fits all' approach on our members and financial advisors, and the traditional channels of engagement, whether face-to-face, telephonic, fax or post, will always remain in place.

The rationale behind making the more contemporary channels of internet and other mobile devices available is that they offer members and financial advisors direct access to processes and information without the usual middlemen. This offers real time confirmation of any requests made with immediate notification to all responsible role-players throughout the organisation, which improves accuracy and reduces the possibility of human error. We have however, also placed a focus on our call centres to improve the experience that our members have when dealing with us on the telephone. Strict quality assurance on calls is applied by regularly reviewing every call centre agent against a set of expected performance measures. Electronic communication also results in significant cost savings and is environmentally friendly.

Before 2011 the only channel to effect changes to their information, was for members to contact PPS. During 2011 we released the members' internet portal, PPS InTouch, enabling them to engage with their information directly. This channel allows members to update information across the extent of their portfolios directly against the databases in a secured transaction. Sensitive transactions are afforded greater security by following the banking industry and applying unique PINs to these transactions before implementing the data for the member.

Our financial advisors have also been provided with internet portals to access relevant information, but we intend integrating this within a single secure PPS stakeholder website. This facility will also allow financial advisors more direct involvement in approved transactions further into the lifecycle of the transaction and, by providing this, we believe their role will be facilitated. This development is now at an advanced stage and will be made available in 2012.

All the above measures are being undertaken with one aim in view: to enhance members' and financial advisors' ease of access to all information relevant to their relationship with PPS and thereby strengthen our underlying ethos of service excellence.

Compliance and Legislation

A group such as PPS cannot operate in isolation from the relevant regulatory authorities. Financial Services in South Africa are subject to a number of legislative changes on a continuous basis to address shortcomings in the current environment. National Treasury published a document in February 2011 outlining the legislative changes to be introduced over the next three years ('A Safer Financial Sector to Serve South Africa Better').

The following four priorities were identified:

1. Financial stability
2. Consumer protection and market conduct
3. Expanding access through financial inclusion
4. Combating financial crime

A number of new legislative interventions have already been identified following the publication of this three-year plan for regulation of Financial Services, and their impact on PPS and its members are set out below:

Legislation	Impact
Treating Customers Fairly ('TCF')	<p>The TCF regime requires that customers' financial services needs are appropriately met through a sustainable industry. The regime is based on the Financial Services Authority (UK) model.</p> <p>PPS supports the TCF framework and believes that through our unique mutual structure and the fact that members participate in the benefits thereof, we implicitly aim to achieve the intended outcome.</p> <p>The new framework will be effective from 2013.</p>
Solvency Assessment and Management ('SAM')	<p>The manner in which the liquidity and solvency of all short and long-term insurance companies is determined will be implemented from 2015. This initiative is in line with the National Treasury priority to ensure financial stability of the Financial Services sector.</p> <p>The implementation will require significant changes to current models and development to ensure effective implementation.</p>
Consumer Protection Act ('CPA')	<p>The CPA became effective 1 April 2011. However, some Financial Services companies have until October 2012 to align to the provisions of CPA, including certain parts of the PPS Group. Projects are under way to ensure compliance with the legislation.</p>
Changes in Intermediary Remuneration	<p>The FSB published a paper at the end of 2011 setting out their intention to make further amendments to the manner in which intermediaries are remunerated to further curb certain undesirable practices by intermediaries in the provision of financial services to consumers.</p> <p>This is a long-standing item on the FSB's agenda and PPS will contribute to the consultative process to formulate a new approach, through the Association for Savings and Investment South Africa ('ASISA').</p>
Amendments to the Long-term Insurance Act	<p>Amendments are proposed to the Long-term Insurance Act to introduce certain requirements articulated under SAM, in particular to provide for a comprehensive governance and risk management regime for financial services.</p> <p>PPS adheres to the standards set out in 'King III', as well as risk management standards under ISO 31000, and will ensure that they align to current procedures and practices. Rules have also been imposed from 2012 to ensure the proper management of any function outsourced by the life company.</p>
Dividend Withholding Tax	<p>A new dividends tax will be introduced as from 1 April 2012 replacing the current Secondary Tax on Companies ('STC'). Whilst STC was levied on the company declaring the dividend, dividends tax will be levied on the shareholder who receives the dividend. However, the company declaring the dividend will be responsible for paying the dividend net of a withholding tax. According to the Taxation Laws Amendment Act 24 of 2011, this tax would have been levied at the rate of 10% of the dividend. However, in the 2012 annual Budget speech, the Minister of Finance announced that this rate will increase to 15%. Existing legislation will have to be amended to reflect the increased rate.</p> <p>PPS has set up a task team to ensure compliance with the Act. The work of this task team is currently on track.</p>
Protection of Personal Information Bill	<p>The proposed Bill aims to protect the personal information of all persons, in particular where companies such as PPS hold and disseminate members' information. The new rules will ensure that members' personal information is adequately safeguarded and is not published without their permission.</p> <p>PPS believes customer information is highly confidential and has a number of processes in place to safeguard such information.</p> <p>The legislation will be fully implemented by the end of 2012.</p>

STRATEGIC PRIORITIES

PPS participated in the Deloitte Best Company to work for survey for the first time in 2011. PPS ended 10th overall in our company category and was one of 52 companies that received a 'Standard of Excellence' award.



Through the mechanisms created in its Compliance Charter and Policy, PPS is tracking various other legislative changes also planned for 2012.

