FOR PROFESSIONALS

SINCE 1941

INTEGRATED REPORT 2012

NOTE:

ACTION REQUIRED BY MEMBERS IN REGARD TO THE ANNUAL GENERAL MEETING

The annual general meeting of members of The Professional Provident Society Holdings Trust ('PPS Holdings Trust') will be held at 18:00 on Monday, 3 June 2013 in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg to consider and, if deemed fit, approve the ordinary and special resolutions set out in the notice convening the annual general meeting, which is attached to and forms part of this Integrated Report. A form of proxy, enabling members to vote on the respective resolutions proposed has also been included in this Integrated Report.

At the previous annual general meeting held on 4 June 2012, members approved the amendment and restatement of the Trust Deed of PPS Holdings Trust by means of a special resolution. The objectives of these amendments were to update the constitution of PPS Holdings Trust to reflect the current practices and direction of the PPS Group, to improve administrative efficiency and align members' voting rights with participation in the core products of PPS Insurance. As a consequence, Associate Members no longer have the right to vote at general meetings of PPS Holdings Trust. The votes of Ordinary members of PPS Holdings Trust in general meeting were unaffected by the amendments to the Trust Deed and continue to be determined in the manner set out in clause 22.6.2.2 of the Trust Deed.

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

You may attend and vote at the annual general meeting in person or you may appoint a proxy to represent you by completing the form of proxy on page 227 of this annual report and forwarding it to one of the following addresses or via facsimile or email, to be received by the Trust Secretary by no later than 18:00 on Wednesday, 29 May 2013:

Marked for the attention of the Trust Secretary

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

CONTENTS

INTEGRATED REPORT 2012

It is with pride that PPS presents its second Integrated Report. The report is a reflection of PPS' operations, which is underpinned by its values set out in the mission statement of 1941:

'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.'

We hope that you enjoy reading about our story of providing our members with world-class financial products and in the process, enabling them to share in our success by allocating profits to their PPS Profit-Share Accounts™.

Scope and boundary

This report aims to give an objective view of where we have come from, where we are going and how we compare against milestones set during the journey.

This report covers the 12 months ended 31 December 2012 and subsequent events up to the reporting date. It includes all entities listed in the Group schedule on page 27. In line with the King Report on Governance of 2009 (King III), and the work of The Integrated Reporting Committee of South Africa, this report aims to give a concise picture of PPS with a view to keeping you, our members and primary stakeholders, better informed. We see this process as a journey, and would welcome your feedback so we can continue improving our communication and service to you.

In the preparation of this report, the PPS Group Finance Department engaged with all the relevant departments in the sourcing of information: trust and company secretarial, actuarial and product development, distribution, marketing and stakeholder relations, administration and systems and legal and compliance, as well as representatives from our subsidiaries.

Our policy on assurance is contained on page 103 of this report. Detailed financial statements relating to the operations of the Group are also included in this report.

The complete consolidated annual financial statements, including the reports from our Audit, Risk and Social and Ethics Committees and Trustees report are available online, providing comprehensive information and giving stakeholders interactive functionality.

WHY IS PPS UNIQUE?

Two key factors make PPS unique in the financial services market in South Africa:

- the Mutual model enabling members to share in 100% of the Group's profits; and
- the focus on the graduate professional market.

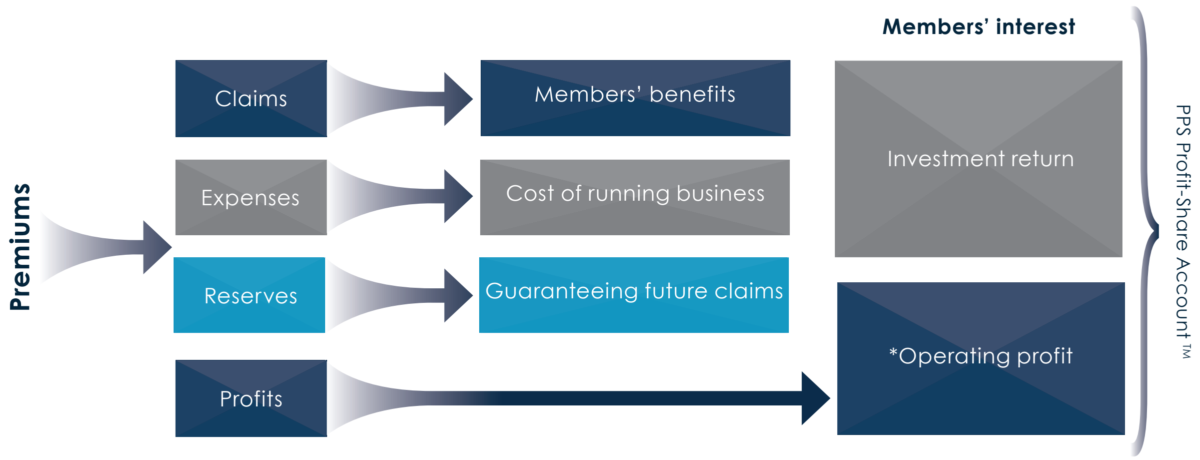
The Mutual model

PPS has no external shareholders. All capital is provided by members and all profits are allocated to members. Members have a PPS Profit-Share Account™ (previously called Surplus Rebate Account), which consists of a Special Benefit Account (SBA) and an Apportionment Account (AA).

Members pay premiums for their insurance benefits. These premiums cover the Company's expenses and reserves for the future. All surplus operating profit is allocated to the members' Apportionment Account. Interest earned is added to this account.

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' Special Benefit Account each year. The PPS Profit-Share Account™ is available to members on retirement or death.

THE MUTUAL MODEL IN OPERATION:



* In a company which does not operate on a mutual model, these profits are allocated to shareholders and not the policyholders, as is the case with PPS.

"WITH OUR FINANCIAL RESULTS EVIDENCING ANOTHER SUCCESSFUL YEAR FOR THE GROUP, I AM LOOKING FORWARD TO LEADING PPS AS IT CONTINUES TO GROW, THEREBY DEMONSTRATING THE BENEFITS OF MUTUALITY TO OUR MEMBERS"

MR E A MOOLLA

CHAIRMAN'S STATEMENT FOR 2012

I am very conscious of the fact that in writing my first Chairman's Statement since I was appointed to this position in June last year, I face a daunting challenge in that my predecessor, David Presbury, accomplished so much during his 10-year tenure when he guided PPS through a period of major challenges, change and growth, despite difficult economic times and their financial impact. That said, I welcome the opportunity of leading such a dynamic organisation during what I am sure will be a further exciting phase in its development as it moves towards its next milestone in 2016: 75 years of meeting the financial needs of graduate professionals.

A look back

As is customary, I would like to briefly sketch the political and economic backdrop against which PPS has achieved another excellent set of financial results for the year ended 31 December 2012. Certain commentators have called 2012 'the year of bewilderment' and indeed, 'the main events' point to some contradictions that still cannot be explained at the time of writing in 2013. With Julius Malema being expelled from the Youth League of the ANC in February last year for 'sowing divisions' within its ranks, all political roads led to Mangaung where Jacob Zuma was re-elected as ANC President. As is almost customary, there was a recognition by the conference, including by the top echelon of its leadership and alliance partners, that corruption was eating into the moral and economic fibre of the nation. However, this rhetoric and the concomitant redress will require strong leadership, political commitment and an effective regulatory environment before this scourge can and must be eliminated.

Cyril Ramaphosa's election as Deputy President however, seemed to send a positive sign to the business community, and the first week of 2013 saw the JSE All share index break through the 40 000 level; this despite there being no end in sight to the ongoing labour unrest which had been such a feature of the previous year – tragically highlighted by the death of 34 miners at Marikana in August – and ongoing problems with unemployment, skills shortages and documented instances of massive irregular expenditure as highlighted by the reports of the Auditor General and other commentators, both in the public and private sector.

A strong glimmer of hope was, despite the political talk, the adoption by the conference of the National Development Plan, a work of the National Planning Commission under the leadership of Trevor Manuel, the Minister in the Presidency. The cornerstone of the plan is to achieve by added investment, structural reforms and flexible labour policies the elimination of poverty, the creation of added employment opportunities and a business-friendly environment leading to a prosperity to be shared by all of our people.

On the international front, the last-minute retreat from the 'fiscal cliff' in the United States, despite the ongoing stalemate between congress and the President, and Europe's inability to find a long-term solution to the economic woes of the weaker countries in the European Union, sent conflicting signals as to how the future of 'mature' countries would play out. With 2013 now well into its stride, the spin-off for emerging markets still seems to be positive, and if solutions to the problems alluded to above can be found, South Africa looks set to weather its internal storms – provided sound leadership can be displayed in the run-up to the next elections in 2014.

'Treating Customers Fairly'

Last year's Integrated Report drew attention to the introduction in 2014 of 'Treating Customers Fairly' (TCF) legislation by the Financial Services Board, which seeks to ensure that fair treatment of clients is embedded within the culture of financial firms. As indicated at the time, PPS believes that through our unique mutual structure and the fact that our members participate in the benefits thereof, we implicitly aim to achieve the intended outcome of the legislation.

To this end, PPS has appointed an executive sponsor to oversee the successful implementation of TCF within the Group, and before the end of the year it is our intention to have completed the preparation of a manual that will introduce standardised practices relative to all internal and external communications to ensure that the 'six outcomes' of TCF (see page 68), are achieved. It is inherent within our organisation that the principles of TCF are implemented, and we therefore enthusiastically embrace the concept as an important part of our mutual ethos.

'Old Generation' RAs to be phased out

It is against this backdrop that the Board of Trustees of the PPS Retirement Annuity Fund announced in September 2012 that it was closing the 'old generation' underwritten section of the Fund to new investors from 1 October 2012. The launch of more cost-effective, transparent and flexible products now offer clients an enhanced value proposition, as the features of new generation offerings outweigh those associated with underwritten products. Our view is that financial services companies should at all times ensure that the products they offer to clients are easy to understand and are not embellished by unnecessarily high fee structures – quite simply, we believe that from an ethical and moral standpoint, this is 'the right thing to do'.

Broadening of mutuality

Another change that PPS is introducing is that the profits returned to members will be shown on members' benefit statements by product, thus giving them a clearer indication of their participation. As far as I am aware, this is a first for a mutual, and is another example of our drive for greater transparency in the interests of 'treating customers fairly'. This should also enhance our competitive advantage over shareholder companies.

The Professional Confidence Index

Last year my predecessor made reference to the introduction of the Professional Confidence Index (PCI) in 2011, as a means of gauging our members' views on some key issues, with the intention of PPS becoming the thought leader in this regard. As mentioned elsewhere in this Report (see page 25), the PCI is getting more and more exposure in the media, and is a tangible demonstration of the important role that engagement with members can play in conveying their views to a wider audience, while at the same time obtaining greater visibility for the Group.

Whilst the detailed findings of the quarterly results are disseminated by way of press releases, suffice it to say that there is a growing concern among graduate professionals that not enough is being done to educate the next level of 'technicians' without whom the professionals cannot carry out their work effectively. I would therefore like to use this opportunity to appeal to the authorities to plug this gap and also create a climate in which graduate professionals – without whom this country cannot survive and prosper – feel more comfortable that they have a secure future in South Africa.

International activity

Since 2008, PPS has been a member of The International Co-operative and Mutual Insurance Federation (ICMIF), based in England and representing over 220 mutual companies throughout the world. We have been singularly honoured by having been invited to host its Annual Conference in South Africa this year, and this important event will take place at in Cape Town from 6 to 8 November 2013.

With the theme being 'Leadership of the mutual and co-operative movement', the Conference is expected to attract over 250 delegates and will provide a platform for debating the current issues facing mutuals throughout the world. PPS will help to shape the agenda for the Conference, which is expected to further raise the profile of mutual companies in South Africa. Not only are they an appropriate vehicle for giving effect to the 'Treating Companies Fairly' initiative, but they also help to facilitate the concept of good corporate governance which is becoming more and more of a feature of the regulatory environment in which all financial institutions are required to operate.

Concluding remarks

With South Africa facing its own economic and social challenges as we move towards the next general election in 2014, it will take considerable political will and stronger leadership than has been hitherto demonstrated to shape the sort of future to which the vast majority of our citizens aspire. As a company serving exclusively the needs of graduate professionals, PPS believes we have a real role to play in creating that future, and it is vital that the training and development of professionals is encouraged in whatever way possible, so that they can continue to make a positive contribution to the well-being of individuals and to the economy generally.

Having only taken over the reins as Chairman in July 2012, I am still getting to grips with the multi-faceted task that lies ahead, but with our financial results evidencing another successful year for the Group, I am looking forward to leading PPS as it continues to grow, thereby demonstrating the benefits of mutuality to our members – and to the country as a whole – more clearly.

It remains for me to thank my predecessor David Presbury for his wise counsel during my time as Vice-Chairman. We wish him well on his future pursuits and endeavours. An abiding courtesy, strong leadership and an unwavering commitment to PPS are some of the attributes of Dr Presbury.

I am also deeply indebted to Dr Sybil Seoka, the newly appointed Vice-Chairman of the PPS Holdings Trust, for her ongoing support and strong work ethic that she brings to the Board.

Deep recognition of the outstanding leadership, commitment and energy applied to the business of the PPS Group by Dr David Anderson, the Chairman of PPS Insurance, is acknowledged with much appreciation.

Likewise of the members of the various Boards and Committees within the PPS Group I record my unqualified appreciation for your guidance, input and ongoing support. I look forward to working together in the coming year with a unity of purpose to sustain and enhance the legacy of my predecessor.

CHAIRMAN'S STATEMENT FOR 2012

continued

In conclusion, on behalf of our Board of trustees I record my sincere gratitude for the inspired, committed and visionary leadership of Mike Jackson, the CEO of PPS, his executive management as well as to all of our staff members. Collectively, their joint efforts have led to the growth, prosperity and sustainability of PPS, and has positioned PPS as a preferred provider of premium financial and risk products to the professional community.

E Moolla
Chairman

Message from the outgoing Chairman:

In 1993, to my surprise, I was asked by the Medical Association to become its representative on the PPS board. A few years later I became an elected member to make room for another SAMA representative. It has been my privilege to serve as Chairman of the Holding Company (now the Holding Trust) for 9 years and of the Retirement Annuity Fund for 11 years. I think that 70 is an appropriate age to stand aside and make room for younger board members. Ebi Moolla became the chairman in June 2012 and I will retire from the board at the AGM in June this year.

It has been an absolute pleasure and great privilege to serve on the board for 20 years during which time PPS has matured from a benevolent fund to a full service insurance company with extraordinary assets and the unique position of being owned by its members. Ebi Moolla is now chairman of the Holding Trust; David Anderson continues his incredible commitment and dedication to the chairmanship of the Insurance Company and Mike Jackson his inspirational leadership of an extremely competent team. In addition, the Society is served by very capable board members on all its boards and sub-committees. This is a good time to say farewell knowing that PPS has become an extraordinary company led by capable people and enjoying the unique status of being owned by the members it serves.

Thank you to all the members, board members and management and staff for their help, co-operation and, of course, their patience. Thank you all for contributing to a great journey. I shall miss both the people and the challenges greatly.

DAVID PRESBURY

BROADENING OF MUTUALITY

Previously, members' share of profits was based on the level of Sickness and Permanent Incapacity Benefit (SPPI) cover they took out. From the 2012 financial year, members' share in the profits of the company is based on the level of SPPI cover they have, as well as the premiums paid on qualifying products they have taken out.

"OVER THE LAST 5 AND 10 YEARS, PPS HAS ALLOCATED MORE THAN R8,9 BILLION AND R15,9 BILLION, RESPECTIVELY, TO ITS MEMBERS. MAKING IT BY FAR THE LARGEST AND MOST SUCCESSFUL MUTUAL COMPANY IN SOUTH AFRICA."

MIKE JACKSON

CHIEF EXECUTIVE'S REPORT

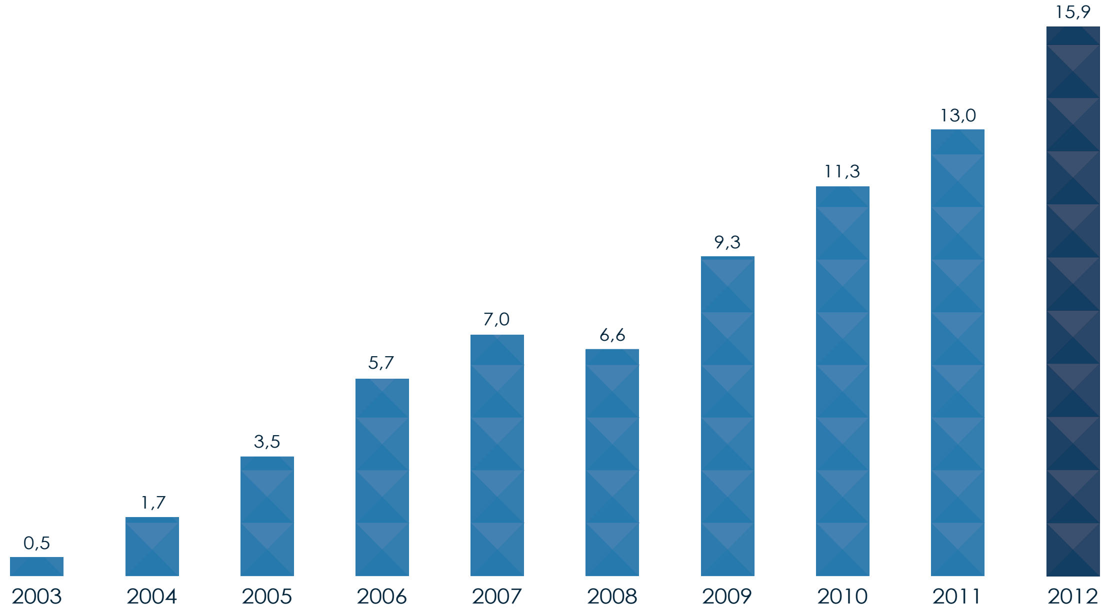
Record Total Allocation for 2012: R3 billion

The JSE All Share index rose from approximately 32 000 to 40 000 during 2012. This very positive performance flowed through to PPS members resulting in investment profits of R2,1 billion being allocated to them. This compares to the 2011 allocation of R770 million.

In addition to the investment return, members were allocated R886 million of Operating Profit – resulting in a total allocation of R3,0 billion. This is the highest allocation ever – the previous record being R2,6 billion in 2009. Special Benefit Accounts grew by 22,6%.

Cumulative allocations to members over 10 years = R15,9 billion.

TOTAL CUMULATIVE ALLOCATIONS
TO MEMBERS SINCE 2003
(R'billion)



Operating Profits were impacted by a significant uptick in benefits paid to members and considerable additional expenditure on legal, regulatory and compliance functions. PPS also embarked on a new advertising and marketing campaign to help counter the growing competitor activity in the Professional Market.

Members should take note that both investment return and operating profits can move up and down each year. Over the long-term however, the PPS Profit-Share Accounts™ should provide members with a valuable addition to their retirement funds. Members over age 55 may opt to move their funds into a lower risk portfolio if they feel that they may need to retire earlier or reduce their investment risk.

CHIEF EXECUTIVE'S REPORT

continued

In 2012, 740 members retired, with an average Profit Share Account balance of R430 000 – a total of R320 million. It should also be noted that the PPS Profit-Share Account™ of an individual member is not affected by that member's claims during their tenure at PPS – it is over and above all benefits paid to them.

PPS Profit-Share Account ™ (previously Surplus Rebate Account)

PPS has no outside shareholders – all profits and losses accrue to members in their PPS Profit-Share Accounts™. The balance in this account does not vest until retirement, when it is accessible to members.

Members can track the accumulation of profits in their accounts via their benefit statements, and of course these balances are subject to fluctuations in interest rates, investment markets and the capital and operational needs of the business.

This concept of "Mutuality" and the naming of the account "Surplus Rebate Account" have always been difficult to communicate to members, and consequently members have not fully appreciated the benefits of PPS membership. We believe this terminology is closer to the essence of this key feature of Mutuality. The nature of the account – the home for operating profits and investment returns, remains unchanged.

There is no premium or explicit charge for this account. It is the key benefit of PPS membership. All policyholder benefits are unaffected by this feature as the profit share is over and above these benefits.

As a member this is how you benefit:

		R'million
Claims:	Sickness	529
	Death	422
Retirements		320
Resignations/Terminations		219
Total benefits paid		**1 490**
Profit share allocation		**2 950**
TOTAL		**4 440**
Gross premiums received		**2 251**

For the first time members who have other products and do not have Sickness and Permanent Incapacity Benefit (SPPI) will now receive allocations specific to their holding of other products as well.

Broadening Mutuality

Prior to 2012, members received allocations to their PPS Profit-Share Accounts™ based on their units of benefits. For the first time members who have other products and do not have Sickness and Permanent Incapacity Benefit (SPPI) will now receive allocations specific to their holding of other products as well.

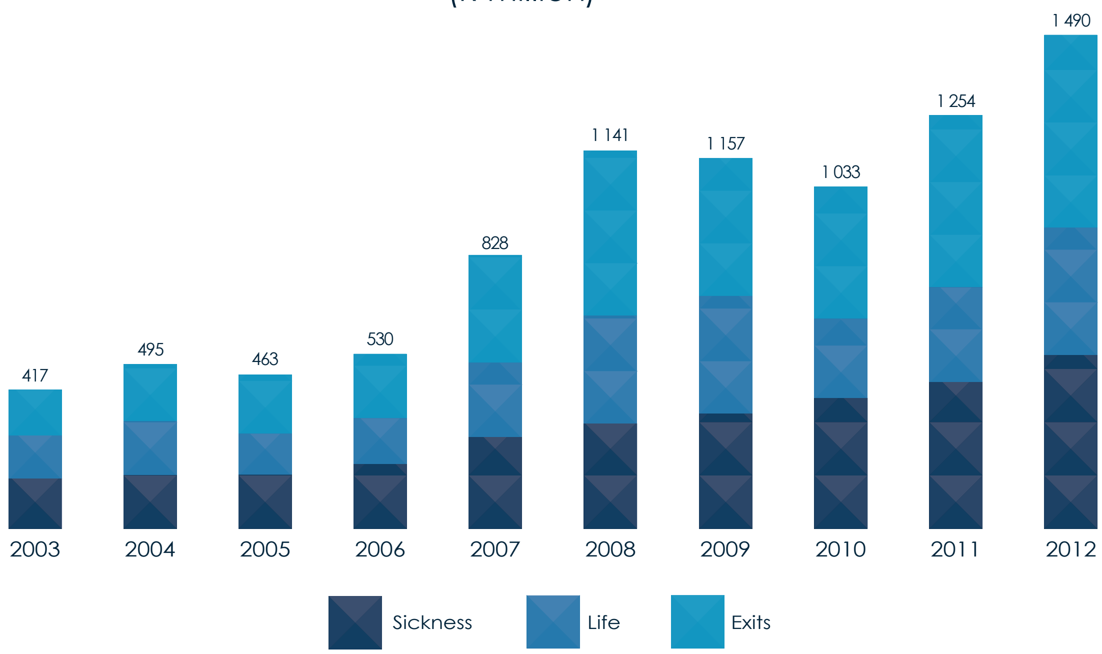
We have described this change as "Broadening Mutuality". The more qualifying products members have with PPS, the greater the allocations. Benefit Statements will illustrate in future the breakdown of each of the allocations per product.

SPPI unit holders received 30,99 cents per unit of benefit, the second highest allocation ever, and Provider™ policyholders received an allocation of 15% of their premiums. PPS Investment members received their first allocation of PPS Investment profits.

Benefits Paid

- 18 500 Sickness claims were paid during the year at an average of R28 600 per claim – a total of R529 million – an increase of 18% over the previous year. Although the increase is significant, it is still well within the actuarial assumptions – and is on the back of a relatively flat increase in 2011 over 2010. It is to be expected that, as the book of business grows, claims will grow accordingly.
- There were 348 death claims during the year for a total of R422 million (+ 32% on 2011).
- Benefits paid on resignations and terminations were R219 million – 21% lower than the previous year.

TOTAL BENEFITS PAID
(R'million)



CHIEF EXECUTIVE'S REPORT

continued

Assets Grow 22.5%

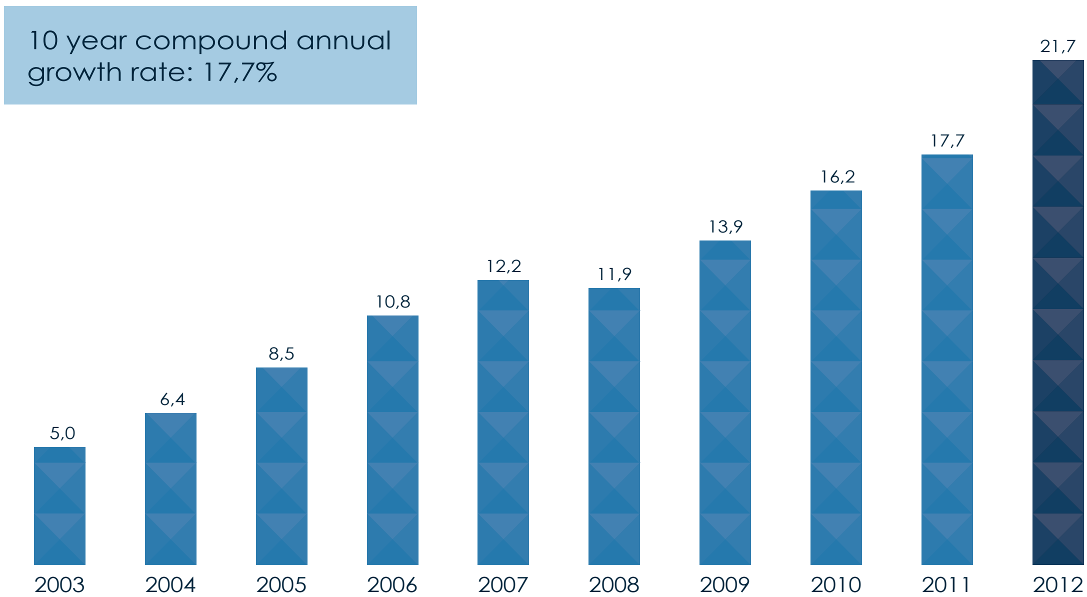
The PPS long-term investment philosophy paid dividends during the year. Risk Reserves are mainly invested in lower volatile assets (Fixed Interest and Cash) whereas the balance of the Group's funds are exposed to the investment markets with a 5-year plus time horizon, and typically a 60% exposure to equities.

Two single managers (Coronation and Investec) and one multi-manager (Professional Provident Society Investments) are employed to reduce overall asset manager selection risk.

This philosophy provides security of claims paying capacity while at the same time enabling long-term growth. PPS's assets have grown at 17,7% p.a. compound for the last 10 years, growing from R4,2 billion in 2002 to R21,7 billion in 2012.

10 YEARS OF GROWTH – TOTAL ASSETS

(R'billion)



Sales

The variety of products available to members is now considerable, ranging from Sickness cover to Disability, Dread Disease, Life cover, Savings and Investments. Total Sales, on an indexed basis, where single premiums receive a 10% credit, was R539,2 million, an increase of 19%. Risk only products grew by 12% – to R288 million. The annual auto increase of 7,9% had a 98,5% take up, which ensures that members' income protection keeps up with inflation.

PPS Investment products continue to do well, with R1,9 billion of new flows (+17%).

Our in-house sales operation – Member Relations Division (MRD) – had a good year, with a 17% increase in Risk Sales. This division now accounts for approximately 20% of our new sales.

Just under 10 000 new members were recruited during the year and total membership remained fairly constant at 250 000.

Building the PPS Brand

Market research done during 2010 and 2011 indicated that the PPS brand was well-known among professionals over the age of 40 but that increasingly, younger professionals were unaware of PPS.

Our recruitment efforts in the younger market have not been as successful as we would like. Consequently we are embarking on a brand building campaign focused specifically on the younger professional.

For the first time PPS has been advertising on television in addition to print, radio, online and social media. The focus of the campaign has been on our unique proposition of "Mutuality" and results thus far indicate a measurable impact in awareness.

Human Resources

10 years ago in 2003, the total staff complement was 290. This number has grown to close to 1 000, by 2012. The core insurance business employs 679 staff, including 169 sales consultants. Our medical scheme administration business (Professional Medical Scheme Administrators) has 244 staff, our investment business (PPSI) has 63 staff and our short-term business has 35 staff. Overall 31% of staff are African; 13% Indian; 12% Coloured; 44% White. The intellectual capital of PPS is held in its systems, documents, processes and people. In terms of qualifications, we have 132 graduates, 3 Actuaries, 8 CAs, 25 LLBs and 27 CFPs.

The quality and sustainability of PPS depends on continuous recruitment and retention of top people, and our Employee Value Proposition needs to be highly competitive to hold on to our key skills, as the demand for skilled staff grows. Our recruitment packages are positioned at the 50th Percentile. As an unlisted entity, share options cannot be a part of our package but our mix of short-term and long-term rewards for senior staff are competitive, with attrition at senior level being minimal over the last six years.

CHIEF EXECUTIVE'S REPORT

continued

Subsidiaries

Professional Medical Scheme Administrators (PMSA) had another excellent year and now administers over 80 000 members from its offices in Centurion. PPS Members are eligible to join Profmed – the medical scheme exclusively for professionals.

Professional Provident Society Investments (PPSI) also had an excellent year achieving total assets of R10,8 billion and new flows of R1,9 billion. In accordance with the broadening of mutuality, an allocation was made to PPSI members' PPS Profit-Share Accounts™.

Our Short-Term Insurance Division ended the year with over 10 300 policyholders and now has annual premiums in excess of R100 million.

Conclusion

PPS Group has had yet another excellent year. The PPS Mutual Model has proven itself as the best way to meet the risk and savings needs of graduate professionals. On average, members received 40% of their premiums back in the PPS Profit-Share Account™ allocations, as well as R2,1 billion in investment allocations to boost their retirement funds.

The staff and management team at PPS continue to service members with enthusiasm and commitment and I would like to thank them for their efforts.

Our governance structure, with the PPS Holdings Trust representing the members and the Insurance Company Board taking care of the businesses of the Group, is unique in the industry and works exceptionally well. Not only do our members receive all our profits, but they have the opportunity to serve on the Trust Board, and influence the strategy of the Group.

PPS Group has had yet another excellent year. The PPS Mutual Model has proven itself as the best way to meet the risk and savings needs of graduate professionals.

The Trust Board has been chaired by Dr David Presbury for 10 years and he has helped to ensure that members' needs are being met and that management is always encouraged to do better. I would like to thank David for so ably fulfilling his role and always remaining focused on the members. We look forward to the chairmanship of Ebi Moolla, whose wisdom we have already experienced as a board member. Dr David Anderson, in his role as Chairman of the Insurance Business, also continues to keep the members at the centre of everything we do, and has also done a sterling job over the last year.

Looking Forward

The graduate professional remains the most desirable target market for insurance and investment businesses. Our members are faced with continuous approaches by competitors who admire PPS's unique positioning. Our broadening of the mutual concept will be a major step forward in 2013 and our PPS Profit-Share Account™ will bring mutuality to life. Our product range is comprehensive – Sickness, Disability, Life cover, Investment, Short-Term Insurance and Profmed Medical Scheme and these offerings are all leaders in their fields. The quality of our service and our financial strength are well-established and PPS remains the premier home for graduate professionals.

M Jackson
CEO

OUR STAKEHOLDERS

Stakeholders	PPS members	Employees	Intermediaries	Regulators
Why it is important to us to engage	Our members are the heart of our mutuality and all our planning revolves around enhancing PPS to deliver better product offerings, service and investments for members. Because we are so unique we need to ensure that our members are kept updated with our latest news to provide them with a resilient alertness on what PPS offers. We believe that knowledge is power and during all our communications our main goal is to empower our members with information that will assist them in financial decision-making.	To create skilled and motivated employees to achieve business objectives by continual engagement and stretching of people.	PPS is an intermediated company where most of our business is brought to PPS by intermediaries. PPS insurance products are sold and not bought. PPS needs to provide the intermediary with sufficient training, knowledge and information regarding PPS and its products and services that will enable them to engage prospective members and be in a position to provide them with sufficient information and facts in order for them to make informed decisions. Intermediaries have to comply with strict regulated industry standards and all had to write Regulatory Exams in 2012 to continue practicing their trade in 2013. PPS equips intermediaries to apply PPS solutions with confidence when analysing our members' financial circumstances, to identify any possible needs and to satisfy those needs with appropriate advice. Intermediaries and PPS have a joint responsibility and are expected by the regulator to engage with members often to ensure:	PPS Group's relationship with the Government and regulators is important for the sustainability of the Group. PPS Group is regulated by the following regulators: • Financial Service Board, – Registrar of Pension Funds and Friendly Societies – Registrar of Collective Investment Schemes – Registrar of Financial Advisory and Intermediary Services – Registrar of Long-Term Insurance • Council of Medical Schemes • Financial Intelligence centre • Namibian Financial Institutions Supervisory Authority • South African Revenue Service • South African Reserve Bank • Namibian Inland Revenue

Stakeholders	PPS members	Employees	Intermediaries	Regulators
Why it is important to us to engage **... continued**			• Clear and understandable information about service delivery and products are given to members • A commitment towards expected ongoing service • Confirmation that our products will perform as they were lead to believe they would • How to claim PPS benefits • Where to complain if they are unhappy	
What matters most to them	• Our products should deliver the promise that was sold • PPS's financial soundness to enable us to pay all valid claims • Professional service and fair treatment • Transparent and user-friendly processes • Information that is clear and easily understandable	• To provide a pleasant working environment • Provide challenging work and career opportunities • Meaningful reward and recognition systems • Identify with a strong and sustainable brand • Robust and fair performance management system	• To be fully empowered when dealing with PPS • Being placed in a position by PPS where they can provide good service with products that will perform as members expected them to do	• Compliance with the legislative requirements regulated by them • Licencing • Quality reporting and interaction with Regulators

OUR STAKEHOLDERS

continued

Stakeholders	PPS members	Employees	Intermediaries	Regulators
Ways in which we engage	• Member Forums • PPS Gazette • Confidence Index Surveys • Campaign Specific communications • Social Media • Administration communications • Surveys • We provide access to service directly on the internet 24/7 • The Integrated Report	• Clear performance contracts with stretched targets • Development programmes on and off the job • Clear fixed reward structures based on market comparisons and variable rewards aligned to stretched outcomes • Recognition programmes to drive motivation, teamwork and additional discretionary effort • Participation in forums that inform, consult on relevant people and business issues	• Face to face via our Regional Sales staff, e.g. visiting their offices, doing presentations for them, visiting members with them • Intermediary Road Shows and Workshops • Print media, e.g. PPS Business Brief and Weekly Insurance Library • Electronic media e.g. e-mail and SMS	• On-site visits • Response to regulatory enquiries • Annual, quarterly or monthly statutory reporting as required • Certificates of compliance for collective investment funds • Participation in industry forums

PPS' stakeholders 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 relationships with our various stakeholders at the very top of our overall activities.

Our annual calendar of stakeholder commitment events 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'.

Communicating the benefits

"Your premium brand had better be delivering something special, or it's not going to get the business."

– Warren Buffett, Investor and philanthropist

As a result of research conducted in 2011, PPS embarked on an extensive brand advertising campaign in 2012, which covered all media segments including television, radio, print and online.

PPS has as a result experienced a gradual increase in brand awareness and sales leads, although this experience remains anecdotal without sound scientific research and financial modelling. For this reason PPS has developed a Return on Marketing Investment (ROMI) model to measure and monitor the effectiveness of the 2012 campaign and determine the return on marketing investment. The project got underway in April 2012 and, to date, a total sample of 3 478 respondents have completed the questionnaire online. These respondents include product-owning and non-product owning members of PPS, as well as respondents that have never had any dealings with PPS.

Intermediary communication

Our objectives

- Educate all stakeholders
- Provide information on legislative changes
- Generate awareness in the insurance industry
- Build trusting relationships

Our 2013 goal

To establish and maintain professional communication initiatives that will educate and enlighten intermediaries (and therefore members) about PPS.

Why communication is so important to us

PPS's communication strategy with intermediaries directly influences our business. To be of any significance it is vital that our publications are professional, topical and sure to add value to our stakeholders.

We communicate with our accredited intermediaries in various ways to ensure that we keep them informed of the latest developments at PPS and the insurance industry at large. Empowered intermediaries run compliant businesses and seek positive outcomes for their clients by rendering appropriate advice and service.

