pps

FOR PROFESSIONALS

SINCE 1941

INTEGRATED REPORT 2013

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, 2 June 2014 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.

In terms of the Trust Deed of PPS Holdings Trust, only Ordinary members of PPS Holdings Trust have the right to vote at meetings of its members. The votes of Ordinary members of PPS Holdings Trust are determined in the manner set out in clause 22.6.2.2 of the Trust Deed.

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 219 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, 28 May 2014:

Marked for the attention of the Trust Secretary

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

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FOR PROFESSIONALS

SINCE 1941

ABOUT PPS INTEGRATED REPORT 2013

Welcome to the 2013 PPS Integrated Report. This report tells our story, which is underpinned by our 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.'

2013 was a very successful year for the Group. Our members share in this success, by way of profit allocations to members' PPS Profit-Share Accounts.

SCOPE AND BOUNDARY

This report covers the 12 months ended 31 December 2013 and subsequent events up to the reporting date. It includes all the entities listed in the Group schedule on page 48. 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 on all matters relevant to the Group's progress in providing members world class financial products in a socially, environmentally and economically responsible way. This report includes qualitative and quantitative data on the Group's performance against various targets and benchmarks.

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 209 of the 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.

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

> "I am confident that PPS will continue to fulfil its pivotal role of meeting the financial needs of graduate professionals, which has been its core purpose ever since the Company was formed in 1941."
>
> **Mr E A Moolla**

MR E A MOOLLA, CHAIRMAN

CHAIRMAN'S STATEMENT

As I look back on my first full year as Chairman of PPS, I feel a sense of pride having been at the helm of the Group at a time when record results were achieved – our assets as at 31 December 2013 increased by 24% to R28,1 billion and premium income grew by 11% to R2,5 billion. At the same time, I am conscious of the challenges which lie ahead as democratic South Africa prepares to come of age in a robust and challenging political climate where uncertainty about the future is the only constant. However, despite what the rest of 2014 holds in store, I am confident that PPS will continue to fulfil its pivotal role of meeting the financial needs of graduate professionals, which has been its core purpose ever since the Company was formed in 1941.

THE YEAR AT A GLANCE

At the outset, it is gratifying to record that despite the disappointing performance of the economy generally in 2013, PPS evidenced very satisfying growth, both as far as our financial results were concerned – which enabled us to allocate a record amount of R4,2 billion of profits to our members' Profit-Share Accounts in respect of 2013 – and an increase in membership itself, as our compelling service offering and focussed marketing efforts continue to bear fruit.

It is heartening to note the government's recent recommitment to ethical governance including a stricter enforcement of the Public Finance Management Act (PFMA) in its effort to address corruption. Equally welcoming was Finance Minister, Pravin Gordhan's implementation of the public sector austerity measures in respect of state expenditure. It is hoped that this will lead to a renascent South Africa where its people will be able to take their right places in the comity of nations.

The passing of Nelson Mandela in December 2013 and the outpouring of grief both locally and internationally, served as a stark reminder that the values he stood for in reconciling the fractured parts of our divided past need to be constantly reinforced.

'THE POWER OF MUTUALITY'

So where does PPS as a mutual stand in the midst of so much uncertainty? Early last year a decision was taken to change the name of the Surplus Rebate Account to the PPS Profit-Share Account, which led to an improved understanding among our members about one of the key benefits of mutuality – this is in fact the core of PPS' value proposition and what differentiates us from our competitors.

In last year's statement I alluded to the Company having been invited to host the Biennial Conference of The International Cooperative and Mutual Insurance Federation (ICMIF) in Cape Town in November. Attended by over 300 delegates from 47 countries, not only was the Conference an outstanding success, but PPS was singularly honoured by our Chief Executive Officer – Mike Jackson – being elected to the Board of the ICMIF, the first South African to be appointed in this capacity.

More importantly however, the Conference emphasised the spread of the mutual model worldwide, with this sector of the insurance industry having grown by 26% since 2007 compared to 11% for the listed sector. With mutual companies being owned by their members and not shareholders, they generally ensure a more responsible and sustainable form of capitalism, free from the short-term thinking that has beset some listed companies in recent years. Mutuality's ethos is to benefit its members in the long term – not the short-term interests of shareholders – and this in turn benefits the broader community in line with the concept of Ubuntu, which is such an integral part of South African culture.

CHAIRMAN'S STATEMENT

(continued)

'TREATING CUSTOMERS FAIRLY' (TCF)

This is the opportune time to reiterate a point I also made last year, that the proposed changes to legislation to accommodate TCF – also integral to the mutual ethos – have been enthusiastically embraced by PPS as it is in complete accordance with its 'First Outcome' that 'the fair treatment of customers is central to the firm's culture'. Details of how PPS is implementing the six outcomes of the framework – they are being achieved within our risk management framework and driven by a TCF Steering Committee which meets regularly to monitor and review progress – can be found in the CEO's Report.

SOLVENCY ASSESSMENT AND MANAGEMENT (SAM)

This brings me to the SAM project, which introduces a new risk-based supervisory regime for the prudential regulation of the insurance sector in South Africa. Set up as a policyholder protection measure, SAM enables the FSB to have better financial oversight of insurers.

The quantitative impact studies performed to date indicate that PPS is well-positioned to remain financially sound in meeting the new requirements, but specialised skills and resources are required to ensure that the company acts within the confines of SAM. Compliance with the regulation aimed at safeguarding the interests of customers adds to the cost. In view of its importance, the PPS Insurance Board of Directors is assuming overall responsibility for the project, and is satisfied with progress to date.

CORPORATE SOCIAL INVESTMENT (CSI)

With on-going concerns about the poor quality of education in South Africa, and skills being lost to the country, PPS is very conscious of the importance of its corporate social responsibilities, and the need to invest in the youth market in its drive to increase membership.

In order to give qualifying potential members more exposure to the PPS brand, we have recently formed the 'PPS Youth Division' to facilitate a more proactive approach to our annual bursary campaign, and have identified faculties across thirteen Universities and six Technicons that require nurturing and relationship-building. Bursary applications are now done via the relevant faculty at the institutions concerned and they have been invited to become more directly involved in the selection of students qualifying for bursaries.

PPS also sponsored four delegates to the 'One Young World' global leadership forum hosted in South Africa in October 2013, which required students to submit a video demonstrating their passions, global and local knowledge, and their existing and potential role in effecting positive change to our society. The winning candidate videos of these four delegates can be viewed on our website and our involvement did much to promote the PPS brand and lift our CSI profile generally.

CONCLUSION

I cannot conclude my remarks without sounding a 'cautionary note' about the record profits that PPS and its members have enjoyed since stock markets have recovered following the 'financial meltdown' in 2008. Analysts have for some time now been warning investors that the prices of many stocks are not sustainable, and while a falling Rand can help to prop up some share prices, real value is becoming increasingly difficult to find. Members of mutuals must be aware that they share in both the good and the bad times of a fluctuating economy.

That said, I am confident that PPS will be able to manage the vagaries of fluctuating investment markets in the year ahead, as efficiently and effectively as it did during the previous global economic crisis in 2008.

I look forward to leading the Group as we continue to 'meet customer needs', and promote the financial well-being of graduate professionals who are a vital component of our country's economy.

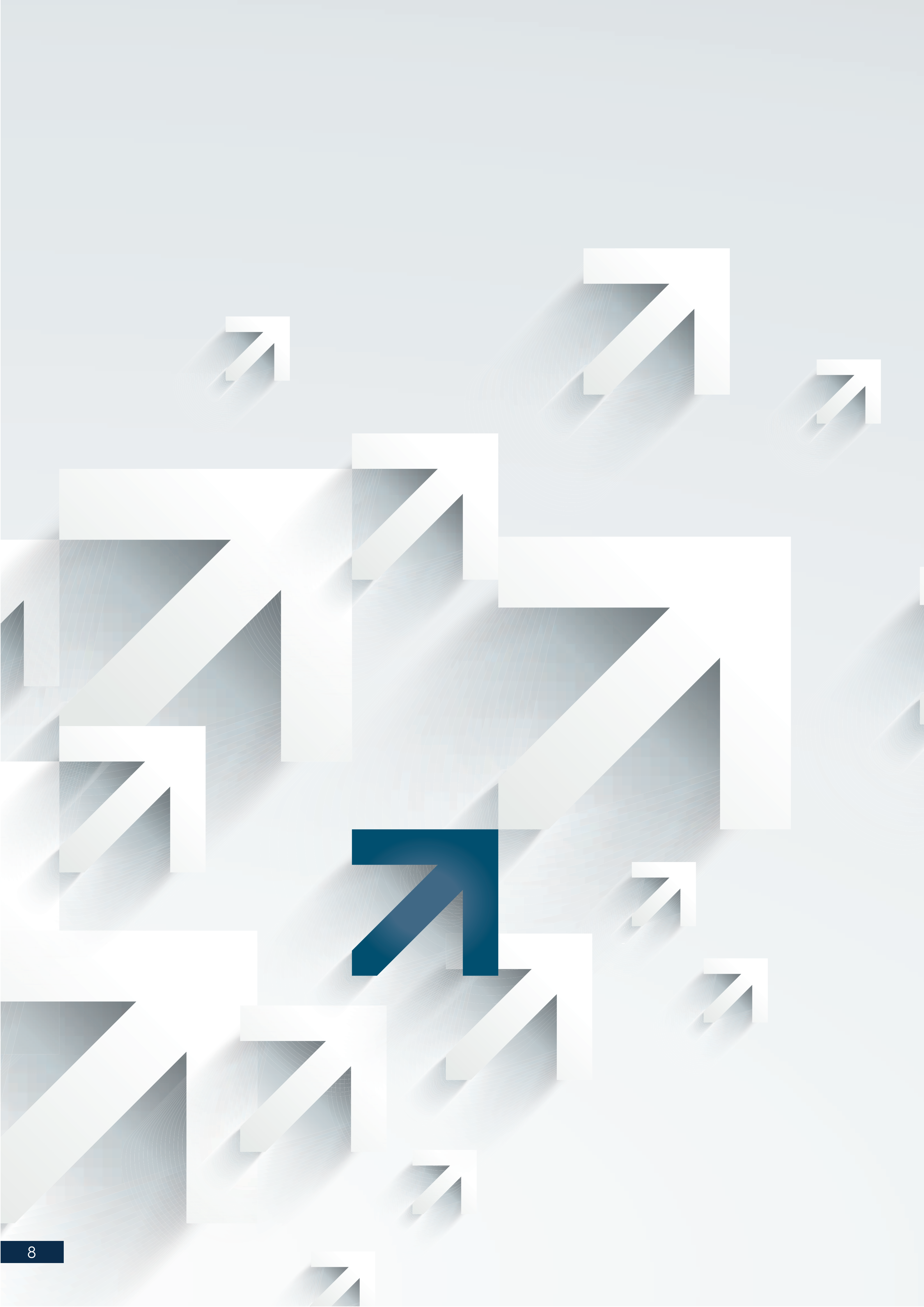
It remains for me to record my deep indebtedness to Dr Sybil Seoka, the Vice-Chairman of the PPS Holdings Trust, for her on-going support, counsel and the strong work ethic that she brings to the Board.

Deep recognition of the outstanding leadership, commitment, counsel 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 to the members of the various Boards and Committees within the PPS Group, I record my unqualified appreciation for your guidance, input and on-going 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.

In conclusion, on behalf of our Board of trustees I record my sincere gratitude for the inspired, committed and exceptional 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 have positioned PPS as a preferred provider of premium financial and risk products to the professional community.

Mr E A Moolla
Chairman

26 March 2014



PPS
GROUP HIGHLIGHTS

PPS GROUP HIGHLIGHTS

Total profit allocation to members for 2013 was

R4,2 billion

Assets grew by 24,2% to

R28,1 billion

3-year Investment return was

16,4%

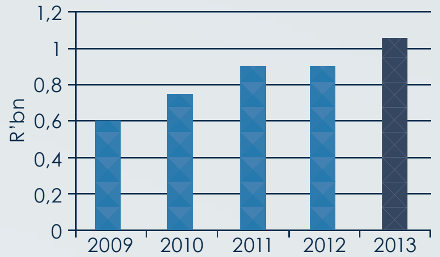
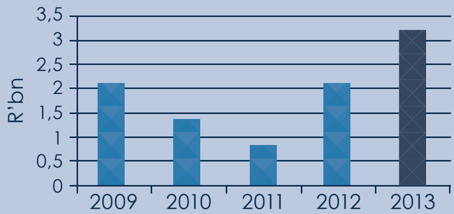
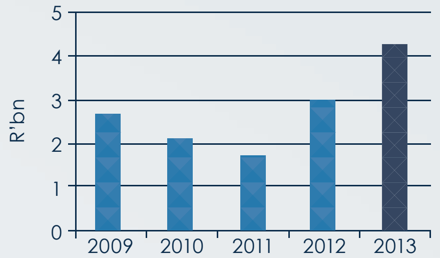
compound per annum

"Over the last 5 and 10 years, PPS has allocated more than R13,5 billion and R19,6 billion, respectively, to its members*, making it by far the largest and most successful mutual company in South Africa."

***PPS members with qualifying products**

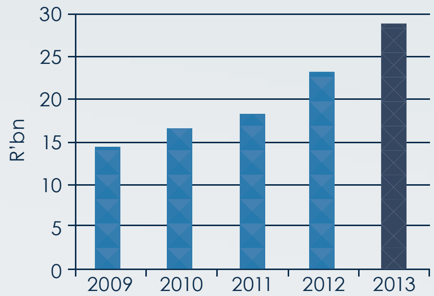
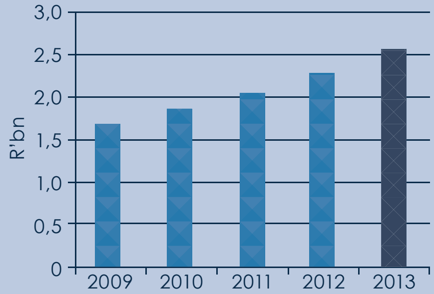
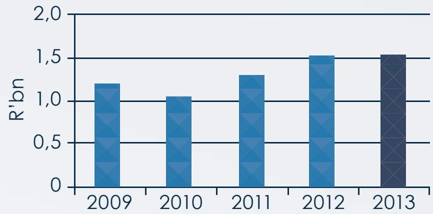
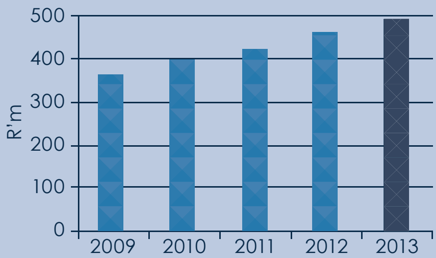
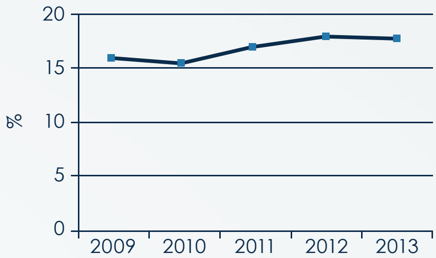
PPS AT A GLANCE

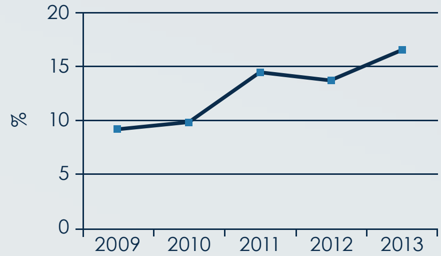
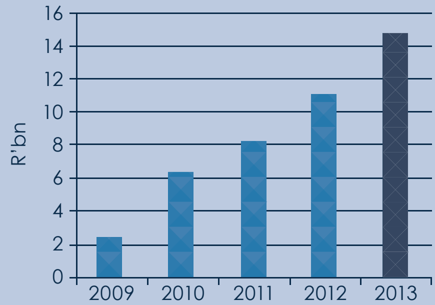
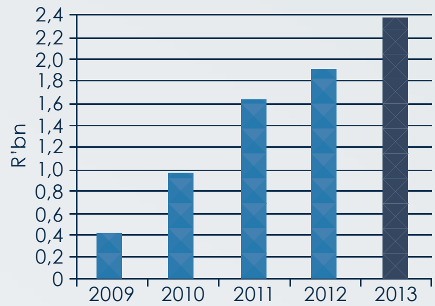
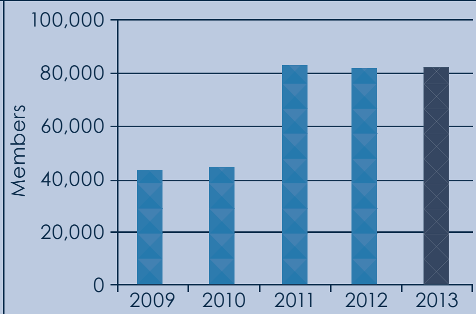
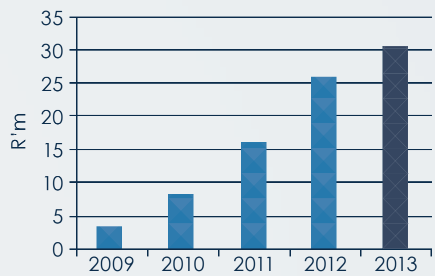
ACCOUNT OF PERFORMANCE – GROUP

	KEY INDICATORS	2013 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 or their beneficiaries on retirement or death.	Bonus allocations	R1,0 billion	13,5%	
	Investment allocations	R3,2 billion	n/a	
	Total allocations	R4,2 billion	n/a	

PPS AT A GLANCE

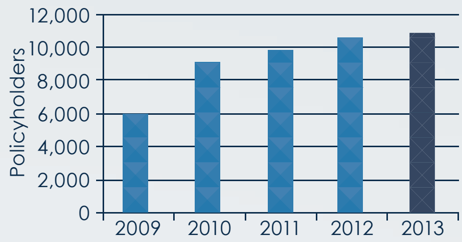
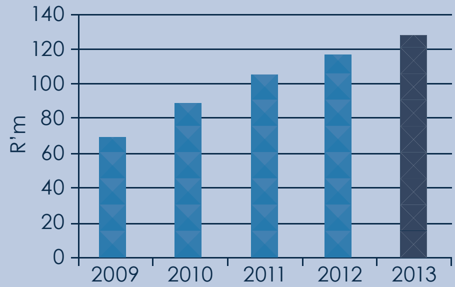
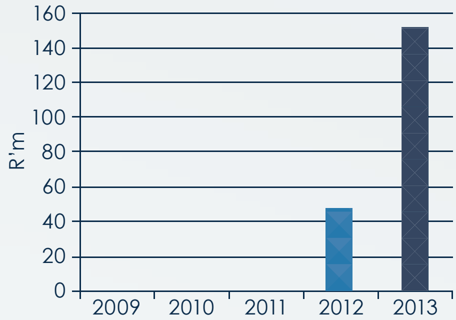
(continued)

	KEY INDICATORS	2013 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	R28,1 billion	18,8%	
	Gross premium revenue	R2,5 billion	11,2%	
	Gross benefits paid to members	R1,5 billion	6,2%	
	New annual premium income	R482,7 million	18,2%	
	Efficiency ratio	17,8%	n/a	

	KEY INDICATORS	2013 PERFORMANCE	FIVE-YEAR COMPOUND ANNUAL GROWTH RATE	FIVE-YEAR REVIEW
	Investment return (3-year average)	16,4%	n/a	
INVESTMENT MANAGEMENT PPS Investments is an investment company that offers retirement and savings products to PPS members.	Total assets under management	R14,5 billion	54,8%	
	New business: Flows	R2,3 billion	n/a	
MEDICAL SCHEME ADMINISTRATION Professional Medical Scheme Administrators is a company specialising in the administration of medical schemes.	Number of medical scheme members	80 820	27,5%	
	Operating Profit	R29,9 million	55,7%	

PPS AT A GLANCE

(continued)

<table>
<tr><th></th><th>KEY INDICATORS</th><th>2013 PERFORMANCE</th><th>FIVE-YEAR COMPOUND ANNUAL GROWTH RATE</th><th>FIVE-YEAR REVIEW</th></tr>
<tr><td rowspan="2">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.</td><td>Number of policy-holders</td><td>10 829</td><td>19,4%</td><td>
</td></tr>
<tr><td>Premiums: Short-term insurance</td><td>R125,4 million</td><td>23,9%</td><td>
</td></tr>
<tr><td>PROPERTY INVESTMENT*
PPS Property Fund Trust owns and manages physical property for long-term investment purposes.
* Established June 2012.</td><td>Total assets</td><td>R150,5 million</td><td>n/a</td><td>
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STRATEGIC OBJECTIVES AND DASHBOARD

HOW HAVE WE PERFORMED OVER THE PAST YEAR IN RELATION TO OUR GOALS?