The proliferation of regulatory interventions and changes over the past few years has necessitated PPS creating various structures to manage and control the compliance risk. This caused a significant increase in the cost of compliance and risk management. The Group is, however, committed to achieve the highest levels of compliance to all applicable legislation, stemming from PPS' approach to looking after the interests of members by ensuring the operation of a sustainable business.

PPS has created a Group Compliance function that manages compliance risk for the Group in terms of the Board-approved Compliance Charter and Policy. The Group function ensures that a mechanism is provided to manage regulatory risk, thus minimising exposure to legal action being taken against PPS. This Compliance Charter and Policy describes the principles, accountabilities and responsibilities for reviewing, implementing, monitoring and reporting on compliance requirements at PPS. In setting the compliance standards and procedures, the standards as prescribed by the Compliance Institute of South Africa ('CISA') were adopted as far as possible. PPS is also a member of various industry bodies and associations where the impact of planned new legislation is discussed and interaction takes place with the relevant regulatory bodies to discuss any concerns or suggestions.

Our People

No financial services group can function efficiently without trained, motivated and empowered staff, and this is where the PPS Employee Value Proposition ('EVP') comes in. We are proud of our unique and unmatched business model of 'mutuality' in South Africa. Our financial strength and exceptional growth trends inspire a sense of confidence in PPS. Social responsibility is a fundamental part of who we are, and we are recognised as a company of value, integrity and repute. We are committed to transformation and believe in developing a dynamic and diverse workforce.

We offer our employees the kind of environment where everyone matters. We recognise the value of work-life balance and have a genuine concern for the well-being of our people and their families. Collaboration among staff is encouraged and rewarded.

We offer a stimulating and challenging work environment geared towards growth and innovation. Regular performance feedback is an integral part of our culture and our robust performance management system drives consistency and fairness. We believe in rewarding our people fairly and offer competitive and flexible benefits. Our employment contracts do not include restraint of trade payments. Our people are recognised through various programmes and initiatives, designed to acknowledge their contributions and incentivise exceptional performance.

Human Resources Policies and Practices

PPS believes that enabling people to grow and contribute to the Group's objectives is the hallmark of 'best business practice'. Accordingly, PPS has invested significantly in this regard and our achievement of a standard of excellence award in our first year of entering the Deloitte 'Best Company to Work for' Survey bears testimony to this. We joined a select group of companies that

have achieved more than seventy-five percent positive feedback ratings from their employees on their people practices.

The Deloitte result validates high levels of employee satisfaction, relatively low staff turnover, good retention of people and high levels of productivity.

Performance Management

PPS has a robust individual performance management system which ensures that deliverables by each employee are clearly defined. Stretch targets are identified to challenge individuals. Regular feedback has become an integral part of the process, which also assists in determining final performance scores at the end of the year with much less subjectivity. PPS has a strong performance culture and believes in rewarding people accordingly. The system fosters and rewards excellent performance. Importantly, it also identifies poor performance timeously and compels a rehabilitative process to assist individuals to reach the required competence levels.

Reward and Recognition

The Group has a cost to company framework that is based on a customised PPS broad banding system, which grades and compares all roles in the company to market. This is pitched at median, except for scarce and critical skills where premiums are commanded. All roles are benchmarked every two years to ensure competitive positioning against the market, except in certain key roles where more frequent comparisons are required. After due consideration of the provisions of the King Code, the Board decided not to disclose the remuneration of the three highest paid employees in the 2011 Integrated Report because such disclosure would reveal competitive information. The highest paid employees in the company are the executive directors.

PPS employees are rewarded and recognised through various programmes and initiatives designed to acknowledge individual contribution and incentivise outperformance, whilst addressing substandard performance.

Our employee recognition programme – named 'SUCCESS' – allows employees to accumulate points for achieving specified milestones related to company initiatives, and these points are redeemable for prizes. The programme achieves the key objectives of driving motivation, engagement, teamwork and service excellence. It was introduced in 2006 and has become an integral part of our total rewards offering. The annual cost of the programme is approximately 1% of payroll and has added significant value to company objectives.

Executives, senior management and key members of staff participate in various short and long-term incentive schemes. The selection of participants and the allocations made in terms of these schemes, are the responsibility of the Group Remuneration Committee.

A 'pay for performance' scheme is also in place, which rewards outperformance in the month that the employee exceeds expectation. In addition to this, employees who achieve high performance standards consistently throughout the year are acknowledged as top performers at the end of each year. Such employees receive a performance bonus and are invited to join the Performers Club for the ensuing year. This is an elite employee club and members enjoy special recognition and growth opportunities facilitating higher levels of performance.

PPS also hosts annual awards where employees are nominated and rewarded, *inter alia*, for displaying superior performance, camaraderie, performance improvement, and going the extra mile. These programmes are run in the operational, servicing and sales areas of the business, as well as in the support/specialist areas. Variable pay systems are implemented primarily in the sales roles, where remuneration is based on achievement of set targets. Short and long-term incentives are key elements of the remuneration structure of the upper echelons of the Group.

All the details relating to the Group's various incentive schemes and its approach to employee wellness and succession planning can be found on page 50.

Growth and Development

Total spend on training and development amounted to 2,6% of payroll.

In line with our approach of growing our people to the best of their ability to enable growth of the business, numerous initiatives have been implemented with a core focus on identifying, developing and retaining staff.

This year we initiated Career Conversation Workshops to assist staff and management in determining their career goals and objectives and equipping them with the right tools to make informed decisions. A detailed database embracing individual skills, competencies, experiences and educational qualifications of each employee was compiled to provide the business intelligence to guide the development and deployment of personnel.