With major changes on the horizon in the Regulatory environment, e.g. Treating Customers Fairly, it's become imperative to keep our stakeholders fully appraised of the impact of proposed legislation through a well-structured communication strategy. The loss of non-compliant intermediaries will result in them ceasing to practice and that could potentially impact negatively on PPS and our membership.

By generating awareness of what intermediaries need to do to comply and how to avoid the potential pitfalls they face, we will achieve our objective of building a trusting relationship. These relationships will be creating an environment conducive to excellent ongoing service and appropriate advice for our professional members.

Communications

PPS Business Brief

A monthly communication supporting PPS strategic initiatives, e.g. Treating Customers Fairly, tax deductibility of PPS' permanent incapacity contributions and Enhancements to the PPS product range.

PPS Alert

An *ad hoc* communication in which we address operational issues e.g. improvements to PPS' products, process or systems.

pps FOR PROFESSIONALS SINCE 1941

PPS ALERT ANNUAL BENEFIT INCREASE

To combat the eroding effects of inflation, the PPS Board has declared an increase of 7,9% in PPS benefits.

This increase is in accordance with the terms of our PPS insurance policies and took effect on 1 January 2012.

This rate has been set in the interests of our members, in order to maintain the real value of their benefits held with PPS.

This increase is exclusive to PPS members and is free of any under-writing.

PPS members will receive either an email (should their email address be listed on the PPS database) or a letter that will reflect the benefit increase.

Weekly Insurance Library

A weekly communication with topical articles published during the week in the media by PPS, the Regulator, e.g. the FSB or other industry role-players.

Find attached your weekly insurance library, a weekly document informing you about news at PPS, in the insurance and investment environments.

PPS ARTICLES

- Obesity can cost you more than your health warns PPS
- PPS Advertisement – Feb 2012

GENERAL INSURANCE RELATED ARTICLES

- Advisers at risk of losing businesses by failing to take re exam
- Consumers urged not to fall into trap of in-house insurance policies with bonded properties
- Time to rethink how you save

OUR STAKEHOLDERS

continued

Member view of PPS

Results of the research indicate that PPS is regarded as an insurance provider that caters to a very exclusive target market, with profit-sharing being a distinguishing feature of the Company's offering. Respondents see PPS as a brand that is well-respected in the market and with which clients are proud to be associated. There is an appreciation among respondents that PPS has developed its reputation over a long period of time and that it has a very unique identity, which sets it apart from its competitors.

PPS's unique value proposition

The main reason for members joining PPS is the fact that it caters for and meets the specific needs of professionals. Belonging to a very exclusive community and sharing the profits of the Company are further aspects that many members find very attractive. Furthermore, they feel that PPS provides good quality cover at affordable rates, although many find products and services difficult to understand. Interestingly, 25% of members who participated in the research are not aware of the fact that they have a PPS Profit-Share Account™ and share in the profits made by PPS. Similar results were found among respondents who do not own any products with PPS. Respondents are much more aware of the fact that PPS caters exclusively to graduates and professionals than they are of the sharing of profits with its members.

Advertising and awareness

There has been a steady increase in advertising recall among all types of respondents. Some members were surprised to see PPS advertising, as they had never come across it before. This is understandable, given the relatively short period of time that the current marketing campaign has been in the media. Increased frequency of exposure to advertising should improve top-of-mind awareness of PPS among members.

Respondents who could recall being exposed to PPS advertising in the recent past describe the advertisements as being of good quality and conveying a professional image. Non-product-owning members of PPS, especially, feel that these advertisements are giving them a much better understanding of what PPS offers, increasing their propensity to purchase products from PPS in the near future.

The current brand campaign is in its infancy and is a medium to long-term strategy, but the research indicates that it has contributed significantly to the PPS bottom-line. While the Company is still spending much less on advertising than its competitors, the expenditure is adequate to ensure a continued presence in the media which will go a long way towards developing a greater awareness and understanding of the PPS brand.

Way forward

The current campaign is part of a three-year strategy and we project a substantial increase in awareness amongst graduate professionals that, in turn, will ultimately result in increased revenue, thereby contributing towards the members' PPS Profit-Share Account™.

The main reason for members joining PPS is the fact that it caters for and meets the specific needs of professionals. Belonging to a very exclusive community and sharing the profits of the Company are further aspects that many members find very attractive.

International Co-operative and Mutual Insurance Federation (ICMIF)

PPS is honoured to have been invited by the ICMIF, based in Manchester, England, to host the 2013 bi-annual ICMIF Conference in South Africa, which will be held at the Westin Hotel in Cape Town from 6 to 8 November 2013.

The theme for the Conference is Leadership of the mutual and co-operative movement. It offers a unique international environment which promises to attract mutual and co-operative insurance leaders from around the globe. PPS will help to formulate the agenda, which will be structured to highlight and examine leadership challenges, strategies and successes within the sector.

This Conference will be preceded by the International Co-operative Alliance (ICA) General Assembly on 4 and 5 November, at the same venue, which gives ICMIF delegates the opportunity to meet with other co-operative leaders from a variety of industries and discuss strategic issues facing the wider global movement. It also creates the potential for media coverage and consumer awareness of the increasing international interest in mutuality as a more appropriate model of governance for an insurance company.

"The ICMIF currently has 222 members in 71 countries with approximately one-third of the membership in Europe, a further third in the Americas and the remainder representing Asia and Oceania, Africa and the Middle East. This individual membership in turn represents over 600 distinct insurance organisations with assets approaching USD 1 trillion. Spread across more than 70 countries, these organisations employ over 300,000 people. A further 1,500 mutual insurers are indirect members of ICMIF through their national mutual trade associations. ICMIF can truly claim to be the voice of the world's co-operative and mutual insurance sector."

(Source: www.icmif.org)

The Professional Confidence Index

PPS launched the first quarterly Professional Confidence Index (PCI) in April 2011. It has since become an important barometer for the views of our graduate professional members on a variety of socio-economic issues, and has generated substantial publicity and awareness of PPS. In 2012, we also started to survey members of particular professions specifically on issues affecting them, and we have found that the doctors, dentists, attorneys, engineers and pharmacists who are members of PPS have shown an increasing interest in the PCI since we have customised the surveys for specific professions. We have also worked closely with the relevant trade organisations, who are often quoted in our quarterly profession-specific news releases, in formulating the questions that we pose.

OUR STAKEHOLDERS

It is significant to note that the major socio-economic concern highlighted by PPS members in the PCI responses is the high rate of unemployment in South Africa. On the back of these results, in line with our strategy to become thought-leaders, we have decided to highlight the important role that our members play in this regard, by recognising activities that address unemployment. PPS marketing awarded R50 000 for the Professional Woman of the Year award. The award contributed to the upliftment of disadvantaged communities and job creation.

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

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 arranged 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 initiative is being taken to a higher level during 2013 on issues like retirement reform and the social security plans of Government which are in the pipeline.

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

Reaching our members

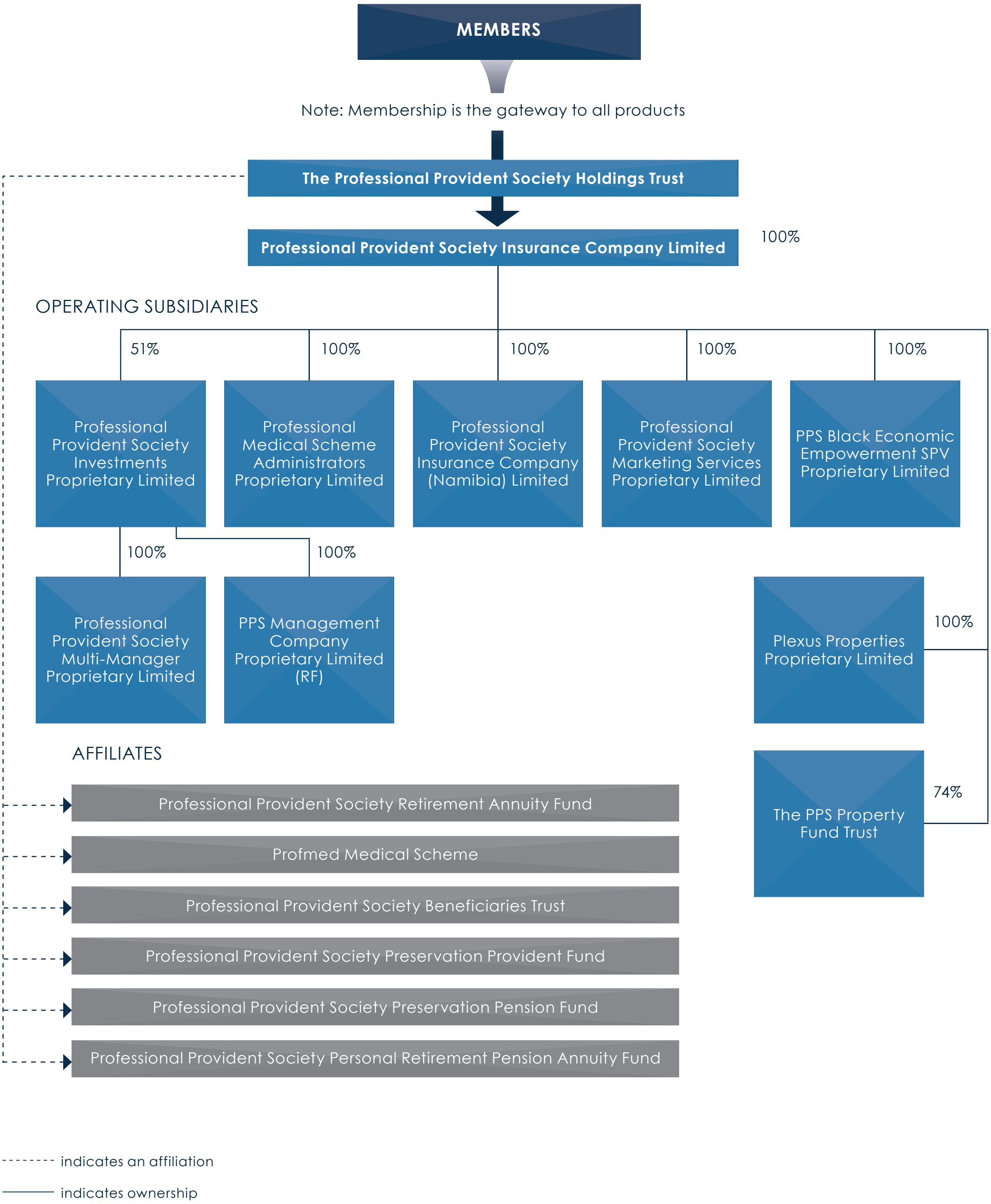
At PPS, services and financial advice are provided to our members through our very strong relationships with carefully selected financial planners. In our target market, PPS believes that a very high level of trust is required in providing financial advice and that intermediated services are of critical importance in meeting the needs of members. The ongoing accreditation of our supporting intermediaries 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 advisers 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 and our broker force comprise over 3 000 dedicated intermediaries who form the crucial link between the Company and its members.

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 platforms for interaction between executives of the Company and members, who learn first-hand about the performance of the business and the latest trends in the industry, whilst also 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.

GROUP STRUCTURE



GROUP STRUCTURE

continued

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

Name	Business	Location	Revenue	Total assets	Number of employees	Number of policy-holders
PPS Insurance Company Limited	Long-term insurance and investments	Johannesburg – branches in major centres	R2,1bn	R21,0bn	679	113 543
PPS Insurance Company (Namibia) Limited	Long-term insurance	Windhoek	N$81,9m	N$603,1m	7	4 423
PPS Investments Proprietary Limited Group	Investment management	Cape Town	R70,2m	R10,8bn[1]	63	15 566
Professional Medical Scheme Administrators Proprietary Limited	Medical scheme administration	Pretoria	R163,9m	R37,5m	244	80 623[2]
PPS Marketing Services Proprietary Limited	Short-term insurance	Johannesburg	R20,4m	R6,5m	35	6 584
PPS Black Economic Empowerment SPV Proprietary Limited	Black Economic Empowerment vehicle	Johannesburg	R6,1m	R109,1m	–	23 174
PPS Property Fund Trust[3]	Property investment	Johannesburg	R975k	R45,4m	–	–

1. Assets under management
2. Members under administration
3. Established June 2012

PPS 2012 GROUP HIGHLIGHTS

Total allocation to members in 2012 was	R3,0 BILLION
Assets grew by 22,5% to	R21,7 BILLION
3 year rolling Investment return was	13,7%

At PPS we ensure that our members* share in our success, with R3 billion profits allocated to members' PPS Profit-Share Accounts™ in 2012. Over the past 10 years R15,9 billion was allocated to members and in 2012 total assets reached R21,7 billion. In addition, R1,5 million of benefits was paid to members in 2012. This is how mutuality sets us apart.

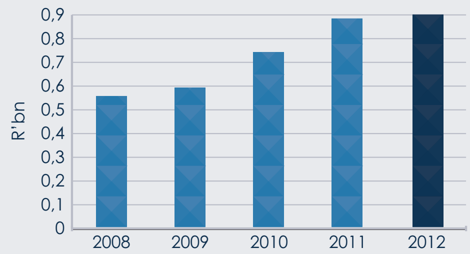
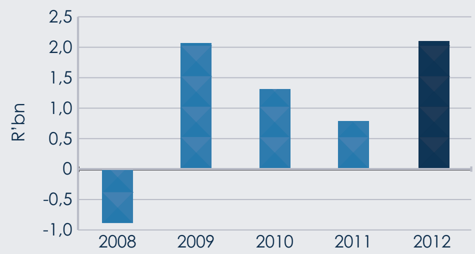
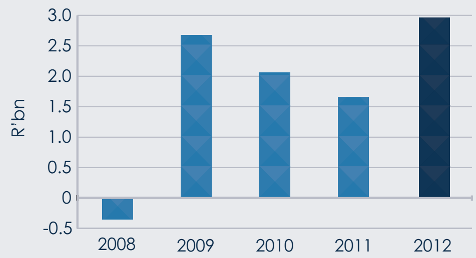
*PPS members with qualifying products

PPS PROFIT-SHARE ACCOUNT™

PPS has taken the decision to rename members' Surplus Rebate Accounts (SRA), to PPS Profit-Share Account™. This is the vehicle that accumulates their profit allocations. Our members have a unique value proposition by belonging to PPS, as they receive all the profits of the company. Upon retirement they qualify for a lump sum pay-out of all accumulated profits.

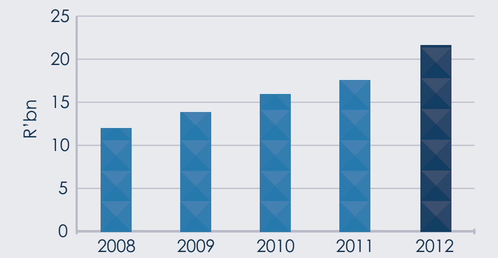
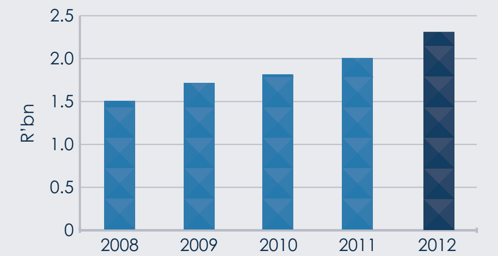
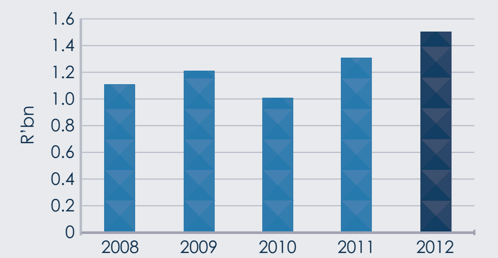
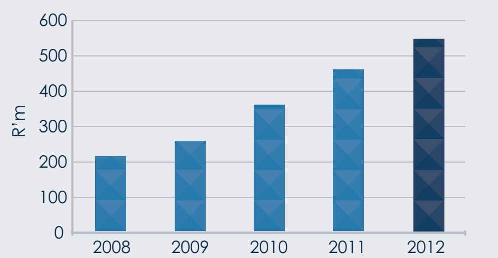
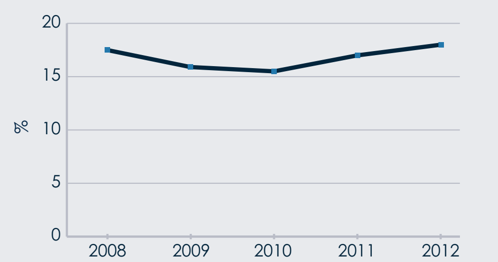
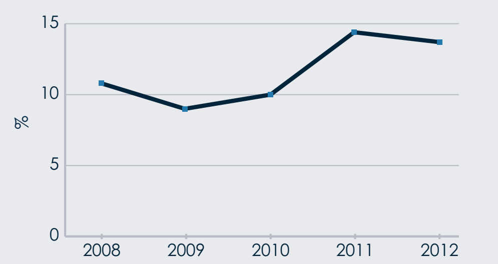
PPS AT A GLANCE

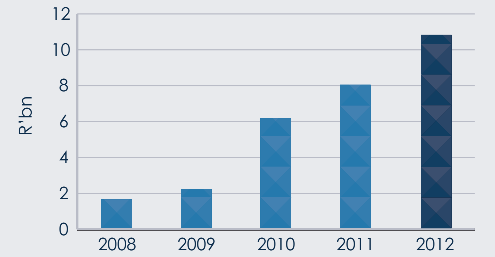
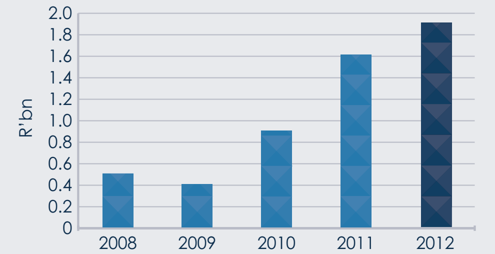
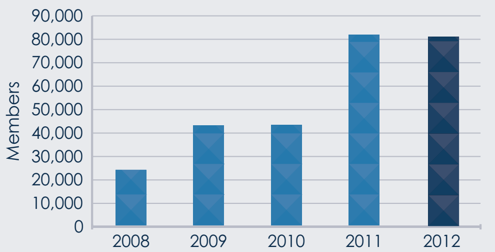
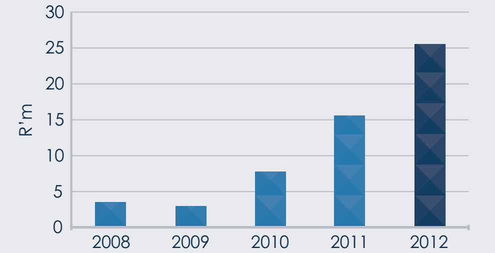
Account of performance – Group

	KEY INDICATORS	2012 PERFORMANCE	FIVE-YEAR COMPOUND ANNUAL GROWTH RATE	FIVE-YEAR REVIEW
MUTUALITY Through its unique mutual model, all the profits are ultimately attributable to our members. This is achieved by allocating operating profit and investment returns to the members' PPS Profit-Share Account™, which is available to them on death or retirement	Bonus allocations	R0,9 billion	17,2%	
	Investment allocations	R2,1 billion	n/a	
	Total allocations	R3,0 billion	n/a	

PPS AT A GLANCE

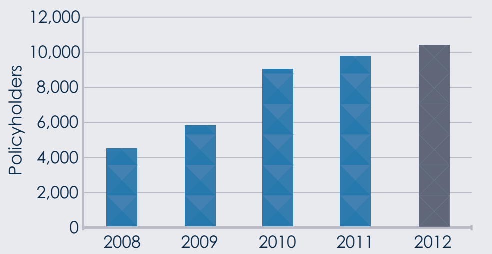
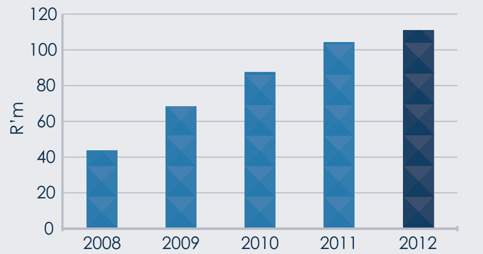
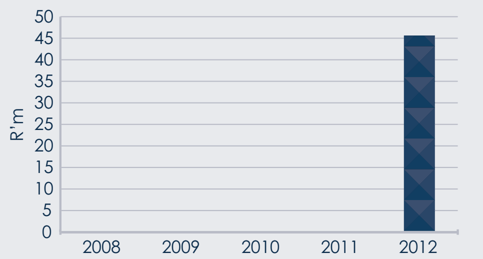
continued

	KEY INDICATORS	2012 PERFORMANCE	FIVE-YEAR COMPOUND ANNUAL GROWTH RATE	FIVE-YEAR REVIEW
LONG-TERM INSURANCE 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 profits are ultimately attributable to our members	Total assets	R21,7 billion	12,1%	
	Gross premium revenue	R2,3 billion	10,9%	
	Gross benefits paid to members	R1,5 billion	12,5%	
	New annual premium income	R539,2 million	14,1%	
	Efficiency ratio	18,0%	n/a	
	Investment return (3-year rolling average)	13,7%	n/a	

	KEY INDICATORS	2012 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	R10,8 billion	103,8%	
	New business: Flows	R1,9 billion	n/a	
MEDICAL SCHEME ADMINISTRATION Professional Medical Scheme Administrators is a company specialising in the administration of medical schemes.	Members under administration	80 623	27,7%	
	Operating Profit	R25,5 million	80,1%	

PPS AT A GLANCE

continued

	KEY INDICATORS	2012 PERFORMANCE	FIVE-YEAR COMPOUND ANNUAL GROWTH RATE	FIVE-YEAR REVIEW
SHORT-TERM INSURANCE BROKING 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 policy-holders	10 397	31,4%	
	Premiums: Short-term insurance	R115,2 million	50,3%	
PROPERTY INVESTMENT* PPS Property Fund Trust owns and manages physical property for long-term investment purposes * Established June 2012.	Total assets	R45,4 million	n/a	

Summary

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

		Unit of Measure	2012 Performance	2012 Goal		Commentary
MUTUALITY	**Number of new members recruited during the year**	Individuals	9 748	10 000	Partially achieved	New member recruitment has been a challenge in 2012 and new initiatives will drive recruitment in 2013.
FINANCIAL STABILITY	**Gross premium income**	Rand billions	2,3	2,2	Achieved	Gross premium income was in line with expectations.
	Total assets	Rand billions	21,7	19,7	Achieved	Positive market movements and a prudent investment policy resulted in asset growth exceeding expectation.
	Efficiency ratio	%	18,0	18,4	Achieved	Cost control remains an imperative to the Group.
	Investment return	%	13,7	10,4	Achieved	Investment return outperformed the strategic objective of 5,3% above inflation on a rolling 3-year basis.
	New annual risk premiums excluding annual benefit increase	Rand millions	287,8	269,0	Achieved	New risk premiums outperformed the pre-determined goal.
	New investment inflows	Rand billions	1,9	1,5	Achieved	PPS Investment products has once again proven to be very popular amongst our members.
SERVICE	**Average number of monthly ombudsman queries**	Number of queries	3	< 5	Achieved	PPS strive to treat members fairly and to create long- term financial security.
	Customer satisfaction survey results	Rating	94	> 80	Achieved	The customer survey results continue to be at an acceptable level.
STAFF	**Employee satisfaction survey results**	%	93	70,8	Achieved	A material improvement in survey results were achieved in 2012.
	Training spend as a percentage of payroll	%	4,15	> 1.5	Achieved	Training spent has increased significantly and development of staff, especially designated groups, is a key priority of the Group.

Achieved
Partially achieved
Not achieved

OVERVIEW OF PPS GROUP

Who are we and what makes our business model unique?

Our business model

PPS Insurance creates and sustains value mainly through the marketing and selling of insurance policies and savings products.

Our products 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 and lapse experience;
- monitoring expense experience (future anticipated expenses are particularly closely looked at, as they 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 exclusively for the benefit of its policyholders through their PPS Profit-Share Account™. 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 advisers 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.

PPS Profit-Share Account™ (previously called Surplus Rebate Account)

Structurally and legally the PPS Profit-Share Account™ mirrors the SRA, this is merely a name change which was introduced in line with our commitment to using plain English at PPS, also in line with our commitment to Treating Customers Fairly (TCF).

The PPS Profit-Share Account™ is a policy benefit that is used to accumulate the annual allocations of profit as well as the investment returns thereon. This benefit is available to members in full on retirement.

What is the PPS Profit-Share Account™

The PPS Profit-Share Account™ is a policy benefit that is used to accumulate the annual allocations of profit as well as the investment returns thereon. This benefit is available to members in full on retirement or death. Until this date the PPS Profit-Share Account™ remains an unvested benefit, which forms part of PPS Insurance's capital.

The PPS Profit-Share Account™ is paid as a policy benefit on retirement or earlier death. At retirement there is also an option to retain this PPS Profit-Share Account™ in the Vested PPS Profit-Share Account™ – the policy remains in force and funds can be withdrawn from this account. These withdrawals can be *ad hoc* when needed, or on an ongoing monthly basis to assist in retirement years.

Some of the history

PPS has always embraced the philosophy of mutuality and shared profits amongst members. The association was started in 1941 when a group of dentists designed a product to protect their income should they be unable to work as a result of sickness or incapacity. This sickness and permanent incapacity benefit was the only insurance benefit offered by PPS for many years. Later on life cover was made available to members with the sickness and permanent incapacity benefit in proportion to the cover that was held under this benefit.

In 2007 a range of products was introduced that could each be taken as stand-alone benefits. There was no longer a requirement to have the sickness and permanent incapacity benefit to access life cover, dread disease cover or the new stand-alone disability benefit that was launched in 2009. Under the PPS Provider policy, members are now able to obtain any combination of benefits protecting different financial needs should they fall ill, become disabled, suffer a dread disease or die.

PPS Investments

A range of flexible unit trust-based investment products was also launched to the professional market in 2007 and policyholders with a PPS investment product will in 2012 receive allocations to their PPS Profit-Share Account™, being a portion of the contribution from PPS Investments.

Further developments

Following the introduction of differentiated rates (premiums that differ for males and females, smokers and non-smokers) in 2011, the allocations to the PPS Profit-Share Account™ have been further enhanced. These products, as well as the stand-alone dread disease and accidental death benefit, will all receive a direct allocation based on their profits. Members will receive an allocation for any or all of the following products that they hold:

OVERVIEW OF PPS GROUP

continued

- Sickness and Permanent Incapacity Benefit;
- Professional Life Provider level rated (life cover with differentiated rates and a level premium pattern);
- Professional Life Provider age rated (life cover with differentiated rates and a premium pattern that increases each year as the policyholder ages);
- Professional Disability Provider level rated (lump sum disability cover with differentiated rates and a level premium pattern);
- Professional Disability Provider age rated (lump sum disability cover with differentiated rates and a premium pattern that increases each year as the policyholder ages);
- Professional Health Provider; and
- Accidental Death Benefit.

The philosophy of mutuality and the unique PPS Profit-Share Account™ makes PPS the company of choice for professionals' risk cover requirements. By purchasing life insurance products from PPS, the professional effectively owns a share of PPS and shares in the profits of the Company.

The legacy products which are now closed to new business will continue to generate profit, which will be allocated to policyholders with a Sickness and Permanent Incapacity benefit.

The philosophy of mutuality and the unique PPS Profit-Share Account™ makes PPS the company of choice for professionals' risk cover requirements. By purchasing life insurance products from PPS, the professional effectively owns a share of PPS and shares in the profits of the Company. Broadening mutuality and sharing these profits for the different stand-alone products creates a better synergy between PPS and its members.

Allocations to PPS Profit-Share Account™

Allocations to the Sickness and Permanent Incapacity (SPPI) Benefit have always been based on the underlying Units of Benefit. An amount in cents per Unit of Benefit is declared at the end of each financial year and this is the mechanism to distribute profits to each member with a SPPI benefit. The cents per Unit of Benefit allocation is then made for each month that the SPPI benefit is in force and a premium is paid based on the number of Units of Benefit in each month. This amount is then allocated to the PPS Profit-Share Account™ each year.

The allocations for the lump sum benefits (life cover, dread disease, etc.) are based on the premium paid for the benefits, excluding any health loadings applied by underwriting and excluding the premium for any optional rider benefits. Each year the lump sum products will have a percentage of premium declared as the bonus allocation. The sum of the basic premium (excluding loadings and rider premiums) for each month that the premiums were paid will then be added and the percentage allocation applied to that in order to get an annual allocation to the PPS Profit-Share Account™.

Access to the PPS Profit-Share Account™

The PPS Profit-Share Account™ is an unvested policy benefit that is paid out at retirement or earlier death. With the introduction of broadening mutuality, there is now a direct allocation for lump sum benefits that are whole of life benefits, such as life cover and dread disease. In terms of accessing the PPS Profit-Share Account™, some flexibility has been introduced post the age of 66.

The PPS Profit-Share Account™ has always been available at retirement (when the SPPI covering income should you fall ill or become incapacitated is no longer required is cancelled at retirement). Retirement income is paid regardless of state of health. Retirement at PPS is considered to be the end of the month of the members' 66th birthday. Since some professionals do retire earlier, the PPS Profit-Share Account™ money is available from the age of 60 if the policyholder retires and cancels the SPPI benefit.

Some members retiring early and maintaining their life cover or other lump sum benefits may wish to leave their PPS Profit-Share Accounts™ intact and not access this money; instead allowing the allocations of profit to continue for the products that remain in force.

PPS also recognises that many professionals do not retire at 66 and continue to work well into the later years of their lives. In these instances, if they keep their SPPI benefits to cover this income should they fall ill, then the PPS Profit-Share Account™ can remain intact after 66 and also continue to receive allocations of profit for all of the products that the member continues to hold.

The new structure also allows the flexibility that if the member is working beyond 66 and retains the SPPI benefit; they can also elect to exercise the Vested PPS Profit-Share Account™ option where they can access the funds as and when they require it. If the Vested PPS Profit-Share Account™ option is selected, then the profit allocations for the in-force benefits will cease.

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?

Our unique selling proposition:

- 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 target market being exclusively graduate professionals.
- We engaged in a BBBEE transaction in 2006 in recognition of the importance of transformation. 34% of new PPS members are black, and 28,09% of the economic interest of PPS is owned by black members.
- We actively engage with all of the large tertiary educational 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; and

OVERVIEW OF PPS GROUP

continued

  - 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, taking economic trends and the impact of inflation into account. The annual 'auto increase' in benefits is determined by reviewing the average inflation rate for professionals' income and expenses and aligning the increase in PPS benefits to keep pace with inflation. Benefits also increase automatically if a member is claiming and cannot work.
- The design of our products leverages our core mutual model. Profit-sharing on all our core risk product offerings has been effective from 1 January 2012 and, with the launch of PPS Investments in 2007, we introduced the only offering in the market where investors share in the profits of the investment company.

We focus exclusively on the four-year plus graduate professional market.

Distribution Model

Our strategy is not to try to support all independent financial advisers, 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 advisers, and this allows us to provide a higher level of service and expertise to them, as well as ensuring that they have a thorough knowledge of PPS and its products, and the differentiating factors from other providers (in particular related to mutuality). We also provide an employee-based advice channel, Member Relations Division, for members who wish to interact directly with us. A detailed plan has been developed for the implementation of the upcoming Treating Customers Fairly (TCF) regulation for our adviser relationships, refer to page 68.

Our values

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

- We are a mutual organisation, 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:
  - being personally accountable;
  - working in teams;
  - recognising and developing our staff.

- We conduct our business with the highest standards of governance, integrity, fairness and respect for all stakeholders.

PPS Code of Ethics

We commit to the following ethical behavioural standards which flow from our values. These standards will govern all our interactions with our members and other stakeholders:

Member – Centric Mutuality

- We are committed to the sustainable business model of mutuality.
- We do everything to promote the interest of our members.
- We strive to build strong relationships with our members.
- All our products are focused exclusively on the professional market.

Service Excellence

- We consider service excellence as a core offering of our member-centric model.
- We are committed to providing convenient professional service to our members, on time, all the time.
- We achieve our outcomes through a collaborative culture by providing meaningful member experiences.
- We pride ourselves on the reliability of our service delivery.

Integrity, Fairness and Respect for all Stakeholders

- We treat our stakeholders with respect, integrity and fairness in everything that we do.
- We deal with our stakeholders transparently, while respecting their confidentiality.
- We commit to balance the interests of our diverse membership.
- We will not tolerate any form of dishonesty such as corruption, fraud and misrepresentation.
- We respect human rights and the dignity of all.
- We are uncompromising in the delivery of our promises.
- We strive to create a relationship of trust with our members and stakeholders.
- We believe that our reputation is our greatest asset.
- We value our diversity as a source of strength.

OVERVIEW OF PPS GROUP

continued

The Responsible Corporate Citizen

Corporate Social Investment (CSI)

CSI forms an integral part of the PPS Group's activities, both as a tool in our transformation drive and as a way of giving back to the community. Our employees have embraced this culture of giving and often participate in well-deserving social causes on their own initiative.

A Helping Hand

As part of its corporate social responsibility programme, PPS purchased, through the Arts Council in Pretoria, a number of works from unknown, up-and-coming and more established black artists for display in the Company's Boardroom and conservancy areas.

The artists include:

Lucas Bambo, Pat Mautloa, Billy Makogeng, Peter Mothapo, Isaac Nkoana, Zolile Phetshane, Stompie Selibi, Nhlanhla Xaba, Osiah Masekoameng and Jacob Motsoana.

Three unknown but promising artists' work is also exhibited outside PPS' Boardroom: Mali Dlamini, Sipho Nhlapo and C Sitole.

The acquisitions made by PPS are a tangible demonstration of the Group's belief that more needs to be done to foster the promotion of the large pool of artistic talent in South Africa that is often not recognised.

In support of our brand's exclusive focus on the graduate professional, we have always allocated our donations toward the development of education, students and universities. As in previous years, PPS has again made a significant financial contribution to the various universities in South Africa in the form of refurbishment allowances of R1 million in 2012, and we have invited the various universities to apply for these allowances for 2013. We have also allocated bursaries and scholarships of R1 million to qualifying students. Over the past year, we have had extensive engagements with a range of professional associations and student groupings with the aim of attracting younger members, particularly black professionals. Some of these initiatives have included campus interactions and sponsorships within the various professional associations.

One of our university allocations this year went towards sponsoring The Onderstepoort Animal Rehabilitation Service at the Onderstepoort Veterinary Academic Hospital, the training and reference hospital of the Faculty of Veterinary Science at the University of Pretoria. It upgraded its hydrotherapy programme with a new underwater treadmill, a state-of-the-art piece of equipment that provides learning opportunities for veterinary students and veterinary nurses as they now can become directly involved in handling and treating patients and experience the positive outcomes of physical therapy.

Our Eco-friendly Environment

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

PPS has revisited its Constitution regarding the printing of annual reports and the posting of these to each PPS member, taking into account the environmental impact of this practice as well as the costs. Members have since 2011 been able to download an electronic version of the Integrated Report.

Presentation of a PPS Refurbishment allowance to the University of Pretoria

New underwater treadmill at the Onderstepoort Veterinary Academic Hospital sponsored by PPS

PRODUCT OVERVIEW

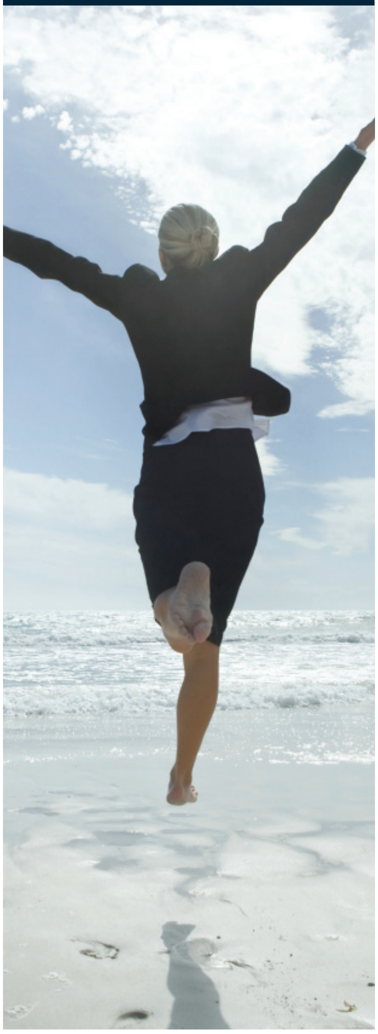
Security – Insurance

- 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™

Wealth – Retirement and Savings

- PPS Personal Pension
- PPS Retirement Annuity
- PPS Preservation Funds
- PPS Living Annuity
- PPS Vested Profit-Share Account™
- PPS Endowment Plan
- PPS Preferred Funds
- PPS Corporate Personal Pension

Health – Medical Aid



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

SICKNESS AND PERMANENT INCAPACITY CLAIMS

The Sickness and Permanent Incapacity Benefit's unique structure allows members to receive a tax-free Sickness benefit for those times when sickness means time off work. This ensures that your practice continues to run, even if you are not there, and softens the financial impact of your inability to work. For those professionals in employment, the sickness benefit is invaluable when sick leave is exhausted. For a permanent condition, the benefit can be a crucial top-up to group benefits which often pay far less than the salary you were earning.