		Unit of measure	2013 Performance	2013 GOAL		Commentary
MUTUALITY	Number of new members recruited during the year	Individuals	5 177	6 000	Partially achieved	Although new member recruitment has not achieved target in 2013, it is up 8% compared to prior year. New initiatives will continue to drive recruitment in 2014.
FINANCIAL STABILITY	Gross premium income	Rand billions	2,5	2,5	Achieved	Gross premium income was in line with expectations.
	Total assets	Rand billions	28,1	25,1	Achieved	Positive market movements and a prudent investment policy resulted in asset growth exceeding expectation.
	Efficiency ratio	%	17,8	18,5	Achieved	Cost control remains an imperative of the Group.
	Investment return	%	16,4	11,0	Achieved	Investment return outperformed the strategic objective of 5.3% above inflation on a 3 year rolling basis.
	New annual premiums[1]	Rand millions	590,3	636,1	Not achieved	New premiums underperformed the goal, and were flat against prior year.
	New investment inflows[2]	Rand billions	2,3	2,8	Partially achieved	PPS Investments have once again proven to be very popular amongst our members, although new business performance was lower than targeted.
SERVICE	Average number of monthly ombudsman queries	Number of queries	2	< 5	Achieved	PPS strives to treat members fairly, which is reflected in the low number of queries.
	Customer satisfaction survey results	Rating	97	> 80	Achieved	The customer survey results continue to be at an acceptable level.
STAFF	Employee satisfaction survey results	%	94	90	Achieved	A material improvement in survey results was achieved in 2013.
	Training spend as a percentage of payroll	%	4,1	> 4,0	Achieved	Training spend is a priority for the Group and is in excess of internal benchmark.

Achieved
Partially achieved
Not achieved

1. *The excellent take up of the auto increase of 8,6% ensured that members insurance needs kept pace with inflation. New business growth, which was flat is over and above this increase, and reflects the lack of growth in the affluent segment in which PPS operates. Additional distribution capacity is planned to address this issue.*
2. *Investment inflows of R2,3 billion were 28% up on prior year – an excellent achievement. However we had set an aggressive target of R2,8 billion (an increase of 55%), which included institutional business targets, which we failed to achieve.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	2013 R'000	2012 R'000	Change %	Description of individual items
Net insurance premium revenue	**2 360 932**	2 119 279	**11%**	Premiums received from policyholders net of reinsurance premiums paid to reinsurers
Other income	**281 811**	249 020	**13%**	Administration fees: Long term – and short term insurance, medical aid administration, short term insurance commissions, fees earned for asset management
Investment income	**1 532 440**	1 385 070	**11%**	Interest and dividends
Net revaluation profits on financial assets held at fair value through profit or loss	**2 685 024**	1 855 642	**45%**	Realised and unrealised growth on investment assets representing risk reserves and PPS Profit-Share Accounts
Attributable to unit trust holders	**(400 073)**	(284 764)	**40%**	Third-party unit trust holders' share of profits
Revenue	**6 460 134**	5 324 247	**21%**	
Gross insurance benefits and claims	**1 526 668**	1 490 814	**2%**	Gross benefits paid to members
Reinsurance claims recoveries	**(87 575)**	(104 889)	**(17)%**	Insurance benefits recovered from reinsurers
Increase in fair value of policyholder liabilities under investment contracts	**74 389**	37 086	**101%**	Investment income, net of expenses directly allocated to investment policyholders
Expenses	**973 016**	888 767	**9%**	Commissions paid on new business written, multi-manager fees paid by PPS Investments and all other Group operating expenses
Profit before movement in insurance policy liabilities	**3 973 636**	3 012 469	**32%**	
Movement to insurance policy liabilities	**3 498 726**	2 625 850	**33%**	The amount allocated to members in their capacity as policyholders
Tax	**430 719**	351 578	**23%**	Taxes raised in favour of the South African and Namibian Revenue Services
Surplus after tax and policy movements	**44 191**	35 041	**26%**	Any adjustment required to maintain capital cover and the result of operations of the non-insurance subsidiaries

These are the benefits you receive when claiming from PPS

In addition to the benefits paid, this amount contributes to the R4.2 billion allocated to members' PPS Profit-Share Accounts

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

	2013 R'000	2012 R'000	Change R'000	Description of individual items
ASSETS				
Property and equipment	**125 687**	116 570	**9 117**	Fixed assets. These include PPS' head office premises, furniture, equipment, computers and vehicles
Investment property	**82 985**	45 023	**37 962**	Assets which are held for the purpose of rental income and capital appreciation
Intangible asset	**44 330**	36 488	**7 842**	PPS' internally developed insurance software known as Insurance Application Architecture ('IAA')
Other non-current assets	**24 544 520**	20 267 056	**4 277 464**	Assets backing up insurance liabilities. These mainly include equities, bonds and unit trusts, which assets are managed by investment managers who act in accordance with investment mandates set by the board of directors of PPS Insurance
Current assets	**3 309 710**	2 161 625	**1 148 085**	Primarily cash resources of PPS Group
Total assets	**28 107 232**	22 626 762	**5 480 470**	
EQUITY AND LIABILITIES				
Total equity	**166 760**	124 529	**42 231**	Accumulated profit/losses of PPS Insurance's subsidiary companies as well as the statutory capital requirement of the insurance entities
Insurance policy liabilities	**22 217 379**	18 736 580	**3 480 799**	Policyholders' funds consisting of two parts: a) capital held to settle future insurance claims, and b) PPS Profit-Share Accounts
Investment contract liabilities	**617 920**	386 871	**231 049**	Funds of members who utilised PPS' underwritten investment offerings
Liabilities to unit trust holders	**4 259 060**	2 726 268	**1 532 792**	Value of outsiders' investments in unit trusts in which PPS owns a majority stake.
Borrowings	**13 197**	24 941	**(11 744)**	Third party borrowings for property purchases (2012: Outside shareholder's loan in PPS Investments)
Other liabilities	**832 916**	627 573	**205 343**	Primarily short-term liabilities
Total equity and liabilities	**28 107 232**	22 626 762	**5 480 470**	

CHIEF EXECUTIVE'S REPORT

“The 2013 year demonstrated the power of the benefits of mutuality once again. In addition to member claims paid of R1,5 billion, members received a record allocation of R4,2 billion – this is 42,3% higher than 2012’s record allocation of R3,0 billion”

Mr M J Jackson

MR M J JACKSON, CHIEF EXECUTIVE

CHIEF EXECUTIVE'S REPORT

MUTUAL MODEL RECORD ALLOCATION

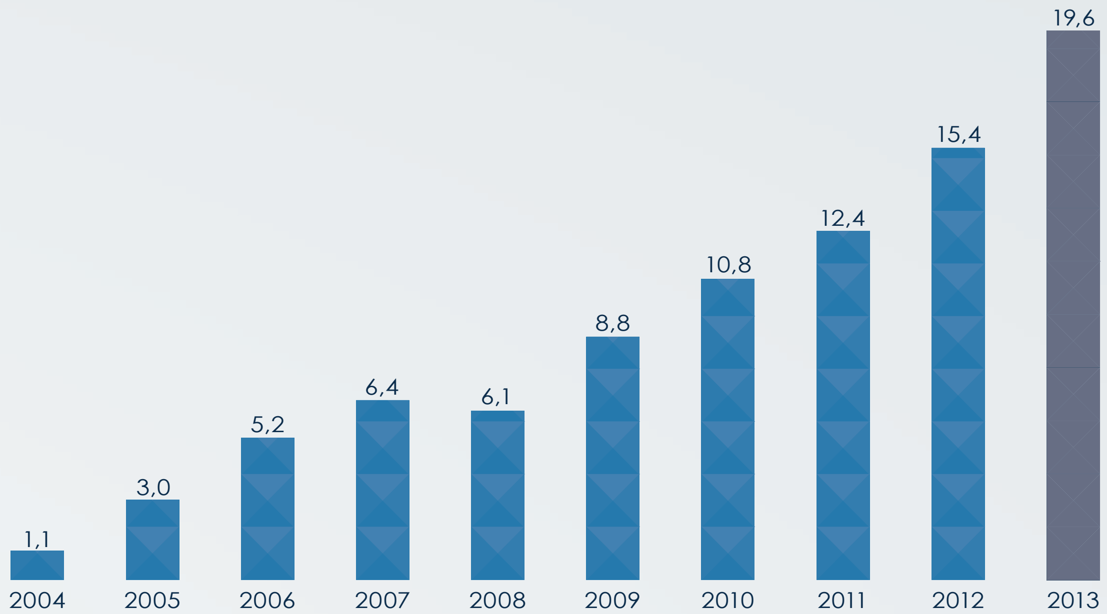
The 2013 year demonstrated the power of the benefits of mutuality once again. In addition to member claims paid of R1,5 billion, members received a record allocation of R4,2 billion – this is 42,3% higher than 2012's record allocation of R3,0 billion.

Excellent investment return and a 17,6% increase in operating profit produced this result. Not only do PPS members have products and services specifically designed for professionals, but excess funds are invested in the markets and managed by the country's award winning asset managers. These managers have a 'Balanced Mandate' enabling them to adjust portfolios across asset classes both offshore and locally, to produce an optimum result.

The added benefit is that these cumulative allocations emerge free of tax at retirement.

TOTAL CUMULATIVE ALLOCATIONS TO MEMBERS SINCE 2004

(R'BILLION)



PROFIT-SHARE ACCOUNT

The range of products participating in the Profit-Share Account allocation has steadily increased from Sickness and Permanent Incapacity only and now includes Life, Health, Disability and Accidental Death Provider Products and Investment Products. From 2014 onwards, Profmed members with Profit-Share Accounts will also receive an allocation based on the profits emanating from the medical scheme administration business. This is a first in the South African financial services industry and provides an additional incentive for PPS members to join Profmed.

CHIEF EXECUTIVE'S REPORT

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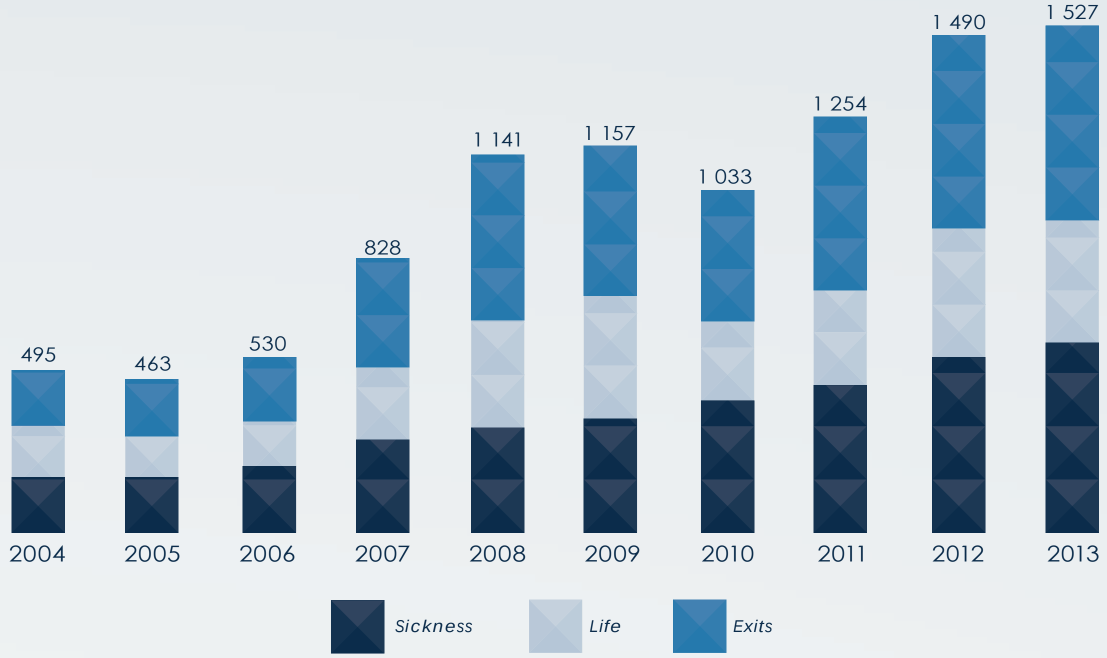
TOTAL BENEFITS PAID

(R'MILLION)



PPS was the host company of the International Cooperative Mutual Insurance Federation Conference in November 2013. Over 300 delegates from 47 countries representing the world's biggest mutual Insurers gathered to discuss developments in the mutual model. The PPS Profit-Share Account proved to be a major talking point, as no other mutual company distributes 100% of its profits in the way that PPS does, which eliminates the tension between shareholders and policyholders as both have the same interests in PPS. Mutuality was seen to be a more responsible form of capitalism, where customers participate in the success of the business, not just shareholders.

	2013 R'million	2012 R'million
Claims: Sickness	**574**	529
Death	**404**	422
Retirements	**346**	320
Resignations/Terminations	**203**	219
Total benefits paid	**1 527**	1 490
Profit share allocation	**4 197**	2 950
TOTAL BENEFITS TO MEMBERS	**5 724**	4 440
Gross premiums received	**2 516**	2 251

THE BENEFITS OF BEING A PPS MEMBER

There are three major reasons why qualifying professionals should belong to PPS:

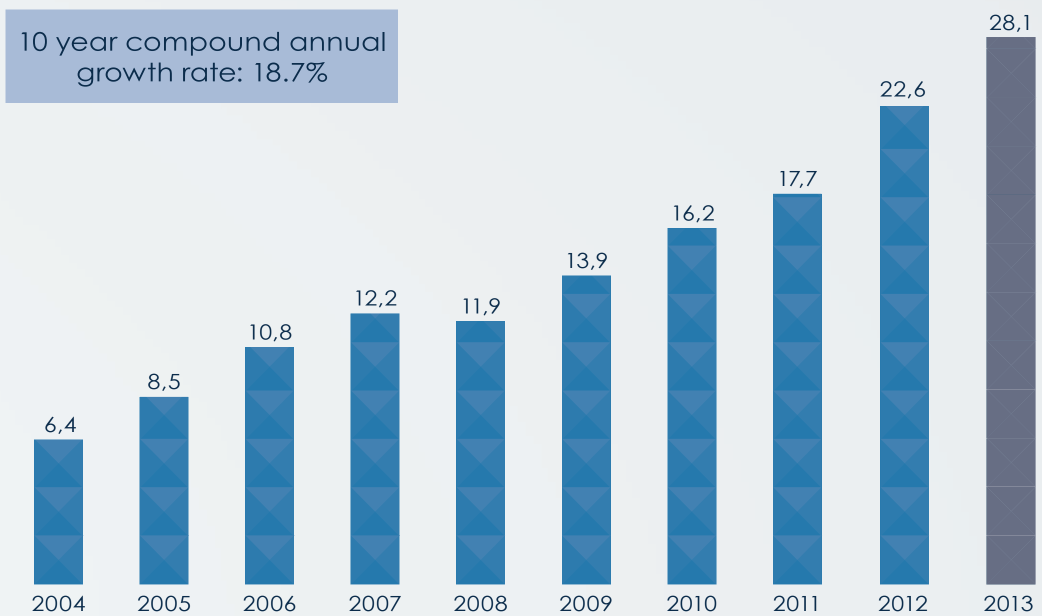
1. PPS Products are specifically designed for the needs of graduate professionals and cater for no other group. The inherently conservative risk pool results in excellent underwriting profits which form a critical component of PPS' long-term success. The SPPI product, the flagship of the range, has no rival in the market place.
2. All profits are credited to members' Profit-Share Accounts each year, and emerge net of tax at retirement. The so-called 'grudge purchase' of insurance is therefore significantly mitigated. Not only are all claims paid, but all profits, which would normally go to outside shareholders, accrue to policyholders, which eliminates the tension between shareholders and policyholders as both have the same interests in PPS.
3. PPS members have the right to stand for election to the PPS Holdings Trust Board, or nominate other members who they believe are worthy. In this way members can have a say in the future of the Group. No other company in South Africa grants policyholders this opportunity, which is automatically enjoyed by members through their ordinary membership of PPS.