A core focus at PPS has been the development of our leadership cadre. Driven by our CEO, our in-house, home-grown 'Leadership for PPS by PPS' programme entails monthly sessions which enables the sharing of knowledge and information and development of our total leadership group, from team leaders to executives.

In line with keeping staff healthy and creating a safe work environment, the PPS Wellness Day and Occupational Health and Safety Committee have played a pivotal role in educating staff on matters concerning health and safety.

A particular area of focus from a sales perspective has been the regulatory examinations for PPS' sales intermediaries and key individuals in its Financial Services businesses conducted by the Financial Services Board ('FSB').

STRATEGIC PRIORITIES

The approach is to source talented black individuals at graduate, junior and middle management levels and to grow them into the upper ranks.

All these categories of staff are required to be accredited by the FSB by the end of June 2012. The ongoing imperative to grow our own sales force has necessitated intensified recruitment and grooming of people by the Member Relations Division.

We are confident that our overall approach to 'people management' is helping to foster optimal performance within the Group and ensure its long-term sustainability.

Transformation

The Group is committed to driving transformation based on the pillars of the DTI Codes of Good Practise. This commitment goes beyond a compliance perspective to a sincere belief in equipping people and entities to participate in the broader economy to make a difference.

The Financial Services industry anticipates the revised Financial Services Sector Charter to be gazetted in the first half of 2012, which will replace the DTI Codes for the Financial Services Sector. PPS has aligned its targets for Broad-Based Black Economic Empowerment ('BBBEE') with the DTI generic codes of good practices and will respond to the new Financial Services Charter when it is gazetted.

A key vehicle to drive the process of transformation is a consultative employee structure named the Transformation Forum, which was constituted in late 2010 and seeks to represent a diversity of race, gender and operating units and businesses in PPS. It is an interactive Forum for employees to voice their views on transformation issues. Sub-committees were created to make recommendations to the Forum on employment equity, skills development, social economic development and disability. The Forum has been meaningfully engaged in making useful proposals to enhance PPS' BBBEE status.

The key focus on the sourcing and growing of people relates to the middle, senior, executive management and specialist/professional layers of staff. The approach is to source talented black individuals at graduate, junior and middle management levels and to grow them into the upper ranks. However, we are also identifying talent in the market at senior levels to deploy into PPS and a networking system is being initiated to achieve this. PPS' black to white employee ratio currently is 52:48.

We are currently accrediting our key skills training programmes for staff. This entails getting our programmes certified via the training authority INSETA. We also need to further orientate skills spend towards our management cadre and plan to widen diversity by employing competent disabled people.

Learnerships are offered to matriculants and graduates and are structured as work-based experience programmes. We currently take on an average of seven learners per year and are planning to increase this in order to procure skilled employees, especially in our sales force.

In August 2011, we launched the PPS Management Development Programme to grow our own employees and good external talent for middle and senior management levels, with eight out of the ten trainees on the programme being black. The programme runs over one year, offering an integrated practical experience – trainees are deployed in various positions, exposed to all functional areas of the business and meaningful projects as well as theoretical modules offered through Milpark Business School. The candidates are mentored by executives and senior managers to enable optimal assimilation and application of the learning experience. We believe that this is the start of a process of creating a leadership pipeline for PPS.

A concerted effort has been made to ensure that we obtain services from BEE-compliant businesses in alignment with the Group's procurement policy.

FUTURE OBJECTIVES

The day-to-day-management of PPS is carried out by the Executive Committee, which is headed by the Chief Executive Officer and comprises the business and support heads of all divisions and entities within the Group. It regularly reviews the strategic objectives and plans of the organisation and updates a broad-based '5-year plan' each year. Long-term strategies are discussed with the Board, resulting in business plans, which are tracked on the company's dashboard.

Business units are relatively autonomous, which allows them freedom to compete in their specialist sector. The relative small size of the business allows quick decision-making and a lack of bureaucracy enhances creativity. Key Performance Indicators, which are based on a 'balanced scorecard' approach, ensures that the correct mix is struck between financial and non-financial indicators as well as long-term and short-term goals. The Chief Executive Officer's scorecard has a bias towards long-term and non-financial indicators, such as customer satisfaction and sustainability.

Where do we want to go?

The development of the professional market is critical to our future success and the universities, professional associations and firms remain the key sources of growth. In order to nurture them in the face of fierce competition from other players in this sought-after market, we have identified a number of areas on which we will be focusing:

- The 'Refurbishment Fund', which contributes to the upgrading of university facilities, will be expanded and promoted to ensure access to, and development of, campuses throughout the country.
- Bursaries and scholarships will be enhanced to promote PPS's support for the education of professionals. The opportunity afforded to the professional associations to have representation on The PPS Holdings Trust Board will be further developed through improving relationships with these associations and co-developing their membership.
- Market share of the eligible professionals in South Africa is estimated to be about 60% at present. PPS intends to grow this number to 75% – 250 000 members – in five years' time.
- Improved customer service, including the use of self-service technology, will be rolled out as a key component of our growth strategy. Further development of our in-house advice channel will be a critical success requirement in future, as members have expressed a desire to deal directly with PPS.
- Brand-building activities are being stepped up – primarily communicating the 'mutuality' message – which will help to make PPS the preferred choice for professionals.