Disease such as heart attacks, strokes and cancer require extended periods off work due to treatment protocols. For the times that you are only able to perform some of your usual professional duties PPS will pay you a partial sickness benefit of 50%.

PRODUCT OVERVIEW

continued

HOSPITAL BENEFIT

The Hospital Benefit is an optional rider benefit which pays an additional benefit equal to your sickness benefit when you are hospitalised for at least four consecutive days.

PPS PERMANENT INCAPACITY BENEFIT

The PPS Permanent Incapacity benefit ensures that the future earning ability of graduate professionals are protected in case of accidents or illnesses. Having a purely professional client base, we are in a unique position to assess all claims with an intimate knowledge of the occupational requirements of each profession.

Unique features of the Permanent Incapacity Benefit:

- PPS do not offset any income that you remain able to generate against the Permanent Incapacity award which is made
- No need to prove loss of income
- A member who remains working and continues paying premiums can claim sickness benefits for unrelated conditions, whilst receiving a partial permanent incapacity award
- Declared annual increases in benefits will continue
- Benefit payable until the day that the member turns 66
- You can insure up to 100% of your gross professional income
- Allocations to the PPS Profit-Share Account™ continue even during claim

During 2012, PPS has made various awards for permanent incapacity, the majority of these claims were for a 100% benefit where the members were totally unable to perform their usual professional duties.

PRODUCT OVERVIEW

continued

PPS OCCUPATION SPECIFIC RIDER BENEFIT™

The Occupation Specific Rider benefit™ (OSRB) is an additional add-on or rider benefit to the Sickness and Permanent Incapacity Benefit. This is a unique benefit in the South African insurance market.

This benefit ensures that any award of 20% or higher under the Permanent Incapacity Benefit will automatically be increased to a 100% benefit.

Unique features of the Occupation Specific Rider Benefit™:

- Once awarded this benefit is never reviewed
- Any income earned from your own profession or any other profession will not be offset against the PPS payment
- Declared annual increases in benefits will continue
- Benefit payable until the day that the member turns 66

PPS DEATH CLAIMS

The PPS Professional Life Provider™ product (with differentiated premium rates) has been enhanced. From 1 January 2012 this product forms part of the broadening of mutuality principle whereby members share directly in the profits of the Life Provider product.

PRODUCT OVERVIEW

continued

PPS DISABILITY CLAIMS

The PPS Professional Disability Provider™ lump sum benefit ensures that cover is provided to our members in their time of need.

PPS providers cover when members are not able to practice their own profession*.

Unique Features:

- PPS does not aggregate the disability benefit against benefit payments from any other insurance company or other source of income
- PPS provides cover for hazardous pursuits or activities at no additional cost or exclusions
- PPS provides world-wide cover with no additional loadings or exclusions

*If a member has chosen the OSRB benefit or Professional Disability Provider™

SEVERE ILLNESS, TRAUMA AND PHYSICAL IMPAIRMENT CLAIMS

The PPS Professional Health Provider™ benefit is a lump sum that pays out accordingly to specific criteria. The assessment is not related to the ability of a member to work. The lump sum can be used to offset the lifestyle or medical expenses that the diagnosis of a major health event can bring about. The product was created with the graduate professional in mind and provides unique cover for conditions such as gunshot wounds and reconstructive facial injury. Preservation and continuation of cover will ensure that you are covered for future unrelated events.

PRODUCT OVERVIEW

continued

PPS has a product for every life stage

LIFESTYLE & WORKPLACE

Daily living - property used, circumstances and necessary assistance

PROPERTY

Vehicles, Property, Leisure items, Furniture and other

FAMILY / FAMILY MEMBERS

Related or legally dependent, for example spouse, children, grandchildren, parents siblings, dependents

1 When looking at your financial plan, consider these risks and needs

2 When considering the above, your risk cover should be reviewed on these life events

3 When reviewing the above, consider these broader risks and needs

- DEATH BENEFITS (red)
- DISABILITY & DREAD DISEASE BENEFITS (green)
- SICKNESS & PERMANENT INCAPACITY BENEFITS (blue)
- BUSINESS ASSURANCE BENEFITS (purple)

1

FIRST STEPS

Student loans (red)

Replace / Supplement income (blue)

Protect Future potential (blue)

Lifestyle changes and costs due to disability/dread disease (green)

2

Taking / settling student loan

4th Year of study

Recent graduation

1

PROMOTION AND PROGRESS

Replace / Supplement income (blue)

Protect Future potential (blue)

Lifestyle and workplace changes and costs due to disability / dread disease (green)

BUSINESS / PRACTICE:

EXPANSION & GROWTH

Key person cover - Important personnel (purple)

Contingent Liability cover - Capital injected (purple)

Contingent Liability cover - Surety debts (purple)

Buy-and-sell cover - Business continuation (purple)

2

Entering employment

Change in duties

Change of occupation / employment

Retrenchment

Salary increases

Bonuses

Change in workspace

BUSINESS / PRACTICE:

Change / loss of key personnel

Loans to business given / paid up

Surety debts taken / paid up

Change / loss of partners

3 **TRAVEL, WORKING ABROAD AND EMIGRATION** 3

Life is full of constant changes and doesn't always go according to plan. At PPS, we understand your needs as a Graduate Professional and aim to protect you at your time of need.

Insurance is the foundation of a good financial plan. Without insurance, you put both your lifestyle and the financial future of your loved ones at risk, often when you need it most.

It is important to understand that as your life and needs change, so too should your insurance.

See below the different identified life stages to better understand why having and keeping insurance is important.

PROPERTY

1

ACCUMULATION

Debt cover – own property

Debt cover - family member's property

Cover for changes due to disability / dread disease – own property

Cover for changes due to disability / dread disease – family member's property

2

Obtaining new property

Loan / Mortgage / Account paid up

Property sold / lost / destroyed / donated

FAMILY

1

PLANNING A FAMILY, PROVISION AND LEGACY

Estate Liquidity on own death

Provide for family on own death

Provide for own risk due to family member death

Debt cover – engagement / marriage debts

Debt cover – debt owed to or by family members

Lifestyle changes and costs due to disability / dread disease of self or family member

2

Marriage

Divorce

Birth / Adoption of family member

Death of family member

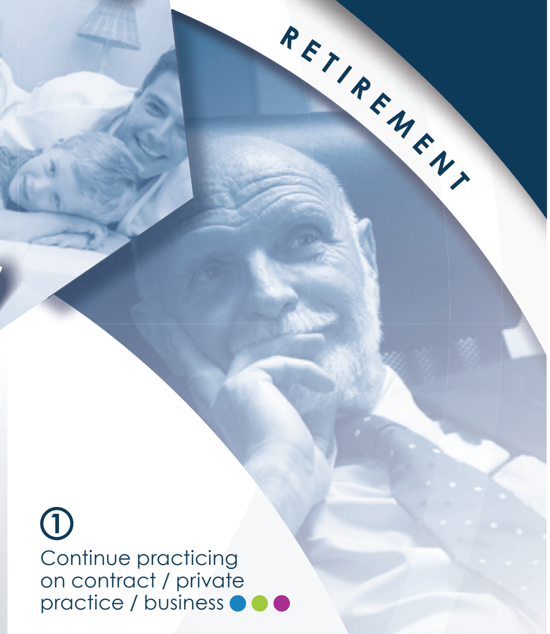
Family member becoming independent

Aging of self / family member

Inheritance from family member

Engagement / marriage / family debts paid up

RETIREMENT



1

Continue practicing on contract / private practice / business

2

Exit of career

Sale of business

Part-time work / consulting

HAZARDOUS PURSUITS AND ACTIVITIES

3 TAX IMPLICATIONS

PRODUCT OVERVIEW

continued

In 2012, PPS paid out over R529 million of sickness and incapacity claims. Given the nature of the PPS Sickness Benefit, being payable from day 7, over 11 000 sickness claims were assessed and paid in 2012. With the streamlining of the claims process and documentation, over 95% of these were paid and settled within 8 days. Claims related to musculoskeletal and connective tissue disorders remain the highest cause of sickness claims, followed by injuries. The third highest cause of sickness claims is for cancer-related conditions, although cancers remain the leading cause of permanent incapacity claims.

Over 300 lump sum benefit claims (life, critical illness and disability claims), totalling more than R400 million, were also settled during the year. We still, tragically, see at claim stage many instances of members being significantly underinsured for their sickness and other benefits, to the detriment of themselves and their families. We urge all members to regularly review their insurance with PPS so that they have the appropriate amount and types of cover against unforeseen events. To appreciate the life changing value of insurance, we encourage you to read the many testimonials from other PPS members, available on our website.

Permanent Incapacity claims

This benefit remains a mainstay of PPS. These benefits are payable under a variety of conditions, from cancer-related events to injuries sustained in motor vehicle accidents which impact the member's usual professional duties and potential future earning ability. Having a purely professional client base, we are in a unique position to assess all claims with an intimate knowledge of the occupational requirements of each profession.

In 2012, 54% of Permanent Incapacity claims were assessed at 100%, including a number of OSRB claims. A further 22% of Permanent Incapacity claims were assessed at 60%. Over 10% of claims were for members under the age of 35, highlighting the importance to members of financial planning from an early age. Cancers remain the primary cause of claim for permanent incapacity overall. For hands-on professions, such as dentists and veterinarians, up to 20% of Permanent Incapacity claims are musculoskeletal-related (such as for neck-related injuries and arthritis).

Helping young professionals

Recognising that starting out as a young graduate professional can be a daunting task, with new and unfamiliar professional and family responsibilities, we have introduced the **My Future Plan** for our younger members. It is a seamless, needs-focused offering which provides meaningful cover with options to increase cover on life events (such as moving up the corporate ladder or additions to the family). In developing this solution, the Treating Customers Fairly framework played a significant role, and the final offering and marketing collateral is markedly different from how insurance has traditionally been marketed, with My Future Plan focused very much on the needs and concerns of the young graduate.

Product development overview – 2012

1. Enhanced student package

The student package was enhanced to provide significantly higher cover amounts on a simplified application form with just three health questions. The need for higher cover amounts is as a result of the increase in fees and other debt that students incur and may need life cover for. The PPS package offers 4th year students this cover at significantly cheaper rates than credit life cover.

The maximum age at which a person is considered a student has also been extended to 35 (from 30) to accommodate people working first and earning money, and then completing the final or post-graduate year as older students, either part-time or full-time. Whereas previously these persons could only purchase the PPS benefits after they obtained qualification as a full member, they can now obtain them as a recognised student.

Increased limits were also applied to the Graduate Enhancement Benefit (GEB) so that, on graduation of students to full members, they can increase the benefits that they have with PPS, free of additional medical underwriting.

2. Removal of certain survival periods from dread disease (PHP)

The Professional Health Provider, Business Health Provider and Severe Illness benefit have all been enhanced to remove the six and 12-month waiting periods for the following conditions:

- Paraplegia/Quadriplegia
- Loss of, and loss of use of, limbs
- Loss of speech

Under loss of use of limbs, the loss of one arm and one leg has been included and will pay at a severity A 100% level.

3. Enhancement of the *CatchAll* Cover

Whilst still covering serious and significant permanent conditions only, the *CatchAll* cover was enhanced to pay if the condition results in a Whole Person Impairment (WPI) of more than 35% instead of the previous 50%, so the benefit will now pay out at a lower severity.

4. **Pregnancy complications enhanced under the sickness benefit**

   The sickness benefit always covered pregnancy complications that resulted in a hospitalisation of four or more days and paid a benefit for each day the policyholder was in hospital. The benefit has now been extended to also cover 17 defined pregnancy complications. The criteria to claim and the days that will be paid are all included in the policy document in a very transparent and clear presentation. In terms of TCF this gives the policyholder the knowledge upfront to make an informed decision as to whether the cover is appropriate.

5. **Simplified quoting and application for Sickness and Permanent Incapacity (SPPI)**

   The way in which the SPPI benefit is quoted and applied for has been simplified so that, instead of calculating the Units of Benefit that the client needs to cover the income, the income and expenses can simply be entered and then covered in full.

6. **More comprehensive cover of income for Sickness and Permanent Incapacity**

   PPS covers professionals who need to protect their most valuable asset, their ability to earn an income. The professionals catered for with the PPS product range all have different income structures and need different amounts of sickness and permanent incapacity cover to ensure they are comprehensively insured.

   PPS now allows policyholders to purchase the sickness benefit to cover 2/3rds of their personal income and 100% of their actual expenses.

   In addition, permanent incapacity cover can be purchased to cover 100% of their personal income, which is taxable.

   In recognising the differing income structure of its members, PPS requires two pieces of income information:

   - **gross professional income (GPI)** which is all the income including professional fees, income from trading and overhead expenses or total cost to company and average incentive bonuses; and
   - **actual expenses** which are those that are paid by the business to a 3rd party, like a secretary's salary or office rent. If the business is run from home, then rent for the premises does not count as an actual expense, as it is remunerated back to the professional as part of the payment of their bond for example.

   The difference between the two is then **personal income.**

   PPS recognises the unique structure of a professional's income and offers benefits that best match this need.

7. **Clarification of the Permanent Incapacity definition**

In line with TCF, the permanent incapacity benefit has been clarified so that it is written in a simple, concise manner explaining both the definition of permanent incapacity as well as the claims assessment process. This is unique to PPS and demystifies the assessment process at claim stage, so policyholders know upfront exactly how a permanent incapacity claim will be assessed. This allows them to make an informed decision as to the appropriateness of the cover. PPS is the only company offering income disability benefits in the professional market that has clarified the definition and the claims process.

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST BOARD OF TRUSTEES

MR E A MOOLLA

B Iuris
Practising Attorney
Chairman

DR S N E SEOKA

B Pharm, PhD
President: Pharmaceutical Society of South Africa
Deputy Chairman

DR J PATEL

B ChD
Practising Dentist

MR U D JIVAN

BA LLB
Practising Attorney

DR N G CAMPBELL

BDS
Dentist

MR B R TOPHAM

B Compt (Hons), B Proc, LLM,
CA(SA), CA(England and Wales)
Chartered Accountant and Attorney

MR V P RIMBAULT

B Sc Eng (Mech)
Chief Executive Officer:
The South African
Institution of Mechanical Engineering

MR I KOTZÉ

B Pharm
Executive Director: Pharmaceutical
Society of South Africa

MR P RANCHOD

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

MR J A B DOWNIE

B Sc, MBA, CFP
Asset Consultant and
Professional Trustee

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST BOARD OF TRUSTEES

continued

DR C M KRÜGER

MB ChB, M Prax Med, M Pharm Med
Family Physician

ADV T N ABOOBAKER

BA LLB
Practising Senior Advocate

MR Y N GORDHAN

B Com (Hons), CA(SA), M Sc
Chartered Accountant

MS D L T DONDUR

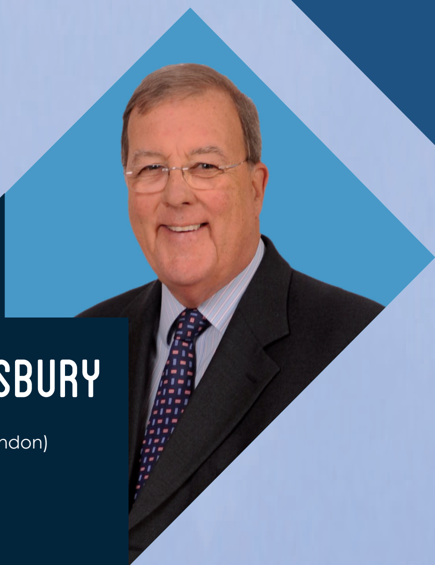
B Acc (Hons), B Compt, CA(SA), MBA
Director of Companies

MR S TRIKAMJEE

B Com (Hons), CA(SA)
Chartered Accountant and
Entrepreneur

DR D R ANDERSON

BDS, Dip, POM, FCD(SA) OMP
Practising Periodontist



DR D G C PRESBURY

MB BS (London), FRCP (London)
Practising Dermatologist

MS U BOTHA

B Proc, LLM, MBA
Operational Director: SEESA

DR M W SONDERUP

B Pharm, MB ChB, FCP (SA)
Senior Specialist, Groote Schuur
Hospital and Lecturer,
University of Cape Town

MR H A C VAN DEN BOUT

B Com (Hons), LLM
Attorney

PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY LIMITED BOARD OF DIRECTORS

DR D R ANDERSON

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

MR C ERASMUS

B Sc, FIA
Director of Companies
Non-executive Director
Deputy Chairman

MRS T 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

ADV T N ABOOBAKER

BA LLB
Practising Senior Advocate
Non-executive Director

MR M J JACKSON

BA (Hons), MA
Chief Executive

MR E A MOOLLA

B Iuris
Practising Attorney
Non-executive Director

PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY LIMITED BOARD OF DIRECTORS

continued

DR D G C PRESBURY

MR N G PAYNE

B Com (Hons), CA(SA), MBL
Director of Companies
Non-executive Director

DR S N E SEOKA

B Pharm, PhD
President: Pharmaceutical Society of South Africa
Non-executive Director

MB BS (London)
FRCP (London)
Practising Dermatologist
Non-executive Director

MR B R TOPHAM

PROF H E WAINER

MR Y N GORDHAN

B Acc CA(SA)
Practising Chartered Accountant
Non-executive Director

B Acc CA(SA)
Practising Chartered Accountant
Non-executive Director

B Compt (Hons), B Proc, LLM, CA(SA), CA (England and Wales)
Chartered Accountant and Attorney
Non-executive Director

SUMMARY FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	2012 R'000	2011 R'000	Change %	Description of individual items
Net insurance premium revenue	**2 119 279**	1 914 399	11	Premiums received from policyholders net of reinsurance premiums paid to reinsurers
Other income	**249 020**	197 654	26	Administration fees: Long-term and short-term insurance, medical aid administration, short-term insurance commissions, fees earned for asset management
Investment income	**1 385 070**	654 435	112	Interest and dividends
Net fair value profits on financial assets held at fair value through profit and loss	**1 771 011**	494 825	258	Realised and unrealised growth on investment assets representing risk reserves and PPS Profit-Share Accounts
Revenue	**5 524 380**	3 261 313	69	
Gross insurance benefits and claims	**1 490 814**	1 254 154	19	Gross benefits paid to members
Reinsurance claims recoveries	**(104 889)**	(81 534)	29	Insurance benefits recovered from reinsurers
Increase in fair value of policyholder liabilities under investment contracts	**37 086**	8 876	318	Investment income, net of expenses directly allocated to investment policyholders
Expenses	**888 767**	793 554	12	Commissions paid on risk policies written and all other operating expenses
Profit before movement in insurance policy liabilities	**3 212 602**	1 286 263	150	
Movement to insurance policy liabilities	**2 625 850**	1 125 824	133	The amount allocated to members in their capacity as policyholders
Movement to third-party liabilities	**200 133**	53 991	271	Third-party unit trust holders' share of profits
Tax	**351 578**	113 818	209	Taxes raised in favour of the South African and Namibian Revenue Services
Surplus/(Deficit) after tax	**35 041**	**(7 370)**	**(575)**	**The result of operations of the non-insurance subsidiaries and any adjustment required to maintain capital cover**

In addition to the benefits paid, these profits contribute to the R3 billion allocated to members' PPS Profit-Share Account™

These are the benefits you receive for being a policyholder.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

	2012 R'000	2011 R'000	Change R'000	Description of individual items
ASSETS				
Property and equipment	**116 570**	110 445	6 125	Assets which are tangible. These include PPS' head office premises, furniture, equipment, computers and vehicles
Investment property	**45 023**	–	45 023	Assets which are held for the purpose of rental income and capital appreciation
Intangible asset	**36 488**	32 892	3 596	PPS' internally developed insurance software known as Insurance Application Architecture ('IAA')
Other non-current assets	**19 716 574**	16 280 221	3 436 353	Assets backing up insurance liabilities. These mainly include equities, bonds and unit trusts, which are managed by investment managers who act in accordance with investment mandates set by the board of directors of PPS Insurance
Current assets	**1 741 568**	1 258 980	482 588	Cash resources of PPS Group
Total assets	**21 656 223**	**17 682 538**	**3 973 685**	
EQUITY AND LIABILITIES				
Total equity	**124 529**	89 488	35 041	Accumulated profit or losses of PPS Insurance's subsidiary companies as well as the statutory capital requirement of the insurance entities
Insurance policy liabilities	**18 736 580**	16 278 928	2 457 652	Policyholders' funds consisting of two parts: (a) capital held to settle future insurance claims and (b) PPS Profit-Share Accounts™
Investment contract liabilities	**386 871**	221 311	165 560	Funds of members who utilised PPS' investment offerings
Third-party liabilities arising on consolidation of unit trusts	**1 755 729**	711 633	1 044 096	Value of outsiders' investments in unit trusts in which PPS owns a majority stake.
Borrowings	**24 941**	20 946	3 995	Coronation Fund Managers' share of loan funding provided to PPS Investments (Pty) Limited as a minority shareholder of that company
Other liabilities	**627 573**	360 232	267 341	Liabilities to be settled within one year
Total equity and liabilities	**21 656 223**	**17 682 538**	**3 973 685**	

STRATEGIC PRIORITIES

Mutuality

Broadening of mutuality

PPS is unique in the South African insurance market – in that it embraces the philosophy of mutuality, where our members share in all our profits: *'The key to success lies in sharing it'*.

Previously, allocations of PPS' profit to members' PPS Profit-Share Account™ have been *via* the PPS sickness and permanent incapacity benefit only. From 1 January 2013 however, the other PPS Provider risk products also receive a direct allocation of profit to members' PPS Profit-Share Account™. This allocation will be in proportion to basic premium, excluding health loadings imposed at underwriting stage. So the more PPS Provider risk products members have with PPS, the more they will share in PPS' profits, directly allocated to their PPS Profit-Share Accounts™.

Member-centric mutuality

In anticipation of regulation planned for 2014, PPS has commenced with the implementation of Treating Customers Fairly (TCF) internally, as the new regulation may take some time to finalise. This is a specific Board responsibility and the Board is monitoring progress regarding the implementation of TCF.

The planned regulation requires the achievement of six outcomes for customers. These have been defined by the Financial Services Board as follows:

1. *Customers are confident that they are dealing with firms where fair treatment is central to the firm's culture* (Right culture).

2. *Products and services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly* (Right product).

3. *Customers are given clear information and are kept appropriately informed before, during and after the time of contracting* (Right information).

4. *Where customers receive advice, the advice is suitable and takes account of their circumstances* (Right advice).

5. *Customers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and what they have been led to expect* (Right delivery).

6. *Customers do not face unreasonable post-sale barriers to changing of product, switching of provider, submitting a claim or making a complaint* (Right post-sale treatment).

PPS is well-positioned to demonstrate that we achieve these outcomes consistently through 'member-centric mutuality'. The fair treatment of customers is supported by our mutual business model and is articulated in the values that define our culture.

We are utilising a risk management framework to manage the implementation of TCF at PPS and have prepared a detailed plan for implementation, with work having commenced early in 2012. We believe that many aspects of the regulation are already inherent in our culture, but accept that visible evidence is required to clearly demonstrate this to the satisfaction of the Financial Services Board (FSB). We also accept that many of our processes can be improved for the benefit of our members and therefore are including several modifications to further involve members during product development, simplify our industry jargon in communications and collect feedback from all relevant sources – most particularly members themselves – on our delivery and post-sale treatment.

We have ensured good governance by retaining strict record keeping during the implementation of TCF and regularly reporting progress to the Executive and Risk Committees and the Board.

We believe that various aspects already introduced – such as real-time surveys during the servicing of our members during claims, queries, complaints and benefits issues – are already impacting positively on our members. We have included our partners in developing and agreeing key indicators for the relevant TCF outcomes. Awareness and training programmes have also been developed for our brokers, and other strategic partners have joined in key workgroups around due diligence for product management and to review ongoing feedback.

The more qualifying products members have with PPS, the more they will share in PPS's profits, allocated to the PPS Profit-Share Accounts™

STRATEGIC PRIORITIES

continued

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 PPS Profit-Share Account™.

PPS uses established investment managers (Coronation Fund Managers Limited, Investec Asset Managers Pty Ltd, PPS Multi-Managers Pty Ltd and Namibia Asset Managers), who adhere to 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 PPS Profit-Share Account™ – 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 revenue.

The risks 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 in which 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 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

INVESTMENTS

Following its launch in 2007, PPS Investments (PPSI) has become well-established as the product provider of choice for PPS members seeking to save and invest. This joint venture with Coronation Investment Management has continued to go from strength to strength under an experienced executive team, the majority of whom has been in place since the launch of the business.

As the company nears its sixth anniversary, PPSI has assets approaching R11 billion under management. These assets represent the savings and investments of many individuals and corporates, and are managed in accordance with specific mandates and briefs from our clients.

During 2012, the structure of PPSI expanded with the launch of its second subsidiary, PPS Management Company, following its approval by the FSB as a manager of Collective Investment Schemes. This milestone is an indication of the growth and stature of the Company.

PPS Multi-Managers, which was the first subsidiary of PPSI, was also formed in 2007 and is a licensed Category 2 Financial Services Provider. Eleven multi-managed unit trusts have been launched to date and have established solid track records of over five years.

PPSI offers a comprehensive suite of retirement and savings products, designed to serve graduate professionals throughout their careers and in retirement. These products are tailored to offer solutions that make the complexities of financial planning more manageable. The Company's investment platform provides access to the range of unit trusts managed by PPS Multi-Managers, which utilises combinations of asset managers to serve a range of investment needs. The same capability ensures that PPSI's 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 rigorously assessed and monitored. We therefore not only serve our clients' investment needs throughout their life stages, but also offer reassurance on the quality of the investment alternatives available to them. The independently-chaired PPSI Policy Committee is appointed by the PPSI Board to oversee the research and recommendations made by the investment team.

PPSI offers a comprehensive suite of retirement and savings products, designed to serve graduate professionals throughout their careers and in retirement.

The sustainability of the unique PPS business model requires a comprehensive member offering in order to remain relevant in the current consumer environment. By providing an offering that has genuine relevance to our members, we have avoided the complexities and opacity that characterised older savings products, as well as some of the newly offered products available in the market place. Our philosophy of focusing on transparent and cost-effective products permeates our product development process and PPS members have embraced these products as key components of their individual financial plans, to the extent that new individual investments of R1,9 billion were received during 2012.

STRATEGIC PRIORITIES

continued

Whilst members with financial knowledge and experience are able to engage directly with PPS Investments, the role of accredited and qualified financial intermediaries remains key to most financial plans. In training and ultimately accrediting our own representatives as well as independent financial advisers, our aim is to ensure that our investors receive appropriate financial advice at the time of making initial savings and investment decisions, as well as throughout the term of the investment. The regulatory changes imposed on the advisory community in terms of qualifications and experience are welcomed, as they serve to improve the overall quality of advice and specifically ensure that individuals are fully equipped to provide advice on all of the products and services that they represent.

The South African savings and investments industry is characterised by the migration of savers and investors from traditional insurance-based savings products to those provided by modern investment companies, without the limitations, restrictions and costs of the traditional products. As one of these companies, PPSI has been well-positioned in previous years to assist PPS members in finding the appropriate solution for their savings and investment requirements. Retirement reform remains a work in progress however, and therefore an air of uncertainty prevails in the industry as to the final prescriptions and timing of its outcomes. We remain close to these discussions and are confident that the flexibility, simplicity and cost-effectiveness of our products will align with their expected outcomes.

The economic challenges, both globally and domestically, that characterised previous years continued throughout 2012, although the local equity market confounded most industry participants with its resilience and delivered very pleasing results that, in turn, supported the multi-asset solutions that we manage for investors.

At the same time however, the prevailing low interest rates throughout the year presented a problem for those dependent on the interest earned on their investments. The outlook remains similar for the rest of the year with very few commentators contemplating upward interest rate movements. For members nearing retirement therefore, the unique value of the PPS Profit-Share Account™ is accentuated as a source of supplementary funds throughout retirement. Over the past decade, members have had the opportunity to align their allocation of the PPS Profit-Share Account™ to their retirement assets in the years before retirement (from age 55) through the Portfolio Choice. Once at the point of retirement, the seamless transition of these assets to the post-retirement Vested PPS Profit-Share Account™ can be achieved without any costs, thereby preserving the full PPS Profit-Share Account™ value and providing further security for members.

PPSI has enjoyed a successful first five years. We look forward to further growth, pursuing a market share of investment inflows equivalent to that which 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 in the administration of medical scheme contributions 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 its services are most needed by members of the medical scheme and their families.

The past financial year was, once again, a very eventful year for the Company. PMSA embarked on a major project to change its basis of operation to a new state-of-the-art information technology system. This change was necessary to ensure the sustainability of the Company and its client schemes. With system migrations being inherently challenging, it unfortunately had an undesirable impact on the service provided to the members of one of the Schemes under administration – Profmed during the first half of the year. We are pleased to report however, that service levels returned to normal by the third quarter. Although we experienced short-term volatility, the migration has enabled the Company to be independent from its competitors in terms of systems and to take ownership of its intellectual property. We can now focus on providing cost-effective and world-class services to our clients.

PMSA is the professional market's specialist medical scheme administrator and health risk management provider.

The client schemes not affected by the system migration experienced exceptional service levels and the Company once again retained its ISO certification with two clean audits in 2012.

Although PMSA's profitability has increased in the current year, it will remain moderate in future 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, in turn, largely dependent on the sustainability of its client schemes; it is crucial therefore 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 their long-term sustainability. During the past year, for example, the Company implemented a disease risk management programme for one of its client schemes where members with chronic diseases are identified and their treatment managed.

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

There are exciting challenges in the year ahead for PMSA as we continue to develop our processes and systems and train our staff in order to take the service experienced by the members of our client schemes to the next level.

STRATEGIC PRIORITIES

continued

Short-term Insurance

This division, which was established six years ago to provide for members' personal insurance, has had reasonable success in its direct distribution of product to members. It currently has only a personal lines product and a professional indemnity product for pharmacists in its suite.

Short-terms' client base is over 10 000 members and with a premium base that is covering costs including claims, we are satisfied that the division has achieved its initial objective of providing an essential extension of our core business of life insurance and investments.

The financial results for the year ended 2012 have again been positive and the division is starting to add value to the bottom line of the Group.

The implementation of a new administration system in 2011 resulted in a number of teething problems but has now bedded down and is the first step in providing a platform from which the business can grow.

The division is now at a phase of its development where management and the Board are evaluating various options available in order to expand its reach to members and product range.

The PPS Property Fund Trust

The PPS Insurance Company board approved a mandate whereby a small percentage of policyholders' assets are to be invested in commercial property. A vested trust has been registered for this purpose. PPS Insurance is the controlling beneficiary of this trust with an external company providing fixed property management services and retaining a minority share.

The board of PPS Insurance Company is confident that the diversification of its investment portfolio into properties will support the Group's vision of providing long-term capital growth to members' policyholder funds.

Service Excellence

99% of benefits were paid within the SLA

Guiding principles

The servicing strategy at PPS continues to be guided by the Company's values. We strive to give peace of mind through providing easy access to information for members and demonstrating transparency throughout the service process. PPS expects all our employees to take personal accountability when servicing our members and to deliver a unique service experience. We strive to provide excellence by ensuring that all our employees understand that our members enjoy a greater relationship with the Company than simply that of customers, they are owners as well.

During 2012 we actively reviewed our services against the TCF regulations. We have strived to address any shortfalls in the successful delivery of the TCF outcomes for our members. This will be an ongoing journey in 2013 as we implement further innovations to continuously measure the achievement of these outcomes.

History

PPS was for most of its long life a single product provider but began expanding its product suite in 2007. It now has a single fully integrated platform that imposes the highest level of integrity and security on all data. We plan to further simplify our members' access to products across the Group, as historically we did not administer the full suite of products ourselves.

We are confident that our strategic decision to implement these improvements has been correct. While we have been featured in several journals and forums as a case study, we are aware that this is meaningless for any stakeholder where we have not delivered on our promise.

Strategy

The key delivery promises in our service strategy are convenience and control. The goal is to ensure that, as far as possible, information is placed within the control of members and financial advisors and made accessible in a protected space. This requires a highly-developed and robust internet portal that remains alert to the security exposures faced by internet users every day. We offer these services generously with high availability of access to information for the convenience of our customers, especially as professionals have little time during working hours to attend to personal matters.

STRATEGIC PRIORITIES

continued

The range of services was extended in 2012 and is being further extended to offer greater mobility in 2013. PPS understands that it is no longer acceptable to adopt a 'one size fits all' approach and has no expectation that members and financial advisers should manage their own information in a prescribed manner, contrary to how they may prefer to interact with us. We will continue to offer the traditional channels of engagement to members who are more comfortable with face-to-face, telephonic, fax or postal communication.

98.65% of applications were processed within 8 hours

PPS believes that the advantage of internet and other mobile engagement channels are that they offer members and financial advisers direct access to processes and information. This provides real time confirmation of any requests made by our members and financial advisers, with immediate notification of status for tracking purposes which, in turn, improves the accuracy of data and reduces the opportunity for human error.

PPS has developed its 'First Class Service' programme and surveys every interaction with its members so as to continuously improve these engagements. This programme is monitored real-time in the organisation to enable any shortfall in our service to be rectified as quickly as possible. We also strive to ensure that our members only deal with call centre agents that meet our requirements.

PPS has developed its 'First Class Service' programme and surveys every interaction with its members so as to continuously improve these engagements.

Visit us on www.pps.co.za

PPS InTouch

PPS InTouch is the PPS Insurance solution for our stakeholders to have direct access to their information on a real-time basis and without any middlemen. This was first launched in 2011 and our registered users have increased three-fold during 2012. It is a ground-breaking solution that allows stakeholders direct access to their information, the ability to update much of that information and to interact directly with workflow solutions driving the allocation of resources to address their issues.

During 2012 we have further extended the functionality and security to enable our Intermediaries, employees as well as subsidiary employees to process and interact with PPS Insurance. The solution's primary objective is to deliver service directly to our stakeholders and at the same time to ensure that data quality and integrity is continuously maintained. PPS InTouch also extended our service offering to 24/7 access, 365 days a year.

PPS InTouch also extended our service offering to 24/7 access, 365 days a year.

During 2012 we extended our security and role definitions. This implementation allows members, employees and intermediaries to update information directly against the relevant databases without accessing the solution separately for each role. PPS InTouch is underpinned by a single insurance solution and a single workflow solution. The role implementation seamlessly interprets all roles held by any stakeholder and manages the relevant authorities on each of these roles simultaneously while that stakeholder interacts with the functionality and data. Sensitive transacting has even greater security with PIN protection. The provision of easy access to account statements, benefit statements, online claim applications and other relevant documents from the document library are all methods to enable direct service from our portal.

The focus area for 2012 was enabling the intermediary to perform an online quote that PPS InTouch solution allows to be seamlessly moved to the submission of an application online without the need for any rework. This would result in less information that needs to be captured (rework) that again would contribute to a better turnaround service delivery and a lesser risk for data degradation.