The graduate professional market is highly sought after and is subject to a great deal of competitor activity. Our members are constantly being approached by other insurers and financial advisors to move their insurance. To address this we take particular care to ensure our marketing material and communications very clearly explain the benefits of being a policyholder of PPS. We also communicate regularly with our policyholders and other stakeholders to reinforce the key benefits of PPS, and we advertise and promote our brand and benefits extensively.

To further address the challenge of aggressive competitor activity, PPS has a dedicated division (the Member Benefits Assurance division), which contacts any policyholders considering cancelling their benefits to ensure they understand the value of their PPS benefits and the unique mutuality proposition that PPS offers continuing policyholders. This engagement with policyholders has proved, and continues to prove, very successful in retaining policyholders who may otherwise have cancelled their policies. The retention of policyholders' benefits helps to ensure the sustainability of the business.

10 YEARS OF GROWTH – TOTAL ASSETS

(R'BILLION)



CHIEF EXECUTIVE'S REPORT

(continued)

TREATING CUSTOMERS FAIRLY (TCF)

During 2011, the Financial Services Board (FSB) issued its Roadmap for Treating Customers Fairly. In terms of this Roadmap, the FSB aims to develop a rigorous supervisory approach with positive and negative incentives to encourage commitment by financial services firms to TCF. A 'risk-based' approach will be followed which ensures that companies posing a higher risk of unfair customer treatment are subject to more supervision than those posing a lower market conduct risk. In addition, this supervision will be 'more intensive and intrusive' than has historically been the case. The six TCF outcomes are:

- **Outcome 1:** Customers are confident that they are dealing with firms where the fair treatment of customers is central to the firm culture.
- **Outcome 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.
- **Outcome 3:** Customers are given clear information and are kept appropriately informed before, during and after the time of contracting.
- **Outcome 4:** Where customers receive advice, the advice is suitable and takes account of their circumstances.
- **Outcome 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.
- **Outcome 6:** Customers do not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint.

PPS has adopted a risk management framework to implement TCF. The PPS values fully embrace the successful TCF outcomes and the Social and Ethics Committee regularly considers policies and issues that affect fair treatment of our members. A TCF Steering Committee was established which meets regularly to address key issues influencing PPS' progress and establishing guidelines for the wider group. This group reports progress and presents management information (MI) to the Social and Ethics and Risk Committees. The Risk Committee provides feedback to the Social and Ethics Committee on risk exposures. The PPS Board has approved a Member Protection Policy that ensures the delivery of the TCF outcomes and clearly outlines the responsibility of all structures at PPS.

As highlighted previously, the PPS values clearly embrace the TCF outcomes. This was a key factor in choosing our approach to implementation. Implementation at PPS can best be described as the infiltration and improvement of existing policies, principles and approach to our customers. As such it has had negligible cost impact but a necessary awareness of how we should approach our day-to-day responsibilities to our customers.

MEMBER SERVICE AT PPS

The servicing strategy at PPS continues to be guided by the PPS values. We strive to give members peace of mind by providing easy access for members to their information and demonstrating transparency throughout the service experience. PPS expects all its employees to take personal accountability when servicing our members and to deliver a unique service experience.

During 2013 we actively reviewed member feedback collected from surveys, social networks, escalations and complaints. We strive to address any shortfalls identified to ensure that we successfully deliver on promises to our members. Our service strategy of convenience and control focuses on an 'outside in' approach to deliver service from a customer perspective.

We have successfully demonstrated resilience of our solutions during simulated disasters for governance purposes. Our Call Centres are available from 07:00 to 19:00 Monday to Friday.

The key delivery promises in this service strategy are convenience and control. The goal of the strategy is to ensure that as far as possible control of information is placed directly in the hands of members and financial advisors. PPS InTouch serves as one key element to address the need for access to service for our customers. PPS InTouch has 20 000 registered users which includes most financial advisors and is now established as one of the key service delivery tools offered to our customers. PPS InTouch offers access to personal information 24/7 for the convenience of our customers, especially as professionals have little time during working hours to attend to personal matters.

During 2013 PPS refined certain services delivered on PPS InTouch and now all new business is managed through this channel. This channel allows members, employees and financial advisers to update information across the extent of their relevant portfolios directly against the databases in a secured manner. Sensitive transactions are protected with stronger security similar to the banking industry and applying unique PINs to these transactions before implementing the data for the member. We intend adding the facility to complete all processing using this solution in 2014 with the greater use of digital signatures.

SICKNESS CLAIMS

In 2013, PPS paid out R574 million of sickness and incapacity claims. Over 9 900 claims were assessed and paid, which included a number of injury related claims resulting from hazardous pursuits. As our members increasingly participate in activities to improve their health and lifestyles, such as cycling and running, they have the peace of mind knowing that the PPS Sickness Benefit will support them financially should they have an accident.

During 2013, we continued to focus on ways to improve the overall service experience of our members when submitting claims, which included focusing on improved communications and accessibility of assessors to members. Members' claims from submission to payment were processed within an average of six working days.

Claims related to musculoskeletal and connective tissue disorders remain the highest cause of sickness claims followed by injuries. The third highest cause of claims is for cancer related conditions.

LUMP SUM CLAIMS

Over 200 lump sum benefit claims (life, critical illness and disability), totalling more than R420 million, were also settled during the year. Some of the amounts paid to members were significant, with the highest death claim totalling R16,4 million and the highest lump sum disability benefit totalling R19,0 million.

However, we still observe that members are often significantly underinsured, to the detriment of themselves and their families. We urge our members to regularly review their cover with PPS to ensure that they have sufficient financial protection against any unforeseen events.

PERMANENT INCAPACITY CLAIMS

In 2013, 76% of Permanent Incapacity claims were assessed at the 100% level, including a number of Occupation Specific Rider Benefit (OSRB) claims. The OSRB benefit, which is non-reviewable once the benefit has been awarded, remains the flagship benefit for PPS. A further 20% of Permanent Incapacity claims were assessed at the 60% level, with the remainder of claims assessed at the 20% level.

Claimants vary by age with the highest number of claims per age category between the ages of 51 and 60. It is noticeable that 14% of our Permanent Incapacity claimants are below the age of 40, highlighting the importance for members to address their financial plans from an early age. Neurological conditions, which include Parkinson's and Alzheimer's disease, were the primary cause for claims during 2013, with cancers and psychiatric conditions following.

In spite of the high number of claims PPS assesses and pays, given the nature of our products, we are pleased to report that there were no adverse Final Determinations or Final Rulings from the Life Ombudsman in respect of any claims during 2013. PPS has a proud reputation for paying claims and for being there when our members need us most, and we will do our best to continue this ethos.

THE PPS BRAND

Members will have noticed that PPS has attained a much higher profile in the media including print, radio and TV. Financial Services companies are spending more and more on building their brands and PPS has to compete for its market share of awareness. Well known and trusted brands receive greater support, and although PPS is well known among established professionals, the challenge is to attract the youth market, to ensure sustainability of the business. Our advertising efforts have been designed specifically to have greater appeal to young potential members.

We have launched a 'Youth Division' operating on various campuses around the country and the early results are very promising. This division will be expanded to other campuses and technology faculties on a cost benefit basis. One of the consequences of the new membership drive has been a significant uptake in New Benefit units, which are 70% up on the previous year.

SUBSIDIARY BUSINESSES

PPS Investments

An excellent year for this business, culminated in the buyout of Coronation's 49% stake in the business – meaning that members will in future receive 100% of the profits from this company. The six-year relationship with Coronation has been highly beneficial and as the business is now completely self-sufficient the parties agreed the arrangement. Coronation will maintain input via the Board where it will be represented. Our thanks go to the excellent Coronation team for their involvement in the development of this business.

Investment performance has generally been excellent with considerable outperformance in all portfolios in 2013. The PPS Equity Fund achieved a return of 22,9% (benchmark 20,7%) in 2013 and the more moderate risk Fund of Funds 12,9% (benchmark 7,3%).

Retail assets grew from R5,5 billion to R8,4 billion on the back of new business which grew from R1,9 billion to R2,4 billion (+26,3%). Total assets now stand at R14,5 billion – up from R10,8 billion (+34%) the previous year. Recurring premium business went up by 42%.

The business is well placed to look after members' savings and investments in the future, knowing that PPS has diligent selection and oversight of all portfolios, with the added benefit of participation in profits.

Namibia

PPS provides a valuable service to its 4 500 members in Namibia. These members have the benefit of being part of the greater PPS Group, which reduces volatility of claims experience, which would otherwise be problematic for such a small group of policyholders.

Although local regulation requirements continue to be demanding and costly, the business is doing well. Net premium revenue was up 4% and gross claims were down by 25%. Total assets rose from N$603,1 million to N$750,3 million and Investment return was excellent at N$121,0 million (+34%).

Overall the surplus for the year of N$150,3 million was 24% up.

Short-Term Insurance

2013 was a difficult year for this business as premium rates in the market rose and members' desire to control costs via cheaper premiums was prominent. The business model, which relies on members contacting PPS directly for a quote, tends to attract members who are comparing quotes based only on price and there are often cheaper offerings in the market.

Notwithstanding the above, the retention of members is excellent and we were able to grow the overall book by 9% at a gross written premiums level.

Our Professional Indemnity Scheme for pharmacists increased gross written premium by 21%.

The adverse weather conditions over the last two years, together with the more recent drop in the value of the Rand, are bound to precipitate considerable premium increases in 2014.

We will continue to improve our service and product offering to members notwithstanding the difficult underwriting and competitive market.

Professional Medical Scheme Administrators – PMSA

This business based in Centurion began six years ago and now has over 80 000 members under administration – including 28 000 Profmed members. It has one of the lowest cost ratios in the industry and as a result has highly competitive fees. Profmed members with Profit-Share Accounts will for the first time in 2014 participate in the excellent profits of the business. As this business expands all PPS members who are Profmed members will be able to share in its success.

LOOKING FORWARD

It is extremely unlikely that the exceptional investment returns achieved in 2013 are to be repeated in 2014. Our local market is at record highs – supported by the weaker Rand and the US Federal Reserve's provision of liquidity worldwide. Our asset managers are predicting single digit returns in 2014 and the economic outlook for South Africa is not positive. A weak Rand accelerates inflation and interest rate increases are predicted by most economists.

PPS's professional market remains resilient and the 97,5% take-up rate of our annual auto increase is indicative of the confidence members have in PPS. Our lapse rate, which is below 5%, is the envy of the industry and our profitability and financial strength are strong.

We will continue on our growth path – especially growing the number of young members and building our subsidiary companies to ensure long-term sustainability of the business.

Mr M J Jackson
CEO

26 March 2014

WHY IS PPS UNIQUE?

WHY IS PPS UNIQUE?

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

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

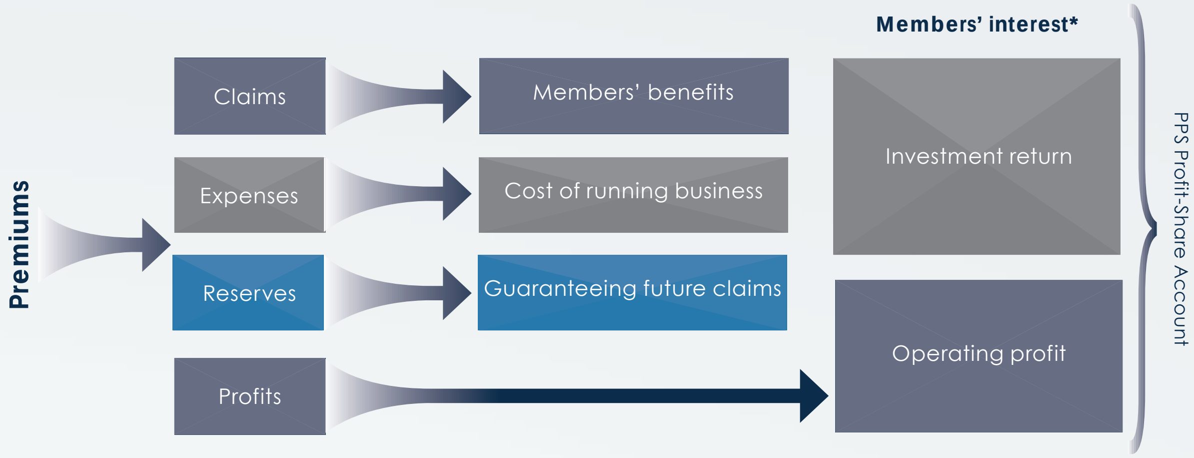
THE MUTUAL MODEL

PPS has no external shareholders. All capital is provided by the members and all profits are allocated to the members. A member with qualifying products has a PPS Profit-Share Account, which consists of a Special Benefit Account (SBA) and an Apportionment Account (AA).

The members pay premiums for their insurance benefits. These premiums cover the Company's benefit payments, expenses and reserves for the future. All surplus operating profit is allocated to members' Apportionment Accounts. 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 positive or negative movements are allocated to members' Special Benefit Accounts each year. The PPS Profit-Share Account is available to the members on retirement or death.

THE MUTUAL MODEL IN OPERATION:



** In a company which does not operate on a mutual model, operating profit and some investment return are allocated to shareholders and not the policyholders. This is not the case with PPS, as every policyholder is a member and therefore shares in all the profits.*

SOME OF OUR HISTORY

PPS has always embraced the philosophy of mutuality and allocated all its profits to its 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. Life cover was then made available to members with the sickness and permanent incapacity benefit in proportion to the cover that was held under this benefit.

Members are now, under the PPS Provider policy, able to choose any combination of a range of risk benefits including stand-alone lump sum benefits such as life, disability and critical illness cover, protecting different financial needs should they fall ill, become disabled, suffer a dread disease or die.

The PPS Profit-Share Account is a benefit of the PPS Provider series, which continues as long as a PPS Provider policy is in force, and accumulates the PPS member's share of the profits of PPS.

SUSTAINABLE VALUE CREATION

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 of policies;
- 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 against those priced for, and taking steps to address adverse experience:
  - sickness, disability, critical illness and mortality rates;
  - policy and benefit lapse rates;
  - age, gender and smoking status profile of in-force policies, and claims and exits; and
  - average policy size and number of policies by product line;
- monitoring expense experience by product line. (Future anticipated expenses are particularly closely looked at, as they can have a material impact on reserving requirements, and hence profitability and sustainability of the overall business); and
- monitoring sales costs, including commissions and other acquisition costs (such as distribution infrastructure, underwriting and marketing costs incurred in support of the sale of new insurance policies).

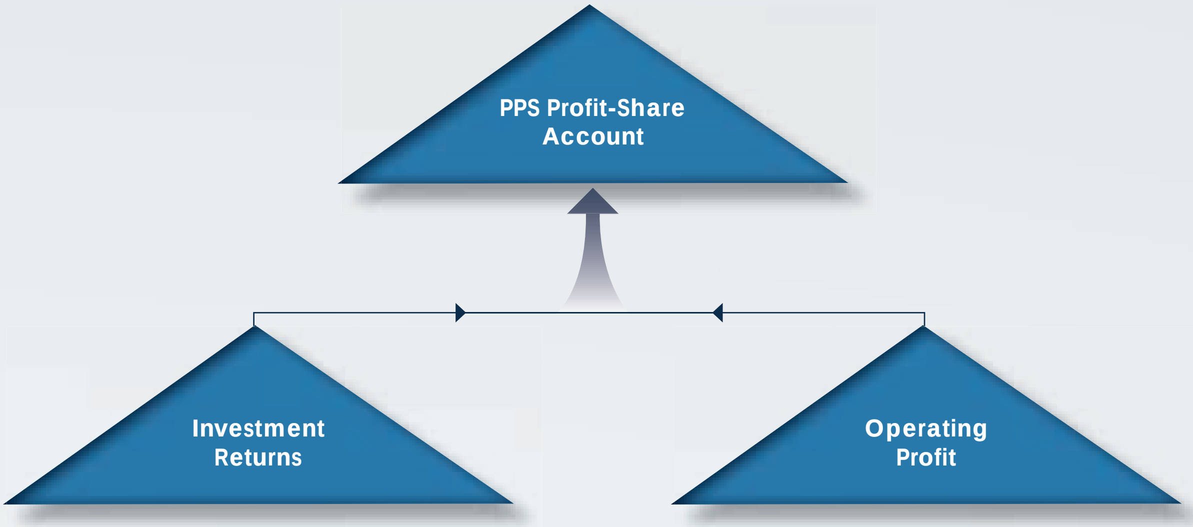
The value PPS creates is exclusively for the benefit of its policyholders through their PPS Profit-Share Account. We retain value in PPS by retaining our policyholders and maintaining their benefits on a profitable basis.

BEFORE MAKING ANY DECISIONS REGARDING YOUR POLICIES, PLEASE CONSULT A PPS ACCREDITED ADVISOR FOR RELIABLE FINANCIAL ADVICE.

WHY IS PPS UNIQUE?

(continued)

PPS PROFIT-SHARE ACCOUNT



The PPS Profit-Share Account is a unique policy benefit that is used to accumulate the annual allocations of profit to the policyholders of PPS as well as the investment returns thereon. This benefit is available to members in full on retirement or earlier policy cancellation from age 60. Until this date the PPS Profit-Share Account remains an unvested benefit, which forms part of PPS Insurance's capital.

At retirement there is 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 as and when required. The Vested PPS Profit-Share Account is paid in full on death.

HOW PROFIT ALLOCATIONS TO THE PPS PROFIT-SHARE ACCOUNT WORK

Members receive a direct profit allocation for any or all of the following products that they hold:

- Sickness and Permanent Incapacity Benefit;
- Professional Life Provider (life cover with differentiated rates);
- Professional Disability Provider (lump sum disability cover with differentiated rates);
- Professional Health Provider; and
- Accidental Death Benefit

Differentiated rates refer to the risk products introduced in 2011 which premium rates are differentiated by gender and smoking status. The legacy products, which are now closed to new business, continue to generate profit which is allocated to policyholders with a Sickness and Permanent Incapacity benefit.