We see ourselves as a dynamic organisation in the forefront of change to accommodate our members' needs, and through continuous engagement with them at stakeholder Roadshows, we are confident that our vision to meet the financial services needs of the majority of graduate professionals in South Africa will be realised. This first Integrated Report is another stepping stone on the road to demonstrating the continuing sustainability of the PPS Group.

We see ourselves as a dynamic organisation in the forefront of change to accommodate our members' needs.

ABRIDGED CORPORATE GOVERNANCE REPORT

Board of trustees and Board committees

Board composition

The Group is governed by a unitary board of trustees, assisted by the board and management committees as detailed below.

The board of The Professional Provident Society Holdings Trust ('PPS Holdings Trust') is comprised solely of independent non-executive trustees. The wholly-owned operating subsidiary, Professional Provident Society Insurance Company Limited ('PPS Insurance'), has a majority of independent non-executive directors, some of whom are nominated members of the PPS Holdings Trust board, and also 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.

Board committees:

- Actuarial Committee
- Group Audit Committee
- Group Nominations Committee
- Group Remuneration Committee
- Group Risk Committee
- PPS Holdings Trust Audit Committee

The boards and board committees are assisted by the Executive Committee and various other management sub-committees established by the Executive Committee.

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 Group's senior management to discuss key aspects of the business and the governance thereof, and all directors and trustees are encouraged to undertake continuing professional development, training and education throughout their term of office.

The chairmen's key responsibilities are to provide leadership to the boards, to oversee the setting of strategy, to guide the process to ensure a balance in the composition of 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 by the Board. The Chief Executive reports to the PPS Insurance board on the performance of the PPS Group and any other material matters at board meetings. He reports on how the Group has performed against key indicators following the monthly meeting of the Executive Committee, which manages the PPS Group's business on a day-to-day basis. The reports are reviewed at the meetings of the PPS Insurance board when the Chief Executive highlights the key issues and other executive and non-executive directors are invited to contribute, as appropriate.

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

All trustees and directors have direct access to the services of the Group Company Secretary who advises them on all corporate governance matters, on board procedures and on compliance with PPS Holdings Trust's trust deed and PPS Group companies' memoranda of incorporation. In order to ensure good flow of information, comprehensive papers are provided to the boards by the Group Company Secretary in advance of the meetings of the board, subsidiary boards or board committees. The Group Company Secretary also has responsibility for all subsidiary companies. Minutes of all board, subsidiary board and board committee meetings are prepared by the Group Company Secretary and maintained in the appropriate PPS Group records. Members of the boards have access to independent professional advice at the Group's expense, when deemed necessary, in order to discharge their responsibilities as directors and trustees.

Each committee of the board acts within agreed terms of reference and the chairman of each committee reports, where appropriate, to the board which constituted such committee at its scheduled meetings. Where appropriate, the minutes of the committee meetings are tabled at board meetings. The chairmen of the PPS Holdings Trust and PPS Insurance boards are non-executive directors/trustees. At PPS Insurance, the roles of Chairman and Chief Executive Officer are separated, with a clear division of responsibility to ensure distinction between their respective duties and responsibilities. The chairman has no executive functions. The role of all trustees and directors is to bring independent judgement and experience to the boards' decision-making process.

Board Charter and Trust Deed

In accordance with the principles of sound corporate governance, the Board Charter – modelled on the charter principles recommended by King III – incorporates the powers of the board, providing a clear and concise overview of the division of responsibilities and accountability of the board members, collectively and individually, to ensure a balance of power and authority.

The trust deed of the PPS Holdings Trust incorporates key elements of the new Companies Act and its trustees have similar responsibilities and duties to those of company directors, including the statutory responsibilities imposed by the new Act.

Board Appointments and Succession Planning

The PPS Holdings Trust has twenty trustees, all of whom are non-executive independent trustees. In terms of its trust deed, PPS members may appoint 12 members of the board of PPS Holdings Trust at its annual general meeting. Non-executive trustees on the PPS Holdings Trust board,

who are not representative of a professional organisation or co-opted, are appointed for specific terms and re-appointment is not automatic. In turn, the PPS Holdings Trust board appoints the board of PPS Insurance, which in turn, appoints the board members of its subsidiaries. Under delegated authority of the board, the Nominations Committee, within its powers, selects and recommends for appointment trustees and directors, including the Chief Executive Officer, executive directors and non-executive directors/trustees.

The Nominations Committee considers non-executive director succession planning and makes appropriate recommendations to the board. This encompasses an evaluation of the skills, knowledge and experience required to add value to the PPS Group, for trustees standing for re-election, as well as for new candidates standing for election for the first time. All appointments are made in terms of a formal and transparent procedure and are subject to confirmation by the members at the annual general meeting. The PPS Group believes that the board's constitution, in terms of both the number as expertise, is sufficient and appropriate to meet the PPS Group's needs.

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

Board Performance Assessment

The Nominations Committee assesses directors/trustees periodically against the following criteria:

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

Retirement of Board Members by Rotation

One-third of the trustees of The PPS Holdings Trust, who are not representative of a professional organisation or co-opted, and are appointed in terms of clause 7 of the trust deed are subject to retirement by rotation and may stand for re-election at the annual general meeting. The trustees eligible for re-election at the forthcoming annual general meeting are contained in the 2011 Financial Statements on page 90.

Interests in Contracts and Conflicts of Interest

Trustees and directors are required to avoid conflicts of interest, where possible, and inform the board timeously of conflicts or potential conflicts of interest that they may have in relation to particular items of business and are obliged to recuse themselves from discussions or decisions in relation to such matters. Trustees and directors are also required to disclose their interests in, and directorships of other companies in accordance with statutory requirements and to inform the boards when any changes occur. During the year ended 31 December 2011, none of the directors/trustees had an interest in contracts or arrangements entered into by the PPS Group.