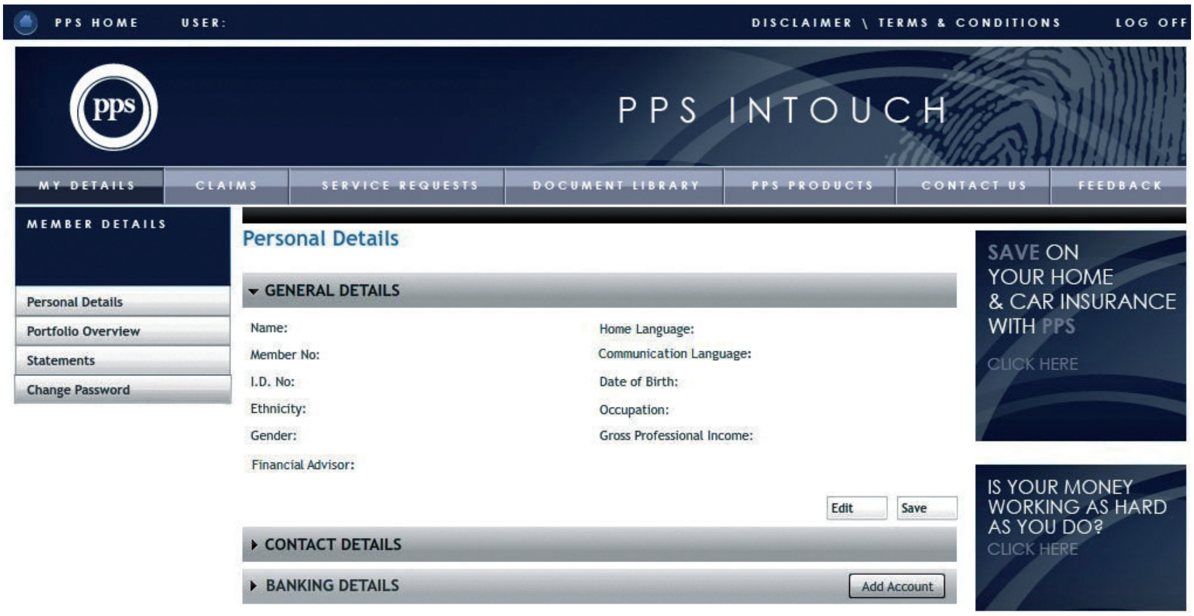
95.3% satisfied customers

During 2012 we added extensions to our canvassing for stakeholder feedback which we include in our Treating Customers Fairly initiatives. This feedback is important in assessing our delivery of the TCF outcomes and we strive to focus the feedback prompts on key delivery so that it can contribute to improvements and corrections in our achievement of these outcomes.

PPS strives to enhance our service delivery with qualified, well-trained staff and relevant, up-to-date and relevant technologies. We have further extensions to our services to be reflected on PPS InTouch in 2013.

STRATEGIC PRIORITIES

continued



Future Plans

During the rest of 2013 we will continue to develop mobility solutions that are relevant for our members and specific solutions that will support our financial advisers, so that they are placed in the best possible position to advise our members.

The extent of product automation and flexibility in our solutions provide an endless range of opportunity to extend as much control and access to information by approved users. PPS aims to be innovative for the benefit of its stakeholders so that they may enjoy service excellence as well as the assurance of long-term financial strength.

Challenges and obstacles

We believe that we are less threatened by the shortfalls in the national infrastructure than in previous years and recognise that the bandwidth available to distribute our solutions has improved significantly – and continues to do so. We intend to exploit this infrastructure to provide greater reach and better functionality in the coming years.

Whilst increased regulation remains a challenge, it is less of a threat on the servicing front as it simply mirrors our own values of fairness and transparency.

Good corporate governance is an integral part of the Group's operations

Governance

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

The Actuarial, Audit, Risk, Remuneration and Social and Ethics Committees fulfil a key role in ensuring good corporate governance within the PPS Group. Processes are reviewed regularly to ensure compliance with legal obligations and codes of governance.

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

1. **Group Company Secretary**

   The PPS Group Boards and sub-committees are supported by the office of the Group Company Secretary to ensure adherence to the highest level of good corporate governance.

2. **Group Legal Department**

   All legal practitioners employed in such capacity report to the Head of Legal and Compliance and the function operates in terms of the principles set out in the PPS Group Legal Policy. It is responsible for managing legal risk that may arise during the course of the Group's activities and ensuring that they are appropriately mitigated across all entities. This is achieved by providing or sourcing appropriate legal advice, ensuring that legal risks are optimally negotiated, documented and monitored, and that the necessary controls are implemented.

3. **Group Compliance Department**

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

   PPS has implemented a combination of a centralised and decentralised compliance function. Group Compliance is the central department whose main role is the development of the compliance policy (the Board sets the policy) and related standards to ensure a consolidated compliance risk management process and reporting throughout the Group. The decentralised compliance function consists of business units that are responsible for implementing the Group policies, monitoring the activities of the units and reporting the status of compliance to Group Compliance. Professional Provident Society Investments Proprietary Limited (PPSI) and Professional Medical Scheme Administrators Proprietary Limited (PMSA) have their own business unit compliance officers and have a dotted reporting line to Group Compliance for compliance-related matters. For all other entities in PPS, Group Compliance assumes direct or oversight responsibility, for compliance risk management.

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

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

STRATEGIC PRIORITIES

continued

Group Risk Management

The taking of risk, in an appropriate manner, is an integral part of business. Success relies on optimising the trade-off between risk and reward, following an integrated risk management process and by considering all internal and external risk factors. In the course of conducting its business, PPS is exposed to, and needs to take on, a variety of risks. The long-term sustained growth, continued success and reputation of PPS are critically dependent on the quality of risk management. Management is committed to applying best practice and standards, including the implementation of ISO 31000 standard on Risk Management and King III. In 2012 the PPS Group Risk Management Framework was changed to align it to such standards. More refinements are being undertaken during 2013 to further align the framework to the demands of Solvency Assessment and Management (SAM) and internal controls as envisaged in the Insurance Laws Amendment Bill of 2011.

PPS's risk philosophy is underpinned by its objective of member value creation, continuous enhancement and maintenance of benefits to members and through sustainable profitable growth, in a manner that is consistent with members' expectations of PPS's risk-bearing capacity and its risk appetite. This means the Group must ensure that a quality risk management culture is sustained throughout its operations, built on the following main elements:

- adherence to the value system of PPS;
- proactive risk management;
- a risk awareness culture *via* management and the business units;
- disciplined and effective risk management processes and controls, and adherence to risk management standards and limits;
- compliance with the relevant statutory, regulatory and supervisory requirements by way of a robust compliance risk management process;
- regular monitoring by the Compliance Department;
- review of control measures by Internal Audit; and
- oversight of the risk management process by the Risk Committee.

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

PPS's risk philosophy is underpinned by its objective of member value creation, continuous enhancement and maintenance of benefits to members and through sustainable profitable growth

Management and employees are responsible for the management of risk in accordance with the risk framework and incorporating risk management into the day-to-day operations of the Group. Management is assisted by the Group Risk Management function in performing annual risk assessments and updating this quarterly, and agreed mitigating actions are managed through CURA software. Risk registers are produced from CURA and reviewed monthly by the Group Executive Committee and quarterly by the Risk Committee for strategic and major operational risks. Other operational risk registers are continuously managed by the relevant business area.

During 2012 PPS managed to resolve the uncertainly regarding the tax deductibility of permanent incapacity contributions of member with SARS. This issue had created significant negative consequences for PPS and various mitigation strategies had to be employed.

In the budget speech of 2013, the Minister of Finance announced that the tax treatment of income replacement policies will be subject to review. Currently, contributions to the Permanent Incapacity portion of the SPPI policy are deductible and proceeds are taxable, which was confirmed by SARS in a ruling provided to PPS in 2012. However the review will probably change this position. Government now proposes a different treatment whereby all non-retirement fund disability and income protection policies will conform to the overall tax paradigm of non-deductible contributions and exempt pay-outs. For PPS policyholders this will mean that the Permanent Incapacity portion of the SPPI policy will no longer be deductible and proceeds will now be free of tax. The developments are tracked closely through the Association for Savings and Investment of South Africa (ASISA).

The Risk, Audit, Remuneration and Social and Ethics Committees make reports and recommendations to the Board, enabling it to discharge its responsibilities with regards to risk management.

STRATEGIC PRIORITIES

continued

The risk management process comprises the following steps:

Communication and consultation	Communication and consultation with all stakeholders takes place during all stages of the risk management process.
Establishing the PPS context	The internal and external context is defined in which we seek to achieve our objectives.
Defining risk criteria	The criteria are defined to be used to evaluate the significance of the risk. The criteria are a reflection of our values, objectives and resources.
Risk assessment	Risk assessment is the overall process of risk identification, risk analysis and risk evaluation.
Risk identification	Identification of sources of risk, areas of impact, events (including changes in circumstances) and their causes and their potential consequences, in order to generate a comprehensive list of risks.
Risk analysis	Risk analysis involves developing an understanding of the risk. Risk analysis provides an input to risk evaluation and to decisions.
Risk evaluation	The purpose of risk evaluation is to assist in decision-making based on the outcomes of risk analysis.
Risk treatment	Risk treatment involves selecting one or more options for modifying risks and implementing those options.
Monitoring and review	Involves regular checking or surveillance either periodic or *ad hoc*.
Reporting	Results are reported to management, Executive Committee, Risk Committee, the Board and other relevant stakeholders.

Anti-fraud and Whistle Blowing

PPS introduced an Anti-fraud Policy and Response Plan and a Whistle Blowing Policy in 2012 to manage fraud risk in the PPS Group and ensure that employees are able to report suspicious activities without fear of retribution. An ethics hotline, operated by Deloitte, was also introduced to provide a 365/7/24 facility to enable employees to report suspicious activities and unethical behaviours. All financial crime-related suspicious transactions and reports are managed through the Fraud Committee and other unethical behaviours are managed by the Human Resources Department.

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 investment strategy adopted by the PPS Board. The PPFM document is available to all policyholders on the PPS website at www.pps.co.za.

IT governance

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

This strategy is regularly reviewed to ensure its alignment with business 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 for establishing a minimum level of competency. They allow the organisation to establish a baseline from which it can plan, implement, and measure. They are used to demonstrate compliance and to measure improvement.

PPS performs annual ITIL maturity reviews which are presented to the RC. Additionally, in 2012, PPS conducted an IT controls audit, a review of IT governance principles contained in King III and an information security audit. These reviews are intended to provide the Board with independent assurance on the effectiveness and state of internal controls, as well as confidence on the ability of IT to deliver the approved strategies.

In 2012 KPMG IT Advisory performed an internal audit of the general controls around the PPS IT environment. KPMG also performed an internal audit of the maturity of PPS's IT Governance processes as they relate to King III. The objective of the review was to ascertain whether the IT environment of PPS is adequately governed in accordance with the principles contained within King III.

The information security objective is to develop a cost-effective strategy that is in alignment with the PPS IT and business strategic objectives. The goal is to deliver this through effective risk management where the investment in the relevant security controls is proportional to the risk exposure. The value delivery of information security will be realised through the secure enablement of new business initiatives and the standardisation from a controls perspective of the environment, thereby reducing the number of incidents related to 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 is 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 have been 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.

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 2012.

The most important legislative changes for PPS are highlighted below:

1. **Solvency Assessment and Management (SAM)**

   During 2011, the 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. SAM is planned to come into effect from 1 January 2016, 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 both Quantitative Impact Studies during 2011 and 2012. Based on these, PPS Insurance would remain financially sound under the SAM framework and is well-positioned to deal with SAM requirements.

2. **Treating Customers Fairly (TCF)**

   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 organisations, and the new regulatory regime is currently scheduled to formally commence early in 2014. 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 2012. 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.

3. Treating Customers Fairly ('TCF')

TCF is a combination of principles and rules-based regulation with a strong emphasis on embedding a TCF culture in conducting business. In order to do this, the TCF programme follows a top down approach by starting with the business leaders and senior managers. Our position and status on TCF will be shared with PPS members in the PPS Gazette. Our members can be confident that they are dealing with PPS where the fair treatment of customers is central to the corporate culture.

The TCF objective is to achieve six key outcomes for members at all stages of the product life cycle, including product design, marketing and promotion, advice, point of sale, after the sale, complaints handling and the ultimate payment of the benefits at claims (or withdrawal) stage.

4. 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 2013. PPS relies on the ability to collect and process member information in conducting its business and currently has various measures in place to protect our members' personal information. PPS has embarked on a process to ensure personal information is treated and protected in accordance with the Bill.

Other current and upcoming regulatory changes

The following legislative changes were implemented during 2012:

Legislation	Impact
Directive 159.A.i of the Long-term Insurance Act	This directive became effective in April 2012. It requires long-term insurers to have an outsourcing policy which is approved by the Board. The directive encourages responsible outsourcing by insurers in that it requires a detailed due diligence process prior to any outsourcing of control, material and management functions. In line with this directive, PPS has put in place an outsourcing policy approved by its Board. All affected agreements met the requirements of the directive by 31 December 2012.
Binder Regulations	Binder Regulations became effective in January 2012. The regulations require insurance companies to put in place signed binder agreements where third parties are performing binder functions on their behalf. Contracts are in place for all PPS binder relationships.
Consumer Protection Act (CPA)	The FSB has confirmed that the Consumer Protection Act is not applicable to long-term insurers, as it is of the view that the Long-term Insurance Act offers similar protection.

STRATEGIC PRIORITIES

continued

The following legislative changes will impact PPS in the future:

Discussion papers on retirement reforms	National Treasury has released three papers on retirement reform which propose, *inter alia*, incentivising household savings through tax exemptions, formalising the role of Principal Officers through the introduction of 'fit & proper' requirements and introducing stricter rules regarding the sale of living annuities. There is no set date for implementation of these changes yet, but PPS continues to monitor developments.
Proposal to change intermediary remuneration from commission to advice fees	During 2012, the industry was requested to comment on various proposals around changes to the remuneration paid to intermediaries for risk, investment and Linked Investment Service Provider (LISP) business. Commentary was provided through ASISA and the FSB has indicated that, following comments received, a formal consultation process will commence with relevant parties in 2013.
Draft long-term and short-term insurance regulations on demarcation between Health Policies and Medical Schemes	Following earlier changes made to the Long-term Insurance Act to limit the scope of health policies a long-term insurer can provide, further draft amendments were published which introduced limitations on current policies offered. Comments were provided through ASISA and the FSB has indicated that following the comments, discussions are being held at Regulator level with the Council for Medical Schemes. Further recommendations are expected this year.

Our People

We are proud of our unique and unmatched insurance business model of mutuality in South Africa, and our financial strength inspires a sense of confidence in PPS. It is therefore important that we communicate regularly with our people and keep them well informed. We are committed to transformation and believe in developing a dynamic and diverse workforce.

The composite experience that we offer staff – which we call the PPS Employee Value Proposition ('EVP') – is designed and packaged to ensure our people are satisfied and engaged at work.

We offer our employees the kind of environment where everyone matters. Leaders at PPS are focused on achieving results while at the same time treating others with respect, fairness and integrity. We recognise the value of work-life balance and have a genuine concern for the well-being of our people and their families. Collaboration amongst 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 employees fairly and offer competitive and flexible benefits. Our employment contracts do not include restraint of trade payments. Our staff are recognised through various programmes and initiatives, designed to acknowledge their contributions and incentivise exceptional performance.

PPS offers great opportunities to our people to develop themselves for both current and future roles. It is important that they have the necessary means to track their development, and also have adequate guidance to ensure they are confident in making sound career choices for the future.

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, we have invested significantly in the development of our human resources and the achievement of a Standard of Excellence Award in our second 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 the high levels of employee satisfaction, good retention of people and high levels of productivity at PPS.

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 also identifies poor performance timeously and compels a rehabilitative process to assist individuals to regain 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 Group to the marketplace. This is pitched at median, except for scarce and critical skills where premiums are justified. 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.

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 (GRC). Rewards earned from these schemes are linked to personal, as well as company performance objectives.

All PPS employees are rewarded and recognised through various programmes and initiatives designed to acknowledge individual contribution and incentivise exceptional performance, whilst also addressing sub-standard performance.

Our 'SUCCESS' recognition programme allows employees to accumulate points for achieving specified milestones related to company initiatives, and these points are redeemable for awards. The programme achieves the key objectives of motivation, engagement, team work and service excellence. It was introduced in 2006 and has become an integral part of our total rewards offering.

A 'pay for performance' scheme is also in place, which rewards exceptional performance in the month that the employee exceeds expectation. In addition, 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 an annual awards ceremony 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.

Executive and Senior Management Incentive Schemes

The total remuneration for executives and senior management comprises guaranteed packages and short and long-term incentives, which is the market norm in the financial services industry.

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 into consideration key performance milestones set for each individual.

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 areas and indicators, and individuals are required to substantiate the achievement of targets with portfolios of evidence. The pool from which scheme payments are made is capped at 2% of the operating profit 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' PPS Profit-Share Account™. The CEO is evaluated by the GRC, 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 performances drive the quantum of the bonus for each individual.

Long-Term Incentive Scheme

The long-term scheme, which was specially designed for PPS on the basis of its business model, is a key mechanism to drive the retention of senior staff and ensure the long-term sustainable growth of the business. The key component of the scheme is the growth in the aggregate value of the apportionment account of PPS and it is thus fully aligned to encourage management to enhance member interest in the long-term.

The scheme has 25 primary participants, comprising executives and senior managers who play vital roles in the long-term success of PPS. Over the last year, additional participants who are considered to be 'key staff' (critically skilled individuals, including employment equity talent) have been allocated long-term units on a discretionary basis aimed at achieving continuity amongst this group.

Allocations to the primary participants are made annually, based on tier-related weightings and their annual packages. Participants are required to reach a minimum level of performance before any allocations are made. A hurdle rate relating to the rate of growth of the apportionment account is set at 2% above inflation and individuals only participate in the benefit of growth above this rate. The impact of inflation is embedded in the formula, which ensures that only real growth is rewarded. It is a five-year scheme with one-third vesting on the third anniversary of the date of allocation, one-third on the fourth anniversary and the final third on the fifth anniversary. The retention objective of the scheme is achieved by requiring participants to be in the employ of PPS at the time of exercising of the vested portions.

The scheme is proving to be successful in its retention objectives, with minimal attrition at these levels. Compared to the broader corporate environment and financial services in particular, where long-term schemes have necessitated radical restructuring and reformulations, external remuneration consultants have commended the stable nature and alignment of the scheme to business value.

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

Growth and development

Total spend on training and development amounted to 4,15% of payroll in 2012 (2011: 2,6%).

Ongoing skills development is the lifeblood of any organisation to ensure not only requisite performance, but also to safeguard its future by creating a pipeline of talent, especially in the scarce and critical skills areas. The transformation agenda as defined in the Department of Trade and Industry Codes and Scorecard and the Financial Services Charter underlines these key imperatives.

The initiatives relate firstly to compliance training, which is necessitated by legislation or regulation, the requirements being defined, *inter alia*, in the Financial Advisory and Intermediary Services Act (FAIS), the Financial Intelligence Centre Act (FICA) and the Treating Customers Fairly (TCF) regulation.

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

We have also embarked on a rigorous programme to enable our key individuals and sales personnel to pass the Regulatory Exams (RE) which are mandatory for these categories of employees to continue to operate within sales and sales management roles and functions. The overwhelming majority have completed and passed the examinations.

Leadership and management development is a key emphasis. Our new Management Development Programme that commenced in 2011, where growing middle managers was the key objective, has been successfully completed. A Team Leader Development Programme has also been undertaken to accommodate this level of management.

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 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 relevant issues.

Internally formulated initiatives to drive service, train employees on processes and systems and changes are run regularly to ensure our service promise is kept. Other technical and specialist courses are primarily outsourced, as we do not possess the capacity and expertise to provide them internally.

To drive development in-house, the IQ (Insurance Quotient), which is the level of insurance/financial services knowledge and skills in the business, is measured to ensure optimal management of this important component.

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 Department of Trade and Industry (DTI) Codes of Good Practice. This commitment goes beyond a compliance perspective to a sincere belief in equipping people and entities to participate in the broader economy and make a difference.

The proposed revised DTI Codes which were released for comment in October 2012 contain substantially more onerous criteria and targets for the key dimensions of the Scorecard. We have carefully studied the revised Codes in order to put plans into place so as to align our status with them, especially where it relates to what the Codes call 'the priority elements'. We have also, through working with ASISA, channelled our feedback through to DTI to ensure that the final product is one that assists transformation in a meaningful way.

A key vehicle to drive the process of transformation within PPS, is a consultative employee structure named the Transformation Forum, which was constituted in late 2010 and which seeks to represent a diversity of race, gender and business-operating units. 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 55:45.

We are currently accrediting our key skills training programmes for staff. This entails obtaining certification of the programmes by the Insurance Sector Education and 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.

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. A concierge component is also included in the offering, which includes a 24-hour sourcing desk, travel and other discounts, as well as educational assistance.

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 individuals.

In addition, PPS has built a walking track around its premises and has provided free pedometers to all employees. Various initiatives are run throughout the year to encourage people to use the track and pursue fitness.

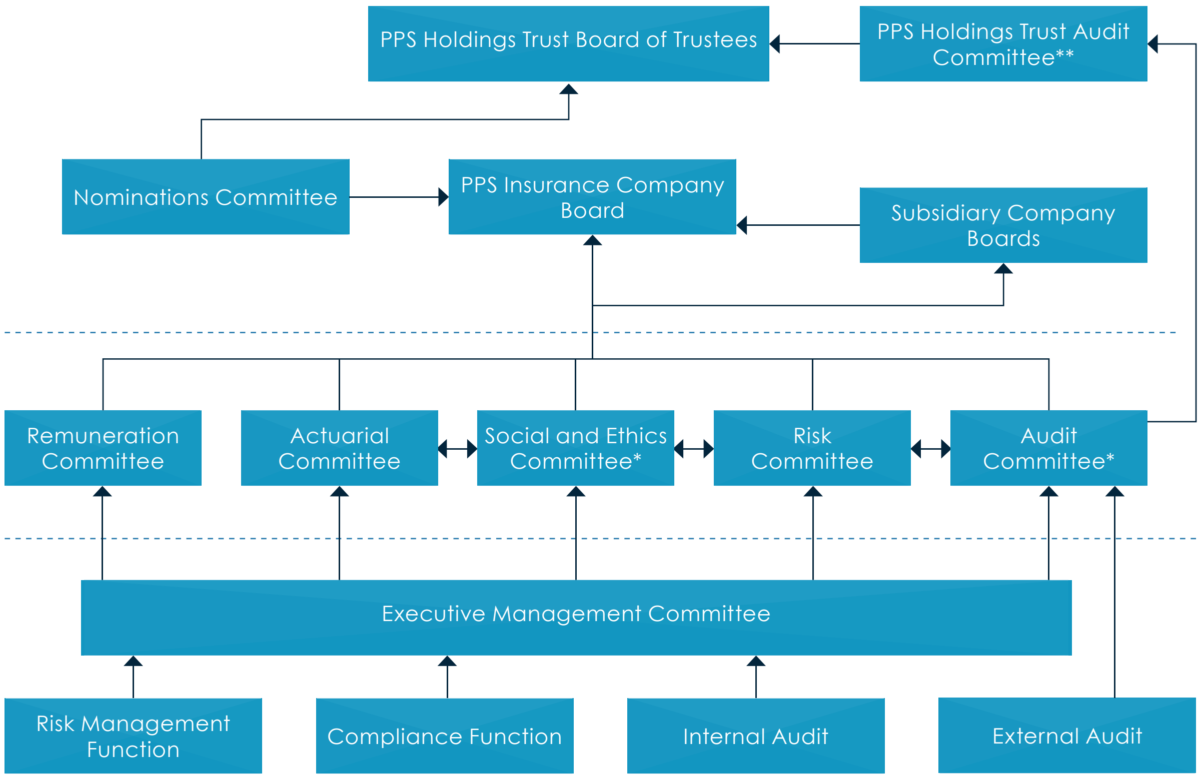
Significant effort has been invested in ensuring that the health and safety requirements of the Group are adhered to. Audits are being conducted across the Group to ensure compliance with the Occupational Health and Safety Act.

Succession and career management

PPS has addressed succession planning for the key levels and roles in the Group 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 2012 a competency framework for the Group was introduced. This offers explicit career paths that employees can pursue to achieve growth. In addition, career development workshops were held with all the employees. These provided guidance and a framework for our people within which they can continue to build their skills and develop competencies for current and future roles.

ABRIDGED CORPORATE GOVERNANCE REPORT



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

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

Board of Trustees and Board committees

Board composition

The Group is governed by a unitary board of trustees, assisted by 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, eight 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
- Group Social and Ethics 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. Key reports are reviewed at the meetings of the PPS Insurance Board when the Chief Executive highlights the significant issues and other executive and non-executive directors are invited to contribute, as appropriate. The Chief Executive also reports on the performance of PPS Insurance against the strategic objectives determined by the PPS Holdings Trust Board.

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 papers and to deal with issues raised by the Boards.

Group Company Secretary

All trustees and directors have direct access to the services of the Group Company Secretary who is also appointed as the Secretary to PPS Holdings Trust. He 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, including circulation of committee minutes and reports to the appropriate Boards. The Group Company Secretary also has responsibility for all subsidiary companies and the 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 as may be required, at the Group's expense, in order to discharge their responsibilities as directors and trustees.

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 and adapted to the requirements of PPS – incorporates the powers of the Board, providing a clear and concise overview of the division of responsibilities and accountability of 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, 2008, and its trustees have similar responsibilities and duties to those of company directors, including the statutory responsibilities imposed on directors and trustees by the Companies Act.

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 independent 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 judgment and experience to the Boards' decision-making process.

Board Appointments and Succession Planning

The PPS Holdings Trust Board comprises 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. Board members 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 Group Nominations Committee, within its powers, evaluates, selects and recommends for appointment the PPS Group trustees and directors, including the Chief Executive Officer, executive directors and non-executive directors/trustees and Board Committee members, taking into account the regulatory requirements for the appointment of directors/trustees of long-term insurance companies and their holding entities.

The Group Nominations Committee considers non-executive trustee succession planning and makes appropriate recommendations to the PPS Holdings Trust Board. This encompasses an evaluation of the skills, knowledge and experience required to add value to the PPS Group, for trustees/directors standing for re-election, as well as for new candidates standing for election for the first time. All elections are made in terms of a formal and transparent procedure and are subject to approval by the members of PPS Holding Trust at the annual general meeting. The PPS Group believes that its Board is appropriately constituted to meet statutory requirements and 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 advisers 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.

Chairman of the Board

Dr D G C Presbury stood down as Chairman of the PPS Holdings Trust Board during 2012 in anticipation of his retirement from the Board on 3 June 2013, in order to facilitate an orderly handover to his successor, Mr E A Moolla, formerly the Deputy Chairman of the PPS Holdings Trust Board. Dr S N E Seoka was appointed as Deputy Chairman in place of Mr Moolla.

Board performance assessment

The Group Nominations Committee has instituted a formal Board evaluation process for the assessment of its trustees and directors against the following criteria:

- time, availability and commitment to performing the function of a director/trustee;
- strategic thought and specific skills, knowledge and experience contributed to the Board;
- the director/trustee's views on key issues and challenges facing the Group;
- the director/trustee's views on his/her own performance as a Board member;
- any training needs; and
- any other areas or roles where the director/trustee'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, but may stand for re-election at the annual general meeting. The names and abbreviated *curriculum vitae* of the trustees eligible for re-election, as well as for new nominees standing for election, at the forthcoming annual general meeting to be held on 3 June 2013 are stated in the notice of annual general meeting on page 214.

Interests in contracts and conflicts of interest

Trustees and directors are required to avoid conflicts of interest, where possible, and inform the respective Board on which they serve timeously of conflicts or potential conflicts of interest that they may have in relation to particular items of business. They are obliged to recuse themselves from discussions or decisions in relation to such matters. Trustees and directors are also required to disclose their interests in, and directorships of, other companies/entities in accordance with statutory requirements and to inform the Boards when any changes occur. During the year ended 31 December 2012, none of the directors/trustees had any undisclosed interest in contracts or arrangements entered into by the PPS Group.

Insurance

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

Amendment and restatement of the Trust Deed of the PPS Group's holding entity into a trust

Following the successful implementation of the restructuring of the PPS Group's holding entity into a trust, members were requested to approve an updated and restated Trust Deed which reflects the current practices and direction of the PPS Group, improves administrative efficiency and aligns members' voting rights with participation in the core products of PPS Insurance. Members approved the First Amended and Restated Trust Deed for The Professional Provident Society Holdings Trust by way of a special resolution passed at the Annual General Meeting held on 4 June 2012, which was duly recorded by the Master of the High Court and the Financial Services Board.

ABRIDGED CORPORATE GOVERNANCE REPORT

continued

Meetings and attendance

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

The PPS Holdings Trust	28 March 2012	11 June 2012	10 September 2012	3 December 2012
Mr E A Moolla (Chairman)	√	√	√	√
Dr S N E Seoka (Deputy Chairman)	√	√	√	√
Adv T N Aboobaker	AP	√	√	√
Dr D R Anderson	√	AP	√	√
Ms U Botha	AP	√	√	√
Dr N G Campbell	√	√	√	AP
Ms D L T Dondur	√	√	√	√
Mr J A B Downie	√	√	√	AP
Mr Y N Gordhan	√	√	√	√
Mr U D Jivan	√	√	√	√
Mr I Kotzé	√	√	√	√
Dr C M Krüger	√	√	√	√
Dr J Patel	√	√	√	√
Dr D G C Presbury	√	√	√	√
Mr P Ranchod	√	√	√	√
Mr V P Rimbault	√	√	√	√
Dr M W Sonderup (Appointed 29 March 2012)	N/A	N/A	AP	√
Mr B R Topham	√	√	AP	√
Mr S Trikamjee	√	√	√	√
Mr H A C van den Bout (Appointed 4 June 2012)	N/A	N/A	√	√
Dr V K S Bhagwandas (Resigned 4 June 2012)	AP	N/A	N/A	N/A
Dr Mabasa (Resigned 22 March 2012)	N/A	N/A	N/A	N/A

AP = Apology

N/A = Not Applicable

PPS Insurance Company Limited	27 Feb 2012	26 Mar 2012	21 May 2012	25 June 2012	27 Aug 2012	15 Oct 2012	26 Nov 2012
Dr D R Anderson (Chairman)	√	√	√	√	√	√	√
Mr C Erasmus (Deputy Chairman)	√	√	√	√	√	√	√
Adv T N Aboobaker	√	√	√	√	√	√	√
Mrs T Boesch	√	√	√	√	√	√	√
Dr N G Campbell	√	√	√	√	√	√	√
Mr C K de Klerk	√	√	√	√	√	√	√
Mr Y N Gordhan (Appointed 25 June 2012)	N/A	N/A	N/A	√	√	√	√
Mr M J Jackson	√	√	√	√	√	√	√
Mr E A Moolla	√	√	√	√	√	√	√
Mr N G Payne	√	√	√	AP	√	√	√
Dr D G C Presbury	AP	√	√	AP	√	√	√
Dr S N E Seoka	√	√	√	√	√	√	√
Mr B R Topham (Appointed 25 June 2012)	N/A	N/A	N/A	AP	√	AP	√
Prof H E Wainer	AP	√	√	√	√	√	√
Dr V K S Bhagwandas (Resigned 4 June 2012)	AP	AP	AP	N/A	N/A	N/A	N/A
Mr J A B Downie (Resigned 11 June 2012)	√	√	√	N/A	N/A	N/A	N/A

AP = Apology

N/A = Not Applicable

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.

The various committee members as well as their attendance at the relevant committee meetings are reflected on pages 98 to 103.

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 Social and Ethics Committee

PPS Holdings Trust Audit Committee (Trust AC)

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 Group 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 GAC in regard to the Integrated Report. A member of the Trust AC attends the meetings of the GAC to ensure appropriate information is exchanged between the two audit committees and the Chairman of the GAC attends the meetings of the Trust AC. The Trust AC does not replicate the work performed by the GAC 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 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 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 and the Trust Deed; and
- that the external auditor is independent of PPS Holdings Trust and its subsidiaries.

Particulars of the members of the Trust AC, its role, responsibilities and attendance at meetings are set out on page 121.

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

The Risk Committee is also responsible for the statutory compliance monitoring functions and compliance with 'Treating Customers Fairly' regulation as delegated to it by the Group Social and Ethics Committee.

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

Group Risk Committee	15 Mar 2012	12 June 2012	27 Sep 2012	12 Nov 2012
Mr N G Payne (Chairman)	√	√	√	√
Mr C Erasmus	√	√	√	√
Mr M J Jackson (Appointed 26 March 2012)	*	√	√	√

* = In attendance but not appointed

Actuarial Committee (AC)

Members

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

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

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

The AC acts as an independent adviser 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.

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

Actuarial Committee	13 Feb 2012	27 Sep 2012	21 Nov 2012
Dr D R Anderson (Chairman)	√	√	√
Mr C Erasmus	√	√	√
Prof H E Wainer	√	√	√

Group Audit Committee (GAC)

This committee comprises four non-executive PPS Insurance directors,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 GAC, was appointed as a specialist consultant to the GAC pursuant to the requirement in the Companies Act that all members of the GAC must be Board members.

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 GAC. The external auditors, internal auditors and heads of Group Compliance and Risk Management are present at each meeting of the committee.

The GAC meets both the external auditors and internal auditors separately in private sessions, without executive management being present. The Chief Executive, the Financial Director are permanent attendees at the GAC. Other members of management attend committee meetings, as necessary, at the invitation of the Chairman of the committee. The GAC considers and recommends the internal audit charter and a description of its working relationship with the external auditors for approval by the Board.

The PPS Group's policy on non-audit services, which is annually reviewed by the GAC, sets out what services may or may not be provided to PPS by the external auditors. The GAC 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 GAC keeps abreast of current and emerging trends in international accounting standards and 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, the requirements of the Companies Act; and
- the external auditor is independent of PPS Insurance and its subsidiaries.

Particulars of the members of the GAC, its role, responsibilities and attendance at meetings are set out on page 122 and 124.

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 of 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 considering and making recommendations to the Board on matters such as remuneration and benefits, performance bonuses, executive remuneration, directors' and trustees' remuneration and fees, the short-term incentive scheme and long-term incentive scheme and succession planning. 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 pages 88 and 89 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 judgment 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 PPS Insurance Board and the GRC.

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

Group Remuneration Committee	27 Mar 2012	7 May 2012	10 Oct 2012
Dr D R Anderson (Chairman)	√	√	√
Mr E A Moolla	√	√	√
Mr C Erasmus	√	√	√
Mr N G Payne	√	√	√

ABRIDGED CORPORATE GOVERNANCE REPORT

continued

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

Mr E A Moolla (Chairman)(appointed as Chairman 11 June 2012), Dr D G C Presbury (Resigned 11 June 2012), Dr D R Anderson, Dr N G Campbell and Dr S N E Seoka (Appointed 11 June 2012)

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

It is the responsibility of the GNC to ensure that plans are in place for appointments to the Boards of PPS Holdings Trust and its subsidiaries 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 for the appointment of PPS Group Boards and committees, ensuring that there is a formal, rigorous and transparent procedure for such 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 for appointment, but none of these impacts on the business and opportunities of the PPS Group. The GNC 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. The GNC is responsible for the evaluation of the Boards and Board members, including compliance with enhanced requirements regarding independence and being fit and proper for serving on an insurance company Board in terms of Solvency Assessment and Management regulation and the Insurance Laws Amendment Bill.

.

Attendance at the GNC meetings held during the year was:

Group Nominations Committee	12 Mar 2012	19 Sep 2012
Mr E A Moolla (Chairman)	√	√
Dr D R Anderson	√	√
Dr N G Campbell	√	√
Dr S N E Seoka (Appointed 11 June 2012)	N/A	√
Dr D G C Presbury (Resigned 11 June 2012)	√	N/A

N/A = Not Applicable

Group Social and Ethics Committee (SEC)

Members

Mr N G Payne (Chairman) (independent non-executive director), Mrs T Boesch (executive director), Mr C K de Klerk (executive director), Mr C Erasmus (independent non-executive director).

The Board of PPS Insurance established the Social and Ethics Committee (the SEC) as a statutory sub-committee of the Board during 2012 to address the requirement for such committee as set out in section 72 of the Companies Act.

Particulars of the role, responsibilities and attendance at meetings of the SEC are set out in its Report to Members on page 125 to 127.

Executive Committee (Exco)

Members

Mr M J Jackson (Chairman), Mrs T Boesch, Mr V E Barnard, Mr N J Battersby, Mr S R Clark, Mr C K de Klerk, Mr R Govenden, Dr H P D Hoffman, Mr N Hoosen, 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 in operations, sales, finance, actuarial, IT, human resources, compliance, governance, member relations, marketing and stakeholder relations, the Group Company Secretary, 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 day-to-day strategy and the operations of the PPS Group, within the parameters defined by the Board.

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

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.

2012 ANNUAL FINANCIAL STATEMENTS

2012 ANNUAL FINANCIAL STATEMENTS

CONTENTS

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

The report was prepared by M Spies CA(SA) and reviewed by T A Boesch CA (SA). An audit was performed by PricewaterhouseCoopers Inc. in line with requirements of the Trust Deed.