A member's share of the profits of PPS is not reduced should they claim sickness or other benefits during the year. PPS does not penalise its policyholders in this manner as we do not believe that discriminating against claiming policyholders would be treating our policyholders fairly. Equally PPS does not penalise or reward policyholders for holding less or more PPS products. We believe strongly that it is appropriate to give our policyholders the opportunity to structure their financial affairs in the manner that best meets their insurance needs. We also believe, in structuring our products, that it is inappropriate for us to inadvertedly or deliberately distort financial advice given to policyholders by introducing non-insurance related factors and benefits and by introducing related premium penalties and benefit caps (especially for non-insurance related behaviours).

The philosophy of mutuality and the unique PPS Profit-Share Account make 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 THE 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. From 1 January 2013, the other PPS Provider risk products (where the premium rates are differentiated by gender and smoking status) also receive a direct allocation of profit to members' PPS Profit-Share Account. This allocation is in proportion to basic premium, excluding loadings imposed at underwriting stage and excluding rider benefit premiums. 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.

The allocations for the lump sum benefits (life cover, dread disease etc.) are based on the premium paid for the benefits, excluding any loadings applied and excluding the premium for any optional rider benefits. Each year the lump sum products will have a percentage of the 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.

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 and continuing to enjoy the investment growth of the PPS Profit-Share Account.

Members can elect to exercise the Vested PPS Profit-Share Account option at retirement 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 members' risk benefits will cease but they will continue to share in the profits of PPS Investments.

The PPS Profit-Share Account, a cornerstone of our business, remains a completely unique benefit to PPS, which provides a significant benefit to members on retirement. As this benefit is unique, and as mutuality is a relatively unfamiliar business model in our insurance industry, we invest a significant amount of time and resources in explaining and promoting PPS' particular mutuality model.

WHY IS PPS UNIQUE?

(continued)

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 have always focused, and continue to focus, exclusively on the graduate professional market, being graduates holding at least a four-year or equivalent qualification. PPS remains the largest mutual group of professionals in the world.
	• All value generated by our products is ultimately for the benefit of PPS policyholders and their families.
	• Our marketing focuses on the benefits of mutuality and on our sole focus and experience with the 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, as a result of our target market being exclusively graduate professionals.
	• We engaged in a BBBEE transaction in 2006 in recognition of the importance of transformation. 39% of new PPS members are black and 27,7% of the economic interest of PPS (being defined as the share of profits allocated in the year) is owned by black members.
	• We actively engage with most of the large tertiary educational institutions in order to attract new members and promote the PPS brand and its business.
	• PPS is the industry leading expert in the provision of sickness and incapacity benefits in particular to the self-employed and employed professional market, and we are proud of our excellent reputation for the payment of claims in members' time of need, stretching back to our inception in 1941.
	• Being a mutual, and consequently unlisted, our decisions focus on creating long-term value and sustainability without being adversely impacted by the short-term thinking and strategies which are often prevalent in listed entities subject to quarterly earnings scrutiny.
	• As our policyholders are effectively also our shareholders, we take a more holistic view on membership matters, such as development of new products and payment of claims. While long-term profitability is important, it is equally important to PPS that our members can rely on PPS when they are unable to work due to illness or injury and PPS is in the fortunate position of not having to pursue value creation for shareholders to the detriment of policyholders.
	• Our target market of Graduate Professionals has a low risk profile and they keep their policies for long periods. Due to these factors, PPS earns more profits compared to its competitors, all of which are allocated back to policyholders.
	• We actively engage with most of the professional associations whose members are eligible to join PPS, in order to attract new members and to provide technical and financial support to the associations.
	• Increasingly we act as advocates for graduate professionals in South Africa on important matters such as health policies, education and promotion of the professions as being critical to the success of our country.

- Our products contain unique features specifically of importance to professionals:
  - there are no exclusions for hazardous pursuits or international travel and work;
  - importantly, our definition of Gross Professional Income includes professional fees. This definition is critical for many professions.
- Our annual automatic benefit increases are set, 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 professional earnings inflation. Benefits also increase automatically if a member is claiming and cannot work. Members can always opt not to take up the increase, but very few members opt out of the increase, which indicates both the sustainability of the increases declared as well as an appreciation from our members of the value of these benefit increases.
- 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.
- With PPS Investments, we are the only offering in the market where investors share in the profits of the investment company.

DISTRIBUTION MODEL

Our strategy is not to try to support all independent financial advisors, nor the largest insurance writers and intermediary groups in the country. Rather, we deal only with financial advisors who work primarily in the graduate professional market, or who have a material number of graduates on their books. We develop very close relationships with these advisors and this allows us to provide a higher level of service and expertise to them, as well as ensuring 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, the PPS Member Relations Division (MRD), for members who wish to interact directly with us.

Given the complexity and individuality of each member's personal financial needs, we strongly support the use of accredited PPS financial advisers and MRD consultants by members to establish the most appropriate benefits and benefit levels to purchase from PPS.

WHY IS PPS UNIQUE?

(continued)

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; and
	– 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 a very important asset.
	• We value our diversity as a source of strength.

MUTUALITY IN PRACTISE

A real life example of the benefits of mutuality was also communicated with the story of PPS member Dr Norman Noche. Dr Noche, who retired at the age of 80 following a 56-year membership with PPS, received his considerable retirement benefit from his PPS Profit-Share account – which he decided to invest with PPS Investments.

Dr Noche said: "Due to the trust I had built with PPS over the years, it was a natural decision to invest my PPS Profits with PPS Investments so that my wife and I could live comfortably following my retirement."

The profits that Dr Noche received from his long-term membership, serves as a perfect example of the financial benefits of the mutual business model and its important role in the retirement planning of PPS members.

From left to right: Dr Noche, Mrs Noche, and Mike Jackson (CEO)

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)

Student

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

Career

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

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 in 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

③ HAZARDOUS PURSUITS AND ACTIVITIES

③ TAX IMPLICATIONS

BOARDS OF TRUSTEES/ DIRECTORS

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST BOARD OF TRUSTEES

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

11 **Mr S Trikamjee**
B Com (Hons), CA(SA)
Chartered Accountant

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

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

14 **Adv T N Aboobaker** SC
BA LLB
Practising Senior Advocate

15 **Mr H A C van den Bout**
B Com (Hons), LLM, MBA
Attorney, Solicitor,
Entrepreneur, Exco member
One Law

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

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

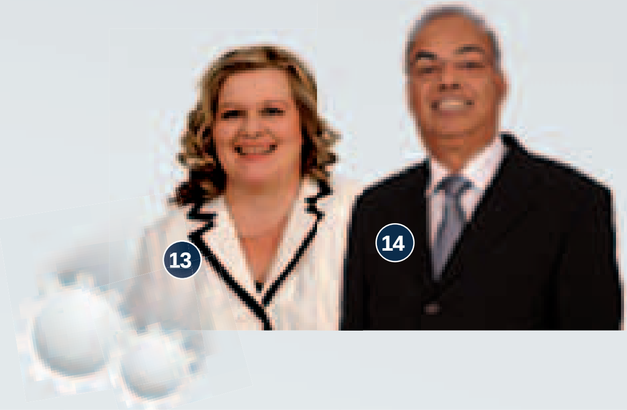
18 **Dr M W Sonderup**
B Pharm, MB ChB,
FCP (SA), Senior Specialist,
Groote Schuur Hospital and
Lecturer, University of Cape
Town

19 **Mr D L Smollan**
B Com, CA(SA), CFA,
PGDIP Org Leadership
CEO: Smollan Group

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

PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY LIMITED BOARD OF DIRECTORS

1. **Mr P Ranchod**
   B Compt (Hons), CA(SA), MBL, H.Dip Business Data Processing
   Non-executive Director
2. **Mr C K de Klerk**
   B Sc, FIA, FASSA
   Executive Director: Actuarial and Technical
3. **Dr N G Campbell**
   BDS, Dentist
   Non-executive Director
4. **Mr M J Jackson**
   BA (Hons), MA
   Chief Executive
5. **Mr C Erasmus**
   B Sc, FIA
   Director of Companies
   Non-executive Director
   Deputy Chairman
6. **Dr D R Anderson**
   BDS, Dip POM, FCD(SA)
   OMP Practising Periodontist
   Non-executive Director
   Chairman



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

8 **Mr J A B Downie**
B Sc, MBA, CFP
Non-executive Director

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

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

11 **Dr S N E Seoka**
B Pharm, PhD
Pharmacist
Non-executive Director

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

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

14 **Mr Y N Gordhan**
B Com (Hons), CA(SA), M Sc
Practising Chartered Accountant and Business Consultant

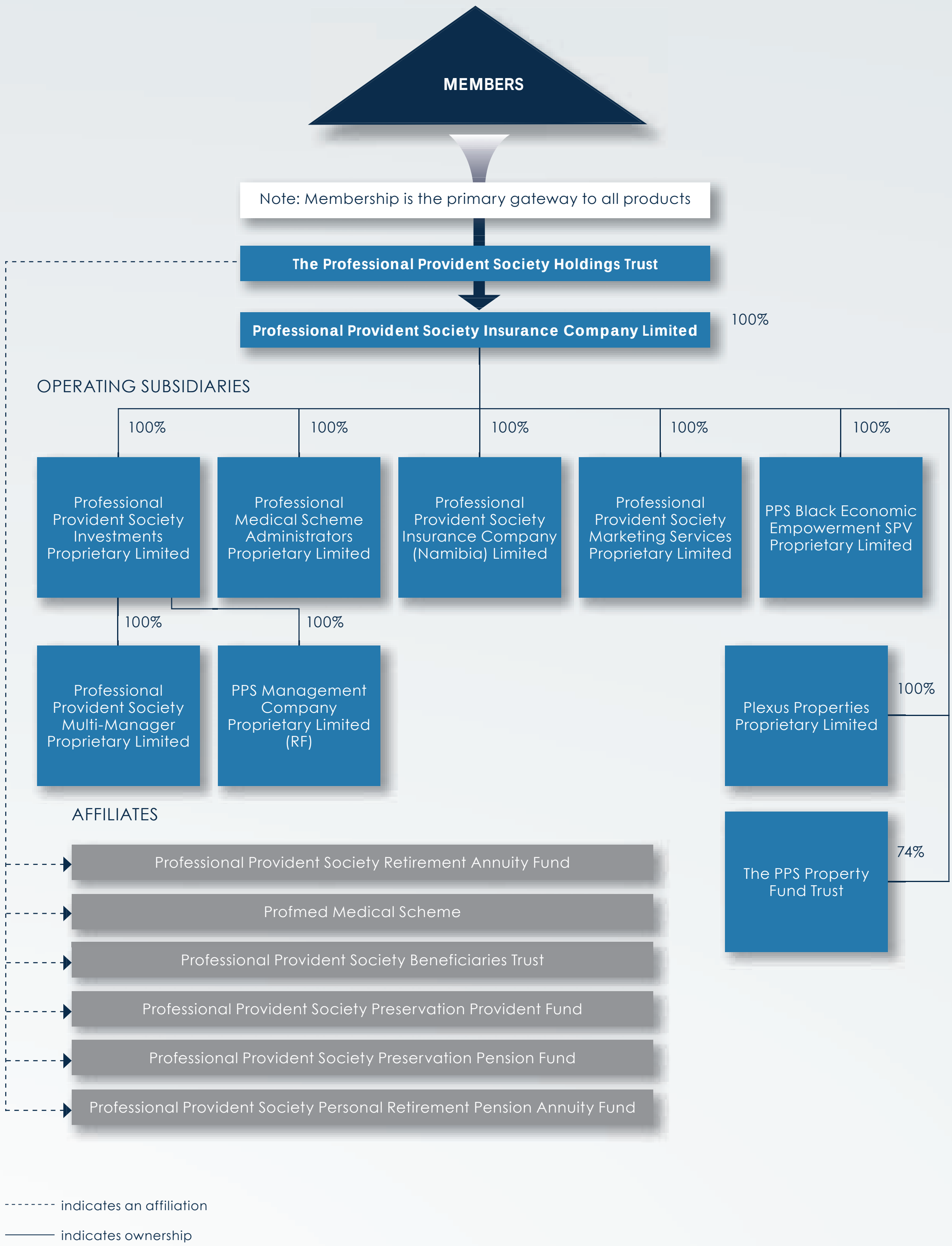
PPS GROUP STRUCTURE

OUR STAKEHOLDERS

PRODUCT OVERVIEW

THE RESPONSIBLE CORPORATE CITIZEN

PPS GROUP STRUCTURE



NAME, SIZE AND LOCATION OF OPERATIONS FALLING UNDER THE PPS HOLDINGS TRUST

Name	Business	Location	Income	Total assets	Number of employees	Number of policy-holders
PPS Insurance Company Limited	Long-term insurance and investments	Johannesburg – branches in major centres	R2,3bn	R23,1bn	684	108 647
PPS Insurance Company (Namibia) Limited	Long-term insurance	Windhoek	N$84,7m	N$750,2m	7	4 508
PPS Investments Proprietary Limited Group	Investment management	Cape Town	R97,4m	R14,5bn[1]	85	20 453
Professional Medical Scheme Administrators Proprietary Limited	Medical scheme administration	Pretoria	R172,6m	R34,4m	230	80 820[2]
PPS Marketing Services Proprietary Limited	Short-term insurance	Johannesburg	R21,6m	R40,8m	40	10 829
PPS Black Economic Empowerment SPV Proprietary Limited	Black Economic Empowerment vehicle	Johannesburg	R6,1m	R115,0m	–	23 174
The PPS Property Fund Trust	Property investment	Johannesburg	R7,4m	R150,5m	–	–

1. *Assets under management.*
2. *Members under administration.*

PPS GROUP STRUCTURE

(continued)

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 its 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 Management Ltd, who adhere to prudent mandates approved by the boards of PPS South Africa and PPS Namibia. A long-term growth strategy is followed, which has proven successful over the years, as PPS managed to absorb periods of high volatility in the investment markets with relative ease, compared to other companies in our market segment.

Our professional market forms the community from which we attract policyholders. Due to the 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

Since its launch in 2007, PPS Investments has established itself as a preferred investment provider in the professional market. As the Company comes close to marking its seventh year in operation, it has assets of over R14 billion under management. In 2013 alone, new individual investments of R2,3 billion were received.

The continued development of the business is reflected not only by healthy inflows but also by its growing staff complement. Lead by an established and stable management team, PPS Investments has 85 members of staff across seven offices in Cape Town, Johannesburg, Pretoria, Durban, Bloemfontein, Port Elizabeth and Potchefstroom as at the end of 2013.

The past year also saw the launch of the Company's Investment Advice division, an in-house advisory channel available to offer specialised investment guidance. While investors who have the knowledge and experience to manage their own portfolios are able to engage with PPS Investments directly, a large number of investors prefer to consult a qualified financial intermediary for professional advice and financial planning assistance. PPS Investments recognises the importance of this role, and of maintaining the relationships it has established with independent financial intermediaries accredited to sell its investments as part of a broader offering. The launch of its own Investment Advice division means that the company can also provide dedicated, PPS Investments-specific advice, tailored to its product offering. This underpins the importance it places on ensuring that its investors receive appropriate guidance at the time of making initial savings and investment decisions, as well as throughout the term of their investments.

The growth of the business has been backed by solid investment performance. This is evidenced by the core range of real return PPS-branded funds of funds offered by its multi-manager subsidiary, PPS Multi-Managers. All have beaten their benchmarks over the last one, three and five years.

In streamlining its fund offering during 2013, it was decided to amalgamate (consolidate) all PPS-branded funds of funds with their OPN-branded counterparts. (Whereas PPS-branded funds of funds were available to PPS members only, OPN-branded funds of funds were available to non PPS members). As each PPS-branded fund of funds is invested identically to its former OPN-branded funds of funds counterpart, the combination of the two has improved the efficiency of managing the funds of funds (by eliminating the need to duplicate investment transactions) and has therefore also cut transaction costs. (Importantly, while non PPS members are now able to invest in PPS-branded funds of funds, they do not qualify to share in the profits of the PPS Group).

The steady business growth that the company has been able to enjoy, the sound investment track record it has been able to establish and the systems, processes and infrastructure it has set in place lead to its most significant business development for 2013: On 12 December, PPS announced that it had purchased Coronation Fund Managers' 49% shareholding in the business. Having previously been jointly owned by PPS and Coronation, this means that PPS Investments is now a wholly-owned subsidiary of PPS. The transaction was approved by the Financial Services Board and is effective from 1 October 2013.

It was always part of the long-term strategy of both PPS and Coronation for PPS to acquire the full shareholding of PPS Investments once the company had delivered on its initial objectives. With PPS Investments having grown significantly since its launch in 2007 and with its business plan being delivered on time and as expected, all parties involved were comfortable to take this next step. It can be viewed as the latest in a series of important milestones at PPS Investments, following the business achieving profitability in 2011 and declaring a maiden bonus to PPS members in 2013 in respect of 2012.

PPS GROUP STRUCTURE

(continued)

Importantly, the management team and business processes at PPS Investments remain in place as before. Having held the position since the Company's launch, Nick Battersby remains the Chief Executive and will also continue to serve as one of the Company's Directors. Similarly, the Company will continue to draw on its longstanding relationship with Coronation, and Anton Pillay and Pieter Koekemoer, CEO and Head of Personal Investments at Coronation, respectively, will also remain in their current positions on the Board to provide strategic and industry input.

The most significant impact of this transaction will be that PPS members invested with PPS Investments – as a full subsidiary of PPS – will be able to enjoy 100% of the returns of the business. Whereas business profits previously accrued to both PPS and Coronation as joint shareholders, all profits now accrue solely to PPS and will be allocated to members' PPS Profit-Share Accounts based on the total value of their investments with the company.

Having gained the necessary momentum and stature for this transaction to be concluded, PPS Investments looks forward to continuing along its current growth path and to building on the success it has achieved thus far. As a wholly-owned subsidiary of PPS the company's investors will be able to experience the full impact of mutuality, which will give PPS Investments its next impetus.