Insurance

Adequate directors' and officers' insurance and indemnity cover has been taken out by the PPS Group, in respect of all its trustees, directors and officers. No claims under the relevant policy were lodged during the year under review.

Meetings and Attendance

The schedule below sets out PPS Limited, PPS Holdings Trust and PPS Insurance board meetings held during the year and attendance thereat:

PPS Limited (prior to the effective date of its restructuring into a trust)	6 April 2011
Adv T N Aboobaker	✓
Dr D R Anderson	✓
Dr V K S Bhagwandas	✓
Dr N G Campbell	✓
Mr J A B Downie	✓
Mr Y N Gordhan	✓
Mr U D Jivan	✓
Mr I Kotzé	✓
Dr C M Krüger	✓
Dr M N Mabasa	AP
Mr E A Moolla	✓
Dr J Patel	✓
Dr D G C Presbury	✓
Mr C D Reay	✓
Dr S N E Seoka	✓
Mr B R Topham	✓
Mr S Trikamjee	✓
Dr J J van Niekerk	✓
Judge R H Zulman	AP

AP = Apology

ABRIDGED CORPORATE GOVERNANCE REPORT

The PPS Holdings Trust	13 June 2011	12 September 2011	28 November 2011
Adv T N Aboobaker	✓	✓	✓
Dr D R Anderson	✓	✓	✓
Dr V K S Bhagwandas	✓	✓	✓
Ms U Botha (Appointed 16 August 2011)	N/A	✓	AP
Dr N G Campbell	✓	✓	✓
Ms D L T Dondur (Appointed 16 August 2011)	N/A	✓	AP
Mr J A B Downie	✓	✓	✓
Mr Y N Gordhan	✓	✓	✓
Mr U D Jivan	✓	✓	✓
Mr I Kotzé	✓	✓	✓
Dr C M Krüger	✓	✓	✓
Dr M N Mabasa	✓	✓	✓
Mr E A Moolla	✓	✓	✓
Dr J Patel	✓	✓	✓
Dr D G C Presbury	✓	✓	✓
Mr P Ranchod (Appointed 16 August 2011)	N/A	✓	✓
Mr V P Rimbault (Appointed 3 November 2011)	N/A	N/A	✓
Dr S N E Seoka	AP	✓	✓
Mr B R Topham	✓	✓	✓
Mr S Trikamjee	✓	✓	✓

AP = Apology

N/A = Not Applicable

PPS Insurance Company Limited	28 Feb 2011	28 Mar 2011	30 May 2011	27 June 2011	25 July 2011	29 Aug 2011	3 Oct 2011	31 Oct 2011	21 Nov 2011
Dr D R Anderson	✓	✓	✓	✓	✓	✓	✓	✓	✓
Adv T N Aboobaker (Appointed 27 June 2011)	N/A	N/A	N/A	✓	✓	✓	AP	AP	✓
Dr V K S Bhagwandas	✓	✓	✓	✓	✓	✓	AP	✓	✓
Mrs T A Boesch	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr N G Campbell	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr C K de Klerk (Appointed 27 June 2011)	N/A	N/A	N/A	✓	✓	✓	✓	✓	✓
Mr J A B Downie (Appointed 27 June 2011)	N/A	N/A	N/A	✓	✓	✓	✓	✓	✓
Mr C Erasmus	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr M J Jackson	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr I Kotzé (Resigned 27 June 2011)	✓	✓	AP	N/A	N/A	N/A	N/A	N/A	N/A
Mr E A Moolla	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr N G Payne	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr D G C Presbury	✓	AP	✓	AP	✓	✓	AP	✓	✓
Dr S N E Seoka	✓	✓	AP	✓	✓	✓	✓	✓	✓
Dr J J van Niekerk (Retired 6 June 2011)	✓	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A
Prof H E Wainer	✓	✓	✓	✓	✓	✓	✓	AP	AP

AP = Apology
N/A = Not Applicable

ABRIDGED CORPORATE GOVERNANCE REPORT

The boards
are assisted by a
number of specialist
committees in
governing the
PPS Group.

Board committees

A number of board-appointed committees have been established to assist the boards in discharging their responsibilities. The membership and principal functions of these committees are set out below. Pages 46 to 49 include the various committee members as well as their attendance at the relevant committee meetings.

The PPS Group has the following sub-committees:

PPS Holdings Trust

- PPS Holdings Trust Audit Committee
- Group Nominations Committee

PPS Insurance

- Actuarial Committee
- Group Audit Committee
- Group Remuneration Committee
- Group Risk Committee

Group Audit Committee ('AC')

Members

Independent non-executive directors of PPS Insurance:

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

Mr C Erasmus, BSc, FIA, Member of AC since 2009

Mr I Kotzé, B Pharm, Member of AC since 2001 (Resigned 27 June 2011)

Mr E A Moolla, B Juris, Member of AC since 2003

Mr N G Payne, B Com (Hons), CA(SA), MBL, Member of AC since 2007

Specialist Consultant

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

This committee comprises four non-executive PPS Insurance directors, two of whom are financial specialists, and all of whom are independent. Prof C Rabin, who is not a member of the board of PPS Insurance and was formerly a member of the AC, was appointed as a specialist consultant to the AC after the introduction of the new requirement in the Companies Act, 2008, that only members of the board may be appointed as members of the AC.