Published: 27 March 2013

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

for the year ended 31 December 2012

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

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

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

The annual financial statements, which appear on pages 105 to 213, were approved by the board of trustees and are signed on its behalf by:

Mr E A Moolla
Chairman

Mr M J Jackson
Chief Executive

Mrs T Boesch
Financial Director

The Professional Provident
Society Holdings Trust

Johannesburg
27 March 2013

CERTIFICATE BY THE SECRETARY

In my capacity as the Secretary, I hereby certify in terms of section 88(2)(e), of the Companies Act of 2008, and the Trust Deed, that for the year ended 31 December 2012, the Group has lodged with the Companies and Intellectual Property Commission, all such returns as are required in terms of these Acts. I also confirm that all returns to the Master of the High Court's office, required for The Professional Provident Society Holdings Trust in terms of the Trust Property Control Act, are to the best of my knowledge and belief true, correct and up to date.

V E Barnard
Secretary

The Professional Provident
Society Holdings Trust

27 March 2013

INDEPENDENT AUDITORS' REPORT

To the members of The Professional Provident Society Holdings Trust

We have audited the consolidated and separate financial statements of Professional Provident Society Holdings Trust set out on pages 129 to 213, which comprise the statements of financial position as at 31 December 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Trustees' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of The Professional Provident Society Holdings Trust as at 31 December 2012, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Trust Deed.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

C Volschenk
Director
Registered Auditor

Sunninghill
27 March 2013

REPORT OF THE INDEPENDENT ACTUARY

for the year ended 31 December 2012

1. CERTIFICATION OF FINANCIAL POSITION

I have conducted actuarial reviews of the Professional Provident Society Insurance Company Limited ('PPS Insurance') and Professional Provident Society Insurance Company (Namibia) Limited ('PPS Namibia') ('the insurance interests'), in accordance with applicable Actuarial Society of South Africa Professional Guidance Notes. These principles require reasonable provision for the liability in respect of future benefit payments to policyholders, generally based on the assumption that current conditions will continue. Provision is therefore not made for all possible contingencies. I have accepted that the Financial Statements comply with the requirements of the Companies Act.

Based on these reviews, as at 31 December 2012, in my opinion, the insurance interests were financially sound on the statutory bases, and in my opinion are likely to remain financially sound for the foreseeable future.

C van der Riet
Statutory Actuary

27 March 2013

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

PPS Insurance	Paragraph	2012 R'000	2011 R'000
Net assets	2	**18 555 732**	15 847 026
Policyholder liabilities	3	**18 320 471**	15 655 547
Apportionment and Special Benefit Accounts		**14 316 775**	12 144 253
Risk benefits reserves		**3 344 462**	3 053 473
Investment benefits		**659 234**	457 821
Excess of assets over liabilities		**235 321**	191 479
Capital adequacy requirement	4	**88 517**	71 655
Ratio of excess assets to Capital Adequacy Requirement		**2,7**	2,7

PPS Namibia	Paragraph	2012 N$'000	2011 N$'000
Net assets	2	**574 841**	453 265
Policyholder liabilities	3	**569 618**	448 042
Apportionment and Special Benefit Accounts		**434 791**	334 715
Risk benefits		**134 827**	113 327
Excess of assets over liabilities		**5 223**	5 223
Capital adequacy requirement	4	**4 000**	4 000
Ratio of excess assets to Capital Adequacy Requirement		**1,3**	1,3

2. STATUTORY BASIS ASSET VALUATION METHODS AND ASSUMPTIONS

The assets are valued at statement of financial position values, i.e. at market or directors' values as described in the accounting policies.

3. STATUTORY BASIS LIABILITY VALUATION METHODS AND ASSUMPTIONS

The actuarial liabilities were valued on bases which were consistent with the asset values, using the Financial Soundness Valuation method in accordance with the requirements of the Long-term Insurance Act, 1998, and SAP 104 of the Actuarial Society of South Africa ('ASSA'), as follows:

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

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

Where cumulative operating profits exceeded the allocations to policyholder benefits, stabilisation reserves were established. The stabilisation reserves decreased from the prior year and was R0 million at 31 December 2012 (2011: R1 million).

The actuarial liability in respect of Investment contracts was taken to be the fair value of the assets backing the contracts.

An allowance for future profit allocations has been made at a level consistent with assumed future experience, and our understanding of policyholder expectations.

The assumptions regarding future experience are based on best estimates suitably adjusted to provide safety margins according to the requirements of SAP 104 of the Actuarial Society of South Africa.

In accordance with generally accepted practice, the best estimates of future expenses, mortality, morbidity and persistency are largely based on recent past experience rather than being an attempt to predict the future course of these variables. The most recent persistency investigation was for the period 1 January 2011 to 31 December 2011. The morbidity investigation was conducted on the experience for 2011. The mortality experience related to the period 1 January 2011 to 31 December 2011.

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

The provision for expenses (before adding margins) is based on the company's current experience. Costs per unit of benefit are assumed to escalate at 4.25% (2011: 5.4%) per annum in future. The experience will be monitored and adjustments made as and when necessary.

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

The economic assumptions were based on the following:

Bond yield at 31 December 2012	7,00%
Equity return	10,00%
Cash	5,50%
Property return	8,00%

The assumed future gross investment return is 7,60% p.a. (2011: 9,00% p.a.).

4. STATUTORY CAPITAL ADEQUACY REQUIREMENTS

The statutory capital adequacy requirement is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of a significant negative departure of actual future experience from the assumptions made in calculating actuarial liabilities and for significant fluctuations in the value of assets. The capital adequacy requirement has been calculated in accordance with SAP 104. This guidance note prescribes various adverse scenarios that must be tested to determine the potential impact on the business of possible adverse experience. The combined excess of the assets over the liabilities for the life companies on the statutory basis is 2,6 times (2011: 2,6 times) the combined capital adequacy requirement.

In deriving the investment resilience requirement in the ordinary capital adequacy requirement ('OCAR') it was assumed that a decline of 30% in equity asset values, 15% in property values, and a 15% increase in fixed interest asset values (as a result of a 25% decrease in fixed-interest yields) will occur, in accordance with SAP 104.

In the case of PPS Insurance all profits and losses arising are transferred to policyholders by means of the annual allocations to the PPS Profit-Share Account™. These annual allocations are non-vesting and may be positive or negative, depending on the experience of the business. When calculating the Capital Adequacy Requirement allowance may be made for the impact of management action. The management action assumed in PPS Insurance is the allocations of profits which reflect the experience each year. The impact of this management action is to reduce the Capital Adequacy Requirement.

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

- The impact of prescribed basis fluctuations in the mortality, morbidity and medical experience will be absorbed by a reduction in the profit allocation to apportionment accounts of R159 million. This is equivalent to a reduction in the current profit allocation of 22%.
- The impact of prescribed basis fluctuations in the permanent incapacity benefit claims in payment mortality experience will be absorbed by a reduction in the profit allocation to apportionment accounts. This assumption reduces this component of the capital adequacy requirements by R96 million, which is equivalent to a reduction in the current profit allocation of 11%.
- The impact of prescribed basis fluctuations in the level of maintenance expenses will be absorbed by a reduction in the profit allocation to apportionment accounts by R38 million, which is equivalent to a reduction in the current profit allocation of 4%.
- The allowance for operational risk in the CAR calculation is R84 million. We assume that, should these operational risk events occur, the impact of this will be absorbed by a reduction in the operating profit allocated to Apportionment Accounts. This is equivalent to a reduction in the aggregate profit allocation of 9%.
- The allowance for credit risk in the CAR calculation amounted to R125 million. The impact of these credit risk events materialising will result in a reduction to Special Benefit Accounts. This is equivalent to removing 2% of the Special Benefit Account balances at 31 December 2012.
- The impact of the fall in the value of assets backing the policyholder liabilities equivalent to a 30% fall in equity values will be absorbed by reducing the special benefit accounts by R1,58 billion, which is equivalent to reducing the current special benefit accounts by 19%. These calculations do not include the potential direct impact of these risk events on assets backing the PPS Profit-Share Accounts™. The actual combined impact on the members' PPS Profit-Share Accounts™will thus be significantly higher than shown here.
- The impact of a fall in foreign assets is not applicable as none of the assets backing the risk reserves are deemed as "foreign".
- The impact of losses arising from adverse policy terminations will be absorbed by a reduction in the profit allocation to apportionment accounts of R1,81 billion. This is equivalent to a reduction in the current level of special benefit accounts of 22%. The quantification of the exposure to policy terminations has been based on a less conservative measure than used to determine the capital adequacy requirements for statutory reporting purposes.

The off-setting management actions assumed above have been approved by specific resolution by the board of directors, and I am satisfied that these actions would be taken if the corresponding risks were to materialise.

5. ALTERATIONS, NOTES AND QUALIFICATIONS

The actuarial assumptions will be reviewed from time to time to reflect changes in experience and/or expectations.

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

for the year ended 31 December 2012

At the end of each year policyholders' PPS Profit-Share Account™, comprising the Apportionment Accounts and the Special Benefit Accounts, are allocated a share of the profit or loss net of movements in insurance policy liabilities earned over that year. The PPS Profit-Share Account™ accumulates from year to year until a policyholder reaches retirement age. **On retirement, death or exit, policyholders receive a lump sum payment based on the balance accumulated in their PPS Profit-Share Account™ at that time. This is over and above the cover enjoyed by them as policyholders.**

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

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

The net operating income is allocated in proportion to the number of units of benefit held by each policyholder during that year. The investment returns are allocated in proportion to the quantum of the policyholders' PPS Profit-Share Account™.

On surrender of a policy prior to the age of 60, policyholders are entitled to receive a lump sum termination payment determined as a proportion of the PPS Profit-Share Account™ at the time. For all policyholders aged 60 or older, the full balance of the PPS Profit-Share Account™ is paid out to such policyholders, with tax pre-paid on retirement, termination of cover or resignation, and to the policyholders' beneficiaries or their estates on death.

Allocation to Special Benefit Accounts

The following investment allocations (Note 1) for 2012 were made to the Special Benefit Accounts:

	2012		2011	
PPS Insurance	**%**	**R million**	%	R million
PPS core portfolio policyholders	**16,41**	**1 714,8**	5,56	542,2
Moderate Fund option policyholders	**11,23**	**53,4**	4,87	15,5
Conservative Fund option policyholders	**8,18**	**12,9**	5,19	4,5
Flexible Income Fund option policyholders	**4,54**	**16,0**	6,69	23,3
Enhanced Yield Fund option policyholders	**3,26**	**2,5**	3,90	1,9
Total allocated		**1 799,6**		587,4

	2012		2011	
PPS Namibia	**%**	**N$ million**	%	N$ million
Flexible income option	**3,33**	**0,4**	2,99	0,3
Other policyholders	**22,20**	**69,3**	4,90	13,2
Total allocated		**69,7**		13,5

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

Allocation to Apportionment Accounts

The allocations at 31 December 2012 to policyholders' Apportionment Accounts are set out as follows:

	2012		2011	
PPS Insurance	**Rate**	**R'000**	Rate	R'000
Investment Income Allocation[1]				
PPS core portfolio policyholders	**2,95%**	**148 605**	3,26%	143 246
Flexible Income Fund option policyholders	**5,07%**	**6 750**	5,46%	7 120
Enhanced Yield Fund option policyholders	**4,44%**	**1 148**	4,67%	711
Conservative Fund option policyholders	**1,74%**	**870**	1,59%	427
Moderate Fund option policyholders	**0,96%**	**1 551**	0,31%	320
Profit allocations				
Sickness and Permanent Incapacity benefit (SPPI) – per unit of benefit per month[2]				
Ordinary (Full)	**30,99c**	**663 097**	34,50c	678 564
Ordinary (Reduced)	**17,99c**	**16 573**	21,50c	18 766
Supplementary A	**11,20c**	**40 199**	12,47c	44 440
Supplementary B	**63,92c**	**6 489**	71,16c	7 347
Deferred	**10,79c**	**15 159**	12,01c	17 159
Accident	**12,76c**	**4 880**	14,21c	5 340
Hospital benefits				
Ordinary (Full)	**4,04c**	**59 837**	4,50c	60 946
Ordinary (Reduced)	**2,74c**	**2 006**	3,20c	2 220
Supplementary A	**2,14c**	**3 691**	2,38c	4 116
Supplementary B	**14,01c**	**815**	15,60c	917
Accident	**7,57c**	**1 906**	8,43c	2 149
PPS Provider – per premium per month				
Professional Life Provider	**15,00%**	**16 602**		
Professional Health Provider	**15,00%**	**13 641**		
Professional Disability Provider	**5,00%**	**834**		
Accident Benefit	**5,00%**	**30**		
PPS Investment Profit		**3 198**		
Per R100 000 Market Value per Month[3]	**R9,09**			
PPS Retirement Annuity	**0,17c**	**2 152**	0,48c	5 809
Total allocated		**1 010 033**		999 597

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

Note 2 – Profit rates for PPS Insurance and PPS Namibia would have been the same had it not been for the impact of the BEE funding requirements in PPS Insurance.

Note 3 – Direct allocation to policyholders' Apportionment Account balances in respect of assets held with PPS Investments.

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

for the year ended 31 December 2012 … continued

PPS Namibia	2012 Rate	2012 N$'000	2011 Rates	2011 N$'000
Investment income[1]				
Flexible income option	**5,46%**	**248**	5,17%	221
Other policyholders	**4,12%**	**7 231**	3,77%	5 266
Profit allocation				
Sickness and Permanent Incapacity benefit (SPPI) – per unit of benefit per month				
Ordinary (Full)	**31,15c**	**28 690**	34,68c	28 949
Ordinary (Reduced)	**18,15c**	**991**	21,68c	662
Supplementary A	**11,26c**	**956**	12,53c	1 039
Supplementary B	**64,25c**	**227**	71,53c	249
Deferred	**10,85c**	**386**	12,07c	426
Accident	**12,83c**	**167**	14,28c	170
Hospital benefits				
Full – ordinary	**4,06c**	**3 260**	4,52c	3 301
Reduced – ordinary	**2,76c**	**119**	3,22c	72
Supplementary A	**2,15c**	**120**	2,39c	131
Supplementary B	**14,08c**	**41**	15,68c	45
Accident	**7,61c**	**76**	8,47c	76
PPS Retirement Annuity	**0,36c**	**156**	0,47c	128
Total allocated		**42 668**		40 735

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

TRUSTEES' REPORT

Deregistration of former holding company, PPS Limited, during the year

Following the implementation of the restructuring of the PPS Group's former controlling company, Professional Provident Society Limited ('PPS Limited'), into a trust during 2011, PPS Limited was converted into a not-for-profit company and its name was changed to Professional Provident Society NPC as a result of this conversion pursuant to the provisions of the Companies Act of 2008. The dormant former holding company was deregistered during 2012. The PPS Group's holding entity is The Professional Provident Society Holdings Trust, registration number IT312/2011 ('PPS Holdings Trust').

Special resolution

A special resolution was passed by the members of PPS Holdings Trust at the 4 June 2012 annual general meeting, approving the amendment and restatement of the deed of trust constituting PPS Holdings Trust, to reflect the current practices and direction of the PPS Group, to improve administrative efficiency and to align members' voting rights with their participation in the core products of PPS Insurance. The First Amended and Restated Trust Deed constituting PPS Holdings Trust was registered by the Master of the High Court on 1 August 2012.

Principal activities

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

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

- **PPS Black Economic Empowerment SPV (Pty) Limited** ('PPS BEE SPV'), a special purpose vehicle, was formed as part of PPS Insurance's BEE transaction in 2006. The sole asset of PPS BEE SPV is an endowment policy issued by PPS Insurance. PPS BEE SPV has issued cumulative redeemable preference shares to PPS Insurance. The redemption of these shares will be funded out of the proceeds of the endowment policy. Black policyholders of PPS Insurance at the time of implementation of the transaction in 2006 will ultimately benefit from an increased allocation to their PPS Profit-Share Accounts in terms of the BEE transaction.

- **Professional Provident Society Insurance Company (Namibia) Limited** ('PPS Namibia') is a wholly-owned subsidiary of PPS Insurance and provides insurance products exclusively to the Namibian market. A reinsurance agreement with PPS Insurance is in place for PPS Namibia. In terms of this reinsurance arrangement, PPS Namibia partially reinsures its obligations to the Namibian policyholders with PPS Insurance. This arrangement was put in place in order to protect the security and benefit expectations of the Namibian policyholders by effectively including Namibian policyholders in a risk pool of over 100 000 policyholders. Without this reinsurance arrangement, the Namibian subsidiary with over 4 000 Namibian policyholders would be exposed to higher volatility from participating in a significantly smaller risk pool.

- **Professional Medical Scheme Administrators (Pty) Limited** ('Professional Medical Scheme Administrators'), a wholly-owned subsidiary of PPS Insurance, administers Profmed and other medical schemes.
- **Professional Provident Society Marketing Services (Pty) Limited** ('PMS'), a wholly-owned subsidiary of PPS Insurance, houses PPS' Short-term Division, which markets short-term insurance products to members, which are underwritten by Hollard Insurance Company Limited and Etana Insurance Company Limited.
- **Professional Provident Society Investments (Pty) Limited** ('PPS Investments'), which provides, *inter alia*, savings and investment products to PPS members, is a subsidiary of PPS Insurance and is jointly owned with Coronation Fund Managers Limited.
- **Professional Provident Society Multi-Managers (Pty) Limited** ('PPS Multi-Managers') is a wholly-owned subsidiary of PPS Investments which provides multi-manager services to PPS Investments.
- **Professional Provident Society Management Company (Pty) Limited (RF)** ('PPS Manco') is a wholly-owned subsidiary of PPS Investments which provides unit trust management services to PPS Investments.
- **The PPS Property Fund Trust** is a trust registered in terms of the Trust Property Control Act, which invests in certain investment property.

Going Concern

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

Financial results

The financial results on pages 129 to 213 set out the results of the Trust and the Group (comprising PPS Holdings Trust and all its subsidiaries).

Trustees of The Professional Provident Society Holdings Trust

Trustee	Age*	Qualification	Classification	Term of office
Mr E A Moolla (Chairman) Independent Non-executive	62	B Iuris	Elected	Appointed 11 March 2002 Ends June 2013
Dr S N E Seoka (Deputy Chairman) Independent Non-executive	57	B Pharm, PhD	Co-opted annually	Appointed 15 August 2005 Ends N/A
Adv T N Aboobaker Independent Non-executive	59	BA LLB	Nominated annually(1)	Appointed 4 December 2006 Ends N/A
Dr D R Anderson Independent Non-executive	66	BDS, Dip POM, FCD (SA) OMP	Elected	Appointed 27 August 2001 Ends June 2015
Ms U Botha Independent Non-executive	44	B Proc, LLM, MBA	Elected	Appointed 6 June 2011 Ends June 2014
Dr N G Campbell Independent Non-executive	62	BDS	Elected	Appointed 9 March 2002 Ends June 2014
Ms D L T Dondur Independent Non-executive	46	B Compt, B Acc (Hons), CA(SA), MBA	Nominated annually(2)	Appointed 6 July 2011 Ends N/A
Mr J A B Downie Independent Non-executive	54	B Sc, MBA, CFP	Co-opted annually	Appointed 15 April 2010 Ends N/A
Mr Y N Gordhan Independent Non-executive	62	B Com(Hons) CA(SA), M Sc	Elected	Appointed 17 June 2008 Ends June 2014
Mr U D Jivan Independent Non-executive	50	BA LLB	Elected	Appointed 8 June 2009 Ends June 2015
Mr I Kotzé Independent Non-executive	56	B Pharm	Nominated annually(3)	Appointed 27 August 2001 Ends N/A
Dr C M Krüger Independent Non-executive	47	MB ChB, M Prax Med, M Pharm Med	Elected	Appointed 21 June 2004 Ends June 2013
Dr J Patel Independent Non-executive	60	B Chd	Nominated annually(4)	Appointed 8 June 2009 Ends N/A
Dr D G C Presbury Independent Non-executive	70	MB BS (London), FRCP (London)	Elected	Appointed 27 August 2001 Ends June 2013
Mr P Ranchod Independent Non-executive	57	B Compt(Hons) CA(SA), MBL	Elected	Appointed 6 June 2011 Ends June 2014
Mr V P Rimbault Independent Non-executive	49	B Sc Eng(Mech)	Nominated annually(5)	Appointed 12 September 2011 Ends N/A
Dr M W Sonderup Independent Non-executive	44	B Pharm, MB ChB FCP (SA)	Nominated annually(6)	Appointed 29 March 2012 Ends N/A

* As at 27 March 2013

TRUSTEES' REPORT

continued

Trustee	Age*	Qualification	Classification	Term of office
Mr B R Topham Independent Non-executive	41	B Compt(Hons), B Proc LLM, CA(SA) CA(England and Wales)	Elected	Appointed 4 June 2007 Ends June 2013
Mr S Trikamjee Independent Non-executive	34	B Com(Hons), CA(SA)	Elected	Appointed 8 June 2009 Ends June 2015
Mr H A C van den Bout Independent Non-executive	37	B Com(Hons), LLM	Elected	Appointed 4 June 2012 Ends June 2015
Dr V K S Bhagwandas Independent Non-executive	44	MB ChB	Elected	Appointed 4 June 2007 Resigned 4 June 2012
Dr M N Mabasa Independent Non-executive	53	MB ChB	Nominated annually[6]	Appointed 27 September 2010 Nomination withdrawn 29 March 2012

* As at 27 March 2013

N/A = Not applicable

Nominated by:

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

PPS Insurance Board

Director	Status
Dr D R Anderson (Chairman)	Independent Non-executive
Mr C Erasmus (Deputy chairman)	Independent Non-executive
Adv T N Aboobaker	Independent Non-executive
Dr N G Campbell	Independent Non-executive
Mr Y N Gordhan (Appointed 25 June 2012)	Independent Non-executive
Mr E A Moolla	Independent Non-executive
Mr N G Payne	Independent Non-executive
Dr D G C Presbury	Independent Non-executive
Dr S N E Seoka	Independent Non-executive
Mr B R Topham (Appointed 25 June 2012)	Independent Non-executive
Prof H E Wainer	Independent Non-executive
Mr M J Jackson (Chief Executive)	Executive
Mrs T Boesch (Financial Director)	Executive
Mr C K de Klerk (Executive Director: Actuarial and Technical)	Executive
Dr V K S Bhagwandas (Resigned 4 June 2012)	Independent Non-executive
Mr J A B Downie (Resigned 11 June 2012)	Independent Non-executive

Directors/Trustees of subsidiaries and affiliates

PPS Namibia

Director
Dr E Maritz (Chairman)
Adv N Bassingthwaighte (Appointed 24 October 2012)
Mr M J Jackson
Mr J N Marsden
Dr O J Oosthuizen
Mr W A V J Vermeulen

Professional Medical Scheme Administrators

Director
Mr M J Jackson (Chairman)
Mrs T Boesch
Dr N G Campbell
Dr C M Krüger

PPS BEE SPV	PPS Marketing Services	PPS Investments	Plexus Properties
Director	**Director**	**Director**	**Director**
Dr S N E Seoka (Chairman)	Mr M J Jackson (Chairman)	Mr E A Moolla (Chairman)	Mr M J Jackson (Chairman)
Mr E A Moolla	Mrs T Boesch (Appointed 25 June 2012)	Mr N J Battersby	Mrs T Boesch
Mr E G Joubert	Mr C K de Klerk	Mr C K de Klerk	Mr C K de Klerk
	Mr C Erasmus	Mr A C Pillay	
	Mr N Hoosen	Mr M J Jackson	
	Mr J N Marsden	Mr P J Koekemoer	
		Mr H A Nelson (Resigned 31 December 2012)	
		Mr L P Smith (Appointed 1 January 2013)	

PPS Multi-Manager	PPS Management Company	PPS Personal Pension Retirement Annuity Fund
Director	**Director**	**Trustee**
Mr C K de Klerk (Chairman)	Mr C K de Klerk (Chairman)	Mrs R G Govender (Chairman)
Mr N J Battersby	Mr N J Battersby	Mr A Bosch
	Mr S M Gerber	Mr J A B Downie
	Mr A J Woolfson	Mr H du Toit

TRUSTEES' REPORT

continued

PPS Preservation Provident Fund	PPS Preservation Pension Fund	PPS Property Fund Trust
Trustee	**Trustee**	**Trustee**
Mrs R G Govender (Chairman)	Mrs R G Govender (Chairman)	Mr M J Jackson (Chairman)
Mr A Bosch	Mr A Bosch	Mrs T Boesch
Mr J A B Downie	Mr J A B Downie	Mr C K de Klerk
Mr H du Toit	Mr H du Toit	Mr V Schroeder

Trustees of affiliates

PPS Retirement Annuity Fund	PPS Beneficiaries Trust
Trustee	**Trustee**
Mr B R Topham (Chairman)	Mr B R Topham (Chairman)
Ms D L T Dondur (Appointed 22 June 2012)	Mr Y N Gordhan
Mr J A B Downie	Mr S Trikamjee
Mr M D Eustace	
Mrs R G Govender	
Mr E Huggett	
Mr U D Jivan (Appointed 22 June 2012)	
Dr D G C Presbury	
Mr G F Richardson (Retired 22 June 2012)	
Dr S N E Seoka	
Dr V K S Bhagwandas (Resigned 4 June 2012)	

AUDIT COMMITTEES' REPORT

Introduction

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

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

The report of these committees is presented to the members in terms of section 94(7)(f) of the Companies Act, No 71 of 2008 ('the Companies Act'), and the Trust Deed.

Composition of the PPS Holdings Trust Audit Committee

Members:

Independent non-executive Trustees of PPS Holdings Trust:

Ms D L T Dondur, B Acc (Hons), B Compt, CA(SA), MBA, appointed as member of the Trust AC from 28 March 2012 and as Chairman of the Trust AC from 14 November 2012

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

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

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

Note: Dr D R Anderson resigned as a member of the Trust AC on 27 March 2013 and Mr Y N Gordhan was appointed in his place, subject to member approval at the annual general meeting to be held on 3 June 2013.

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

Meetings of the Trust AC held during the year end attendance thereat:

PPS Holdings Trust Audit Committee	15 March 2012	14 November 2012
Ms D L T Dondur (Chairman)	★	√
Dr D R Anderson	√	√
Mr E A Moolla	√	√
Dr D G C Presbury (Resigned 28 March 2012)	AP	N/A

AP = Apology
N/A = Not Applicable
★ = In attendance but not appointed

Composition of the PPS Group Audit Committee

Members:

Independent non-executive directors of PPS Insurance:

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

Mr C Erasmus, B Sc, FIA, Member of PPS AC since 2009

Mr Y N Gordhan, B Com (Hons), CA(SA), M Sc, appointed as a Member of PPS GAC on 25 June 2012

Mr E A Moolla, B Iuris, Member of PPS AC since 2003 (Resigned 25 June 2012)

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

Specialist Consultant:

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

Meetings held during the year and the attendance:

Group Audit Committee	13 Feb 2012	15 Mar 2012	12 June 2012	27 Sep 2012	12 Nov 2012
Prof H E Wainer (Chairman)	√	√	√	√	√
Mr C Erasmus	√	√	√	√	√
Mr Y N Gordhan (Appointed 25 June 2012)	N/A	N/A	N/A	√	√
Mr E A Moolla (Resigned 25 June 2012)	√	√	√	N/A	N/A
Mr N G Payne	√	√	√	√	√
Prof C E Rabin*	√	√	√	√	√

*Consultant

N/A = Not Applicable

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

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

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

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

Role of the audit committees

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

In respect of the year ended 31 December 2012, the committees performed their functions required in terms of the Companies Act and the Trust Deed and executed their responsibilities in accordance with their terms of reference. The committees performed, among others, the following functions:

- Reviewed and recommended for approval the annual financial statements.
- Considered the factors and risks that might affect the financial reporting.
- Confirmed the going concern basis of preparation of the annual financial statements.
- Reviewed and recommended for approval the integrated report.
- Assessed the effectiveness of internal financial controls systems and formed the opinion that there were no material breakdowns in internal control.
- Reviewed the internal audit charter in line with King III recommendations, and recommended the approval thereof to the board.
- Approved the internal audit plan for the 2012 financial year for a twelve-month period.
- Reviewed and evaluated reports relating to internal audit and risk management.
- Nominated PricewaterhouseCoopers Inc. ('PwC') as the Group's registered external auditors for the financial year ended 31 December 2012.
- Approved the external audit engagement letter and the budgeted audit fees payable to the external auditors.
- Reviewed the quality and effectiveness of the external audit process and the audit plan.
- Obtained and considered a statement from the independent auditors confirming that its independence was not impaired.

AUDIT COMMITTEES' REPORT

continued

- Confirmed that no reportable irregularities had been identified or reported by the independent auditors under the Auditing Professions Act.
- Ensured no limitations were imposed on the scope of the external audit.
- Determined the nature and extent of non-audit services performed by the external auditors and pre-approved any such services.
- Considered whether there were any concerns or complaints whether from within or outside the Group relating to the accounting practices and internal audit of the Group, the content or auditing of the Group's financial statements, the internal financial controls of the Group or any related matter.
- Made submissions to the board on matters concerning the Group's accounting policies, financial control, records and reporting.

External auditors

PricewaterhouseCoopers Inc. ('PwC') served as the Group's external auditors for the 2012 financial year.

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

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

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

Expertise and experience of the financial director and the finance team

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

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

Approval of the report

The Trust AC and PPS GAC confirm for the 2012 financial year they have functioned in accordance with their terms of reference and as required by the Companies Act and PPS Holdings Trust's Trust Deed, and that their reports have been approved by the directors and trustees.

On behalf of the audit committees:

Ms D L T Dondur
Chairman of Trust AC

27 March 2013

Prof H E Wainer
Chairman of PPS GAC

27 March 2013

GROUP SOCIAL AND ETHICS COMMITTEE'S REPORT

Introduction

The PPS Group Social and Ethics Committee ('SEC') is a statutory committee of the PPS Insurance Board established by the Board in terms of Section 72(4) of the Companies Act (71 of 2008) ('Companies Act') and has the functions set out in Regulation 43(5) of the Companies Act. The SEC is required to comprise of at least three directors or prescribed officers of PPS Insurance, one of whom must not be involved in the day-to-day management of the PPS Group's business.

The SEC is tasked to monitor specific activities of the PPS Insurance Group as set out below and to advise the PPS Insurance Group boards in relation to such matters and meets at least twice a year.

Members

Mr N G Payne (Chairman), independent non-executive director

Mrs T Boesch, executive director

Mr C K de Klerk, executive director

Mr C Erasmus, independent non-executive director

Functions

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

1. Monitoring the PPS Insurance Group's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:
    - Social and economic development
    - Good corporate citizenship
    - Assessment of the ethical risk profile
    - The environment, health and public safety, labour and employment
    - Consumer relationships
2. Drawing matters within its mandate to the attention of the PPS Insurance Group boards as may be required.
3. Reporting, through one of its members, to the members of PPS Insurance Company Limited at its annual general meeting on the matters within its mandate.

GROUP SOCIAL AND ETHICS COMMITTEE'S REPORT

continued

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

Group Social and Ethics Committee	12 June 2012	27 Sep 2012	12 Nov 2012
Mr N G Payne (Chairman)	√	√	√
Mrs T Boesch	√	√	√
Mr C K de Klerk	√	√	√
Mr C Erasmus (Appointed 25 June 2012)	N/A	√	√

N/A = Not applicable

Report to PPS Insurance members by the SEC

During 2012 the committee focused on identifying the appropriate operational structures, board committees and responsible persons to report into the SEC. The committee considered reports from the various contributors regarding the relevant functions and the following items were specifically noted:

Social and economic development	• The United Global Compact Principles are not legislation but reflect international best practice. PPS conducts its business in accordance with the principles regarding to Human Rights, Labour Standards, the Environment and Anti-corruption; • The Employment Equity Act is managed in accordance with a plan submitted to the Department of Labour and is frequently tracked at Executive Management and Board level; • Various action plans are in place to address the requirements of the Broad-based Black Economic Empowerment Act; • PPS promotes equality and prevents unfair discrimination both of employees and members.
Good corporate citizenship	• Various Corporate Social Investment initiatives are in place to develop the professional community and students studying towards qualifying degrees; • Various sponsorships, donations and charitable initiatives are undertaken and are regularly reviewed.
Assessment of the ethical risk profile	• Corruption and fraud management is a priority for PPS and a Fraud Policy and redrafted Whistle Blowing Policy were approved by the board, followed by detailed communication to staff.

Consumer relationships	• PPS made significant progress in the implementation of TCF and achieved a high score using the self-assessment tool provided by the FSB for this purpose. Refer to additional reporting on this below; • Industry-specific consumer protection legislation is in place (e.g. FAIS, Long-term Insurance Act, etc.) and compliance therewith is actively managed and high levels of compliance have been achieved.
The environment, health and public safety, labour and employment	• The impact of the activities of the various companies on the environment is considered and projects are underway to minimise the environmental impact of the operations of the organisation; • The occupational health and safety of employees and clients in buildings occupied by PPS are monitored and a high level of compliance is achieved; • Excellent working conditions are in place for all employees. • Employment relationships are valued at PPS, which is evidenced by the seal of excellence awarded to PPS in both 2011 and 2012 by Deloitte in the "best company to work" for survey; • Educational development of employees is achieved through various initiatives including internal and external training, induction programmes and bursary schemes.

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

Based on the above monitoring reports, the SEC concluded that there were no issues under its purview during the year ended 31 December 2012 which required reporting to the Board or members of PPS Insurance.

On behalf of the Social and Ethics Committee:

Mr N G Payne
Chairman of SEC

27 March 2013

ADMINISTRATIVE INFORMATION

BUSINESS ADDRESS

Principal place of business	6 Anerley Road Parktown, 2193 South Africa
Postal address	PO Box 1089 Houghton, 2041 South Africa
Web address	www.pps.co.za

STATUTORY ACTUARY OF
PPS INSURANCE AND PPS NAMIBIA

(in terms of the Long-term Insurance Act)
C van der Riet

EXTERNAL AUDITOR

PricewaterhouseCoopers Inc.
2 Eglin Road
Sunninghill, 2157
South Africa

INTERNAL AUDITOR

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

LEGAL ADVISORS

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

ACTUARIAL AND INSURANCE SOLUTIONS

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

FUND MANAGERS

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

Investec Asset Management (Pty) Limited
36 Hans Strijdom Avenue
Foreshore
Cape Town, 8001
South Africa

PPS Multi-Managers (Pty) Limited
1st Floor, Travers House
Boundary Terraces
1 Mariendahl Lane
Newlands, 7700
South Africa

Namibia Asset Management Limited
1st Floor, KPMG House
24 Orban Street, Klein Windhoek, Windhoek
Namibia

GROUP ACCOUNTING POLICIES

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

1. BASIS OF PRESENTATION

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

- Owner-occupied property carried at fair value;
- Financial assets designated to be carried at fair value through profit or loss;
- Investment property carried at fair value;
- Policy liabilities under insurance contracts that are valued in terms of the financial soundness valuation ('FSV') basis outlined in accounting policy 4;
- Investment contract liabilities which are carried at fair value through profit or loss; and
- Post-employment employee benefit obligations valued using the projected unit credit method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 31 of the notes to the consolidated financial statements.

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

2. CONSOLIDATION

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

Subsidiaries

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

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

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

Unit trusts, in which the Group has greater than 50% economic interest resulting in effective control, are consolidated. The consolidation principles applied to these unit trusts are consistent with those applied to consolidated subsidiary companies.

GROUP ACCOUNTING POLICIES

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

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

Non-controlling interest

Outside shareholders' interest in surplus or deficit after tax since acquisition of entities controlled by the Group is defined as non-controlling interest. This interest is disclosed as equity on the statement of financial position.

3. FINANCIAL INSTRUMENTS

3.1 General

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

Financial instruments carried on the statement of financial position include financial assets – investments, other receivables, cash and cash equivalents, investment contract liabilities, borrowings, accruals and other payables.

3.2 Financial assets

The Group has the following financial asset categories: financial assets at fair value through profit or loss, as well as loans and receivables. The Group currently does not hold any held to maturity or available-for-sale assets.

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

Financial instruments at fair value through profit or loss

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

Financial instruments are designated on initial recognition as 'At fair value through profit or loss' to the extent that they produce more relevant information because they either:

- result in the reduction of measurement inconsistency (for accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- are managed as a group of financial assets and/or financial liabilities and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel.

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

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

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include receivables, as well as cash and cash equivalents.

Loans and receivables are initially measured at fair value and subsequently at amortised cost less impairment adjustments (accounting policy note 12).

3.3 Financial liabilities

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

Financial liabilities include other payables and investment contract liabilities (accounting policy note 4.2.2) and third-party financial liabilities arising on consolidation of unit trusts (accounting policy note 2).

Financial liabilities are initially measured at fair value less transaction costs that are directly attributable to the raising of the funds, and are subsequently carried at amortised cost. Any difference between the proceeds, net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of borrowing.