Professional Medical Scheme Administrators

Professional Medical Scheme Administrators (PMSA) is a specialised healthcare administrator aimed at delivering a quality, member-centric health cover experience to discerning clients. Our range of services includes the following:

- Member service experience through expert 'new member take-on' and 'contribution management'.
- Claims management including clinical and financial risk management.
- A comprehensive set of communication platforms encompassing the latest in digital techniques aimed at keeping our client scheme members informed about important information as simply as possible.

In recent years we have invested heavily in state-of-the-art technologies required to deliver on our quality value proposition. Having bedded down system changes, 2013 saw us deliver uninterrupted high quality services to our client medical schemes. Statutory Reserve is a key measure of medical scheme soundness in the health insurance sector. Our client medical schemes experienced profound improvements in their statutory reserves to the extent that one client achieved regulatory imposed business plan goals two years ahead of expectations. This was achieved largely due to a PMSA driven planning process that saw refined changes to benefit designs, reductions in claims ratios and an above expected performance in membership growth.

In 2014 we turn our attention to growing the business, the most important opportunity being supporting growth opportunities at our client medical schemes. Key strategic initiatives include:

- Up-skilling our personnel to be able to deliver on the ever increasing requirements for quality. This is achieved by hiring graduates into member interaction environments as well as an ongoing bursary program to develop existing talent.
- Investing in a new business unit aimed at offering specialised broker support as well as understanding and reducing membership churn at client medical schemes.
- New digital platforms providing specialised applications to make interactions with client medical schemes easier and more professional.
- Supporting social media strategies making understanding client scheme value propositions as easy as possible and removing any hurdles to the health insurance purchase decision.

Despite these investments, we expect the business to remain at current profit levels as our initiatives produce moderate increases in membership at our client medical schemes. These investments also allow PMSA to be optimally positioned for organic growth or opportunities that may arise from considered acquisitions, a reality in the rapidly consolidating market place in which we operate.

Despite the numerous environmental challenges in the year ahead, our underlying medical schemes have reached a level of stability that must be supported by growth. We do not expect that the Competition Commission enquiry into private healthcare nor the government's drive towards National Health will affect us in the current planning period but the PMSA staff is active in all spheres of the industry, understanding future policy trajectories and influencing policy decisions to the best of our ability.

Short-term Insurance

pps SHORT-TERM INSURANCE

PPS Short-term is a brokerage for short-term insurance products. This division is reporting growth in operating profit before interest and tax compared to the previous year. The personal lines book recorded growth of 2% year-on-year and gross written premium increased by 9% over the same period. During 2013, PPS Short-term entered into a referral agreement with AON, a global insurance brokerage, whereby PPS members have the opportunity to access short-term insurance products underwritten by Santam, tailored for the needs of the graduate professional.

The PPS Property Fund Trust

The PPS Property Fund Trust is a vested trust which houses the Group's investment properties. This trust was founded in 2012. PPS Insurance is the controlling beneficiary of this trust with an external company providing fixed property management services and retaining a minority share. The Trust currently has four properties in its portfolio, all of which are in Gauteng. One of these properties, Centurion Square, is currently being developed into a 9 106 square metre state-of-the-art office block. Occupation is scheduled for July 2015.

Total trust assets amounted to R150 million at the end of 2013 and R9,6 million of revenue was generated for the year.

OUR STAKEHOLDERS

As a mutual company, PPS' relationship with its stakeholders is of paramount importance and in 2013 a concerted effort was made to engage with them in a more pro-active manner in order to heighten awareness of our slogan that 'The key to success lies in sharing it'. That this strategy has worked is evidenced by the fact that we have seen a positive shift in stakeholder perceptions of the Group during the year under review.

Apart from our members, 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'.

PPS has four principal stakeholders:

Members

As our primary stakeholders, PPS values the importance of all opportunities to interact with members to ensure that we meet their expectations by monitoring the performance of our existing products and exploring potential service and product enhancements. Our mutual ethos demands that we provide members with clear and relevant information that will assist them in making informed financial decisions.

What is important to our members is that our products should deliver on the promise that we sold, that PPS is financially sound to ensure that we are able to pay all valid claims, that we deliver professional service and fair treatment at all times, and that our processes should be transparent and user-friendly and all information communicated is clear and easily understandable.

PPS' mediums of engagement with members include the following: Member Forums and Road shows, The PPS Gazette; Confidence Index Surveys, Campaign specific communications, Social media, Member Service Centre, Administration Communications and Surveys, PPS InTouch (our 24/7 Internet self-service portal), and the Integrated Report.

Intermediaries

PPS is an intermediated company and most of our business is brought to us by intermediaries. Intermediaries need to be provided with sufficient training, knowledge and information regarding the Company and its products and services to enable them to engage with existing and prospective members and provide them with the facts to make informed decisions.

PPS equips intermediaries to give advice and apply appropriate solutions when analysing members' financial needs. The Company and the intermediary have a joint responsibility and are expected by the Regulator to engage with members regularly. This communication with members ensures that the exchange of information about service delivery and products is clear and understandable, that there is a commitment to members that PPS' products will perform as they were lead to believe they would, and that members know where to complain if they are unhappy.

Intermediaries need to be fully empowered when dealing with PPS so that they can provide good service with products that will perform as members expect them to do. They also need to be supported and provided with clear and accurate information at all times. Intermediaries prefer a relationship with companies where the fair treatment of customers is central to their culture.

PPS engages with intermediaries in the following ways: face-to-face interaction accompanied by our regional sales staff by visiting their offices, doing presentations for them, and visiting members with them, Intermediary Road Shows and Workshops and print media (e.g. PPS Business Brief and Weekly Insurance Library) and electronic media (e.g. e-mail and sms).

Regulators

The financial services sector is facing unprecedented regulatory change. The speed and complexity of this change, the implications associated with the proposed increased levels of oversight, and the potential for unintended consequences, could have an important impact on PPS' business, which makes regular interaction with the regulators all the more important.

The Group is regulated by the following: The Financial Services Board (Registrar of Pension Funds and Friendly Societies, Registrar of Collective Investment Schemes, Registrar of Financial Advisory and Intermediary Services, and The Registrar of Long-term Insurance); The Council for Medical Schemes; The Financial Intelligence Centre; The Namibian Financial Institutions Supervisory Authority; The South African Revenue Services; The South African Reserve Bank; and The Namibian Inland Revenue.

Employees

It is important to engage with employees to create a skilled and motivated workforce that will achieve business objectives by continual development of staff.

What matters most to employees is a pleasant working environment, challenging work and career opportunities, meaningful reward and recognition programmes, identification with a strong and sustainable brand, and robust, but fair performance management systems.

PPS has various ways of engaging with employees which include the following: clear performance contracts with stretch 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; and participation in forums that inform on relevant people and business issues.

Servicing at PPS

Guiding Principles

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

During 2013 we have actively reviewed feedback collected from multiple sources. As a result of the PPS implementation of Treating Customers Fairly, the strive to collect feedback throughout the lifecycle of the customer is now integrated into our processes. We address any shortfalls we believe exist in ensuring that we successfully deliver the TCF outcomes for our members. Our service strategy of convenience and control focuses on an 'outside in' approach to deliver service from a customer perspective.

The key delivery promises in this service strategy are convenience and control. The goal of the strategy is to ensure that as far as possible control of information is placed within the control of members and financial advisors in a safe space to transact. This means 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 this information at the convenience of our customers, especially as professionals have little time during working hours to attend to personal matters. The range of these services was enriched in 2013 and will be further extended to produce a greater degree of transparency and richer information in 2014. PPS accepts that there is no 'one size fits all' approach and does not impose an expectation that members and financial advisors should manage their own information in a prescribed manner, but need to be flexible in a changing world. We continue to offer the traditional channels for engagement for members more comfortable with face-to-face, telephonic, fax or post and will continue to do so as long as our members demand these facilities.

OUR STAKEHOLDERS

(continued)

PPS believes that the advantage of the more contemporary engagement channels of internet and other mobile devices are that these offer members and financial advisors control over their information. This offers real time management of any requests or enquiries made by our members and financial advisors with immediate notification of status for tracking purposes. This improves the accuracy and reduces the opportunity of human error.

PPS has continued to enrich its 'First Class Service' programme and surveys every interaction that we enjoy with our members to continuously improve these engagements. This programme is monitored real-time in the organisation and we intend to correct any shortfall in our service as soon as is possible. We strive to ensure that our members only need to deal with call centre agents that meet our requirements.

Our service delivery platform, PPS InTouch, was released in 2011 and now has a significant number of users who access the solution regularly. We manage all new business and issue membership through this channel. This channel allows members, employees and financial advisors to update information across the extent of their relevant portfolios directly against the databases in a secured transaction in one place. Members and other stakeholders are able to look directly in the databases and work with their information using highly structured role definitions segregating their information from information outside of their defined roles. Sensitive transactions are afforded greater security by following the banking industry and applying unique PINs to these transactions before implementing the data for the member. We intend adding the facility to complete all processing using this solution in 2014 with the greater use of digital signatures.

We urge our stakeholders to make use of this channel to maintain their information and make demands for service directly to responsible persons in the organisation. We are confident that we will provide better turnaround in this structured channel, as the structured solutions monitor turnaround times and publish these to management in real-time, rather than by utilising the less structured choices for corresponding such as email or fax.

All services offered by PPS will provide the expected time for delivery. The averages achieved for each critical service commitment will be reflected in real-time in 2014. These commitments are published on PPS InTouch and in all communications that advise progress during the processing of that request. We also urge our stakeholders to provide feedback at the end of each transaction so we can focus on improvement and correction where we might have failed. This feedback is reviewed in our Quality Improvement Process and the resulting outcomes are implemented when we are able to clearly demonstrate benefits to all members.

PPS applies best practice standards to guarantee predictability of outcomes and service levels to achieve these outcomes. ISO standards play a significant role in guiding our operations and managing on-going quality improvements while ITIL best practices are rigorously applied to our Information Technologies.

Communication

Intermediary Communication

In line with the soon to be introduced Treating Customers Fairly (TCF) Regulations legislation, PPS has significantly increased its capacity to bring relevant and informative content through its communications to intermediaries.

It is clear that in terms of TCF, 'Customers' are the members who own PPS products. In order to ensure that our supporting and accredited intermediaries are able to provide the highest levels of service to them, PPS produces a series of weekly, monthly and ad-hoc newsletters and communications to give our intermediaries information about what is happening in PPS, our industry and the market place so that this can be passed on to members in order to assist them to make informed decisions.

In addition to this, PPS has established a working guide to ensure that all our communications to both members and intermediaries meet the requirements of simple understandable documentation whether this is in the form of marketing material, formal or informal correspondence.

In a highly competitive industry, PPS strongly believes that we should be able to give our supporters the appropriate level of technical information while not over-complicating it. We do not subscribe to the philosophy of negative product comparisons but rather choose to emphasise the merits of our own products and to correct any misinformation that may be produced that might influence members to make ill-informed decisions, having regard to their unique relationship as a graduate professional and a PPS member with PPS products.

PPS Business Brief

This is a monthly communication detailing PPS strategic initiatives, for example 'Treating Customers Fairly', tax deductibility of PPS Permanent Incapacity contributions and enhancements to the PPS product range.

The PPS Brand

PPS is differentiated from the rest of the Life Insurance market by the elements of being a very exclusive organisation that shares its profits with members of the Company. Respondents feel that PPS is a company that rewards their members in the long run, offer products that are good value for money and bring their members peace of mind.

PPS's unique value proposition

PPS offers a very unique position in the market if you consider the reasons why members decided to join their insurance providers in the first place. At the top of the list is the fact that PPS caters exclusively to and addresses the specific needs of professionals. Having a say in the management, sharing in the profits of the company, and (ultimately) being rewarded in the long run are other very important considerations with which none of the other providers can compete with.

Advertising and awareness of PPS

The PPS Brand Survey includes a question that asks qualifying non-members to name an insurance provider that caters exclusively to university graduates and professionals, which acts as a measure of unaided awareness of PPS. At the end of 2013, PPS was mentioned in 71% of cases, compared to only 51% at the end of 2012. These respondents are also asked to name an insurance provider that shares its profits with clients. Over the same period, the mention of PPS has increased from 16% to 31% of cases. These results show a very positive increase in awareness levels of PPS and its unique offering.

Although PPS is still lagging behind the rest of the market in terms of advertising awareness and total advertising spend, the overall awareness of advertising has increased steadily as a result of the sustained exposure to the campaign. At the end of 2012 only 35% of respondents could recall a recent PPS advertisement. Over the last year this figure has grown to 47%.

From the research results it is clear that the marketing campaign has greatly enhanced the awareness of PPS in the minds of qualifying non-members.

Our People

We operate in the highly competitive Financial Services Industry, where skills are scarce. The pressure for continuous product enhancement, excellent customer service, compliance, and growth in sales and membership, mean that we have to continuously recruit and retain top quality staff.

Our employee value proposition has to be highly competitive to ensure that PPS remains attractive to skilled staff. The requirements of BEE and specifically employment equity have to be taken into account and the shortage of skilled black staff remains a major challenge.

As a non-listed entity, PPS does not have the advantage of share options to attract and retain staff and we therefore have to be more creative with our salary packages to ensure they provide both short- and long-term incentives.

OUR STAKEHOLDERS

(continued)

Short-term incentives for the Group's top 25 Executives focus on operational performance based on a 'balanced scorecard' model and are funded out of operating profit. Strictly applied performance criteria are reviewed by the Remuneration Committee, based on recommendations of the CEO.

Long-term incentives are based on growth in members' apportionment accounts once a hurdle has been exceeded. ± 50 staff (out of a total complement of 1 000) participate in the long-term incentive scheme. The key principle of our incentive schemes is to ensure alignment of management and member interests.

Deloitte 'Best Company to Work for'

PPS believes that engaging people in a way that enables them to grow and contribute to the Group's objectives is the hallmark of 'best business practice'. Accordingly, the Group has invested significantly in this regard and achieving the Deloitte 'Best Company to Work for Standard of Excellence Award' for the third consecutive year, bears testimony to this.

The 'Standard of Excellence' accolade is awarded to any company that achieves an overall satisfaction rate in excess of 75% based on ratings from employees on the company's people practices. In 2013, PPS joined a select group of 40 companies who achieved this standard. The Deloitte result validates the high level of employee engagement, relatively low staff turnover, good retention of people and high levels of productivity that PPS enjoys.

PRODUCT OVERVIEW

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

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 ™

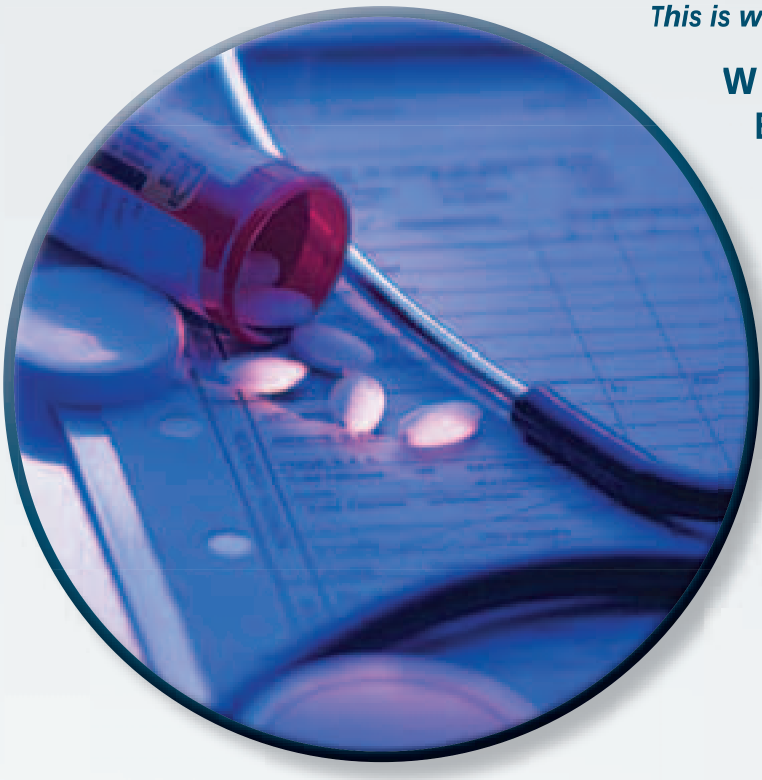
PRODUCT OVERVIEW

(continued)

SICKNESS, HOSPITAL AND PERMANENT INCAPACITY CLAIMS

The Sickness and Permanent Incapacity Benefit covers any illness or injury lasting for a period of at least seven consecutive days, which prevents a professional from practicing his usual professional duties. It is a tax-free benefit and pays irrespective of any other income, including professional fees or a salary.

"PPS paid over 18 500 sickness claims during 2013. This is why we are here"



WHAT IS THE PPS HOSPITAL BENEFIT?

It is a benefit that covers any illness or injury which requires hospitalisation that lasts for a period of at least four consecutive days. It pays irrespective of any other income, including professional fees or a salary. This benefit is payable over and above the sickness benefit claimed for that period. To claim Sickness or Hospital benefits from PPS, you must submit the required documentation completed by yourself and your treating medical practitioner.

MEMBER TESTIMONIAL:

"Hi! I am Greg Starr, qualified professional electrical engineer. I recently had the unpleasant event of being hijacked and assaulted. Due to the extensive injuries I sustained, I was booked off work for 23 days and had to spend a couple of days in hospital. I unfortunately used up all my sickness days at work, due to a previous medical condition, and therefore had to take unpaid leave. Luckily for me I had PPS. They provided me with a monthly income for the time I was sick and in hospital to match my salary, which I used to live life and settle medical bills."