The board is satisfied that the members of this committee have sufficient recent and relevant financial experience to enable them to carry out their duties and responsibilities and that the members of the committee bring a wide range of relevant experience. The committee is scheduled to meet at least four times a year. The chairman of the Group Risk Committee and a member of the Actuarial Committee are also members of the AC. The external auditors, internal auditors and heads of Group Compliance and Risk Management are present at each meeting of the committee.

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

The PPS Group's policy on non-audit services, which is annually reviewed by the AC, sets out what services may or may not be provided to PPS by the external auditors. The AC conducts 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 AC keeps abreast of current and emerging trends in international accounting standards. The AC has satisfied itself:

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

Particulars of the role and responsibilities of the AC are set out on pages 18 and 19 of the 2011 Financial Statements.

PPS Holdings Trust Audit Committee ('Trust AC')

Members

Independent non-executive trustees of PPS Holdings Trust:

Dr D R Anderson, BDS, Dip POM, FCD (SA) OMP, Member of Trust AC since 2011

Ms D L T Dondur, BAcc (Hons), B Compt, CA(SA), MBA. Appointed as a member of the Trust AC on 28 March 2012

Mr E A Moolla, B Juris, Member of Trust AC since 2011

Dr D G C Presbury, MB, BS (London), FRCP, Member of Trust AC from 2011 to 28 March 2012

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

The PPS Holdings Trust board is satisfied that the members of this committee have sufficient recent and relevant financial experience to enable them to carry out their duties and responsibilities and that the members of the committee bring a wide range of relevant experience. The committee is scheduled to meet at least twice a year. The external auditors, internal auditors and heads of Group Compliance and Risk Management are present at each meeting of the committee.

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

at the invitation of the chairman of the committee. The Audit Committee considered and recommended the internal audit charter for approval by the board and a description of its working relationship.

The PPS Group's policy on non-audit services, which is annually reviewed by the Trust AC, sets out what services may or may not be provided to PPS Holdings Trust by the external auditors. The Trust AC conducts 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 Trust AC keeps abreast of current and emerging trends in international accounting standards. The Trust AC has satisfied itself:

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

Particulars of the role and responsibilities of the Trust AC are set out on page 17 of the 2011 Financial Statements.

The recently constituted Trust AC met for the first time in March 2012 to consider the PPS Group Integrated Report.

Group Risk Committee ('RC')

Members

Mr N G Payne (Chairman), Mr C Erasmus and Mr M J Jackson (Appointed 26 March 2012)

This committee comprises two independent non-executive PPS Insurance directors, who are risk management specialists, and the Chief Executive Officer. The committee is chaired by an independent non-executive director. The board is satisfied that the members of this committee have sufficient recent and relevant financial and risk management experience to enable them to carry out their duties and responsibilities. The committee is scheduled to meet at least four times a year. The non-executive members of the Risk Committee are also members of the Group Audit Committee. The internal auditors and heads of Group Compliance and Risk

ABRIDGED CORPORATE GOVERNANCE REPORT

Management are present at each meeting. Reports are tabled at each meeting outlining the progress in terms of the risk management framework, plans and an overview of the Group's risk profile. The Risk Committee is satisfied that the risk assessments, responses and interventions are effective and that the risk management processes are effective.

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

Risk Committee	9 February 2011	16 March 2011	23 June 2011	10 October 2011
Mr N G Payne	✓	✓	✓	✓
Mr C Erasmus	✓	✓	✓	✓

Actuarial Committee

Members

Dr D R Anderson (Chairman), Mr C Erasmus, Prof H E Wainer

The Actuarial Committee is chaired by a non-executive director and comprises solely independent non-executive directors of PPS Insurance.

The committee is an important component in ensuring the integrity of actuarial processes and ensuring the proper assessment of PPS Insurance's risk philosophy, strategy, policies, financial and operational processes and controls and assessments of major risks from an actuarial perspective. The committee's activities are focused on actuarial assumptions, parameters, valuations and reporting guidelines and practices adopted by the Statutory Actuary, and other actuarial matters, as appropriate to PPS Insurance and any of its subsidiaries operating a Life License.

The committee acts as an independent advisor to the Board and has the following primary responsibilities:

- To assist the board in fulfilling its oversight responsibilities regarding:
 - the accuracy and integrity of the actuarial statements;
 - the compliance with actuarial, legal and regulatory requirements; and
 - the performance of PPS Insurance's actuarial function.
- To assist the PPS Insurance board in executing its fiduciary duties to policyholders; and

- To provide a sounding board for the Statutory Actuary in making recommendations to the board and to consider, for tabling at board meetings, the recommendations of the Statutory Actuary.

Group Remuneration Committee ('GRC')

Members

Dr D R Anderson (Chairman), Mr E A Moolla, Mr C Erasmus and Mr N G Payne

The GRC is chaired by an independent PPS Insurance director and comprises solely non-executive directors of PPS Insurance. The Group Chief Executive Officer, who is the executive responsible for people management, attends the meetings by invitation. The Group Chief Executive is recused from any discussion of his own remuneration. Meetings are held at least three times a year.

The primary responsibilities of the GRC are the consideration and recommendation to the board on matters such as succession planning, remuneration and benefits, performance bonuses, executive remuneration, directors' and trustees' remuneration and fees, the short-term incentive scheme and long-term incentive scheme and PPS Group retirement funds. The GRC considers the level of salary and the principles of any variable element of remuneration packages and also considers other aspects of remuneration packages and associated matters in accordance with its published terms of reference. Execution of policy is delegated to management.