Third-party financial liabilities arising on consolidation of unit trusts are effectively demand deposits and are consequently measured at fair value, which is the unquoted unit values as derived by the fund administrator, with reference to the rules of each particular fund. Fair value gains or losses are recognised in the statement of comprehensive income.

3.4 Derecognition of financial assets and financial liabilities

The Group derecognises an asset:

- when the contractual rights to the cash flows from the asset expires;
- where there is a transfer of contractual rights to receive cash flows on the asset in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred; or

- where the Group retains the contractual rights to the cash flows from these assets, but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers all or substantially all the risks and benefits associated with the assets.

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

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

4. INSURANCE AND INVESTMENT CONTRACTS

4.1 Classification of contracts

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Such contracts may also transfer financial risk. The Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is significantly more than the benefits payable if the insured event did not occur.

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

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

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

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer; and
- that are contractually based on:
  - (a) the performance of a specified pool of contracts or a specified type of contract;
  - (b) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - (c) the profit or loss of the company, fund or other entity that issues the contract.

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

Insurance contracts

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

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

4.2 Valuation and recognition

4.2.1 Insurance contracts

Principles of valuation and profit recognition

Liabilities in respect of insurance contracts are valued according to the Standard of Actuarial Practice (SAP's) and Advisory Practice Notes (APN's) issued by the Actuarial Society of South Africa (ASSA). Of particular relevance to the insurance liability calculations, are the following actuarial guidance notes:

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

APN 102: Life Offices – HIV/AIDS

APN 105: Recommended AIDS extra mortality bases

Valuation

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

Compulsory margins for adverse deviations are included in the assumptions as required in terms of PGN 104. For certain products, negative reserves have been eliminated in line with local regulatory requirements. This increases the policy liabilities. This margin will be released in line with the growth in policy liabilities. There are no discretionary margins in the policy liabilities.

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

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

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

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

Recognition: insurance contracts

Premiums

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

Insurance benefits

Insurance benefits and claims are recorded as an expense gross of any reinsurance recovery when they are on the sickness, permanent incapacity, disability, death, retirement or resignation of a member. These claims are recognised when notified. These claims also include the movement in incurred but not reported benefits.

Unintimated claims ('IBNR')

IBNR is defined as 'incurred but not reported' claims. This liability is held in respect of the sickness and permanent incapacity policies, life and disability policies, the professional health preserver policies and the life and disability assurance group policy. The reserve is estimated by making assumptions about future trends in reporting of claims. It has been calculated using a consistent methodology and on a statistical basis as for previous years' reporting. The profile of claims run-off (over time) is modelled by using historic data of the Group. The profile is then applied to actual claims data of recent periods for which the run-off is not complete. The IBNR is included in the insurance policy liabilities.

Claims payable

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

Expenses for the acquisition of insurance contracts

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

Liability adequacy test

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

Recognition: Reinsurance contracts

Reinsurance premiums

Reinsurance premiums paid are recognised as an expense in the statement of comprehensive income when they become due for payment in terms of the contracts at the undiscounted amounts payable in terms of the contracts.

Reinsurance recoveries

Reinsurance recoveries are recognised in the statement of comprehensive income in the same period as the claim at the undiscounted amount receivable in terms of the contracts.

Reinsurance inwards

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

Reinsurance contracts held

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

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

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

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

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

Receivables and payables related to insurance contracts

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

Profit share

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

4.2.2 Investment contracts

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

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

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

Receivables and payables related to investment contracts

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

Financial instruments and insurance contract analysis

IFRS 7, as amended indicates a three tier hierarchy for fair value measurement disclosures:

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

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

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

5. FOREIGN CURRENCY TRANSLATION

5.1 Transactions and balances

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

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

5.2 Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that entity's most recent statement of financial position;

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

6. DIRECT AND INDIRECT TAX

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

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

Tax in respect of South African life insurance operations is determined using the four-fund method applicable to life insurance companies.

7. CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits at call with banks. Cash equivalents comprise highly-liquid investments that are convertible to cash with insignificant risk of changes in value and with original maturities of less than three months.

8. PROPERTY AND EQUIPMENT

Owner-occupied property represents property held for administrative purposes and for capital appreciation for the benefit of policyholders, and are offices occupied by the Group. Owner-occupied property is initially recorded at cost, and is subsequently shown at fair value, based on annual valuations by external independent appraisers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. The revaluation movement is allocated to the revaluation reserve. Equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

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

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

Gains and losses on disposals are included in the statement of comprehensive income and are determined by comparing sales proceeds with the carrying amount.

9. INVESTMENT PROPERTY

Investment property, both freehold and leasehold, are properties held for the purpose of earning rental income and for capital appreciation. Investment properties are initially recorded at cost and include transaction costs on acquisition. Subsequent expenditure to add or to replace a part of the property is capitalised at cost.

Leasehold properties that are leased out to tenants under operating leases are classified as investment properties, as appropriate, and included in the statement of financial position at fair value. Land interests held under operating leases are classified and accounted for as investment property on a property by property basis when they are held to earn rentals, or for capital appreciation in both the land and the property. Any such property interest under an operating lease classified as investment property is carried at fair value.

Investment properties are valued annually and adjusted to fair value as at the reporting date. Properties purchased within six months of the year-end are valued at cost.

Any gain or loss arising from the fair value of the investment property is included in the statement of comprehensive income for the period to which it relates. Changes in fair value are excluded from the calculation of distributable earnings.

Gains and losses on the disposal of investment properties are recognised in the statement of comprehensive income and are calculated as the difference between the sale price and the carrying value of the property.

10. LEASES

Operating leases where the Group company is the lessee

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

11. INTANGIBLE ASSET

Computer software development costs

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets when the following criteria are met:

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

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

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

Management reviews the carrying value wherever objective evidence of impairment exists. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

12. IMPAIRMENT OF ASSETS

Financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as default or delinquency in payments;

- adverse changes in the payment status of issuers or debtors in the Group; or
- national or local economic conditions that correlate with defaults on assets in the Group.

If there is objective evidence that an impairment loss has been incurred on receivables, including those related to insurance contracts, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced directly against the asset or through the use of an allowance account for impairment losses. The amount of the loss is recognised in the statement of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the impairment provision account. The amount of the reversal is recognised in the statement of comprehensive income.

Non-financial assets

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

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of fair value less costs to sell and value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. The carrying amount of the asset is reduced directly against the asset or through the use of an impairment provision account. The amount of the loss is recognised in the statement of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the impairment provision account. The amount of the reversal is recognised in the statement of comprehensive income.

13. DEFERRED TAXATION

Deferred tax is provided, using the liability method, on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not recognised on initial recognition of the assets and liabilities. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. The principal temporary differences arise from the revaluation of financial assets held at fair value through profit or loss, provisions and tax losses carried forward.

Deferred tax assets relating to the carry forward of unutilised tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised.

Deferred tax liabilities and assets are not discounted.

14. EMPLOYEE BENEFITS

14.1 Pension/Retirement obligations

The Group provides for retirement benefits of employees by means of a defined contribution pension and provident fund. The assets are held in separate funds controlled by trustees appointed by the Group and employees. In prior years a Defined Benefit pension fund was available to employees, but this has since been closed.

Defined contribution fund

A defined contribution plan is a retirement plan under which the Group pays fixed contributions into a separate fund.

All employees employed after July 2004 belong to the defined contribution pension and provident fund. All other employees were transferred to the defined contribution pension and provident fund effective on 1 March 2005. The plan is funded by contributions from employees and the Group. Group contributions to the fund are based on a percentage of payroll and are recognised as employee benefit expense when they are due. Pre-paid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit fund

All members on the defined benefit fund have been transferred from the defined benefit pension fund to the defined contribution pension and provident fund effective on 1 March 2005. Surplus assets are recognised in the employer surplus account.

14.2 Post-retirement medical obligations

The Group provides for the unfunded post-retirement healthcare benefits of those employees and retirees employed before 4 October 1999, as well as their spouses and dependants. The entitlement to post-retirement healthcare benefits is based on an employee remaining in service up to retirement and completion of a minimum service period. For existing employees, the expected post-retirement costs of these benefits are accrued over the period of employment, using the projected unit credit method. For past service of employees, the Group recognises and provides for the actuarially-determined present value of post-retirement medical aid employer contributions on an accrual basis.

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

The Group's current service costs to the post-retirement medical fund are recognised as expenses in the current year. Past service costs are recognised as expenses in the current year to the extent that they relate to retired employees. Past service costs are recognised as an expense over the average period until the benefits become vested for existing employees. Cumulative actuarial gains and losses at the beginning of the period in excess of 10% of the fund liabilities are recognised in the statement of comprehensive income over the expected average remaining service lives of participating employees.

The liability recognised in the statement of financial position in respect of the post-retirement medical obligation is the present value of the post-retirement medical obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates with reference to the market yield of interest-bearing bonds at reporting date.

14.3 Termination benefits

Termination benefits are recognised as an expense in the statement of comprehensive income and a liability in the statement of financial position when the Group has a present obligation relating to termination.

14.4 Leave pay provision

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

14.5 Management bonuses

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

14.6 Long-term incentive scheme

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

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

15. BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

16. OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously, and where the financial asset and liability are denominated in the same currency.

17. REVENUE RECOGNITION

17.1 Net insurance premium revenue

Details of net insurance premium revenue are disclosed under accounting policy 4.2.1.

17.2 Other income

Policy administration and collection services fee income are fees arising from services rendered in conjunction with the administration of the life assurance policy underwritten by Sanlam.

Fees are recognised as services are rendered.

Administration fees include fees charged to Profmed Medical Scheme and PPS Beneficiaries Trust for administration services rendered to these entities. Also included are royalties received.

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

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

17.3 Investment income

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

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

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

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

Realised gains and losses on investments are calculated as the difference between net sales proceeds and carrying values at the beginning of the year or cost if acquired during the year. Unrealised gains and losses are calculated as the difference between the carrying values at the end of the year and the carrying values at the beginning of the year or cost if acquired during the year.

17.4 Rental income

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from other property is recognised as other income.

18. EXPENSES FOR MARKETING AND ADMINISTRATION

Administration expenses include head office and branch administration expenditure, marketing and development expenditure, as well as all other non-commission-related expenditure, and are expensed as incurred.

19. EXPENSES FOR INVESTMENT MANAGEMENT SERVICES

Investment management expenses include expenditure incurred in the provision of asset management services.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2012

		Group		Parent	
	Note	**2012 R'000**	2011 R'000	**2012 R'000**	2011 R'000
ASSETS					
Property and equipment	2	**116 570**	110 445	**–**	–
Investment property	3	**45 023**	–	**–**	–
Intangible asset	4	**36 488**	32 892	**–**	–
Investment in subsidiary company	5	**–**	–	**10 000**	10 000
Deferred tax	15	**54 989**	51 134	**–**	–
Financial assets – Investments at fair value through profit or loss	6	**19 660 502**	16 192 763	**–**	–
Reinsurance assets	7, 11	**1 083**	36 324	**–**	–
Insurance and other receivables	8	**128 750**	85 629	**1 386**	1 350
Current income tax asset		**6 031**	20 541	**–**	–
Cash and cash equivalents	9	**1 606 787**	1 152 810	**75**	30
Total assets		**21 656 223**	17 682 538	**11 461**	11 380
EQUITY	10	**124 529**	89 488	**2 281**	(894)
LIABILITIES					
Insurance policy liabilities	11	**18 736 580**	16 278 928	**–**	–
Investment contract liabilities	12	**386 871**	221 311	**–**	–
Third-party liabilities arising on consolidation of unit trusts	13	**1 755 729**	711 633	**–**	–
Borrowings	14	**24 941**	20 946	**–**	–
Deferred tax	15	**220 375**	127 183	**–**	–
Retirement benefit obligations	16	**54 816**	40 261	**–**	–
Employee-related obligations	17	**77 943**	57 639	**–**	–
Reinsurance liabilities	7, 11	**89 283**	–	**–**	–
Insurance and other payables	18	**126 873**	134 997	**9 117**	12 122
Current income tax liabilities		**58 283**	152	**63**	152
Total liabilities		**21 531 694**	17 593 050	**9 180**	12 274
Total equity and liabilities		**21 656 223**	17 682 538	**11 461**	11 380

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

		Group		Parent	
	Note	**2012 R'000**	2011 R'000	**2012 R'000**	2011 R'000
Net insurance premium revenue	19	**2 119 279**	1 914 399	**–**	–
Other income	20	**249 020**	197 654	**12 761**	10 941
Investment income	21	**1 385 070**	654 435	**–**	1 874
Net fair value profits on financial assets held at fair value through profit or loss	22	**1 771 011**	494 825	**–**	–
		5 524 380	3 261 313	**12 761**	12 815
Net insurance benefits and claims	23	**1 385 925**	1 172 620	**–**	–
Movement in fair value of policyholder liabilities under investment contracts	12	**37 086**	8 876	**–**	–
Expenses	24	**888 767**	793 554	**7 469**	19 936
Profit/(Loss) before movement in insurance policy liabilities		**3 212 602**	1 286 263	**5 292**	(7 121)
Movement to insurance policy liabilities	11.2	**2 625 850**	1 125 824	**–**	–
Movement in third-party liabilities	13	**200 133**	53 991	**–**	–
Tax	26	**351 578**	113 818	**2 117**	2 400
Surplus/(Deficit) after tax		**35 041**	(7 370)	**3 175**	(9 521)
Other comprehensive income:					
Revaluation of owner-occupied property net of tax		**1 547**	(4 390)	**–**	–
Total comprehensive income/(deficit) for the year		**36 588**	(11 760)	**3 175**	(9 521)
Surplus/(Deficit) after tax attributable to:					
Members		**35 041**	(7 370)	**–**	–
Total comprehensive income/(deficit) attributable to:					
Members		**36 588**	(11 760)	**–**	–

The mutual nature of PPS should be noted. The allocation to policyholders – described above as 'Movement to insurance policy liabilities' – is in effect the positive or negative return to the members in their capacity as policyholders. The surplus/(deficit) after tax is the result of operations of the non-insurance subsidiaries and any increase required to maintain capital.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Note	Accumulated funds R'000	Revaluation reserve R'000	Non-distributable reserves R'000	Total R'000
Group					
Balance at 1 January 2011		96 858	–	–	96 858
		–	–	–	–
Revaluation of owner-occupied property		–	(4 778)	–	(4 778)
Deferred tax on revaluation of owner-occupied property		–	388	–	388
Movement in insurance policy liabilities	11.2	–	4 390	–	4 390
Deficit for the year		(7 370)	–	–	(7 370)
Balance at 31 December 2011		89 488	–	–	89 488
Revaluation of owner-occupied property		**–**	**2 320**	**–**	**2 320**
Deferred tax on revaluation of owner-occupied property		**–**	**(773)**	**–**	**(773)**
Movement in insurance policy liabilities	11.2	**–**	**(1 547)**	**–**	**(1 547)**
Surplus for the year		**35 041**	**–**	**–**	**35 041**
Balance at 31 December 2012		**124 529**	**–**	**–**	**124 529**

	Accumulated funds R'000	Revaluation reserve R'000	Non-distributable reserves R'000	Total R'000
Parent				
Balance at 1 January 2011	10 500	–	–	10 500
Deficit for the year	(9 521)	–	–	(9 521)
Deficit on acquisition of financial assets	–	–	(1 873)	(1 873)
Transfer between reserves	(1 873)	–	1 873	–
Balance at 31 December 2011	(894)	–	–	(894)
Surplus for the year	**3 175**	**–**	**–**	**3 175**
Balance at 31 December 2012	**2 281**	**–**	**–**	**2 281**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

		Group		Parent	
	Note	**2012 R'000**	2011 R'000	**2012 R'000**	2011 R'000
Cash flows from operating activities					
Cash generated from operations	27	**195 836**	389 036	**2 251**	2 166
Interest received		**464 882**	442 786	**–**	–
Dividend received	21	**239 571**	201 368	**–**	–
Tax paid	28	**(190 373)**	(134 229)	**(2 206)**	(2 248)
Net cash from/(used in) operating activities		**709 916**	898 961	**45**	(82)
Cash flows from investing activities					
Purchases of property and equipment	2	**(25 948)**	(53 933)	**–**	–
Purchase of investment property	3	**(45 023)**	–	**–**	–
Software development	4	**(16 113)**	(13 978)	**–**	–
Purchase of financial assets	6	**(9 004 040)**	(5 987 918)	**–**	–
Proceeds from sale of furniture and equipment		**371**	6 300	**–**	–
Proceeds from disposal of financial assets		**8 830 819**	4 770 995	**–**	–
Net cash used in investing activities		**(259 934)**	(1 278 534)	**–**	–
Cash flows from financing activities					
Increase in borrowings	14	**3 995**	2 138	**–**	–
Net cash used in financing activities		**3 995**	2 138	**–**	–
Net increase/(decrease) in cash and bank		**453 977**	(377 435)	**45**	(82)
Cash and bank at beginning of the year		**1 152 810**	1 530 245	**30**	112
Cash and bank at end of the year	9	**1 606 787**	1 152 810	**75**	30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2012

1. FINANCIAL INSTRUMENT AND INSURANCE CONTRACT ANALYSIS

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

R'000	Note	Financial assets and liabilities designated at fair value through profit or loss on initial recognition	Loans and receivables	Financial liabilities at amortised cost	Insurance contract assets and liabilities	Pre-payments	Total carrying amount	Fair value
Group 2012								
Equity securities								
Local listed	6	9 042 832	–	–	–	–	9 042 832	9 042 832
International listed	6	38 258	–	–	–	–	38 258	38 258
Debt securities								
Government bonds	6	5 908 637	–	–	–	–	5 908 637	5 908 637
International listed	6	99 174	–	–	–	–	99 174	99 174
Unit trusts and pooled funds	6	4 571 601	–	–	–	–	4 571 601	4 571 601
Reinsurance assets	7	–	–	–	1 083	–	1 083	N/A
Insurance receivables	8	–	–	–	19 328	–	19 328	N/A
Pre-payments	8	–	–	–	–	4 940	4 940	4 940
Other receivables	8	–	76 020	–	–	–	76 020	76 020
Reinsurance receivables	8	–	–	–	28 462	–	28 462	N/A
Cash and cash equivalents	9	1 524 266	82 521	–	–	–	1 606 787	1 606 787
Insurance contract liabilities	11	–	–	–	18 736 580	–	18 736 580	N/A
Investment contract liabilities	12	386 871	–	–	–	–	386 871	386 871
Liabilities to unit trust holders	13	1 755 729	–	–	–	–	1 755 729	1 755 729
Borrowings	14	–	–	24 941	–	–	24 941	24 941
Reinsurance liabilities	7	–	–	–	89 283	–	89 283	N/A
Reinsurance payables	18	–	–	–	11 340	–	11 340	N/A
Insurance payables	18	–	–	–	24 981	–	24 941	N/A
Accruals and sundry creditors	18	–	–	90 552	–	–	90 552	90 552

R'000	Note	Financial assets and liabilities designated at fair value through profit or loss on initial recognition	Loans and receivables	Financial liabilities at amortised cost	Insurance contract assets and liabilities	Pre-payments	Total carrying amount	Fair value
Group 2011								
Equity securities								
Local listed	6	7 238 421	–	–	–	–	7 238 421	7 238 421
International listed	6	40 225	–	–	–	–	40 225	40 225
Debt securities								
Government bonds	6	4 932 754	–	–	–	–	4 932 754	4 932 754
International listed	6	65 814	–	–	–	–	65 814	65 814
Unit trusts and pooled funds	6	3 915 549	–	–	–	–	3 915 549	3 915 549
Reinsurance assets	7	–	–	–	36 324	–	36 324	N/A
Insurance receivables	8	–	–	–	15 385	–	15 385	N/A
Pre-payments	8	–	–	–	–	1 200	1 200	1 200
Other receivables	8	–	32 073	–	–	–	32 073	32 073
Reinsurance receivables	8	–	–	–	36 971	–	36 971	N/A
Cash and cash equivalents	9	1 034 499	118 311	–	–	–	1 152 810	1 152 810
Insurance contract liabilities	11	–	–	–	16 278 928	–	16 278 928	N/A
Investment contract liabilities	12	221 311	–	–	–	–	221 311	221 311
Liabilities to unit trust holders	13	711 633	–	–	–	–	711 633	711 633
Borrowings	14	–	–	20 946	–	–	20 946	20 946
Reinsurance payables	18	–	–	–	9 680	–	9 680	N/A
Insurance payables	18	–	–	–	38 982	–	38 982	N/A
Accruals and sundry creditors	18	–	–	86 335	–	–	86 335	86 335

2. PROPERTY AND EQUIPMENT

Group	Owner-occupied property R'000	Computer hardware R'000	Vehicles, office furniture and equipment R'000	Leasehold improvements R'000	Total R'000
Year ended 31 December 2011					
Opening net book amount	39 300	17 744	22 035	5 648	84 727
Revaluation deficit	(4 643)	–	–	–	(4 643)
Depreciation relating to revaluation	(135)	–	–	–	(135)
Additions	19 069	18 487	12 813	3 564	53 933
Disposals: Cost	–	(9 804)	(7 865)	–	(17 669)
Disposals: Accumulated depreciation	–	8 107	3 330	–	11 437
Depreciation charge	(391)	(9 166)	(6 117)	(1 531)	(17 205)
Closing net book amount	53 200	25 368	24 196	7 681	110 445
At 31 December 2011					
Cost or valuation	61 214	51 419	45 055	10 517	168 205
Accumulated depreciation	(8 014)	(26 051)	(20 859)	(2 836)	(57 760)
Net book amount	53 200	25 368	24 196	7 681	110 445
Non-current	53 200	25 368	24 196	7 681	110 445
Year ended 31 December 2012					
Opening net book amount	**53 200**	**25 368**	**24 196**	**7 681**	**110 445**
Revaluation surplus	**2 320**	**–**	**–**	**–**	**2 320**
Additions	**3 467**	**13 246**	**9 166**	**69**	**25 948**
Disposals: Cost	**–**	**(149)**	**(168)**	**–**	**(317)**
Disposals: Accumulated depreciation	**–**	**60**	**121**	**–**	**181**
Depreciation charge	**(687)**	**(11 555)**	**(7 821)**	**(1 944)**	**(22 007)**
Closing net book amount	**58 300**	**26 970**	**25 494**	**5 806**	**116 570**
At 31 December 2012					
Cost or valuation	**67 001**	**64 516**	**54 053**	**10 586**	**196 156**
Accumulated depreciation	**(8 701)**	**(37 546)**	**(28 559)**	**(4 780)**	**(79 586)**
Net book amount	**58 300**	**26 970**	**25 494**	**5 806**	**116 570**
Non-current	**58 300**	**26 970**	**25 494**	**5 806**	**116 570**

The land and buildings revaluation reserve represents the capital appreciation on the owner-occupied property, which is allocated to the policyholders and has been included in the insurance policy liabilities.

Deferred tax has been provided on the revaluation difference arising on owner-occupied property in 2012 and 2011, based on the amounts and at the rate applicable to capital gains.

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

The Group's owner-occupied property was revalued at 31 December 2012 by CB Richard Ellis (Pty) Limited, an independent valuator. Valuations were performed using the discounted cash flow of future income stream method. The discounted cash flow method takes projected cash flows and discount them at a rate which is consistent with comparable market transactions. Refer to note 31.4 for valuation assumptions. The opening carrying value is depreciated and then adjusted to reflect market value at year-end. The property consists of an office block situated at 6 Anerley Road, Parktown, which is occupied by the Group. The property is revalued annually. If land and buildings were stated on a historical cost basis, the amounts would be as follows:

	Group	
	2012 R'000	2011 R'000
Cost	**43 406**	39 939
Accumulated depreciation	**(7 115)**	(6 428)
Net book amount as at 31 December	**36 291**	33 511

3. INVESTMENT PROPERTY

	Group	
	2012 R'000	2011 R'000
Net Carrying Value		
Opening balance	**–**	–
Cost	**45 023**	–
Fair value surplus	**–**	–
Balance at end of the year	**45 023**	–
Movement for the year		
Additions at cost	**45 023**	–
Balance at end of the year	**45 023**	–

4. INTANGIBLE ASSET – SOFTWARE DEVELOPMENT COSTS

	Group	
	2012 R'000	2011 R'000
At 1 January		
Cost	**97 616**	86 179
Accumulated amortisation	**(64 724)**	(54 164)
Net book amount	**32 892**	32 015
Non-current	**32 892**	32 015
Year ended 31 December		
Opening net book amount	**32 892**	32 015
Additions	**16 113**	13 978
Amortisation	**(12 517)**	(13 101)
Closing net book amount	**36 488**	32 892
At 31 December		
Cost	**113 641**	97 616
Accumulated amortisation	**(77 153)**	(64 724)
Net book amount	**36 488**	32 892
Non-current	**36 488**	32 892

5. INVESTMENT IN SUBSIDIARY COMPANY

	Parent	
	2012 R'000	2011 R'000
Professional Provident Society Insurance Company Limited		
Shares issued at cost (2011: cost)	**10 000**	10 000

The investment in the subsidiary company is accounted for at original cost of shares issued in the subsidiary company.

A list of the subsidiaries of the Trust is set out in note 30.

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

	Group	
	2012 R'000	2011 R'000
Analysis of financial assets held at fair value through profit or loss		
Level 1 fair value financial assets		
Equity securities:		
– local listed	**9 042 832**	7 238 421
– international listed	**38 258**	40 225
	9 081 090	7 278 646
Debt securities – fixed interest rate:		
– government bonds and local listed	**5 677 504**	4 932 754
– international listed	**99 174**	65 814
	5 776 678	4 998 568
Total level 1 fair value financial assets	**14 857 768**	12 277 214

At 31 December, investments classified as Level 1 comprise approximately 75,6% (2011: 75,8%) of financial assets measured at fair value. Fair value measurements classified as Level 1 include listed equity securities and certain debt security instruments that are traded.

	2012 R'000	2011 R'000
Level 2 fair value financial assets		
Debt securities – fixed interest rate:		
– government bonds and local listed	**231 133**	–
Unit trusts and pooled funds:		
– local pooled funds and unit trusts	**672 260**	1 228 983
– international equity unit trusts	**2 571 651**	1 528 483
– international fixed interest unit trusts	**342**	300
– international balanced unit trusts	**1 327 348**	1 157 783
	4 571 601	3 915 549
Total level 2 fair value financial assets	**4 802 734**	3 915 549
Total financial assets at fair value through profit or loss	**19 660 502**	16 192 763
The investment in local pooled funds and unit trusts comprises mainly:		
Debt securities	**41 666**	183 062
Cash and cash equivalents	**130 235**	249 995
Equities	**392 485**	610 787
International	**107 874**	185 139

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

$1 = R8,49 (2011: $1 = R8,07)

N$1 = R1,00 (2011: N$1 = R1,00)

At 31 December, investments classified as Level 2 comprise approximately 24,4% (2011: 24,2%) of financial assets measured at fair value. Debt securities classified as Level 2 include bonds that have not been traded in the last six months of the financial year. The observable inputs used to determine the fair value of unit trusts and pooled funds classified as Level 2 are the unit prices published by the unit trust fund managers.

At 31 December, no investments are classified as Level 3 (2011: nil).

	Group	
	2012 R'000	2011 R'000
Analysis of movements in financial assets held at fair value through profit or loss:		
Opening balance	**16 192 763**	14 106 198
Additions	**10 483 850**	6 695 870
Disposals at carrying value	**(8 785 479)**	(5 104 272)
Fair value net gains excluding net realised gains	**1 771 011**	494 825
Accrued interest movements	**(1 643)**	142
Closing balance	**19 660 502**	16 192 763
The spread of investments by sector (%):		
Industrial	**46,4**	37,3
Financial	**30,4**	28,5
Resources	**23,2**	34,2
Maturity profile of fixed interest investments:		
Due in 1 year or less	**723 285**	756 009
Due between 1 year and 5 years	**2 434 760**	2 438 585
Due between 5 years and 10 years	**1 120 727**	852 181
Due after 10 years	**1 729 040**	951 793
	6 007 812	4 998 568

There is no maturity profile for equity securities and unit trusts and management is unable to provide a reliable estimate, given the volatility of equity markets. No investments have been pledged as collateral for liabilities or contingent liabilities.

7. REINSURANCE ASSETS AND LIABILITIES

	Group	
	2012 R'000	2011 R'000
REINSURANCE ASSETS		
Total assets arising from reinsurance contracts at beginning of the year	**36 324**	217 927
Transfer to reinsurance policy liabilities	**(29 193)**	–
Reinsurers' share of insurance policy liabilities	**(6 048)**	(181 603)
Total assets arising from reinsurance contracts at end of the year (note 11)	**1 083**	36 324
Non-current	**1 083**	36 324
REINSURANCE LIABILITIES		
Total liabilities arising from reinsurance contracts at beginning of the year	**–**	–
Transfer from reinsurance asset	**(29 193)**	–
Reinsurers' share of insurance policy liabilities	**118 476**	–
Total liabilities arising from reinsurance contracts at end of the year (note 11)	**89 283**	–
Non-current	**89 283**	–

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in insurance and other receivables (note 8).

8. INSURANCE AND OTHER RECEIVABLES

	Group		Parent	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Receivables arising from insurance and reinsurance contracts:	**47 790**	52 356	**–**	–
– due from contract holders	**30 035**	27 890	**–**	–
– less allowance for impairment losses from receivables from contract holders	**(10 707)**	(12 505)	**–**	–
– due from reinsurers	**28 462**	36 971	**–**	–
Other receivables:	**76 020**	32 073	**1 364**	1 329
– accrued interest	**5 050**	3 978	**–**	–
– receivables from related parties	**–**	–	**–**	1 329
– administration fee receivable	**–**	17 679	**–**	–
– other receivables	**70 970**	10 416	**1 364**	–
Pre-payments	**4 940**	1 200	**22**	21
Total receivables including insurance receivables and pre-payments	**128 750**	85 629	**1 386**	1 350
Current	**128 750**	85 629	**1 386**	1 350
Fair value of other receivables held at amortised cost	**76 020**	32 073	**1 364**	1 329
Allowances for impairment losses of receivables from contract holders				
Specific allowances for impairment				
At beginning of the year	**12 505**	8 571	**–**	–
Impairment loss recognised	**1 524**	6 872	**–**	–
Impairment loss reversals	**(3 322)**	(2 938)	**–**	–
At end of the year	**10 707**	12 505	**–**	–

9. CASH AND CASH EQUIVALENTS

	Group		Parent	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Cash at bank and in hand	**82 521**	118 311	**75**	30
Level 2 fair value cash and cash equivalents				
Cash on call	**1 524 266**	1 034 499	**–**	–
Total level 2 fair value cash and cash equivalents	**1 524 266**	1 034 499	**–**	–
Total cash and cash equivalents	**1 606 787**	1 152 810	**75**	30

The proportion of cash held to fund the working capital of the Group as part of the investment portfolio is 6,0% (2011: 6,0%) of total cash and cash equivalents. The balance of the cash is held as part of the investment portfolio. The effective interest rate earned was 4,5% (2011: 4,8%).

At 31 December, cash and cash equivalents classified as Level 2 comprise 100% (2011: 100%) of cash and cash equivalents measured at fair value. Observable inputs used to determine the fair value of cash and cash equivalents as part of unit trusts and pooled funds are the unit prices published by the unit trust fund managers. For cash on call the observable input used to determine fair value are quoted prices for money market instruments as reported by investment managers.

10. EQUITY

PERMANTENT CAPITAL

The Professional Provident Society Holdings Trust:

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

ACCUMULATED FUNDS

The accumulated funds balance represents the amount of reserves which is not distributable. This is part of the amount the Group must retain to cover the statutory capital adequacy requirement ('CAR'). The Group has maintained its level of CAR cover at 2,6 times (2011: 2,6 times). This has resulted in R43,8 million (2011: R17,2 million) being allocated to accumulated funds in the current year.

11. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS

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

(a) Process used to decide on assumptions

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

The determination of the non-DPF liabilities under long-term insurance contracts is dependent on estimates made by the Statutory Actuary. Any changes in estimates will impact on the size of the non-DPF policy liabilities and on the bonus rates the Group declares to the DPF component of the policy liabilities. Hence, the changes in estimates will impact on the balance between the DPF component of the liabilities and the non-DPF component of the liabilities. In aggregate the changes will have no impact on the value of the total policy liabilities.

The assumptions used for the insurance contracts disclosed in this note are as follows:

- *Mortality*

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

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

- *Morbidity*

  Estimates are made as to the expected number of temporary and permanent incapacity claims for each of the years in which the Group is exposed to risk. These estimates are based on morbidity tables that reflect the 01/01/2011 to 31/12/2011 morbidity experience of the Group. The main source of uncertainty is epidemics such as AIDS, SARS, economic conditions and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits. These uncertainties could result in future morbidity being worse than in the past for the age groups in which the Group has significant exposure to morbidity risk. The estimated morbidity experience determines the value of the future benefit payments in the policy liabilities.

  The rates of disability claims are derived from the experience of the Group over the preceding two years.

- *Persistency*

  Estimates are made as to the future rate at which policyholders will terminate their contracts prior to the original maturity date. These estimates are based on the 01/01/2011 to 31/12/2011 experience of the business. The future termination rates will vary with economic conditions, the profitability of the business and with changes in consumer behaviour.

- *Investment returns*

  Risk-free fixed interest securities: the risk-free rates are based on the gross yields to redemption of a benchmark government security. For the current valuation, this rate is 7,0% (2011: 8,4%) per annum effective.

  Equity investments: the expected long-term return – dividends and capital growth – is derived by adding to the risk-free rate of return an equity risk premium of 3% (2011: 3%).

  Cash investments: the expected long-term return on cash and money market investments is derived by subtracting from the risk-free rate of return a margin of 1,5% (2011: 1,5%).

  Overall investment return: a weighted average rate of investment return is derived by combining different proportions of the above financial assets in a model portfolio, which is assumed to back the liabilities. The overall investment return was 7,6% gross of tax in 2012 (2011: 9,0%). These model portfolios are consistent with the asset allocation strategies as set out by the Group.

- *Renewal expense level and inflation*

  Estimates are made as to the future level of administration costs to be incurred in administering the policies in force at the current year-end, using a functional cost approach. This approach allocates expenses between policy and overhead expenses and within policy expenses, between new business, maintenance and claims. These future costs are assumed to increase each year in line with an assumed inflation rate. The assumed inflation rate is set at a level consistent with the assumed future investment returns. Variations in administration costs will arise from any cost reduction exercises implemented by management or from cost overruns relative to budget.

  The current level of expenses is taken as an appropriate expense base. Expense inflation is assumed to be 2,75% (2011: 3,0%) below the current return on risk-free interest securities.

- *Tax*

  It has been assumed that current tax legislation and rates continue unaltered. Allowance is made for future tax and tax relief.

- *Future profit allocations*

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

  (a) *IBNR*

  The IBNR liability calculation is based on run-off tables using historical data from 2008 to 2012. Due to the short term over which these liabilities will be settled, no allowance is made for claims handling expenses, claims inflation, adjustments for trends, unusual claims or loss ratios, and the IBNR liability is undiscounted.

(b) *Change in assumptions*

The assumptions used to calculate the non-DPF portion of the policy liabilities are updated annually to reflect current best estimates of future experience. Changes to the assumptions will result in changes to the amount of the non-DPF policy liabilities. The impact of the changes will be included in the profits allocated to the DPF component of the policy liabilities.

Consequently, the aggregate value of the policy liabilities will be unchanged as a result of changes to the assumptions.

The economic basis changes led to an increase in liabilities of R220,0 million (2011: R88,3 million increase). The non-economic changes amounted to a R15,5 million decrease (2011: R0,8 million decrease) in liabilities.