PREGNANCY COMPLICATIONS

"PPS covers a variety of pregnancy complications with their sickness and hospital benefit"

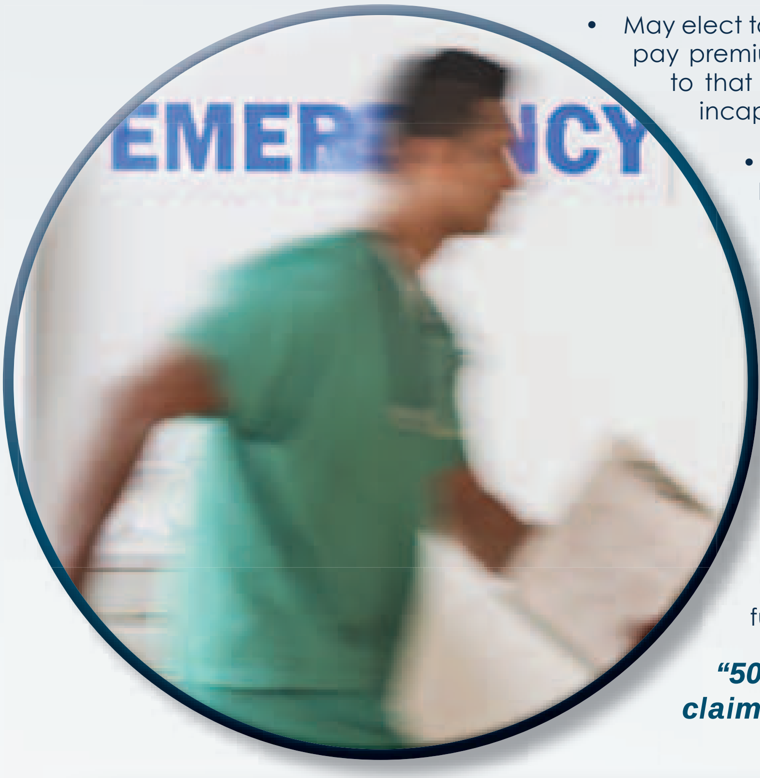
As part of the continuous enhancement of the PPS Product range, we have enhanced our cover for specific maternal complications during pregnancy. There is no waiting period for these benefits, and female members will have immediate cover for a wide range of conditions. No extra premium is charged. The conditions will be assessed according to the benefit criteria as set out by PPS with a maximum number of days payable for specific conditions. The normal SPPI product rules apply with regard to pregnancy complications where the benefit criteria of the specific conditions are not met.

PPS PERMANENT INCAPACITY BENEFIT

The Permanent Incapacity Benefit starts after you have received a sickness benefit for a period of two years for a specific condition. If you are assessed to be permanently incapacitated, you will receive 20%, 60% or 100% of the benefit, depending on the degree of your incapacity and the impact that it has on your ability to perform your usual professional duties.

Any income that the policyholder earns from his usual professional duties or from working in another field does not reduce the awarded benefit (i.e. no aggregation of benefits with those of other companies or salary that is earned).

A Policyholder who received a Partial Permanent Incapacity award of 20% or 60%:



- May elect to remain working within his profession. He will still pay premiums and may claim for any sickness unrelated to that for which he is receiving a partial permanent incapacity award.
- May elect not to work within his profession. He will not pay any further premiums and will not be entitled to make claims for any sickness unrelated to that for which he is receiving a partial permanent incapacity award. A review of the policyholder's condition may be done, if the outcome shows that the condition worsened, the policyholder will be entitled to an upward review of his partial permanent incapacity award.
- A Total Permanent Incapacity award will be 100%. A Policyholder who has been awarded a Total Permanent Incapacity award of 100% will not pay any further premiums and will also not be entitled to file any further sick-pay claims.

"50% of our Permanent Incapacity claimants were younger than 55"

MEMBER TESTIMONIAL:

"When the car hit, I immediately knew I had a problem. When I woke up 2 weeks later it was confirmed. I lost my right arm and suffered a lower-back injury. I was 30, in my specialised field of surgery. I thought I had lost everything. I am a passionate doctor who lives for my profession. PPS was there the whole way, starting with the sickness benefit and now paying me a partial permanent incapacity benefit because I couldn't follow my passion of becoming a surgeon. I now practice as a radiologist, still helping people and living my second dream. Due to PPS, I had the freedom to continue my duties as a doctor, even though I had to realign my dream a little bit. This is exactly what makes them great."

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 non-reviewable 100% benefit. Once an OSRB claim has been awarded, the monthly premium will stop and no further payment will be made for any related or unrelated sickness or permanent incapacity claims. However, the member will still receive his/her profit allocations to his/her PPS Profit-Share Account.

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.
- Annual increases in benefits continue.
- Benefit payable until the member turns 66.

"A truly unique benefit in the SA insurance market, it ensures that awards of 20% or 60% will be automatically increased to a 100% benefit"

MEMBER TESTIMONIAL:

"Mr. Mackay, I am sorry but you have cancer, and in my honest professional opinion, we have to start treatment immediately". Daunting words if you are fit and you've completed five Iron Man races, two Comrades and a bunch of triathlons. It is two years later and PPS have just awarded me a Permanent Incapacity claim. The cancer has subsided for a while, and because I was able to work half day, PPS granted me a 60% award. However, I had the Occupation Specific Rider Benefit, which automatically upgrades an award of 20% or 60% to a 100%. This benefit gave me the freedom to decide if I wanted to continue with my practice or spend time with my family. With cancer you never know, PPS gave me the choice. I now enjoy the time I have left with my family."

PRODUCT OVERVIEW

(continued)

PPS LIFE COVER

The PPS Professional Life Provider is just one of the risk products offered as part of the PPS Provider range of products. Designed to protect and provide for your loved ones in the unfortunate event of your death, the PPS Professional Life Provider will assist with cash to:

- Cover outstanding debts, be it your car, home or even your student loan or marriage debts.
- Provide for your surviving dependents by leaving a lump-sum to supplement their income or cover education costs and debts owed by them.
- Cover death taxes and ensuring your estate is liquid so that your executor does not need to sell property you bequeathed to others.

As from 1 January 2012, the PPS Professional Life Provider benefit with differentiated rates enjoys direct profit allocations to the PPS member's Profit-Share Account. In 2013 members received an allocation of 15% of total premiums paid from 1 January 2012 to 31 December 2012, to their Profit-Share Accounts.

"Realistically we will die and we need to cater for our loved ones. By having my cover with PPS, I am giving them something extra through my share in the profits"

ACCIDENTAL DEATH

"Crime as we know, is a major issue in South Africa. Having a product that will pay out an additional amount if this should happen to me is comforting"

The PPS Accidental Death Product is a benefit that pays out an amount if death is a result of an accident, for example a motor vehicle accident, being a victim of crime or accidental drowning. Only financial and not health underwriting is done as this product is also suitable for those people who are not insurable for health reasons.

As from 1 January 2012, the PPS Accidental Death Product (stand-alone benefit) enjoys direct profit allocations to a member's PPS Profit-Share Account. In 2013, members were allocated 5% of their total premiums paid from 1 January 2012 to 31 December 2012, back through allocations to their Profit Share Accounts.

Many accidental death claims are for members under the age of 30, highlighting the importance of providing Life Cover and Accidental Death Cover as part of the financial planning process at younger ages.

Below are some of the causes of Accidental Death Claims received by our claims department.

- Crime
- Drowning
- Falling
- Flying
- Motor Vehicle Accident
- Skydiving
- Paragliding

PRODUCT OVERVIEW

(continued)

DISABILITY LUMP SUM

"When disability happens, you need the finances to make lifestyle adjustments that will suit you"

The PPS Disability Lump-sum Product is a benefit that pays out should the member become occupationally disabled. The payout may be used to fund workplace adaptations, property adaptations or assistive devices, or settle debt to ensure the member can remain independent and may continue enjoying their possessions.

MEMBER TESTIMONIAL:

"Come on Judy, this will never happen to me. Disability, never able to work – you must be joking! The probability of this happening to me is less than 5%.

Famous last words, I am a Chartered Accountant. Something that I wanted to be my whole life. Today I am still a Chartered Accountant. The problem is I am a paraplegic. I was paralysed in a motor vehicle accident, and I was only 33.

Let me tell you now, everything has changed, my future opportunities and promotions will never be the same. My accessibility to everything has changed, and the costs to maintain a standard of living with paraplegia, enormous. If it wasn't for my financial adviser, changing my mind about disability, I wouldn't be in the position I am today. Due to the payout I received from PPS, I am today able to live without huge financial strain. I can still look after my family's needs."

SEVERE ILLNESS, TRAUMA AND PHYSICAL IMPAIRMENT

"Insurance products like the PPS critical illness benefit, ensures that you are financially covered if disaster strikes. This should be part of any graduate professional's financial plan"

The Severe Illness, Trauma and Physical Impairment Product is a benefit that pays out should the member suffer from a listed trauma, physical impairment or critical illness condition. The benefits payment may be used to fund lifestyle changes and property adaptations due to the condition suffered to ensure the member can remain independent and may continue enjoying his possessions.

MEMBER TESTIMONIAL:

"You know, it happened so quickly. My wife Lynn, is a qualified surgeon, but somehow in her busy schedule, had the time to see a financial adviser, and subscribed for PPS severe illness benefit. She was fine the one day, and then she found the lump in her breast. The oncologist said it was a Stage II cancer. Her PPS critical illness benefit paid out a lump-sum amount. This helped immensely, as the cost of treating cancer is unimaginable.

Lynn is fine today, and continues to practice. Luckily she still has her PPS for any other event that may influence our lives."

CURRENT YEAR PRODUCT DEVELOPMENT

MY FUTURE PLAN

Recognising that starting out as a young professional after obtaining your hard-earned qualification, you need cover that is flexible enough to grow and change, as your financial needs grow and change. PPS developed 'My Future Plan' specifically for members under the age of 35. With limited underwriting appropriate to a young professional, members can purchase up to R2 million life cover, lump sum disability and dread disease cover and also cover up to R1,2 million gross professional income per annum with the Sickness and Permanent Incapacity benefit (SPPI). If this cover is issued with no medical loadings or exclusions, these young professionals then also have an option each year to increase their SPPI cover in line with the actual increase in their earnings. Young professionals starting out in their career tend to have significant income increases in the first years of work as they pass their articles, their actuarial exams or grow their practices. The cover can grow with their needs with a simple option form and proof of their income.

There is also a life cover option in place for these young professionals. Even if they did not purchase any life cover initially they can later exercise the option to purchase life cover (or add to their life cover) if they incur debt, like buying a house or car, get married or have a baby. Any amount of cover up to R5 million can be purchased on this simple option form making it hassle-free to have the appropriate cover as your financial needs change.

From a TCF perspective it is important to look at the needs of different market segments and ensure that the product is appropriate to meet those needs.

FREE COVER, IMMEDIATE COVER AND PRORATED PREMIUMS

With valuable feedback to our product forum analysing all TCF issues, we identified a need for Free Cover and Immediate cover on the PPS Provider benefit range. Immediate cover ensures that when a member applies for life cover, they have immediate accidental death cover in place from when the application form is loaded onto the PPS system until the underwriters have offered terms on the business, up to a maximum of 30 days. Should the member die of accidental causes in this time they will receive the life cover benefit up to a maximum of the accidental death benefit limit (currently R2,746 million).

Free cover was also introduced which gives the member cover from the date the underwriters offered terms and these were accepted until the policy inception date (for a maximum of 30 days). If a member applies for cover in December and the terms are offered and accepted on 10 December and the cover commencement date is 1 January, the member has free cover from 10 December until 31 December. If anything happens to the member in this period and there was no non-disclosure, the cover will be paid. This applies to all benefits, life cover, lump sum disability, dread disease and Sickness and Permanent Incapacity. As a result of the inclusion of this benefit, all policies will now incept on the 1st of the month. There is no longer a requirement for business to issue immediately and therefore to deduct a *pro rata* premium.

PPS MEDICAL AID PRODUCTS BONUS

As the largest company in the South African long-term insurance industry operating as a mutual, PPS returns all its profits to members. During the past few years we have enhanced our profit-share model by introducing direct profit-allocations to members with qualifying lump-sum risk benefits and PPS Investments products.

From 1 January 2014 PPS will further enhance the profit-share model by introducing the Medical Aid Products Bonus. Members with a Profmed Medical Aid benefit and a PPS Provider series product will receive a share of the profits of PPS's medical scheme administration business, directly allocated to their PPS Profit-Share Account. The first allocation will be made in 2015 when the 2014 PPS financial results are available.

PREMIUMS UNDER ADVICE

Important enhancements were made to the Premium Under Advice fee model which is the mechanism that PPS uses to pay on-going commission to supporting brokers and MRD consultants actively servicing their PPS clients. This model makes it attractive for advisors to offer on-going service to their existing PPS members as well as supporting PPS.

ENHANCED ELIGIBILITY RULES

PPS has aligned its qualification criteria to recognise the changes as far as the merging and rationalisation of higher education institutions are concerned. This ensures PPS' eligibility rules are more relevant in the current environment.

SICKNESS AND INCAPACITY ~ DETERMINATION OF INCOME

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 is the only company in South Africa allowing members to cover their full income for both sickness and permanent incapacity, leaving no gaps in cover should they no longer be able to work and generate an income.

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 taxable income.

THE RESPONSIBLE CORPORATE CITIZEN

CORPORATE SOCIAL INVESTMENT (CSI)

PPS Bursaries 2014 – a new approach

Investment in the youth market is critical for PPS. Young, qualifying potential members need more exposure to the PPS brand and value proposition – we all know that the youth are not that interested in insurance. Corporate Social Investment (CSI) initiatives such as bursaries, scholarships and sponsorship of the One Young World (OYW) Summit allow PPS the following:

- University and student access for class presentations to instill brand awareness of PPS
- Access to targeted faculties and Deans
- Long-term relationship-building with universities, students, faculties and their representatives
- Associating the PPS brand with the largest international youth leadership conference in the world (One Young World).

In an effort to improve on our previous 'above the line' (use of media as a platform for advertising, both broadcasted and published to mass audiences) approach with regards to our bursary campaign and process, we have leveraged the footprint of our newly formed 'PPS Youth Division' to provide PPS with a more direct and 'face to face' approach with our 2014 bursary campaign.

In respect of 2014, we have identified three faculties across thirteen Universities and six Technicons in South Africa that require relationship-building and nurturing. We have also doubled our budget for bursaries and will allocate the bulk of this budget to full-time university students at thirteen Universities and six Technicons across South Africa.

Furthermore, whereas in the past PPS invited students to submit bursary applications directly to PPS, this will now be done via the relevant faculty at the institution concerned. We have therefore invited the relevant faculties to become more directly involved in the selection of the students that will qualify for a 'PPS/Dean of (Faculty)' bursary, in order to ensure more involvement from the universities and to create greater awareness of these bursaries.

In addition to our extensive involvement with PPS bursaries, we have also again made extensive provision for refurbishments at universities and technicons in 2014. These allocations not only allow for better partnerships with universities, they also show the commitment of PPS towards improving the standards of education, which has been highlighted as a key concern of PPS members in the quarterly PPS Professional Confidence Index survey. This programme will run in conjunction with the bursary programme and will be marketed to the Deans at these institutions by the PPS Youth Division.

ONE YOUNG WORLD (OYW)

PPS sponsored four delegates to this global leadership forum hosted in South Africa in October 2013 where we developed a viral social media campaign and video. Through this campaign, the YouTube video received 5 275 views in one month. This campaign has also contributed massively to our SoMe platforms.

The competition required students to submit a video which demonstrated their passions, global and local knowledge, ideas and their potential and existing role in effecting positive change in society or their organisation.

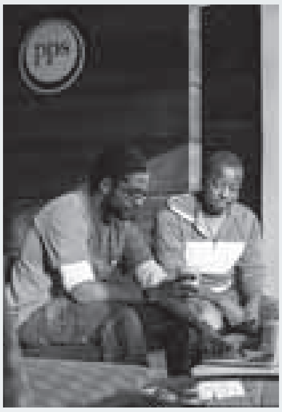
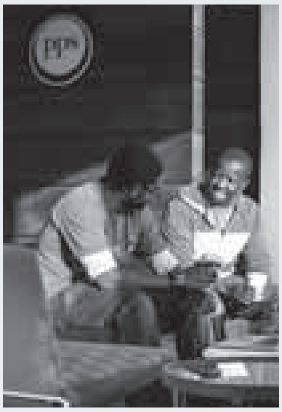
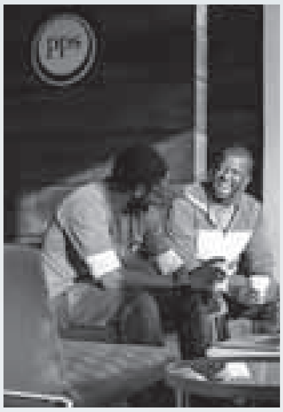
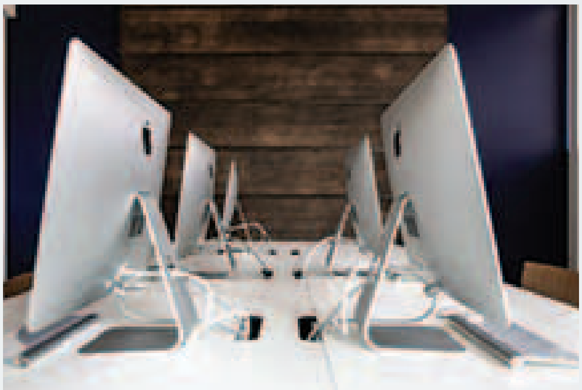
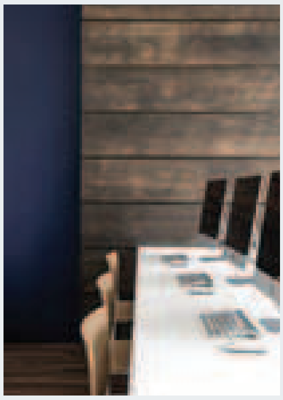
We received a total of 25 qualifying applications with video uploads and the PPS sponsored delegate winners were: Tshepo Seloane, a fourth year Bachelor of Commerce Law student at the University of Pretoria; University of Cape Town student Xolile Charmaine Zondi who is studying Bachelor of Social Science Honours; Farah Jawitz a fourth year student studying Medicine at the University of Cape Town; and Stellenbosch University student Jessica Baker in her fourth year studying towards her Masters in Social Work.

The winning candidate videos of these four delegates can be viewed on the PPS Inner Circle website by visiting http://www.ppsinnercircle.co.za/OYW.