More detail on the incentive schemes for management and executives is contained on page 50 of this report. Where incentives are target based, most of the targets are related to budget achievement and, as such, are objectively monitored and measured. The targets that are more subjective are given considerable scrutiny by the GRC to ensure that the members of the GRC have satisfied themselves that they have exercised their judgement appropriately. The management team is assessed using a 'Balanced Scorecard' approach where the key drivers of the business, both financial and non-financial, are measured. The objective in both the short and long term, is to align rewards with management's performance and members' interests. Special care has been taken to ensure that the taking of excessive risk is not rewarded. The Board considered the nature of the PPS Group structure and is satisfied that Dr D R Anderson continues as chairman of both the Board and Remuneration Committee.

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

Remuneration Committee	13 April 2011	7 June 2011	31 October 2011
Dr D R Anderson	✓	✓	✓
Mr C Erasmus	✓	✓	✓
Mr E A Moolla	✓	✓	✓
Mr N G Payne	✓	✓	✓

Group Nominations Committee ('GNC')

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

Members

Dr D G C Presbury (Chairman), Dr D R Anderson, Dr N G Campbell and Mr E A Moolla

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

It is the responsibility of the GNC to ensure that plans are in place for appointments to the boards that will maintain an appropriate balance of skills and experience. The GNC leads the process for appointment and re-election of trustees and directors and makes recommendations to the boards ensuring there is a formal, rigorous and transparent procedure for appointments. The PPS Holdings Trust board is satisfied that the range and balance of expertise, experience and qualifications is appropriate for the current needs of the business but keeps these matters under regular review. Board members that have potential political connections and exposures have been considered, but none of these impacts on the business and opportunities of the PPS Group. The committee has considered 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 board is responsible for ensuring that an effective system for succession planning and management development is in place, which covers trustees, directors and senior executives. 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 and subsidiary boards. 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 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 directors and trustees have continued to update their skills and knowledge, both within the PPS Group and externally. In 2012 director and trustee assessments will be enhanced with additional enquiries in regard to independence and fit and proper training.

Attendance at the GNC meeting held during the year was:

Nominations Committee	14 March 2011
Dr D R Anderson	✓
Dr D G C Presbury	✓
Dr N Campbell	✓
Mr E A Moolla	✓

Executive Committee ('Exco')

Members

Mr M J Jackson (Chairman), Mrs T A Boesch, Mr V E Barnard, Mr N J Battersby, Mr S R Clark, Mr C K de Klerk, Dr P J P Goodwin (Resigned 31 December 2011), Mr R Govenden, Dr H P D Hoffman, Mr N Hoosen (Appointed 3 May 2011), Mr E G Joubert, Mr J N Marsden and Dr D Stott

Composition and Meeting Procedures

Exco is chaired by the CEO and has regular input from executives from operations, sales, finance, actuarial, IT, human resources, compliance, governance, member relations, marketing and stakeholder relations, special projects and the subsidiary businesses of PPS Investments, PPS Marketing and Professional Medical Scheme Administrators. Exco meetings are held at least monthly. The committee is responsible for the implementation of strategy and the operations of the PPS Group within the parameters defined by the board.

Principles and Practices of Financial Management

PPS issues 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 to provide this document to policyholders. This document outlines the PPS principles and practices of financial management in order that policyholders can better understand the profit distribution principles and practices in place for PPS, as well as the

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investment strategy adopted by the PPS board. The PPFM document is available to all policyholders on the PPS website.

Internal Control Environment

The board has overall responsibility for the PPS Group's systems of internal control and is accountable for reviewing the effectiveness of such systems. Internal control systems are designed to manage risks within the business rather than to totally eliminate the potential failure to achieve the PPS Group's objectives. Inevitably, such systems can provide only reasonable and not absolute assurance against material misstatement or loss. The board is conscious of the importance of the PPS Group's systems of internal controls and recognises the importance of monitoring the effectiveness and development of the systems in line with best practice.

IT Governance

The PPS IT Strategy is reviewed by the Risk Committee and progress is tracked regularly through formal published project plans. This strategy is reviewed annually and progress is highlighted for the Risk Committee along with any adjustments that may have resulted from changed business strategies or environmental developments.

The executives review this strategy to ensure alignment to business strategy priorities.

PPS 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 by an organisation for establishing a minimum level of competency. It allows the organisation to establish a baseline from which it can plan, implement, and measure. It is used to demonstrate compliance and to measure improvement.

PPS performs annual ITIL maturity reviews which are presented to the Risk Committee. Additionally, in 2011 PPS conducted an annual IT controls audit. These reviews are intended to provide the Board with independent assurance on the effective and state of internal controls, as well as confidence on the ability of IT to deliver the approved strategies.

The Information Security Strategies objective is to develop a cost-effective security strategy that is in alignment with the PPS IT and Business strategic objectives. Delivering this through effective risk management where the investment in the relevant security controls is proportional to the risk exposure is the goal. The value delivery of Information Security will be realised through the secure enablement of new business initiatives, the standardisation from a controls perspective of the environment, thereby reducing the number of incidents related to virus or malicious code and unauthorised end-user modification of systems. It also enables the re-use of hardened virtual environments which will reduce exposures through vulnerabilities and the dependency on human configuration. The key drivers for security are still compliance with IT Governance requirements and legislation. Cybercrime has also become more prominent within South Africa as the internet becomes more socialised and utilised through the use of smartphone technologies. The main goal for information security strives to protect the organisation's assets.