(c) *Sensitivity analysis*

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

Variable	**Change in variable %**	**Change in liability 2012 R'000**	**% change**	Change in liability 2011 R'000	% change
Liability per note 11.2		**3 389 523**		3 072 034	
Worsening in mortality	**10**	**1 153 156**	**34,02**	493 323	16,06
Worsening of morbidity rates	**10**	**580 599**	**17,13**	365 274	11,89
Worsening in PI inception rate	**10**	**287 352**	**8,48**	344 456	11,21
Lowering of investment returns	**(1)**	**917 480**	**27,02**	633 989	20,64
Lowering of terminations	**(10)**	**114 533**	**3,38**	233 614	7,61
Worsening of maintenance expense level	**10**	**405 123**	**11,95**	316 214	10,29
Worsening of expense inflation rate	**10**	**229 133**	**6,76**	203 390	6,62

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

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

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

(d) *Compulsory margins*

PGN 104 specifies the compulsory margins that need to be added to the best estimate margins. The following compulsory margins which have not changed since 2005 were added for both 2011 and 2012:

Assumption	Margin
Mortality	7,5% (increase or decrease, depending on which alternative increases liabilities)
Morbidity	10%
Medical	15%
Lapse	25% (increase or decrease, depending on which alternative increases liabilities)
Terminations for disability income benefits in payment	10%
Surrenders	10% (increase or decrease, depending on which alternative increases liabilities)
Expenses	10%
Expense inflation	10% (of estimated escalation rate)
Charge against investment return	25 basis points in the investment performance-based margin

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

	Group					
	2012			2011		
	Gross R'000	**Re-insurance R'000**	**Net R'000**	Gross R'000	Re-insurance R'000	Net R'000
Sickness and disability policies						
– Claims payable (notified claims)	**8 202**	**–**	**8 202**	14 410	–	14 410
– Unintimated claims (IBNR)	**34 331**	**–**	**34 331**	32 233	–	32 233
– Non-DPF liability	**3 105 838**	**33 804**	**3 072 034**	3 111 526	216 759	2 894 767
– Cessation benefits (notified claims)	**235 263**	**–**	**235 263**	159 415	–	159 415
– DPF liability	**12 837 556**	**–**	**12 837 556**	11 887 987	–	11 887 987
Life policies						
– Claims payable (notified claims)	**4 746**	**–**	**4 746**	3 346	–	3 346
– Unintimated claims (IBNR)	**5 631**	**–**	**5 631**	5 552	–	5 552
– Life assurance policy reserve	**10 856**	**2 520**	**8 336**	17 779	1 168	16 611
Other benefits and liabilities	**36 505**	**–**	**36 505**	34 781	–	34 781
Total at beginning of the year	**16 278 928**	**36 324**	**16 242 604**	15 267 029	217 927	15 049 102
Change in Insurance policy liabilities per statement of comprehensive income	**2 501 326**	**(124 524)**	**2 625 850**	944 221	(181 603)	1 125 824
Change in insurance policy liabilities per statement of changes in equity	**1 547**	**–**	**1 547**	(4 390)	–	(4 390)
Movement in claims liabilities						
– arising from current year claims	**(38 349)**	**–**	**(38 349)**	73 445	–	73 445
– arising from prior year claims	**(6 872)**	**–**	**(6 872)**	(1 377)	–	(1 377)
Total movement in insurance policy liabilities	**2 457 652**	**(124 524)**	**2 582 176**	1 011 899	(181 603)	1 193 502

	Group					
	2012			2011		
	Gross R'000	Re-insurance R'000	Net R'000	Gross R'000	Re-insurance R'000	Net R'000
Total movement allocated	2 457 652	(124 524)	2 582 176	1 011 899	(181 603)	1 193 502
Sickness and disability policies						
– Claims payable (notified claims)	6 720	–	6 720	(6 208)	–	(6 208)
– Unintimated claims (IBNR)	(1 482)	–	(1 482)	2 098	–	2 098
– Non-DPF liability	195 275	(122 214)	317 489	(5 688)	(182 955)	177 267
– Cessation benefits (notified claims)	(111 016)	–	(111 016)	75 848	–	75 848
– DPF liability	2 314 657	–	2 314 657	949 569	–	949 569
Life policies						
– Claims payable (notified claims)	56 633	–	56 633	1 400	–	1 400
– Unintimated claims (IBNR)	4 137	–	4 137	79	–	79
– Life assurance policy reserve	(2 581)	(2 310)	(271)	(6 923)	1 352	(8 275)
Other benefits and liabilities	(4 691)	–	(4 691)	1 724	–	1 724
Analysis of balance at end of the year:						
Sickness and disability policies						
– Claims payable (notified claims)	14 922	–	14 922	8 202	–	8 202
– Unintimated claims (IBNR)	32 849	–	32 849	34 331	–	34 331
– Non-DPF liability	3 301 113	(88 410)	3 389 523	3 105 838	33 804	3 072 034
– Cessation benefits (notified claims)	124 247	–	124 247	235 263	–	235 263
– DPF liability	15 152 213	–	15 152 213	12 837 556	–	12 837 556
Life policies						
– Claims payable (notified claims)	61 379	–	61 379	4 746	–	4 746
– Unintimated claims (IBNR)	9 768	–	9 768	5 631	–	5 631
– Life assurance policy reserve	8 275	210	8 065	10 856	2 520	8 336
Other benefits and liabilities	31 814	–	31 814	36 505	–	36 505
Total at end of the year	**18 736 580**	**(88 200)**	**18 824 780**	16 278 928	36 324	16 242 604
Current	274 979	–	274 979	324 678	–	324 678
Non-current	18 461 601	(88 200)	18 549 801	15 954 250	36 324	15 917 926
Total	**18 736 580**	**(88 200)**	**18 824 780**	16 278 928	36 324	16 242 604

	Group 2012 R'000	2011 R'000
The non-DPF liabilities developed as follows:		
Liabilities at start of the year	**3 072 034**	2 894 767
Unwinding of discount rate	**226 007**	216 791
Expected cash flows	**377 468**	240 570
Expected risk liability at year-end	**3 675 509**	3 352 128
Impact of movements	**(36 529)**	(155 756)
Change in valuation assumptions	**205 467**	87 319
Asset value adjustments	**3 456**	(17 100)
Risk benefit liability for new business issued	**(458 380)**	(194 557)
Liabilities at end of the year	**3 389 523**	3 072 034
The DPF liabilities developed as follows:		
Liabilities at start of the year	**12 837 556**	11 887 987
Claims paid during the year	**(636 289)**	(669 320)
Allocation of interest and dividends	**3 022 839**	1 651 731
Transfer from investment policholder liabilities	**(741)**	–
Asset value adjustments	**(71 152)**	(25 531)
Profit stabilisation reserve	**–**	(7 311)
Liabilities at end of the year	**15 152 213**	12 837 556
Analysis of total insurance policy liabilities, net of reinsurance:		
Non-DPF liabilities	**3 389 523**	3 072 034
DPF liabilities	**15 152 213**	12 837 556
Life assurance policy reserve	**8 065**	8 336
Current liabilities	**274 979**	324 678
Liabilities at end of the year	**18 824 780**	16 242 604

12. INVESTMENT CONTRACT LIABILITIES

	Group	
	2012 R'000	2011 R'000
Level 2 fair value investment contract liabilities		
Linked investment contracts	**386 871**	221 311
Non- current	**386 871**	221 311

All investment contracts are designated on initial recognition as at fair value through profit or loss.

The liabilities relating to linked contracts are measured with reference to the underlying assets linked to these contracts. PPS is contractually required to pay linked investment contract holders an amount equal to the fair value of the assets linked to these contracts. Linked contracts do not include any minimum guarantees and hence there will be no difference between the carrying amount and the amount payable at the maturity date.

Investment contract liabilities are classified as Level 2, as the assets backing up these liabilities are unit trust funds of which the fair values are derived from the unit prices published by the unit trust fund managers.

	Group	
Movement table for investment contract liabilities	**2012 R'000**	2011 R'000
Linked contracts		
Balance at 1 January	**221 311**	131 755
Contributions received during the year	**150 415**	98 836
Fair value of policyholder liabilities under investment contracts	**37 086**	8 876
Net investment return credited to account balances	**40 575**	10 758
Net fees and charges deducted from account balances	**(3 489)**	(1 882)
Benefit payments	**(21 941)**	(18 156)
Balance at 31 December	**386 871**	221 311

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

	Group	
	2012 R'000	2011 R'000
Level 2 fair value third party liabilities arising on consolidation of unit trusts		
Balance at 1 January	**711 633**	295 277
Third-party interest in unit trusts acquired during the year	**1 479 811**	707 952
Third-party interest in unit trusts redeemed during the year	**(635 848)**	(345 587)
Third-party interest in revaluation of unit trusts	**200 133**	53 991
Balance at 31 December	**1 755 729**	711 633
Current	**1 755 729**	711 633

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

14. BORROWINGS

	Carrying amount and fair value	
Group	**2012 R'000**	2011 R'000
Unsecured – at amortised cost		
Outside shareholder loan in PPS Investments	**24 941**	20 946
Total borrowings	**24 941**	20 946
Current	**24 941**	20 946
Balance at 1 January	**20 946**	18 808
Advances	**3 995**	2 138
Balance at 31 December	**24 941**	20 946

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

The loan bears no fixed repayment term and is classified as short term. As a result of this classification, the fair value is deemed to be equal to the carrying value.

15. DEFERRED TAX

	Group	
	2012 R'000	2011 R'000
Deferred tax assets:		
Provisions and impairments	**16 269**	7 635
Tax losses carried forward	**38 720**	43 499
End of the year	**54 989**	51 134
Deferred tax liabilities:		
Unrealised gains on investments	**218 768**	126 349
Unrealised gains on land and buildings revaluation	**1 607**	834
End of the year	**220 375**	127 183
Current asset	**16 269**	7 635
Non-current asset	**38 720**	43 499
Non-current liability	**220 375**	127 183

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

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

	Group R'000
At 1 January 2011	44 912
Credited to the statement of comprehensive income	6 222
At 31 December 2011	51 134
Credited to the statement of comprehensive income	**3 855**
At 31 December 2012	**54 989**

The utilisation of the deferred tax asset in respect of the provision for leave pay is dependent on the taking of leave and/or payment or forfeiture of amounts due in respect of leave accrued by employees. The utilisation of the deferred tax asset in respect of the assessed losses is dependent on the respective companies making future profits. An objective assessment of the future profitability of each Group entity has been performed by evaluating the present value of the future cash flows.

(b) Deferred tax liabilities

Group	Deferred tax liability on revaluation of investments R'000	Deferred tax liability on cumulative revaluation of land and buildings R'000	Total R'000
At 1 January 2011	134 987	1 222	136 209
Credited to the statement of comprehensive income	(8 638)	–	(8 638)
Credited to equity	–	(388)	(388)
At 31 December 2011	126 349	834	127 183
Debited to the statement of comprehensive income	**128 963**	**–**	**128 963**
Debited to equity	**–**	**773**	**773**
Transfer to current income tax liabilities	**(36 544)**	**–**	**(36 544)**
At 31 December 2012	**218 768**	**1 607**	**220 375**

16. RETIREMENT BENEFIT OBLIGATIONS

Statement of financial position obligations for:

– post-retirement medical benefits	**54 816**	40 261
	54 816	40 261

Statement of comprehensive income charge for (note 25):

– post-retirement medical benefits	**16 175**	9 145
	16 175	9 145

Post-employment medical benefits

The Group provides for the unfunded post-retirement healthcare benefits of those employees and retirees employed before 4 October 1999, as well as their spouses and dependants. The entitlement to post-retirement healthcare benefits is based on an employee remaining in service up to retirement and completion of a minimum service period.

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

	Group	
	2012 R'000	2011 R'000
Present value of unfunded obligations	**63 304**	58 117
Unrecognised actuarial losses	**(8 488)**	(17 856)
Liability in the statement of financial position	**54 816**	40 261
The latest actuarial valuation of the Group's post-employment benefits, carried out at 31 December 2012 indicated a present value of projected future benefits amounting to R54,8 million (2011: R40,3 million).		
The movement in the post-employment medical benefit obligation was as follows:		
Post-employment medical benefit obligation at beginning of the year (1 January)	**58 117**	46 208
Current service cost	**1 780**	1 426
Interest cost	**4 723**	3 765
Benefits paid	**(1 620)**	(1 833)
Actuarial loss	**304**	8 551
Post-employment medical benefit obligation at end of the year (31 December)	**63 304**	58 117
The amounts recognised in the statement of comprehensive income are as follows:		
Current service cost	**1 780**	1 426
Interest cost	**4 723**	3 765
Actuarial losses recognised during the year	**9 672**	3 954
Total included in staff costs (note 25)	**16 175**	9 145
The principal actuarial assumptions used were as follows:		
Discount rate based on the Long-term Bond Index (%)	**9,50**	8,25
Medical cost inflation (%)	**9,00**	7,50

The assumed rates of mortality are as follows:

During employment:	SA85-90 (Light) ultimate table
Post-employment:	PA(90) ultimate table rated down two years plus 1% improvement per annum (from a base year of 2007)

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

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

Group	2008 R'000	2009 R'000	2010 R'000	2011 R'000	**2012 R'000**
Trend information					
Present value of obligations	40 568	43 203	46 208	58 117	**63 304**
Experience adjustments (actuarial loss before changes in assumptions) in respect of present value of obligations	(636)	(2 320)	(96)	(1 459)	**(1 706)**

Sensitivity results

Group	Healthcare cost inflation Central assumption 9,00%	R'000 (1)%	R'000 1%
Accrued liability 31 December 2012 (R'000)	63 304	53 393	76 041
Percentage change (%)	–	(15,7)	20,1
Current service cost plus interest cost 2012/2013 (R'000)	7 723	6 407	9 430
Percentage change (%)	–	(17,0)	22,1

Group	Central assumption 9,00%	5% for 5 years	10% for 5 years
Accrued liability 31 December 2012 (R'000)	63 304	77 876	95 161
Percentage change (%)	–	23,0	50,3

Group	Discount rate Central assumption 9,50%	R'000 (1)%	R'000 1%
Accrued liability 31 December 2012 (R'000)	63 304	76 421	53 294
Percentage change (%)	–	20,7	(15,8)

Group	Expected retirement age Central assumption 65 years	R'000 1 year younger	R'000 1 year older
Accrued liability 31 December 2012	63 304	65 871	60 856
Percentage change (%)	–	4,1	(3,9)

17. EMPLOYEE-RELATED OBLIGATIONS

	Group	
	2012 R'000	2011 R'000
Leave pay accrual		
Opening balance	**12 671**	8 692
Charged to the statement of comprehensive income		
– additional provisions	**10 736**	4 765
Used during the year	**(7 997)**	(786)
Closing balance	**15 410**	12 671
Current	**15 410**	12 671
Provision for performance related incentives		
Opening balance	**44 968**	32 606
Charged to the statement of comprehensive income		
– additional provisions (executive directors and employees)	**56 244**	36 794
Used during the year	**(38 679)**	(24 432)
Closing balance	**62 533**	44 968
Total provisions	**77 943**	57 639
Current	**33 179**	26 777
Non-current	**29 354**	18 191

18. INSURANCE AND OTHER PAYABLES

	Group		Parent	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Payables arising from insurance and reinsurance contracts:				
– due to contract holders	**22 913**	22 725	**–**	–
– due to contract holders-life assurance policy	**514**	15 593	**–**	–
– reinsurance payables	**11 340**	9 680	**–**	–
– subscriptions received in advance	**1 554**	664	**–**	–
Other payables				
– accruals	**69 834**	68 217	**893**	851
– employees tax	**6 593**	5 941	**–**	–
– sundry creditors	**12 602**	12 177	**–**	–
– related parties	**1 523**	**–**	**8 224**	11 271
Total insurance and other payables	**126 873**	134 997	**9 117**	12 122
Current	**126 873**	134 997	**9 117**	12 122

19. NET INSURANCE PREMIUM REVENUE

	Group		Parent	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Individual premiums from policyholders	**2 038 279**	1 808 069	**–**	–
Group reinsurance premiums inwards	**212 318**	217 556	**–**	–
Premium revenue arising from insurance contracts issued	**2 250 597**	2 025 625	**–**	–
Individual premium revenue ceded to reinsurers on insurance contracts issued	**(131 318)**	(111 226)	**–**	–
Net insurance premium revenue	**2 119 279**	1 914 399	**–**	–

20. OTHER INCOME

	Group		Parent	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Policy administration and collection services	**22 068**	24 615	**–**	–
Administration fees	**169 839**	128 030	**12 761**	10 941
Investment management services	**33 472**	22 864	**–**	–
Commission	**23 954**	20 682	**–**	–
Rental income	**820**	–	**–**	–
Profit share	**(1 133)**	1 463	**–**	–
– Current year	**79**	1 463	**–**	–
– Prior year over provision	**(1 212)**	–	**–**	–
Other income	**249 020**	197 654	**12 761**	10 941

21. INVESTMENT INCOME

	Group		Parent	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Net gains and losses on financial assets held at fair value through profit or loss consist of the following components:				
– Interest income	**464 311**	440 757	**–**	–
– Dividend income	**239 571**	201 368	**–**	–
– Net realised gains/(losses) on disposal of financial assets	**556 758**	(7 526)	**–**	1 874
– Net realised foreign exchange gains	**124 430**	19 836	**–**	–
Total investment income	**1 385 070**	654 435	**–**	1 874

Investment management fees paid to fund managers amounting to R60,7 million (2011: R52,0 million) are included in expenses for marketing and administration (note 24).

22. GAINS AND LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES PER CATEGORY

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

	Group		Parent	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Designated at fair value through profit or loss on initial recognition				
Interest income	**464 311**	440 757	**–**	–
Dividend income	**239 571**	201 368	**–**	–
Net gains/(losses) on disposal of financial assets	**556 758**	(7 526)	**–**	1 874
Net unrealised gains on revaluation of financial assets	**1 570 878**	440 834	**–**	–
Net fair value adjustment in third-party financial liabilities arising on consolidation of unit trusts	**200 133**	53 991	**–**	–
Net foreign exchange gains	**124 430**	19 836	**–**	–
Total net gains recognised in the statement of comprehensive income	**3 156 081**	1 149 260	**–**	1 874

23. NET INSURANCE BENEFITS AND CLAIMS

	Group		Parent	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Gross				
Long-term insurance contracts with and without DPF				
– Individual sickness and incapacity benefits: current year	**536 971**	448 145	**–**	–
– Individual sickness and incapacity benefits: overprovision for prior year	**(6 872)**	(1 377)	**–**	–
– Group non-DPF component of death benefits	**383 311**	285 036	**–**	–
– Individual DPF component of death, retirement and resignation benefits	**577 404**	522 350	**–**	–
Total gross insurance benefits and recoveries	**1 490 814**	1 254 154	**–**	–
Reinsurance recoveries				
Long-term insurance contracts with and without DPF				
– Individual sickness and incapacity benefits	**(25 090)**	(17 533)	**–**	–
– Death benefits	**(79 799)**	(64 001)	**–**	–
Total reinsurance recoveries	**(104 889)**	(81 534)	**–**	–
Total net insurance benefits and claims	**1 385 925**	1 172 620	**–**	–

24. EXPENSES

	Group		Parent	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Costs incurred for the acquisition of insurance contracts expensed in the year	**147 452**	141 132	**–**	–
– Sickness and incapacity policies	**87 617**	89 026	**–**	–
– Whole life policies	**59 835**	52 106	**–**	–
Costs incurred for providing investment management services	**33 271**	25 654	**–**	–
Marketing and administrative expenses include:				
– Amortisation of intangible asset (note 4)	**12 517**	13 101	**–**	–
– Auditors' remuneration	**4 465**	3 665	**–**	–
– Audit fees – current year provision	**4 083**	3 505	**–**	–
– Audit fees – prior year (over)/under provision	**(135)**	105	**–**	–
– Tax services	**517**	55	**–**	–
– Data processing and information technology systems maintenance	**67 262**	62 043	**–**	–
– Depreciation on property and equipment (note 2)	**22 007**	17 205	**–**	–
– Directors/Trustees and executive remuneration	**22 622**	19 229	**2 686**	2 025
– Employee benefit expenses (note 25)	**385 439**	334 352	**27**	62
– Fees for services	**9 217**	10 165	**60**	10 562
– Actuarial	**5 071**	4 947	**–**	–
– Legal	**2 868**	4 056	**60**	2 610
– Internal audit	**1 278**	1 162	**–**	–
– Company restructure costs	**–**	–	**–**	7 952
– Investment management fees	**60 718**	52 002	**–**	–
– Maintenance, product development and other administration expenses	**101 125**	86 481	**4 696**	7 287
– Operating lease rentals	**24 470**	24 591	**–**	–
– (Reversal)/Impairment of insurance and other receivables (note 8)	**(1 798)**	3 934	**–**	–
Total expenses	**888 767**	793 554	**7 469**	19 936

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

25. EMPLOYEE BENEFIT EXPENSES

	Group	
	2012 R'000	2011 R'000
Salaries and related costs	**292 173**	264 102
Pension costs – defined contribution plans	**29 223**	26 563
Other post-employment benefits (note 16)	**16 175**	9 145
Performance-related incentives	**47 868**	34 542
Total employee benefit expenses	**385 439**	334 352

26. TAX

	Group		Parent	
	2012 R'000	2011 R'000	**2012**	2011
Current tax				
– Current year tax	**212 865**	128 785	**2 117**	2 400
– Prior year over provision	**(122)**	(107)	**–**	–
Deferred tax	**125 108**	(14 860)	**–**	–
Dividend withholding tax	**13 727**	–	**–**	–
Total tax	**351 578**	113 818	**2 117**	2 400
Tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to South African/Namibian companies as follows:				
Profit/(Loss) before movement in policy liabilities	**3 212 602**	1 286 263	**5 292**	(7 121)
Tax calculated at domestic tax rates applicable to profits in South Africa/Namibia	**838 197**	357 995	**2 117**	(1 617)
Tax effect of income not subject to tax	**(1 076 354)**	(713 052)	**–**	–
Tax effect of non-deductible expenses	**573 732**	460 134	**–**	4 017
Tax effect of tax rate on Dividend Withholding Tax being different to tax rate on the individual policyholder fund ('IPF')	**11 897**	–	**–**	–
Prior year under provision	**122**	1 072	**–**	–
Tax effect of tax rate on the individual policyholder fund being different to tax rate on the corporate fund ('CF')	**3 984**	7 669	**–**	–
Total tax per statement of comprehensive income	**351 578**	113 818	**2 117**	2 400

The applicable tax rate was 28% (2011: 28%) for South African companies and 34% (2011: 34%) for The Professional Provident Society Insurance Company (Namibia) Limited. Professional Provident Society Insurance Company Limited has four separate tax funds: the individual policyholders' fund (taxed at 30%), the company policyholder' fund (taxed at 28%), the untaxed policyholder's fund (not taxed) and the corporate fund (taxed at 28%). The tax reconciliation is done on total tax on all funds. The Professional Provident Society Holdings Trust is taxed at 40%.

Dividend Withholding Tax is payable on dividends received in the individual policy fund.

The Group has accumulated losses of R138,3 million (2011: R155,4 million) available in certain subsidiaries for offset against future taxable income in those subsidiaries.

27. CASH GENERATED FROM OPERATIONS

	Group		Parent	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Reconciliation of profit before movement in insurance policy liabilities to cash generated by operations:				
Profit/(Loss) before movement in policy liabilities	**3 212 602**	1 286 263	**5 292**	(7 121)
Investment contract receipts	**150 415**	98 836	**–**	–
Investment contract surrenders	**(21 941)**	(18 156)	**–**	–
Adjustments for:			**–**	–
– Depreciation	**22 007**	17 205	**–**	–
– Fair value of policyholder liabilities under investment contracts	**37 086**	8 876	**–**	–
– Amortisation of intangible asset	**12 517**	13 101	**–**	–
– Realised profit on disposal of property and equipment	**(235)**	(68)	**–**	–
– Investment income	**(1 385 070)**	(654 435)	**–**	(1 874)
– Net fair value gains on financial assets held at fair value through profit or loss	**(1 771 011)**	(494 825)	**–**	–
Changes in working capital:				
– Insurance and other receivables	**(42 049)**	37 648	**(36)**	(47)
– Insurance and other payables	**26 736**	22 523	**(3 005)**	11 208
– Insurance policy liabilities	**(45 221)**	72 068	**–**	–
Cash generated from operations	**195 836**	389 036	**2 251**	2 166

28. TAX PAID

	Group		Parent	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Tax (payable)/receivable at beginning of the year	**(20 389)**	(14 838)	**152**	–
Current tax as per statement of comprehensive income	**226 470**	128 678	**2 117**	2 248
Transfer from deferred tax liability	**36 544**	–	**–**	–
Tax (payable)/receivable at end of the year	**(52 252)**	20 389	**(63)**	–
Total tax paid	**190 373**	134 229	**2 206**	2 248

29. COMMITMENTS

	Group		Parent	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
(a) Capital commitments				
Capital expenditure contracted for at the reporting date but not yet incurred is as follows:				
– Committed but not contracted for	**54 453**	51 076	**–**	–
(b) Operating lease commitments – where a Group company is the lessee				
The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.				
The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 24.				
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:				
Due in 1 year or less	**21 512**	18 185	**–**	–
Due between 1 year and 5 years	**40 375**	45 287	**–**	–
Due after 5 years	**1 079**	3 078	**–**	–

30. RELATED PARTIES

Holding company

The Professional Provident Society Holdings Trust is the holding entity of the Group effective from 26 April 2011. The Professional Provident Society Holdings Trust is a trust incorporated in South Africa and has as its sole investment 100% of the shares of Professional Provident Society Insurance Company Limited, which it acquired from Professional Provident Society NPC during 2011. The Professional Provident Society NPC was a company 'limited by guarantee' and has been deregistered.

Subsidiaries

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

Professional Provident Society Insurance Company Limited owes PPS Holdings Trust (previously Professional Provident Society Limited) a fee for member services rendered.

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

	Parent	
	2012 R'000	2011 R'000
Professional Provident Society Insurance Company Limited		
Fees	**13 835**	9 638
Receivable from Professional Provident Society Insurance Company Limited		
Balance at beginning of the year	**11 673**	–
Fees	**(13 835)**	(9 638)
Paid by Professional Provident Society Insurance Company Limited on behalf of PPS Holdings Trust	**10 382**	21 311
Balance at end of the year	**8 220**	11 673
The amount receivable from Professional Provident Society Insurance Company Limited has no written terms for repayment or ongoing interest charge.		
Professional Provident Society Marketing Services Proprietary Limited		
Payable to Professional Provident Society Marketing Services Proprietary Limited		
Balance at beginning of the year	**1 299**	1 036
Fees	**42**	81
Paid to Professional Provident Society Marketing Services Proprietary Limited	**(1 335)**	182
Balance at end of the year	**6**	1 299

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

Key management information

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

The PPS Group appoints its prescribed officers at the PPS Insurance entity level.

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

	Group	
	2012 R'000	2011 R'000
Salaries and other short-term employee benefits (Executive directors)	**20 051**	18 502
Performance payments	**13 360**	10 995
Trustee remuneration	**3 852**	3 847
	37 263	33 344

The PPS Holdings Trust trustees' remuneration from the Group

Trustees	The PPS Holdings Trust (including committees) Rands	Subsidiary Companies (including committees) Rands	Total remuneration (including committees) Rands
Adv T Aboobaker	114 230	85 050	199 280
Dr D Anderson	45 305	568 750	614 055
Dr V Bhagwandas (Resigned 4 June 2012)	43 050	–	43 050
Ms U Botha	108 130	–	108 130
Dr N Campbell	121 400	100 530	221 930
Ms D L T Dondur	134 595	–	134 595
Mr J Downie	146 100	33 300	179 400
Mr Y Gordhan	119 760	81 750	201 510
Mr U Jivan	119 760	–	119 760
Mr I Kotze	113 660	–	113 660
Dr C Kruger	119 760	15 480	135 240
Dr N Mabasa (Resigned 22 March 2012)	19 160	–	19 160
Mr E Moolla	306 900	151 235	458 135
Dr J Patel	113 660	–	113 660
Dr D Presbury	224 380	62 850	287 230
Mr P Ranchod	119 760	–	119 760
Mr V Rimbault	119 760	–	119 760
Dr S Seoka	198 660	85 050	283 710
Dr M W Sonderup (Appointed 29 March 2012)	53 450	–	53 450
Mr B Topham	113 660	27 100	140 760
Mr H A C van den Bout (Appointed 4 June 2012)	65 650	–	65 650
Mr S Trikamjee	119 760	–	119 760
Total	**2 640 550**	**1 211 095**	**3 851 645**

Aggregate details of insurance between The Professional Provident Society Holdings Trust, any of its subsidiaries, and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management personnel are set out below:

	Group	
	2012 R'000	2011 R'000
Life and disability cover	**157 154**	135 165
– Premiums	**918**	603
– Claims	**–**	–
Sickness benefit cover	**4 455**	4 283
– Premiums	**879**	721
– Claims	**81**	24
Surplus Rebate Accounts (policy liabilities)	**8 829**	8 338
Motor and household cover	**179 766**	48 539
– Premiums	**363**	396
– Claims	**192**	110
Investment contracts	**24 413**	16 180

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

31. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

31.1 Valuation of insurance policy liabilities

The determination of the liabilities under insurance contracts is dependent on estimates and assumptions made by the Group. In determining the value of these insurance policy liabilities, assumptions regarding mortality, persistency, investment returns, expense level and inflation, tax and future profit allocations have been made. For details on these assumptions refer to note 11.1.

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

31.2 Income tax

The Group is subject to tax in South Africa and Namibia. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination was made. The corporate tax rate in South Africa was 28% for the year under review. The Group has four separate tax funds, the individual policyholders' fund (taxed at 30%), the company policyholders' fund (taxed at 28%), the corporate fund (taxed at 28%) and the untaxed policyholders' fund (taxed at 0%).

31.3 Employee benefit liabilities

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

The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the post-retirement medical obligations. In determining the appropriate discount rate, the Group considers the interest rate on high quality corporate bonds and government bonds that have terms to maturity approximating the terms of the related liability. Additional information is provided in note 26 of these financial statements.

31.4 Valuation of owner-occupied property

The value of the owner-occupied property depends on a number of factors that are determined using a number of assumptions. The assumptions used in determining the value include the expected yield of 9,25% (2011: 9,50%), the average rentals for office space in the area (R105 per square metre) (2011: R100 per square metre), and estimated annual expenses relating to the building of R1 383 910 (2011: R1 349 000). Any change in these assumptions will impact the value of the building.

31.5 Valuation of investment contract liabilities

The Group issues investment contracts, with no investment management services, that are recognised and measured as financial liabilities and designated at fair value through profit or loss. These financial liabilities are not quoted in an active market and therefore the fair value is determined using a valuation technique.

The investment contracts sold by the Group are unit linked. Consequently, there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. For valuation purposes the policy liability is taken to be equal to the market value of the underlying linked assets.

31.6 Valuation of long-term incentive scheme

The cost of the benefits of the long-term incentive scheme depends on a number of assumptions used in calculating the present value under the projected unit credit method. The assumptions used in determining the charge to the statement of comprehensive income arising from these obligations include the expected growth in the apportionment account (rolling five-year average historical growth 14,0% (2011: 14,0%)), the turnover of staff participating in the scheme (nil) (2011: nil) and the discount rate (an appropriate market-related yield curve as at the reporting date). Any changes in these assumptions will impact the charge to the statement of comprehensive income.

32. MANAGEMENT OF RISKS

32.1 General

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

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

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

The board has delegated to the PPS Group Audit Committee the requirement for oversight, establishment and implementation of appropriate systems of internal control. The internal control systems continue to be enhanced and developed to safeguard the assets of PPS and to ensure timely and reliable monitoring and reporting. These controls encompass suitable policies, processes, tasks and behaviours with the aim of ensuring compliance with applicable laws and regulations to meet the needs of an ever changing business environment. The PPS Group **Audit Committee's** mandate from the board is to, *inter alia*:

- ensure compliance with all aspects of the Companies Act and, where appropriate, the recommendations of the King Code with regard to the auditors of the Group;
- deal with all aspects of the annual financial statements of the company and the Group and ensure compliance with relevant legislation and, where appropriate, the King Code; make submissions to the board on any matter concerning the Group's accounting policies;
- oversee and monitor financial and internal control, reporting and regulatory compliance;
- review the quality and effectiveness of the audit process and assess whether the external auditors have performed the audit as planned;
- oversee the preparation of an integrated report annually that conveys adequate information about the operations of the Group and its integrated sustainability and financial reporting; and
- consider the effectiveness of internal audit at least annually and report to the board on the assessment from internal audit on the adequacy of the internal controls.

The following functions within the Group are responsible for discharging the operations of risk management:

Risk management

- maintain and update the risk matrix for the Group. This includes the identification, assessment, monitoring, mitigation and reporting around the key risks;
- monitor and report progress on corrective action plans for risks that require mitigating actions;
- develop systems for monitoring risk management. A leading software solution (CURA) was acquired for recording and tracking the risk management process in real-time and to ensure that risks are kept on top of mind;
- promote awareness of risk management through effective training programmes to both management and staff within the Group;
- assist management with the embedding of risk management in the day-to-day business activities of the Group;
- ensure that risk management is intimately linked with strategic and business planning, value drivers and performance measurement processes; and
- ensuring an appropriate balance between realizing opportunities for gain while minimising adverse impacts.

Compliance

- monitors and reports on compliance with regulatory requirements;
- monitors that systems and controls are in place to ensure that the Group's exposure is minimised;
- has a risk based compliance monitoring plan/risk matrix;
- co-ordinates the Group's relationship with its regulators;
- evaluates the impact of forthcoming legislative regulatory changes and provides advice on potential process and control changes required and whether the proposed control will be adequate;
- reports on Risk Committee on the status of compliance of the Group; and
- operates in accordance with an approved Compliance Plan.

Internal audit

- provides independent and objective assurance on, and evaluation of, the overall effectiveness of the Group's systems of internal financial control;
- develops a risk-based annual audit plan based on a three-year testing rotation of the control environment for review at the Risk Committee and approval at the Audit Committee; and
- provides the independent assessment of the effectiveness of management's implementation of the risk management framework to the Risk Committee.

32.2 Insurance product risk management

General

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

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk and the timing thereof is not certain.

The table on pages 189 to 190 provides an overview of the types of products and the terms and conditions of life insurance contracts written by the Group:

Type of contract	Terms and conditions
Sickness and permanent incapacity benefit (PPS Provider Policy)	The sickness and permanent incapacity plan offers a variety of sickness and incapacity benefit options. The premium rates and benefits are not guaranteed and may be revised at the discretion of the insurer. To qualify for sickness and permanent incapacity benefits, the applicant must apply for cover units. Such a benefit entitles a policyholder to claim an amount determined by the units of cover for sickness and incapacity, held by a policyholder. The amount of cover units obtainable are limited by the applicant's annual gross professional income and maximum limits applied by the company. Sickness and incapacity cover is a non-DPF benefit.
Professional Life Provider (PPS Provider Policy) Old Generation PPS Life & Disability Assurance Scheme	The Professional Life Provider policy offers lump sum life and disability cover for a specified term or whole life. The premiums are payable monthly and are age rated. For this new generation of life and disability policies, PPS Insurance is the risk carrier. The previous generation of policies (PPS Life & Disability Assurance Scheme) is classified as being part of a grouped individual policy. For these policies Sanlam is the insurer with significant reinsurance back to PPS Insurance. This class is closed for new business. The reinsurance to PPS transfers insurance risk only, and is accounted for as reinsurance inwards. The premiums and benefits under both generations of policies are not guaranteed and may be revised at the discretion of the insurer. Reinsurance policies are in place to reduce the variability of the claims experience. The Life and disability benefits are non-DPF benefits.
Professional Health Provider (PPS Provider Policy) Professional Health Preserver	These products pay a lump sum benefit according to severity levels on assessment of standard dread disease conditions and physical impairment events. The premiums are payable monthly and are age rated. The Professional Health Preserver is closed to new business. The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer. Reinsurance policies are in place to reduce the variability of the claims experience. The policies transfer insurance risk only, and do not contain a DPF component. The dread disease and physical impairment benefits are non-DPF benefits.

Type of contract	Terms and conditions
Professional Disability Provider (PPS Provider Policy)	The Professional Disability Provider offers lump sum disability cover for a specified term. At age 66, or earlier retirement (if this is over the age of 60), the Professional Disability Provider converts automatically into a severe illness benefit. This is a benefit that pays a once-off lump sum benefit on diagnosis of a severe dread disease (such as a stage 3 or 4 cancer). The premiums are payable monthly and are age rated. The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer. Reinsurance policies are in place to reduce the variability of the claims experience. The disability benefits are non-DPF benefits.
PPS Provider Policy	The PPS Provider Policy contains a DPF component, being the PPS Profit-Share Account™.
Business Provider (PPS Provider Policy)	The Business Provider Policy provides for the Business Life Provider and the Business Health Provider. The Business Life Provider product provides benefits very similar to those of the Professional Life Provider. The Business Health Provider product provides benefits similar to those of the Professional Health Provider, but tailored to payout for the more severe critical illness and physical impairment conditions only. The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer. Reinsurance policies are in place to reduce the variability of the claims experience. The policies transfer insurance risk only and do not contain a DPF component.
PPS Endowment	The PPS Endowment affords policyholders the ability to save in a cost-effective, transparent and flexible manner. The underlying investments are unit trusts, and no guarantees are offered on this product. The policies do not transfer insurance risk and do not contain a DPF component. This product is available to corporates and individuals.
PPS Living Annuity	The PPS Living Annuity is a compulsory purchase-linked living annuity and does not offer risk benefits or investment guarantees. The underlying investments are unit trusts. The policies do not transfer insurance risk and do not contain a DPF component.