PPS INNER CIRCLE LOUNGE

The PPS Inner Circle lounge on Wits Campus was envisioned to create an engaging space on campus to be used exclusively by PPS student members in their fourth year of study and above. The design is modern and elegant. Because spaces like these are limited on campus, a lounge with facilities, such as wireless internet, a private meeting room, study area and coffee station will be a rewarding space where students can relax and read, study in silence or have group discussions.

PPS will regularly arrange for guest speakers from various professional associations and other relevant persons of influence to speak to the students about their career plans.

THE RESPONSIBLE CORPORATE CITIZEN

(continued)

SAVING THE SURVIVORS

With 946 rhinos killed in poaching attacks in 2013 alone, it is estimated that only up to 120 of these rhinos survive every year, according to Department of Environmental Affairs. Unfortunately with most funds collected going towards anti-poaching initiatives, there has been limited chance of survival of those that manage to escape a poaching attempt due to the lack of appropriate funds for treatment, research and rehabilitation.

In an effort to help reduce the mortality of these survivors, the 'Saving the Survivors' project (a collective force of the South African Veterinary Association, University of Pretoria and private individuals and/or companies) was established to fill this much needed gap. The project was specifically started in 2012 to treat and rehabilitate rhinos that have fallen victim to poaching or traumatic incidents.

PPS, together with affiliate Profmed Medical Scheme, donated R130 000 to the 'Saving the Survivors' in 2013.

SAVING THE SURVIVORS

CREATING HOPE FROM HURT

PROUDLY SPONSORED BY PPS AND PROFMED

Dr Johan Marais and Dr Gerhard Steenkamp (PPS members) – founders of 'Saving the Survivors'.

ANNUAL FINANCIAL STATEMENTS 2013

CONTENTS

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

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

Published: 26 March 2014

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

for the year ended 31 December 2013

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 76 to 187, 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
26 March 2014

CERTIFICATE BY THE SECRETARY

In my capacity as the Secretary of Trust, I hereby certify in terms of section 88(2)(e), of the Companies Act of 2008 and the Trust Deed that for the year ended 31 December 2013, the Group has lodged with the Companies and Intellectual Property Commission all such returns as are required in terms of this Act. I also confirm that all returns to the Master of the High Court's office, required for The Professional Provident Society Holdings Trust in terms of its Trust Deed and the Trust Property Control Act of 1988, are to the best of my knowledge and belief true, correct and up to date.

V E Barnard
Secretary

The Professional Provident
Society Holdings Trust

26 March 2014

INDEPENDENT AUDITOR'S REPORT

To the members of
The Professional Provident Society Holdings Trust

We have audited the consolidated and separate financial statements of The Professional Provident Society Holdings Trust set out on pages 101 to 187, which comprise the statements of financial position as at 31 December 2013, 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 2013, 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
26 March 2014

REPORT OF THE INDEPENDENT ACTUARY

for the year ended 31 December 2013

1. CERTIFICATION OF FINANCIAL POSITION

- I have conducted actuarial reviews of Professional Provident Society Insurance Company Limited (PPS Insurance) and Professional Provident Society Insurance Company (Namibia) Limited (PPS Namibia) ('the insurance interests') in accordance with, and this Statutory Actuary's report has been produced in accordance with, applicable Actuarial Society of South Africa Standards of Actuarial Practice and Actuarial Practice Notes, and;
- 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;
- The assets in each life company exceeded the liabilities plus capital requirements at the valuation date;
- The South African company met the asset spreading requirements of the Long-term Insurance Act at the valuation date; and
- In my opinion, as at 31 December 2013, the insurance interests were financially sound on the statutory bases and are expected to remain so for the foreseeable future where financially sound includes meeting the asset spreading requirements as prescribed by the Long-term Insurance Act for the South African company.

C van der Riet
Statutory Actuary

26 March 2014

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

PPS Insurance	Paragraph	2013 R'000	2012 R'000
Net assets	5	**22 149 068**	18 555 732
Policyholder liabilities	6	**21 885 474**	18 320 471
Apportionment and Special Benefit Accounts		**17 640 652**	14 316 775
Risk benefits reserves		**3 284 365**	3 344 462
Investment benefits		**960 457**	659 234
Excess of assets over liabilities		**263 594**	235 321
Capital adequacy requirement	7	**99 391**	88 517
Ratio of excess assets to Capital Adequacy Requirement		**2,7**	2,7

PPS Namibia	Paragraph	2013 N$'000	2012 N$'000
Net assets	5	**725 171**	574 841
Policyholder liabilities	6	**719 948**	569 618
Apportionment and Special Benefit Accounts		**575 915**	434 791
Risk benefits reserves		**144 033**	134 827
Excess of assets over liabilities		**5 223**	5 223
Capital adequacy requirement	7	**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 balance sheet 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 SAP104 of the Actuarial Society of South Africa (ASSA), as follows:

For sickness, permanent incapacity and death benefits (referred to in the notes to the accounts 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 accounts as the 'DPF component' of the policy liabilities.

Where cumulative investment returns and profits exceeded the bonuses and investment allocations to policyholder benefits, bonus smoothing reserves were established in Namibia. The bonus smoothing reserves decreased from the prior year and was R7,4 million at 31 December 2013 (2012: R0 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 payments has been made at a level consistent with assumed future experience, and our understanding of policyholder expectations.

The assumptions regarding future experience are based on best estimates suitably adjusted to provide safety margins according to the requirements of SAP104 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 2012 to 31 December 2012. The morbidity investigation was conducted on the experience for 2012. The mortality experience related to the period 1 January 2012 to 31 December 2012.

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

The provision for expenses (before adding margins) is based on the Company's current experience. Costs per unit of benefit are assumed to escalate at 5,55% (2012: 4,25%) 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 2013	8,30%
Equity return	11,30%
Cash	6,80%
Property return	9,30%

The assumed future gross investment return is 8,90% per annum (2012: 7,60% per annum).

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 SAP104. This guidance note prescribes various adverse scenarios that must be tested to determine the potential impact on the business of possible adverse experience. The excess of the assets over the liabilities for the life companies on the statutory basis is 2,6 times (2012: 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 23% increase in fixed interest asset values (as a result of a 25% decrease in fixed-interest yields) will occur, in accordance with SAP104.

All profits and losses arising are transferred to policyholders by means of the annual profit declarations to Profit-Share Accounts. These annual declarations are non-vesting and may be positive or negative, depending on the experience of the business. When calculating the Capital Adequacy Requirement allowance may be made for the impact of management action. The management action assumed in PPS Insurance is the declaration of 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 (total of South Africa and Namibia) 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 R188 million. This is equivalent to a reduction in the current profit allocation of 18%.
- 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 R99 million, which is equivalent to a reduction in the current profit allocation of 9%.

- 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 R41 million, which is equivalent to a reduction in the current profit allocation of 4%.
- The allowance for operational risk in the CAR calculation is R112 million. We assume that should these operational risk events occur, that 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 11%.
- 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 1% of the Special Benefit Account balances at 31 December 2013.
- The impact of the fall in the value of assets backing the policyholder liabilities equivalent to a 30% fall in equity values and a 25% decrease in interest rates will be absorbed by reducing the Special Benefit Accounts by R1,6 billion, which is equivalent to reducing the current Special Benefit Accounts by 15%. These calculations do not include the potential direct impact of these risk events on assets backing the Profit-Share Accounts. The actual combined impact on the members' 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 Special Benefit Accounts of R2,0 billion. This is equivalent to a reduction in the current level of Special Benefit Accounts of 18%. 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 2013

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 financial statements. No guarantees can be given by PPS Insurance or PPS Namibia that the allocations of operating results or investment returns will always be positive, or that the PPS Profit-Share Account will not reduce in any year.

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

For all policyholders 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. 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.

ALLOCATION TO SPECIAL BENEFIT ACCOUNTS

The following investment allocations (Note 1) for 2013 were made to the Special Benefit Accounts:

	2013		2012	
PPS Insurance	**%**	**R million**	%	R million
PPS core portfolio policyholders	**22,03**	**2 712,4**	16,41	1 714,8
Moderate Fund option policyholders	**14,37**	**97,3**	11,23	53,4
Conservative Fund option policyholders	**10,92**	**20,4**	8,18	12,9
Flexible Income Fund option policyholders	**2,23**	**7,6**	4,54	16,0
Enhanced Yield Fund option policyholders	**2,80**	**3,3**	3,26	2,5
Total allocated		**2 841,0**		1 799,6

	2013		2012	
PPS Namibia	**%**	**N$ million**	%	N$ million
Flexible income option	**1,47**	**0,2**	3,33	0,4
Other policyholders	**24,20**	**98,9**	22,20	69,3
Total allocated		**99,1**		69,7

***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 2013 to policyholders' Apportionment Accounts are set out as follows:

	2013		2012	
PPS Insurance	**Rate**	**R'000**	Rate	R'000
Investment Income Allocation[1]				
PPS core portfolio policyholders	**2,68%**	**152 438**	2,95%	148 605
Flexible Income Fund option policyholders	**3,05%**	**3 958**	5,07%	6 750
Enhanced Yield Fund option policyholders	**4,08%**	**1 684**	4,44%	1 148
Conservative Fund option policyholders	**0,83%**	**495**	1,74%	870
Moderate Fund option policyholders	**0,02%**	**54**	0,96%	1 551
Total investment income allocation		**158 629**		158 924
Profit allocations				
Sickness and Permanent Incapacity benefit (SPPI) – per unit of benefit per month[2]				
Ordinary (Full)	**33,61c**	**776 785**	30,99c	663 097
Ordinary (Reduced)	**20,61c**	**21 720**	17,99c	16 573
Supplementary A	**12,15c**	**44 911**	11,20c	40 199
Supplementary B	**69,32c**	**6 819**	63,92c	6 489
Deferred	**11,70c**	**17 651**	10,79c	15 159
Accident	**13,84c**	**5 410**	12,76c	4 880
Hospital benefits				
Ordinary (Full)	**3,67c**	**58 939**	4,04c	59 837
Ordinary (Reduced)	**2,37c**	**2 022**	2,74c	2 006
Supplementary A	**1,94c**	**3 490**	2,14c	3 691
Supplementary B	**12,74c**	**727**	14,01c	815
Accident	**6,89c**	**1 740**	7,57c	1 906
PPS Provider – per premium per month				
Professional Life Provider	**17,50%**	**38 767**	15,00%	16 602
Professional Health Provider	**16,00%**	**19 128**	15,00%	13 641
Professional Disability Provider	**5,00%**	**1 745**	5,00%	834
Accident Benefit	**5,00%**	**43**	5,00%	30
PPS Investment Profit		**5 005**		3 198
Per R100 000 Market Value per Month[3]	**R10,00**		R9,09	
PPS Retirement Annuity	**–**	**–**	0,17c	2 152
Total profit allocations		**1 004 902**		851 109
Total allocated		**1 163 531**		1 010 033

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 2013 *(continued)*

PPS Namibia	2013 Rates	2013 N$'000	2012 Rates	2012 N$'000
Investment income allocation[1]				
Flexible income option	**5,38%**	**265**	5,46%	248
Other policyholders	**3,33%**	**7 041**	4,12%	7 231
Total investment income allocation		**7 306**		7 479
Profit allocations				
Sickness and Permanent Incapacity benefit (SPPI) – per unit of benefit per month				
Full – ordinary	**34,85c**	**35 251**	31,15c	28 690
Reduced – ordinary	**21,85c**	**1 404**	18,15c	991
Supplementary A	**12,60c**	**1 093**	11,26c	956
Supplementary B	**71,88c**	**256**	64,25c	227
Deferred	**12,13c**	**439**	10,85c	386
Accident	**14,35c**	**201**	12,83c	167
Hospital benefits				
Full – ordinary	**3,80c**	**3 328**	4,06c	3 260
Reduced – ordinary	**2,50c**	**126**	2,76c	119
Supplementary A	**2,01c**	**116**	2,15c	120
Supplementary B	**13,17c**	**38**	14,08c	41
Accident	**7,12c**	**78**	7,61c	76
PPS Retirement Annuity	**0,13c**	**51**	0,36c	156
Total profit allocations		**42 381**		35 189
Total allocated		**49 687**		42 668

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

TRUSTEES' REPORT

HOLDING ENTITY

The PPS Group's holding entity is The Professional Provident Society Holdings Trust, registration number IT 312/2011, ('PPS Holdings Trust').

PRINCIPAL ACTIVITIES

PPS Holdings Trust is a trust registered by the Master of the High Court in terms of the Trust Property Control Act of 1988. PPS Holdings Trust's sole investment is 100% of the shares of Professional Provident Society Insurance Company Limited ('PPS Insurance'). The beneficiaries of PPS Holdings Trust are the PPS Group companies. Membership of PPS Holdings Trust is acquired through participation in PPS Group products. The 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 just over 4 500 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. This company recently entered into a representative agreement with AON, for the marketing of certain products underwritten by Santam.

- **Professional Provident Society Investments (Pty) Limited** ('PPS Investments') which provides, *inter alia*, savings and investment products to PPS members, is a wholly-owned subsidiary of PPS Insurance, following the acquisition by PPS Insurance of the 49% interest in PPS Investments formerly held by Coronation Fund Managers Limited with effect from 1 October 2013.

- **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 of 1988, 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 101 to 187 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	63	B Iuris	Elected	Appointed 11 March 2002 Ends June 2016
Dr S N E Seoka (Deputy Chairman) Independent Non-executive	58	B Pharm, PhD	Co-opted annually	Appointed 15 August 2005 Ends N/A
Adv T N Aboobaker Independent Non-executive	60	BA LLB	Nominated annually(1)	Appointed 4 December 2006 Ends N/A
Dr D R Anderson Independent Non-executive	67	BDS, Dip POM, FCD (SA) OMP	Elected	Appointed 27 August 2001 Ends June 2015
Ms U Botha Independent Non-executive	45	B Proc, LLM, MBA	Elected	Appointed 6 June 2011 Ends June 2014
Dr N G Campbell Independent Non-executive	63	BDS	Elected	Appointed 9 March 2002 Ends June 2014
Ms D L T Dondur Independent Non-executive	47	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	55	B Sc, MBA, CFP	Co-opted annually	Appointed 15 April 2010 Ends N/A
Dr D P du Plessis Independent Non-executive	59	B Sc, MBA, Doctor of Business Administration	Elected	Appointed 3 June 2013 Ends June 2016
Mr Y N Gordhan Independent Non-executive	63	B Com (Hons), CA(SA), M Sc	Elected	Appointed 17 June 2008 Ends June 2014
Mr U D Jivan Independent Non-executive	51	BA LLB	Elected	Appointed 8 June 2009 Ends June 2015
Mr I Kotzé Independent Non-executive	57	B Pharm	Nominated annually(3)	Appointed 27 August 2001 Ends N/A
Dr C M Krüger Independent Non-executive	48	MB ChB, M Prax Med, M Pharm Med	Elected	Appointed 21 June 2004 Ends June 2016
Dr J Patel Independent Non-executive	61	B Chd	Nominated annually(4)	Appointed 8 June 2009 Ends N/A
Mr P Ranchod Independent Non-executive	58	B Compt (Hons), CA(SA), MBL	Elected	Appointed 6 June 2011 Ends June 2014
Mr V P Rimbault Independent Non-executive	50	B Sc Eng (Mech)	Nominated annually(5)	Appointed 12 September 2011 Ends N/A
Mr D L Smollan Independent Non-executive	40	B Com, CA(SA), CFA, PGDIP Org Leadership	Elected	Appointed 3 June 2013 Ends June 2016
Dr M W Sonderup Independent Non-executive	45	B Pharm, MB ChB, FCP (SA)	Nominated annually(6)	Appointed 29 March 2012 Ends N/A

TRUSTEES' REPORT

(continued)

Trustee	Age*	Qualification	Classification	Term of office
Mr S Trikamjee Independent Non-executive	35	B Com(Hons), CA(SA)	Elected	Appointed 8 June 2009 Ends June 2015
Mr H A C van den Bout Independent Non-executive	38	B Com (Hons), LLM, MBA	Elected	Appointed 4 June 2012 Ends June 2015
Dr D G C Presbury Independent Non-executive	71	MB, BS (London), FRCP (London)	Elected	Appointed 27 August 2001 Retired 3 June 2013
Mr B R Topham Independent Non-executive	42	B Compt (Hons), B Proc LLM, CA(SA), CA (England and Wales)	Elected	Appointed 4 June 2007 Not re-elected 3 June 2013

** As at 26 March 2014*

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

PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY LIMITED BOARD

Director	Status
Dr D R Anderson (Chairman)	Independent Non-executive
Mr C Erasmus (Deputy Chairman)	Independent Non-executive
Dr N G Campbell	Independent Non-executive
Ms D L T Dondur (Appointed 24 June 2013)	Independent Non-executive
Mr J A B Downie (Appointed 24 June 2013)	Independent Non-executive
Mr Y N Gordhan	Independent Non-executive
Mr E A Moolla	Independent Non-executive
Mr N G Payne	Independent Non-executive
Mr P Ranchod (Appointed 24 June 2013)	Independent Non-executive
Dr S N E Seoka	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
Adv T N Aboobaker (Resigned 24 June 2013)	Independent Non-executive
Dr D G C Presbury (Retired 3 June 2013)	Independent Non-executive
Mr B R Topham (Resigned 3 June 2013)	Independent Non-executive

DIRECTORS/TRUSTEES OF SUBSIDIARIES

PPS Namibia

Director
Dr E Maritz (Chairman) (Non-executive, Namibian)
Adv N Bassingthwaighte (Non-executive, Namibian)
Mr M J Jackson (Non-executive, South African)
Mr J N Marsden (Non-executive, South African)
Dr O J Oosthuizen (Non-executive, Namibian)
Mr W A V J Vermeulen (Chief Executive, Namibian)

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	Mr N J Battersby (Chief Executive)	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 M J Jackson	
	Mr M J Jackson	Mr P J Koekemoer	
	Mr N Hoosen (Chief Executive)	Mr A C Pillay	

PPS Multi-Manager	PPS Management Company	PPS Property Fund Trust	PPS Property Fund (Pty) Ltd
Director	Director	Trustee	Director
Mr C K de Klerk (Chairman)	Mr N J Battersby (Chairman)	Mr M J Jackson (Chairman)	Mr M J Jackson (Chairman)
Mr N J Battersby	Mr C K de Klerk	Mrs T Boesch	Mrs T Boesch
	Mr S M Gerber	Mr C K de Klerk	Mr C K de Klerk
	Mr A J Woolfson	Mr V Schroeder	

TRUSTEES' REPORT

(continued)

TRUSTEES OF AFFILLIATES

PPS Retirement Annuity Fund	PPS Beneficiaries Trust
Trustee	**Trustee**
Mr J A B Downie (Chairman) (Elected as Chairman on 19 August 2013)	Mr S Trikamjee (Chairman) (Elected as Chairman on 7 October 2013)
Mrs R G Govender (Deputy Chairman)	Ms D L T Dondur (Appointed 10 June 2013)
Ms D L T Dondur	Mr Y N Gordhan
Mr H du Toit (Appointed 19 August 2013)	
Mr M D Eustace	
Mr E Huggett	
Mr U D Jivan	
Dr S N E Seoka	
Mr H A C van den Bout (Appointed 19 August 2013)	
Dr D G C Presbury (Retired 3 June 2013)	
Mr B R Topham (Resigned 3 June 2013)	

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

AUDIT COMMITTEES' REPORT

INTRODUCTION

The PPS Holdings Trust Audit Committee ('TAC') and the PPS Group Audit Committee ('GAC') are 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 TAC has oversight over PPS Holdings Trust and the Group, while the 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 (Chairman), Member of the TAC since 2012

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

Mr Y N Gordhan, B Com (Hons), CA(SA), M Sc, Appointed as a Member of the TAC on 3 June 2013

Dr D R Anderson, BDS, Dip POM, FCD (SA) OMP, Member of TAC since 2011, Resigned 3 June 2013

Note: Dr D R Anderson resigned as a member of the TAC on 3 June 2013 and Mr Y N Gordhan was appointed in his place. The appointment of the Members of the TAC was confirmed by PPS members at the annual general meeting held on 3 June 2013.