One of the approaches to deliver Information Security is through Data leakage prevention technology which will be enabled to fingerprint confidential information within the environment. Security policies are being created to ensure the enforcement of proper handling methods and the prevention of unauthorised disclosure and leakage of information. End users will be educated on data handling methods and this will be enforced through the end user awareness programme, policies and alerts. Ongoing vulnerability management is being achieved through the use of a vulnerability scanner and the outcome of this will be an increase in knowledge and threat awareness within the IT Operations team.

Executive and Senior Management Incentive Schemes

The total remuneration (or compensation) policy and practice for executive and senior management comprises guaranteed packages and short- and long-term incentives to enable appropriate business performance, sustainability and retention outcomes.

Executive contracts of employment are indefinite in nature, and the notice periods are in line with the Basic Conditions of Employment Act, namely, one month.

Each executive and senior manager is allocated specific key performance areas aligned to the generic deliverables of the role and defined strategic initiatives of the company

set for the year. Key performance indicators are defined to clarify the performance levels required. Formal appraisals are based on the company's one to five rating scale. This process is conducted by the CEO and the outcomes reviewed by the Group Remuneration Committee.

It also oversees a benchmarking exercise conducted at least every second year to ensure the competitiveness of all elements of remuneration against the market, i.e. fixed remuneration, short-term and long-term incentive schemes.

It also performs the crucial role of ensuring appropriate linkage between value delivered by individuals and quantum of elements of remuneration paid, within the context of the comparative remuneration in the Financial Services sector.

The incentive schemes are aligned to, and driven by:

- the interests of the members;
- the relevant financial and non-financial performance measures of the PPS Group as a whole, based on the balanced scorecard and the CEO value map as agreed with management and approved by the Group Remuneration Committee;
- the performance of any business unit or support function; and
- the employee's own outputs for the period.

Short-term Incentive Scheme

The objective of the short-term scheme is to ensure optimal growth of the operating surplus, which is allocated to members. The scheme, which is run over the duration of each financial year, also takes key performance milestones set for each individual into consideration.

The senior management team and Exco participate in the performance-based short-term incentive scheme. This scheme has two categories. In Category 1, managers have Key Performance Indicators which are largely project based and do not necessarily have short-term line of sight to profitability, but primarily to individual outputs.

The second category are members of Exco and certain of their direct reports. Assessments of performance are completed according to defined key performance areas and indicators and individuals are required to substantiate the achievement of targets with portfolios

of evidence. The pool created is capped at 2% of the operating surplus achieved. This measure is the aggregate effect of management's achievement, with no exclusions or adjustments. There is direct member alignment as this quantum of operating surplus is allocated to members' Surplus Rebate Accounts. The CEO is evaluated by the Group Remuneration Committee, based on a value map underpinned by the balanced scorecard, which is weighted 50% to financial performance and 50% to sustainability criteria. Both individual and company performance drive the quantum of the bonus for each individual.

Long-term Incentive Scheme

A long-term scheme, which was introduced in 2007, is designed to retain key staff and enable long-term sustainable growth of the business. The key driver of the scheme is the growth of the total balance of the apportionment account of PPS. This scheme is designed to align management behaviour over the long term with member interests.

The scheme has around 25 participants comprising executives and senior management who are key to the long-term success of the Group.

Allocations are made annually to individuals based on tiers linked to the seniority of role and cost of total annual package. The pre-requisite for allocations is the participant having reached a minimum level of performance, namely, a level three rating on the one to five scale. A hurdle rate relating to the rate of the growth of the apportionment account is set at 2% above inflation. Therefore, individuals only participate in the benefit of the growth above the hurdle rate. Participants only receive the real value added to the apportionment account and the impact of inflation is excluded. This ensures robustness of the performance criteria utilised. It is a five-year scheme with one-third of each allocation vesting on the third anniversary of date of allocation, one-third on the fourth anniversary and the final third on the fifth anniversary. Participants are required to be in the employ of PPS at the time of vesting to exercise their vested portion, thereby achieving the retention objective of the scheme.

The Group Remuneration Committee exercises discretion in terms of the rules of the scheme, the hurdle rate and allocations to individual participants.

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Employee Wellness

PPS has a genuine concern for the emotional, physical and financial well-being of its people and this is evident in the investment made in our comprehensive Employee Assistance Programme ('EAP'). PPS has partnered with an external service provider in providing all employees and their immediate families 24-hour free access to a range of specialist counselling and support services for all types of trauma, social and family problems.

PPS also pays for health assessments for employees twice a year. This includes, *inter alia*, body mass index ('BMI'), cholesterol, and diabetes assessments. Areas of concern which are highlighted as a result of these assessments are addressed on an individual basis, and where necessary assistance is funded for the individual.

A concierge component has also been added to the offering which includes a 24-hour sourcing desk, travel and other discounts, as well as educational assistance.

Succession and Career Management

PPS has addressed succession planning for the key levels and roles in the company to mitigate attrition risk and grow our leadership bench for the future. This process ensures that adequate plans are in place to retain/replace senior and key personnel by means of retention and development plans.

In 2011, significant investment was made in defining a competency framework for the company. Going forward, we will continue to offer opportunities to our people to build their skills and develop competencies for current and future roles. This offers explicit career paths that employees could pursue to achieve growth and facilitates the continual learning and career development of people.

Assurance

This report has been prepared under the supervision of the Group Audit Committee and was approved by the Board of Trustees of PPS Holdings Trust.



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