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

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

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

Insurance contracts

(a) Frequency and severity of claims

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

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

The Group manages these risks through its underwriting strategy. The underwriting strategy ensures that the risks underwritten are drawn from specified professions only. Medical selection is also included in the Group's underwriting procedures where premium loadings or benefit exclusions may be imposed which reflect the health condition and family medical history of the applicants. The Group has maximum exposure limits in respect of any single life insured. Where appropriate, reinsurance contracts are in place to limit the Group's ultimate liability. Maximum exposures are determined relative to gross professional income to ensure that policyholders are not over insured. These limits are increased annually in line with expected salary inflation for professionals.

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

Where appropriate, reinsurance contracts are in place to limit the Group's liability. There is a board approved reinsurance strategy in place, which is regularly reviewed for its ongoing appropriateness.

The table below presents the total insured benefits per month and the average benefit per month per individual life assured on the basic sickness and disability contract:

Group	Total insured monthly benefit R'000	Benefit per month per life Rands
2012	**4 581 801**	**42 834**
2011	4 279 972	39 203

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

The Group has factored the impact of contract holders behaviour into the assumptions used to measure these liabilities (see note 11).

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

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

The Group uses appropriate base tables of standard mortality and morbidity rates. An investigation into the actual experience of the Group over the last year is carried out, to produce a best estimate of the expected morbidity and mortality for the future. The best estimate of future mortality is based on standard industry tables adjusted for the Group's overall experience and where no such table exists, tables are developed specifically on PPS historic experience.

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

Risk exposure and concentrations of risk

The following table shows the Group's exposure to insurance risk (based on the carrying value of the insurance liabilities at the reporting date) per category of business. The table also shows the geographical concentration of these risks and the extent to which the Group has covered these risks by reinsurance:

Group 2012 R'000	**Non-DPF component of insurance liabilities**	**DPF component of insurance liabilities**	**Total**
South Africa			
Gross	**3 165 362**	**14 644 787**	**17 810 149**
Net of reinsurance	**3 254 799**	**14 644 787**	**17 899 586**
Namibia			
Gross	**135 751**	**434 790**	**570 541**
Net of reinsurance	**134 724**	**434 790**	**569 514**

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

Risk management relating to investment contracts

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

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

32.3 Financial risk management

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

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

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

Credit and counterparty risk

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

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

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

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

The Group only enters into insurance contracts with eligible professional individuals. PPS Group operates a Credit Control Policy regarding outstanding premiums, which is formulated on the Long-term Insurance Act (in terms of section 52) recommendations supported by the Ombudsman for Long-term Insurance and agreed in contracts with our members. In terms of this policy, formal communication is sent to members after the first month and second month of premium defaults. In the third month of default, members are informed that premium collections have ceased and all benefits are suspended. In the event of default on the part of the individual, where the Apportionment Accounts have vested to the individual, there is a legal right of offset of the Apportionment Account against any outstanding premiums payable. This significantly reduces the credit risk on insurance policyholder recoverables.

The Group only enters into reinsurance agreements with reinsurers registered with the Financial Services Board. The reinsurers contracted with represent subsidiaries of large international reinsurance companies. No instances of default have been encountered. As such the Group has selected reinsurers with a minimum credit rating of A+.

Cash and cash equivalents are invested with financial institutions holding credit ratings within the guidelines set by the board, similar to corporate and government debt indicated below, as well as restrictions in the Collective Investment Schemes Control Act, No. 45 of 2002, as amended. The spread of cash between financial institutions is determined in line with limits in Schedule 1 to the Long-term Insurance Act. The financial soundness of counterparties holding the Group's cash is monitored by management on a monthly basis.

Exposure to credit risk

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

Group **R'000**	**2012**	2011
Debt securities	**6 049 477**	5 181 629
Reinsurance assets	**–**	36 324
Insurance receivables	**19 328**	15 385
Cash and cash equivalents	**1 737 022**	1 402 806
Other receivables	**75 931**	32 072
Reinsurance receivables	**1 083**	36 971
Total	**7 882 841**	6 705 187

Corporate and government debt

Included in the category designated at fair value through profit or loss are interest instruments of corporate and government debt. Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt. To mitigate this risk, management has formulated guidelines based on ratings from Fitch Ratings ('Fitch'), an industry accepted credit ratings agent. The following tables set out the credit exposure restrictions as utilised by the Group:

Group Bond Investments in aggregate	Inclusion limit per instrument and issuer as a % of the market value of assets comprising the portfolio
AAA, sovereign and government guaranteed bonds, but no lower than AA-	30%
A+ but no lower than A-	20%
BBB+ but no lower than BBB-	5%

The Group's total exposure to corporate debt amounted to R6 049 million (2011: R5 181 million) at 31 December 2012. The following represent the major industry sectors to which the Group is exposed as at 31 December 2012:

Group Rm	2012	2011
Government	**1 951**	1 747
Banks	**3 174**	2 734
Utilities	**618**	496
Corporate	**306**	204
Total	**6 049**	5 181

Concentrations of credit risk

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

Group 2012 R'000	**AAA and Government**	**Below AAA but no lower than AA-**	**Below AA but no lower than A**	**Below A but no lower than BBB-**	**Unrated**	**Total**
Debt securities	**2 211 421**	**2 899 323**	**898 357**	**40 376**	**–**	**6 049 477**
Reinsurance assets	**–**	**–**	**–**	**–**	**–**	**–**
Insurance receivables	**–**	**–**	**–**	**–**	**19 328**	**19 328**
Cash and cash equivalents	**220 592**	**1 429 948**	**86 482**	**–**	**–**	**1 737 022**
Other receivables	**–**	**–**	**–**	**–**	**75 931**	**75 931**
Reinsurance receivables	**–**	**–**	**1 083**	**–**	**–**	**1 083**

Group 2011 R'000	AAA and Government	Below AAA but no lower than AA-	Below AA but no lower than A	Below A but no lower than BBB-	Unrated	Total
Debt securities	1 880 706	2 845 964	447 024	7 935	–	5 181 629
Reinsurance assets	–	–	36 324	–	–	36 324
Insurance receivables	–	–	–	–	15 385	15 385
Cash and cash equivalents	133 214	1 266 456	3 136	–	–	1 402 806
Other receivables	–	–	–	–	32 072	32 072
Reinsurance receivables	–	–	36 971	–	–	36 971

Ageing of financial assets

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

Group 2012 R'000	**Neither past due nor impaired**	**Financial assets that are past due 0 – 2 months**	**3 – 5 months**	**More than 5 months**	**Carrying value**
Insurance receivables	**3 877**	**1 457**	**8 374**	**5 620**	**19 328**
Reinsurance assets	**1 083**	**–**	**–**	**–**	**1 083**
Reinsurance receivables	**16 818**	**11 644**	**–**	**–**	**28 462**
Other receivables	**66 442**	**9 265**	**224**	**–**	**75 931**
Cash and cash equivalents	**1 737 022**	**–**	**–**	**–**	**1 737 022**

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

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

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

Individually impaired assets

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

Group R'000	**Gross**	**2012** **Impairment losses**	**Net**	Gross	2011 Impairment losses	Net
Due from contract holders	**30 035**	**10 707**	**19 328**	27 890	12 505	15 385

Liquidity risk

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2012 ... continued

Group 2012 R'000	Carrying amount	Total cash flows	Contractual cash flows: Within 1 year	2 – 5 years	6 – 10 years	11 – 20 years	Over 20 years
Insurance contract liabilities – DPF	**15 152 213**	**15 152 213**	**472 315**	**2 558 788**	**3 664 270**	**5 571 730**	**2 885 110**
Insurance contract liabilities – non-DPF	**3 389 523**	**(10 418 836)**	**154 209**	**137 789**	**(389 739)**	**(1 001 273)**	**(9 319 822)**
Reinsurance payables	**11 340**	**11 340**	**11 340**	**–**	**–**	**–**	**–**
Third-party financial liabilities arising on consolidation of unit trusts	**1 755 729**	**1 755 729**	**1 755 729**	**–**	**–**	**–**	**–**
Investment contract liabilities	**386 871**	**386 871**	**386 871**	**–**	**–**	**–**	**–**
Other financial liabilities	**90 552**	**90 552**	**90 552**	**–**	**–**	**–**	**–**

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

Market risks

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

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

Management of market risks

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

Interest rate risk

Interest rate risk arises primarily from the Group's investments in debt securities and its long-term debt obligations. However, changes in investment values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of insurance and investment contract liabilities. As a result of this, the exposure to interest rate risk is managed by the asset managers though the limit in the investment mandates with regard to investing in debt securities, as well as the internal benchmark performance that the asset managers are measured against.

The nature of the Group's exposure to interest rate risk and its objectives, policies and procedures for managing interest rate risk have not changed significantly from the prior period.

Fluctuations in the value of assets held to back the DPF component of the policy liabilities will affect the allocations to DPF benefits each year. The choice of assets to back the DPF component of the policy liabilities reflects the Group's interpretation of the investment risk appetite of the policyholders. The assets held in this regard are as follows:

Group	Non-pre-retirement option benefits		Pre-retirement option benefits	
2012	R'000	%	R'000	%
Local				
Equity	**7 593 488**	**51,2**	**320 031**	**25,5**
Fixed interest	**2 993 213**	**20,2**	**326 007**	**26,0**
Cash	**645 982**	**4,4**	**469 598**	**37,4**
International				
Equity	**3 586 938**	**24,2**	**138 359**	**11,1**
Total	**14 819 621**	**100,0**	**1 253 995**	**100,0**

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

The assets held to back the non-DPF component of the liabilities similarly reflect the Group's understanding of the risk appetite of the policyholders and the results of an asset liability modelling exercise undertaken during the year. Investment profits or losses arising from the impact of fluctuations in market values of assets and interest rates on the value of assets and non-DPF policy liabilities will be transferred to policyholders by adjusting the allocations made to the DPF component of their benefits.

Younger policyholders have more time to recover from the volatility in the financial markets. For that reason the strategic asset allocation for the invested portfolio representing these policyholders has a higher exposure to equity and thus risk. Older policyholders have less time to recover from negative market performance, and were thus given a voluntary option to switch to a more conservative investment portfolio from age 55, i.e. one where there is no exposure to equities.

The assets held to back the non-DPF component of the policy liabilities are as follows:

Group	**2012 R'000**	**%**	2011 R'000	%
Local				
Equity	**559 200**	**16,5**	646 005	21,0
Fixed interest	**2 371 180**	**70,0**	1 605 771	52,3
Cash	**333 627**	**9,8**	820 258	26,7
International				
Equity	**125 516**	**3,7**	–	–
Total	**3 389 523**	**100,0**	3 072 034	100,0

Currency risk

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

The asset managers actively manage the currency risk when decisions are made in regard to investing internationally. All investment returns are shown in Dollars and the effect of the trading in different currencies are reflected in the investment performance which is measured against an internal benchmark. In terms of legislation, up to 25% of the Group's investments may be invested in foreign currency and hence the Group has less than 25% exposure to currency risk.

Equity price risk

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

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

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

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

Market risk sensitivity analysis

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

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

The only other impact is the change in the investment management fees, which will fluctuate as a percentage of the movement in the assets.

This is also disclosed within the movement in policy liabilities on the statement of comprehensive income. Therefore a market risk sensitivity analysis has not been included for this component of the business.

The market risk sensitivity is shown below:

Group	Contracts with non-DPF: Impact on profit/(loss) before movement in insurance policyholder liabilities 2012 R'000	2011 R'000
Interest rate risk		
Lower limit: 6,0% yield	**(878 917)**	(634 056)
Upper limit: 8,0% yield	**658 429**	520 783

The effect of changes in the net capital value of non-DPF contracts due to market movements are fully absorbed by adjusting the net capital value of DPF contracts resulting in a zero impact on total net capital of the Group.

Assumptions, methodology and limitations of sensitivity analysis

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

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

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

Underwriting risk

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

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

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

Reinsurance

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

Claims risk

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

Products and pricing risk

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

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

Expense risk

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

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

Business volume risk

Business volume risks arises from writing less than expected new business or significantly more than expected.

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

Data and model risk

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

Lapse risk

There is a risk that the lapse experience of PPS policies differs significantly from that assumed in the original pricing basis. Lapses are monitored monthly by management, and quarterly and annual detailed lapse experience investigations are prepared. Where trends of increased lapses of policies are detected, further management action is taken to address such trends.

An established dedicated retentions function is in place and fully staffed; this function plays a significant role in reducing churn of policies to other companies as well as in retention of policies at risk of lapsing due to non-payment. Active engagement with contracted advisors regarding retention of existing business and comprehensive training on PPS' product offering also plays an important role in mitigating lapse risk.

Capital management

The Group's capital management policy objectives are:

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

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

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

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

Group R'000	**2012** South Africa	**2012** Namibia	2011 South Africa	2011 Namibia
Capital held	**235 321**	**5 223**	191 479	5 223
Regulatory capital	**88 817**	**4 000**	71 655	4 000

The Board considers the capital of the Group to be the total of all accumulated funds held as well as the DPF Insurance Liabilities (refer Note 13) as the policyholders are also the members of the Group. A detailed Asset Liability Matching ('ALM') investigation is conducted on an annual basis to better understand the potential impact on the capital of the Group of different market conditions, such as interest rate fluctuations and volatility in equity prices. The impact of varying operational conditions (such as variations in deaths, withdrawals and profits) on the Group's capital is also presented to the Board. The results of the ALM investigations may lead to changes in the approved asset class mixes contained in the Investment Policy, in order to address any increases in the risk of volatility identified in the ALM investigation.

There have been no material changes in the Group's management of capital during the period. The Group has maintained its level of CAR cover at 2,6 times. This decision has resulted R43,8 million (2011: R17,2 million) being allocated to accumulated funds.

The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the period.

Consolidated unit trusts

The Group invests in various registered unit trusts in order to match obligations provided in policyholder contracts.

Certain of these unit trust investments exceed 50% of the total value of the underlying net assets within the fund. Consequently, these funds are defined as subsidiaries in terms of the Group's accounting policies and consolidated into the Group results.

Each fund has its own legal constitution and operates within a defined fund mandate delegated to the appointed fund manager. Market and credit risks assumed within the assets held are controlled by various protection mechanisms within the mandate and in law. For example, the Collective Investment Schemes Control Act, 45 of 2001, in South Africa prescribes maximum limits for the concentration of risk exposures.

Each fund's trustees or board appoints administrators who are responsible to ensure that the fund's mandate and any internal and legislated control procedures are adhered to. In the event of breach they are obligated to immediately bring it to the attention of the fund's trustees/board and management of the administrators for remedial action.

The unit trust fund vehicle and related procedures for offering investments is mature within South Africa and is well-regulated.

The unit trust funds which are defined as subsidiaries can be grouped under one manager, namely Professional Provident Society Investments (Pty) Limited ('PPS Investments'), a fellow Group subsidiary. Described below is the unit trust subsidiary and its respective mandate and objective.

Funds managed by PPS Multi-Managers Proprietary Limited

PPS Investments employs a multi-manager investment approach that is designed to generate acceptable levels of returns at lower than average levels of risk. This is achieved by:

- a thorough and ongoing quantitative and qualitative research process of potential managers in the domestic universe;
- selecting specialist asset managers, taking their investment style and specific areas of expertise into consideration;
- determining the optimal blend of selected managers within the portfolio through a portfolio construction and optimisation process;
- writing segregated investment mandates with selected managers to tightly control portfolio risk;
- continual monitoring of the portfolio risk and return characteristics of each selected manager as well as of the overall portfolio; and
- making manager changes where PPS Investments feels this is in the best interest of investors.

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

PPS Conservative Fund of Funds

Investment objective

To maximise total portfolio return while outperforming a conservative real return target of CPI + 2% per annum over the medium term.

Investment mandate

This multi-managed fund invests in a number of underlying managers with the specific mandate to employ real return strategies to provide real capital growth. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 75% of the portfolio value.

Typical investments

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

Risk exposure

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

PPS Moderate Fund

Investment objective

To maximise total portfolio return while outperforming a moderate real return target of CPI + 4% per annum over the medium term.

Investment mandate

This multi-managed fund invests in a number of underlying managers with the specific mandate to employ real return strategies to provide real capital growth. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 75% of the portfolio value.

Typical investments

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

Risk exposure

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

PPS Enhanced Yield Fund

Investment objective

To provide an enhanced level of income in excess of a broad short-term fixed interest benchmark.

Investment mandate

This multi-managed flexible fund invests in a number of underlying managers with the specific mandate to actively manage the fund by investing in less than three year maturity limits. Asset allocation is defensive with exposure to fixed interest instruments, including high-yielding corporate bonds and securities, government bonds, listed property, preference shares and inflation-linked bonds.

Typical investments

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

Risk exposure

An enhanced yield income fund exposed to credit risk and interest rate risk.

PPS Flexible Income Fund

Investment objective

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

Investment mandate

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

Typical investments

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

Risk exposure

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

PPS Equity Fund

Investment objective

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

Investment mandate

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

Typical investments

This multi-manager invests in equities and cash.

Risk exposure

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

33. STANDARDS AND INTERPRETATIONS ISSUED

Amendments to published standards mandatory for the Group's accounting periods beginning on or after 1 January 2012:

- IFRS 7 (Amendment): 'Financial instruments: Disclosures' (effective 1 July 2011). This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment did not result in a material impact on the Group's financial statements.

- IAS 12 (Amendment): 'Income taxes' (effective 1 January 2012): IAS 12, Income taxes currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use of through sale when the asset is measured using the fair value model in IAS 40, Investment property. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – Recovery of Revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendment also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment did not result in a material impact on the Group's financial statements.

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods, and the Group has not early adopted them:

- IAS 19 (Amendment): 'Employee benefits' (effective 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

- IFRS 7 (Amendment): 'Financial instruments: Disclosures' on asset and liability offsetting (effective 1 January 2013). This amendment includes new disclosures to facilitated comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The amended standard will not result in a material impact on the Group's financial statements.

- IFRS 9: 'Financial instruments' (effective 1 January 2015). IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance is IAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard will not result in a material impact on the Group's financial statements.

- IFRS 10: 'Consolidated financial statements' (effective 1 January 2013). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements. It defines the principle of control, and establishes control as the basis of consolidation and sets out the accounting requirements for the preparation of consolidated financial statement. The new standard will not result in a material impact on the Group's financial statements.

- IFRS 11: 'Joint arrangements' (effective 1 January 2013). IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has the right to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The new standard will not result in a material impact on the Group's financial statements.

- IFRS 12: 'Disclosure of interest in other entities' (effective 1 January 2013). IFRS 12 includes the disclosure requirements of all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The new standard will not result in a material impact on the Group's financial statements.

- IFRS 13: 'Fair value measurement' (effective 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS's. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other IFRS's. The new standard may result in a material impact on the Group's financial statements.

- IAS 27(Revised): 'Separate financial statements' (effective 1 January 2013). IAS 27 includes the provision on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The revised standard will not result in a material impact on the Group's financial statements.

- IAS 28 (Revised): 'Associates and joint ventures' (effective 1 January 2013). IAS 28 includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The revised standard will not result in a material impact on the Group's financial statements.

- IAS 32 (Amendment): 'Financial instruments: Presentation' (effective 1 January 2014). These amendments clarify some of the requirements for offsetting financial assets and financial liabilities on the Statement of financial position. The amended standard will not result in material impact on the Group's financial statements.

There are numerous other new standards or amendments to existing standards that are not yet effective for the Group. Each of these has been assessed, and will not have a material impact on the Group's financial statements.

34. EVENTS AFTER REPORTING PERIOD

No reportable events occurred between the reporting date and the date of approval of the annual financial statements.

NOTICE TO MEMBERS

of the Annual General Meeting

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

Notice is hereby given that the third annual general meeting ('the meeting') of the members of the Trust will be held on Monday, 3 June 2013 at 18:00, in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg, for the following purposes:

1. To approve and adopt the annual financial statements for the year ended 31 December 2012, including the reports of the trustees and the auditors of the Trust.

2. To re-appoint PricewaterhouseCoopers Inc. as the auditors of the Trust.

3. To elect and appoint trustees in place of those trustees retiring in accordance with the Trust Deed which established and governs the Trust ('Trust Deed').

   Dr D G C Presbury, Mr E A Moolla, Dr C M Krüger and Mr B R Topham retire by rotation at the meeting in terms of the Trust Deed.

   The following trustees, being eligible for re-election and appointment, offer themselves for re-election and appointment as trustees of the Trust:

   3.1 Dr C M Krüger

   3.2 Mr E A Moolla

   3.3 Mr B R Topham

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

   3.4 Mr D E Abramowitz

   3.5 Dr D P du Plessis

   3.6 Dr C A Joseph

   3.7 Ms R A Kenosi

   3.8 Mr J Prinsloo

   3.9 Mr D L Smollan

   (Abbreviated biographical details of the persons referred to above are set out on pages 217 to 225 of these annual financial statements).

   EXPLANATORY NOTE ON THE APPOINTMENT OF THE TRUSTEES

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

4. To elect the Audit Committee of the Trust. The following trustees, who meet the requirements of paragraph 26.1 of the Trust Deed, nominated by the Group Nominations Committee, have offered themselves for election:

   4.1 Ms D L T Dondur

   4.2 Mr Y N Gordhan

   4.3 Mr E A Moolla

5. To approve the following remuneration of the trustees for the period 1 July 2013 to 30 June 2014:

   5.1 remuneration of the chairman, comprising a retainer of R304 000 and an attendance fee of R13 050 per meeting;

   5.2 remuneration of the deputy chairman, comprising a retainer of R202 700 and an attendance fee of R9 790 per meeting;

   5.3 remuneration of the co-opted members of the board of trustees, comprising a retainer of R144 550 and an attendance fee of R6 525 per meeting;

   5.4 remuneration of the remainder of the members of the board of trustees, comprising a retainer of R101 350 and an attendance fee of R6 525 per meeting;

   5.5 remuneration of the chairman of the Trust Audit Committee, being an attendance fee of R15 400 per meeting;

   5.6 remuneration of the members of the Trust Audit Committee, being an attendance fee of R7 700 per meeting;

   5.7 remuneration of the chairman of the Group Nominations Committee, being an attendance fee of R8 700 per meeting; and

   5.8 remuneration of the members of the Group Nominations Committee, being an attendance fee of R4 350 per meeting.

VOTING

In voting or passing any resolution:

- Associate Members (as defined in clause 18 of the Trust Deed) do not have any votes; and
- Ordinary Members (as defined in clause 18 of the Trust Deed) shall have 100 (one hundred) votes each, plus 1 (one) additional vote for each completed R200.00 (two hundred Rand) standing to his/her credit in his/her Apportionment Account (as defined in the Trust Deed), as at the most recent date prior to the meeting when the Apportionment Accounts of Ordinary Members were adjusted, provided that an Ordinary Member who is at the date of the vote 3 (three) months or more in arrear with the payment of his/her premiums (payable in terms of the Master Contract (as defined in clause 1.2.25 of the Trust Deed)) shall only have 1 (one) vote at the meeting.

NOTICE TO MEMBERS

of the Annual General Meeting … continued

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

In regard to the election of Trustees to serve on the Board, there are four vacancies only. Accordingly, members should vote for a maximum of four trustees. Should a member vote for more than four trustees, the individual vote of that member on that particular resolution shall be invalid.

PROXIES

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

Proxy forms must be delivered at one of the following addresses or via facsimile or email, to be received by, and marked for the attention of, the Secretary, by no later than 18:00 on Wednesday, 29 May 2013:

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

By order of the board of trustees

V E Barnard
Secretary

The Professional Provident Society Holdings Trust

27 March 2013

ABBREVIATED *CURRICULA VITAE*

for Nominated Candidates

CHRISTIAN MARTIN KRüGER

Date of birth

15 December 1965

Profession

Family Physician

Tertiary qualifications

- MB ChB
- M Prax Med
- M Pharm Med

Positions held

- Private Practice in Polokwane as Family Physician (1992 – 2013)
- Branch Councillor, Soutpansberg Branch, South African Medical Association (SAMA)(1992 – 2013)
- President, SAMA Soutpansberg Branch (1994)
- National Councillor, SAMA, (2000 to 2013)
- Councillor, HPCSA (1998 – 2003)
- Member of the Medical and Dental Professions Board (MDB) (1998 – 2003)
- Member of MDB Committee for General Practice (1998 – 2003)
- Chairman, SA Academy for Family Practice, Limpopo Province (1999 – 2007)
- National Councillor, Society of General/Family Practice (SGFP) (1993 – 2013)
- Member of Executive Committee, National Council on Dispensing (NCD) (2003 – 2013)

Directorships/Trusteeships

- Member of the Board of Professional Provident Society Limited (2004 – 2011)
- Member of the Board of Trustees of The Professional Provident Society Holdings Trust since 2011
- Member of the Board of Professional Medical Scheme Administrators (Pty) Ltd since 2009

EBRAHIM ABOOBAKER MOOLLA

Date of birth

24 November 1950

Profession

Practicing Attorney

Tertiary qualifications and professional membership

- B Iuris (UDW) 1977

Positions held

- Proprietor of Ebi Moolla & Singh Attorneys
- Member of the Takeover Regulation Panel established by the Minister of Trade and Industry in terms of the Companies Act, 2008

Directorships and trusteeships

- Chairman of the Board of Trustees, The Professional Provident Society Holdings Trust since 2012
- Deputy Chairman of the Board of Trustees, The Professional Provident Society Holdings Trust since 2011
- Deputy Chairman of the Board of Professional Provident Society Limited (2004 – 2011)
- Member of the Board of Professional Provident Society Insurance Company Limited since 2004
- Member of the Board of PPS Black Economic Empowerment SPV (Pty) Ltd
- Member of PPS Group Remuneration Committee, PPS Group Nominations Committee (Chairman), PPS Holdings Trust Audit Committee, PPS Group Audit Committee (until 2012)
- Chairman of the Board of Professional Provident Society Investments (Pty) Ltd
- Chairman, Attorneys Fidelity Fund (AFF) (2007 – 2009), Deputy Chairman (2003 – 2006), currently a member of the Board of the AFF
- Chairman, Treasury Committee of the AFF (2004 – 2012), currently a member of the Committee
- Member, Audit & Compliance and Investment Committees of the AFF
- Chairman, Remuneration Committee of the AFF
- Member of the Insider Trading Directorate of the Financial Services Board (1999 – 2004)
- Current Deputy Chairman, Enforcement Committee of the Directorate of Market Abuse of the Financial Services Board
- Currently serving member on various committees of the Law Society of South Africa and KwaZulu-Natal Law Society, member of the Council of the KwaZulu-Natal Law Society

BRANDON RODNEY TOPHAM

Date of birth

7 June 1971

Profession

Chartered Accountant and Attorney

Tertiary qualifications

- B Compt (Hons), CA(SA)
- B Proc, LLM
- Associate member of the Chartered Institute of Management Accountants (UK)
- Associate member of the South African Institute of Financial Planners
- Attorney of the High Court of South Africa
- Certified Fraud Examiner (USA and SA)
- Chartered Accountant England and Wales
- Solicitor England and Wales

Directorships and trusteeships

- Member of the Board of Trustees of The Professional Provident Society Holdings Trust since 2011
- Member of the Board of Professional Provident Society Limited (2007 – 2011)
- Member of the Board of Professional Provident Society Insurance Company Limited since 2012
- Member of the Board of Trustees of The PPS Beneficiaries Trust since 2011, appointed as Chairman in 2011
- Member of the Board of Trustees of the Professional Provident Society Retirement Annuity Fund since 2011, appointed Chairman in 2012
- Member of the Board of Tax Accounting Gurus Incorporated since 2004
- Member of the Board of Telemasters Holdings Limited since 2006
- Member of the Board of Seesa (Pty) Ltd since 2007
- Member of the Board of TAG Business Advisors Limited (England and Wales) since 2008
- Member of the Board of John Daniel Holdings Limited since 2010

DAVID ELISHAI ABRAMOWITZ

Date of birth

1 February 1976

Profession

Chartered Accountant

Tertiary qualifications

- B Com (Hons), CA(SA)
- Chartered Management Accountant

Positions held

- Manager in Corporate Finance: Anglo American Corporation since 2007
- Former Trustee of Afrox Pension Fund

DIRK PRIEUR DU PLESSIS

Date of birth

14 March 1955

Profession

Businessman

Tertiary qualifications

- BSc (Quantity Surveying), University of Cape Town (1979)
- BHons (Business & Administration) (Cum Laude), University of Stellenbosch (1981)
- MBA (Cum Laude), University of Stellenbosch (1982)
- DBA (Doctor of Business Administration – Finance), University of Stellenbosch (1984)
- Certificate in Directorship, Institute of Directors (IoDSA) (2012)
- Enrolled for International Directors Programme at Insead Business School, France

Positions held

- Non-executive Chairman, Grindrod Asset Management (formerly Plexus Asset Management) since 2012
- Professor extraordinaire, University of Stellenbosch Business School (since 2010)
- Honorary Consul of Slovenia (since 2009)
- Chairman, Plexus Holdings (since 2008)
- Chief Executive Officer, Plexus Asset Management (1995 – 2008)
- General Manager: Portfolio Management, Sanlam (1984 – 1995)
- Quantity Surveyor, Paul Maré & Partners (1979 – 1982)

Directorships/Trusteeships

- Non-executive Director of Combined Finance Holdings (since 2013)
- Member of the Council of the University of Stellenbosch (Chair of the Audit and Risk Committee and Member of the Investment Committee) (since 2012)
- President of the Alumni Association of the University of Stellenbosch Business School (since 2012)
- Member of the Advisory Board of the University of Stellenbosch Business School (since 2012)
- Trustee of Cape Times Bursary Fund (since 2012)
- Nominated as Non-executive Director of The Institute of Directors (Southern Africa) (election: June 2013)

CHRISTOPHER ARTHUR JOSEPH

Date of birth

11 December 1953

Profession

Practicing Ear, Nose and Throat Specialist, Head and Neck surgeon

Tertiary qualifications

- MB BCh
- FRCS (England)
- FCS (South Africa)
- M Med

Positions held

- Honorary Associate Professor, Department of ENT Surgery, Medunsa and University of the Witwatersrand
- President, SA Head and Neck Oncology Society (current)
- President SA Society Otorhinolaryngology – Head and Neck Surgery (2006 – 2008)

Directorships/Trusteeships

- E2 Solutions (current)
- South African Private Practitioners' Forum (current)
- Chairman of ENT Management Group of South Africa (1999 – 2004), Member of the Board (2004 – 2012)
- Member of the Executive Committees of the South African Society ENT- Head and Neck Surgery, SA Head and Neck Oncology Society, South African Private Practitioners' Forum

RENÉ ALOISE KENOSI

Date of birth

5 January 1971

Profession

Chartered Accountant

Tertiary qualifications

CA(SA)

Positions held

- Director of a professional services company providing internal audit, risk management, corporate training, BEE and management consulting services since 2006
- Member of Audit Committee, Dr Kenneth Kaunda Municipality (Chairman) since 2007
- Member of Audit Committee, South African Council for the Architectural Profession since 2009
- Member of Audit Committee, Companies and Intellectual Property Commission since 2011
- Member of Audit Committee, Department of Home Affairs since 2012
- Member of Audit Committee, Services SETA (2012 – 2013)
- Member of Audit Committee, Metrobus (2007 – 2012)
- Member of Audit Committee, Independent Communication Authority of South Africa (2006 – 2011)
- Member of Audit Committee, Local Government SETA (2007 – 2010)
- Member of Audit Committee, City of Matlosana (Chairman) (2008 – 2010)
- Member of Audit Committee, South African Micro Apex Fund (2010 – 2012)
- Member of Audit Committee, Metropolitan Trading Company (Pty) Ltd (2010 – 2012)

Directorships/Trusteeships

- Member of the Board, Bridging Concepts Financial Services (Pty) Ltd since 2006
- Member of the Board, PUSH NGO (Persevere Until Something Happens) since 2009
- Member of the Board, Small Enterprise Development Agency since 2010

JANNIE PRINSLOO

Date of birth

26 August 1950

Profession

Chartered Accountant

Tertiary qualifications

B Com (Hons), CA(SA)

Positions and directorships held

- Former Director and Equity Partner, PricewaterhouseCoopers Incorporated (Pretoria) (1970 – 2011) and its predecessors
- Managed audit practice as engagement partner of a prestigious portfolio of clients, including leading players in the healthcare industry, University of Pretoria, Monash University, retirement funds and the South African National Parks Board
- Relationship and Review Partner for Medi-Clinic Hospital Group, Life Healthcare Group and NHLS
- Initiated and developed the Healthcare Division of PwC in South Africa
- Represented PwC Southern Africa at global firm's EMEA Health Division Cluster meetings

DAVID LEONARD SMOLLAN

Date of birth

13 October 1973

Profession

Chartered Accountant and Chartered Financial Analyst

Tertiary qualifications

CA(SA), CFA

Positions and directorships held

- Chief Executive Officer, Smollan Holdings (Pty) Ltd Group since 2009
- Co-founder and executive director of i capital (Pty) Ltd, i capital Fund Managers (Pty) Ltd and i capital Advisers (Pty) Ltd (1998 – 2009)
- Consultant, Corporate Finance, Grant Thornton Kessel Feinstein Corporate Finance (1998)
- Accountant, Grant Thornton Kessel Feinstein (1995 – 1996)

FORM OF PROXY

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

Member's particulars

Identity No.

Membership No.

Email address:

Cell:

Member: I,

of being a member of the Trust, hereby appoint:

Proxy: of

or failing him/her of

or failing him, the Chairman of the meeting, as my proxy to attend, speak and on a poll vote for me and on my behalf at the annual general meeting of the Trust to be held at 18:00 on Monday, 3 June 2013 in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg, and at any adjournment thereof, as follows:

No.	Business	In favour of	Against	Abstain
1.	Ordinary resolution for the adoption of the annual financial statements of the Trust for the year ended 31 December 2012			
2.	Ordinary resolution for the re-appointment of the auditors of the Trust			
3.	Ordinary resolutions for the election and appointment of trustees#:			
	3.1 Dr C M Krüger*			
	3.2 Mr E A Moolla*			
	3.3 Mr B R Topham*			
	3.4 Mr D E Abramowitz			
	3.5 Dr D P du Plessis			
	3.6 Dr C A Joseph			
	3.7 Ms R A Kenosi			
	3.8 Mr J Prinsloo			
	3.9 Mr D L Smollan			
4.	Ordinary resolutions for the appointment of the members of the Trust Audit Committee			
	4.1 Ms D L T Dondur			
	4.2 Mr Y N Gordhan			
	4.3 Mr E A Moolla			

No.	Business		In favour of	Against	Abstain
5.	Special resolutions for the approval of trustees' remuneration**				
	5.1	Remuneration of the chairman of the board of trustees			
	5.2	Remuneration of the deputy chairman of the board of trustees			
	5.3	Remuneration of the co-opted members of the board of trustees			
	5.4	Remuneration of the remainder of the members of the board of trustees			
	5.5	Remuneration of the chairman of the Trust Audit Committee			
	5.6	Remuneration of the members of the Trust Audit Committee			
	5.7	Remuneration of the chairman of the Group Nominations Committee			
	5.8	Remuneration of the members of the Group Nominations Committee			

You may vote for a maximum of four persons only. Should you vote for more than four persons for appointment as Trustees, your vote on the election of trustees will be invalid.

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

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

Signed this ________________________ day of ______________________________ 2013

Profession ________________________ Signature ______________________________

NOTES TO PROXY:

1. The form of proxy must be signed, dated and returned so as to reach the registered office of the Trust to be received by 18:00 on Wednesday, 29 May 2013.

   If the form of proxy is signed under a power of attorney or other authority, the original of such power of attorney or authority, or a certified copy thereof, has to be lodged with the form of proxy.

2. The signatory may insert the name of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose. If no name is inserted, the Chairman of the meeting shall be appointed as the member's proxy.

3. The completing and lodging of the form of proxy will not preclude the signatory from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.

4. If the signatory does not indicate in the appropriate place above how he/she wishes to vote in respect of any resolutions, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution.

RETURN OPTIONS

Either:

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

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

or Fax to: The Trust Secretary
011 644-4641

or Email to: VBarnard@pps.co.za

FOR PROFESSIONALS

SINCE 1941