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

Meetings of the TAC held during the year-end attendance thereat:

PPS Holdings Trust Audit Committee	14 March 2013	20 November 2013
Ms D L T Dondur (Chairman)	√	√
Dr D R Anderson (Resigned 3 June 2013)	√	N/A
Mr Y N Gordhan (Appointed 3 June 2013)	N/A	√
Mr E A Moolla	√	√

N/A = *Not Applicable*

AUDIT COMMITTEES' REPORT

(continued)

COMPOSITION OF THE PPS GROUP AUDIT COMMITTEE

Members:

Independent non-executive directors of PPS Insurance:

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

Ms D L T Dondur, B Acc (Hons), B Compt, CA(SA), MBA, appointed as a Member of GAC on 24 June 2013

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

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

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

Specialist Consultant:

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

Meetings held during the year and the attendance:

Group Audit Committee	14 March 2013	11 June 2013	18 Sep 2013	20 Nov 2013
Prof H E Wainer (Chairman)	√	√	√	√
Mr C Erasmus	√	√	√	√
Ms D L T Dondur *(Appointed to the Committee on 24 June 2013)	*	*	√	√
Mr Y N Gordhan	√	√	√	√
Mr N G Payne	√	√	√	√
Prof C E Rabin#	√	√	√	√

 # Specialist Consultant

** Attended meetings of the Group Audit Committee by invitation, prior to appointment as a member of the Committee.*

The boards are satisfied that the members of these committees (which include five 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 GAC meets at least four times a year, while the TAC 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 GAC. The external and internal auditors and other assurance providers are present at each meeting of the committee.

The TAC and 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. All non-audit services are pre-approved by GAC. The committees conduct a formal external auditor evaluation process. This evaluation occurs annually and includes various criteria and standards such as independence, audit planning, technical abilities, audit process/outputs and quality control, business insight and general factors (such as black economic empowerment credentials). The committees keep abreast of current and emerging trends in international accounting standards.

Both committees have satisfied themselves:

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

ROLE OF THE AUDIT COMMITTEES

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

In respect of the year ended 31 December 2013, 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 2013 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 2013.
- 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.
- 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.

AUDIT COMMITTEES' REPORT

(continued)

- 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 2013 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.

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 TAC and GAC confirm for the 2013 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 TAC

26 March 2014

Prof H E Wainer
Chairman of GAC

26 March 2014

GROUP SOCIAL AND ETHICS COMMITTEE'S REPORT

INTRODUCTION

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

The SEC is tasked 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:

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
- The environment, health and public safety
- Drawing matters within its mandate to the attention of the PPS Insurance Group Boards as may be required.

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

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

Group Social and Ethics Committee	14 March 2013	20 Nov 2013
Mr N G Payne (Chairman)	√	√
Mrs T Boesch	√	√
Mr C K de Klerk	√	AP
Mr C Erasmus	√	√

AP = Apology

GROUP SOCIAL AND ETHICS COMMITTEE'S REPORT

(continued)

Report to PPS Insurance members by the SEC

During 2013 the committee focused on optimising the appropriate reporting structures to the SEC to enable it to discharge its statutory duties. 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 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;
Good corporate citizenship	• PPS promotes equality and prevents unfair discrimination against both of employees and members; • Various Corporate Social Investment initiatives are in place to develop the professional community and students studying towards qualifying degrees; • Various sponsorships, donations and charitable initiatives are undertaken and are regularly reviewed.
Assessment of the ethical risk profile	• Corruption and fraud management is a priority for PPS and a Fraud Management Policy and Whistle Blowing Policy are in place, and have been appropriately communicated to staff;
Consumer relationships	• PPS continues to make significant progress on 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 in the Integrated Report; • 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 2011, 2012 and 2013 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 2013 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

26 March 2014

ADMINISTRATIVE INFORMATION

BUSINESS ADDRESS

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

STATUTORY ACTUARY OF PPS INSURANCE AND PPS NAMIBIA

(in terms of the Long-term Insurance Act)
Mr 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.

Change in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IAS 19 (revised) 'Employee Benefits'
- IFRS 7 'Financial Instrument: Disclosures'
- IFRS 10 'Consolidated Financial Statements'
- IAS 27 'Separate Financial Statements'
- IAS 28 'Associated and joint ventures'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- IAS 32 'Financial Instruments Presentation'

These do not have a material impact on the Group's overall results and financial position. The nature and the effects of the changes most relevant to the Group's financial statements are explained below.

2. CONSOLIDATION

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

Subsidiaries

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

Subsidiaries are 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.

All unit trusts which are managed by a controlled subsidiary of the Group are consolidated, irrespective of the Group's economic interest. The consolidation principles applied to these unit trusts are consistent with those applied to consolidated subsidiary companies, except for the presentation of non-controlling interest. The required implementation of IFRS 10 in 2013 resulted in the consolidation of unit trusts deemed to be controlled by the Group, and the consequent retrospective change to certain lines in the 2012 financial statements. See note 32 for further details.

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

This is the outside shareholders' interest in the net assets and surplus/deficit after tax since acquisition of entities controlled by the Group. This interest is disclosed as equity in the Statement of Financial Position in terms of IFRS.

3. FINANCIAL INSTRUMENTS

3.1 General

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

Financial instruments carried in the Statement of Financial Position include financial assets – investments, other receivables, cash and cash equivalents, investment contract liabilities, borrowings, accruals, third party liabilities arising on consolidation of unit trusts 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. Fair value 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 the repurchase price on 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 using the effective interest rate method less impairment adjustments (accounting policy note 12).

3.3 Financial liabilities

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

Financial liabilities include other payables, borrowings categorised as financial liabilities at amortised cost, investment contract liabilities (accounting policy note 4.2.2) and third-party financial liabilities arising on consolidation of unit trusts (accounting policy note 2) designated on initial recognition as at fair value through profit and loss.

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

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

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

Third-party financial liabilities arising on consolidation of unit trusts are effectively demand deposits and are consequently subsequently 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 designated pool of assets, selected based on the policy holder risk appetite.

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

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

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

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime, unless the terms of the contract change to such an extent that it is treated as an extinguishment of the existing contract and the issuance of a new contract.

Insurance contracts

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

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

4.2 Valuation and recognition

4.2.1 Insurance contracts

Principles of valuation and profit recognition

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

- SAP104: Life Offices – Valuation of Long-Term Insurers;
- APN102: Life Offices – HIV/AIDS;
- APN105: Recommended AIDS extra mortality bases.

Valuation

The insurance contracts are valued in terms of the financial soundness valuation ('FSV') basis contained in SAP104 issued by the ASSA. A liability for contractual benefits that are expected to be incurred in the future, (the non-DPF component of the policy liabilities) is recorded in respect of the existing policy book when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the premiums to be paid in terms of the policy contract. The liability is based on best-estimate assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued and updated on an annual basis at reporting date to reflect current expectations. The policy liabilities also make provision for future profit declarations to policyholders. The profits provided for are in line with the Group's interpretation of policyholder reasonable benefit expectations. The policy liabilities are discounted using an asset-backed rate.

Compulsory margins for adverse deviations are included in the assumptions as required in terms of SAP104.

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

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

Insurance benefits

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

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

Claims payable

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

Expenses for the acquisition of insurance contracts

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

Liability adequacy test

At each reporting date, liability adequacy tests are required to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future premiums, claims, and claims handling and administration expenses are used. Since the insurance policy liabilities are calculated in terms of the financial soundness valuation ('FSV') basis, as described in SAP104, which meets the minimum requirements of the liability adequacy test, it is not necessary to perform an additional liability adequacy test.

Recognition: Reinsurance contracts

Reinsurance contracts outwards

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

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

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

Reinsurance assets are assessed for impairment at each 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 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 premium revenue.

Receivables and payables related to insurance contracts

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

4.2.2 Investment contracts

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

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

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

Receivables and payables related to investment contracts

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

Financial instruments and insurance contract analysis

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

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

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

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

5. FOREIGN CURRENCY TRANSLATION

5.1 Transactions and balances

The consolidated financial statements are presented in Rands, which is the Group's presentation currency. Foreign currency transactions are translated into Rands ('the functional currency') 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.

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 on 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. To avoid an accounting mismatch, the related movement in insurance policy liabilities is mirrored to the revaluation reserve.

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

Equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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.

Properties developed for future use as investment properties are classified as investment properties, and included in the Statement of Financial Position at fair value. The cost of these self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use, and capitalised borrowing costs.

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, unless an independent valuation is performed.

Properties in construction, where excluded from investment property valuations, are carried at cost where the PPS Property Fund Trust is satisfied that cost is a reasonable approximation of fair value. On completion, the cost of capital works in progress is transferred to the book value of the specific property and subsequently considered as part of the valuation process.

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 a Group company is the lessee

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

Operating leases where a Group company is the lessor

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

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 an intangible asset when the following criteria are met:

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

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

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

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. 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. For Investment Property measured at fair value deferred tax is provided at rates applicable to capital gains. The principal temporary differences arise from the revaluation of financial assets held at fair value through profit or loss, 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 fund 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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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 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 and post service costs in respect of the post-retirement medical fund are recognised as expenses in the current year. Past service costs are recognised immediately in the Statement of Comprehensive Income. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in the Statement of Comprehensive Income in the period in which they arise.

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, less the fair value of plan assets. 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 government bonds at reporting date.

The Group has implemented IAS 19 (revised) 'Employee Benefits' during 2013. Comparatives have not been restated as the revision has not had a material impact on the financial statements.

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 bond yield curve as at the reporting date, applying the projected unit credit method.

15. OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are not offset in the Statement of Financial Position.

16. REVENUE RECOGNITION

16.1 Net insurance premium revenue

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

16.2 Other income

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

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

Fees are recognised as services are rendered.

Administration fees include fees charged to Profmed Medical Scheme and The 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.

16.3 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/losses on financial assets held at fair value through profit or loss comprise of gains and losses on disposal or revaluation of assets to fair values and are recognised in the Statement of Comprehensive Income.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

	Note	Group 2013 R'000	2012 R'000
ASSETS			
Property and equipment	2	**125 687**	116 570
Investment property	3	**82 985**	45 023
Intangible asset	4	**44 330**	36 488
Deferred tax	14	**61 235**	54 989
Financial assets – Investments at fair value through profit or loss	5	**24 482 407**	20 210 984
Reinsurance assets	6, 10	**878**	1 083
Insurance and other receivables	7	**144 121**	128 750
Current income tax asset		**42 697**	6 031
Cash and cash equivalents	8	**3 122 892**	2 026 844
Total assets		**28 107 232**	22 626 762
Capital and accumulated funds			
Accumulated funds	9	**166 348**	125 372
Non-controlling interest		**412**	(843)
EQUITY		**166 760**	124 529
LIABILITIES			
Insurance policy liabilities	10	**22 217 379**	18 736 580
Investment contract liabilities	11	**617 920**	386 871
Liabilities to unit trust holders	12	**4 259 060**	2 726 268
Borrowings	13	**13 197**	24 941
Deferred tax	14	**467 236**	220 375
Retirement benefit obligations	15	**7 384**	54 816
Employee related obligations	16	**95 432**	77 943
Reinsurance liabilities	6, 10	**123 728**	89 283
Insurance and other payables	17	**134 224**	126 873
Current income tax liabilities		**4 912**	58 283
Total liabilities		**27 940 472**	22 502 233
Total equity and liabilities		**28 107 232**	22 626 762

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

		Group	
	Note	**2013 R'000**	2012 R'000
Net insurance premium revenue	18	**2 360 932**	2 119 279
Other income	19	**281 811**	249 020
Investment income	20	**1 532 440**	1 385 070
Net revaluation profits on financial assets held at fair value through profit or loss	21	**2 685 024**	1 855 642
Attributable to unit trust holders	12	**(400 073)**	(284 764)
		6 460 134	5 324 247
Net insurance benefits and claims	22	**1 439 093**	1 385 925
Movement in fair value of policyholder liabilities under investment contracts	11	**74 389**	37 086
Expenses	23	**973 016**	888 767
Profit before movement in insurance policy liabilities		**3 973 636**	3 012 469
Movement to insurance policy liabilities	10.2	**3 498 726**	2 625 850
Tax	25	**430 719**	351 578
Surplus after tax and policy movements		**44 191**	35 041
Other comprehensive income:			
Revaluation of owner-occupied property net of deferred tax		**8 066**	1 547
Total comprehensive income for the year		**52 257**	36 588

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 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 2013

	Note	Accumulated funds R'000	Revaluation reserve R'000	Non-controlling interest R'000	Total R'000
Group					
Balance at 1 January 2012		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	10.2	–	(1 547)	–	(1 547)
Surplus/(deficit) for the year		35 884	–	(843)	35 041
Balance at 31 December 2012		125 372	–	(843)	124 529
		(2 822)	**–**	**862**	**(1 960)**
Revaluation of owner-occupied property		**–**	**8 425**	**–**	**8 425**
Deferred tax on revaluation of owner-occupied property		**–**	**(359)**	**–**	**(359)**
Movement in insurance policy liabilities	10.2	**–**	**(8 066)**	**–**	**(8 066)**
Minority share of accumulated losses acquired by group company		**(2 822)**	**–**	**2 822**	**–**
Reduction in minority share of equity		**–**	**–**	**(1 960)**	**(1 960)**
Surplus for the year		**43 798**	**–**	**393**	**44 191**
Balance at 31 December 2013		**166 348**	**–**	**412**	**166 760**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

		Group	
	Note	**2013 R'000**	2012 R'000
Cash flows from operating activities			
Cash generated from operations	26	**396 330**	195 836
Interest received		**462 440**	468 811
Dividend received	20	**246 926**	235 642
Tax paid	27	**(280 500)**	(190 373)
Net cash from operating activities		**825 196**	709 916
Cash flows from investing activities			
Purchases of property and equipment	2	**(24 831)**	(25 948)
Purchase of investment property	3	**(36 178)**	(45 023)
Software development	4	**(20 903)**	(16 113)
Purchase of financial assets	5, 12	**(9 895 311)**	(9 672 818)
Acquisition of additional ordinary shares of subsidiary		**(1 960)**	–
Proceeds from sale of furniture and equipment		**88**	371
Proceeds from disposal of financial assets		**10 261 691**	9 250 876
Net cash from/(used in) investing activities		**282 596**	(508 655)
Cash flows from financing activities			
(Decrease)/Increase in borrowings	13	**(11 744)**	3 995
Net cash (used in)/from financing activities		**(11 744)**	3 995
Net increase in cash and bank		**1 096 048**	205 256
Cash and bank at beginning of year		**2 026 844**	1 821 588
Cash and bank at end of year	8	**3 122 892**	2 026 844

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2013

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 2013								
Equity securities								
Local listed	5	**10 488 141**	**–**	**–**	**–**	**–**	**10 488 141**	**10 488 141**
International listed	5	**47 701**	**–**	**–**	**–**	**–**	**47 701**	**47 701**
Debt securities								
Government and local bonds	5	**8 207 980**	**–**	**–**	**–**	**–**	**8 207 980**	**8 207 980**
International listed	5	**145 306**	**–**	**–**	**–**	**–**	**145 306**	**145 306**
Unit trusts and pooled funds	5	**5 593 279**	**–**	**–**	**–**	**–**	**5 593 279**	**5 593 279**
Reinsurance assets	6	**–**	**–**	**–**	**878**	**–**	**878**	**N/A**
Insurance receivables	7	**–**	**–**	**–**	**28 774**	**–**	**28 774**	**N/A**
Prepayments	7	**–**	**–**	**–**	**–**	**4 997**	**4 997**	**4 997**
Other receivables	7	**–**	**83 494**	**–**	**–**	**–**	**83 494**	**83 494**
Reinsurance receivables	7	**–**	**–**	**–**	**26 856**	**–**	**26 856**	**N/A**
Cash and cash equivalents	8	**2 829 505**	**293 387**	**–**	**–**	**–**	**3 122 892**	**3 122 892**
Insurance contract liabilities	10	**–**	**–**	**–**	**22 217 379**	**–**	**22 217 379**	**N/A**
Investment contract liabilities	11	**617 920**	**–**	**–**	**–**	**–**	**617 920**	**617 920**
Liabilities to unit trust holders	12	**4 259 060**	**–**	**–**	**–**	**–**	**4 259 060**	**4 259 060**
Borrowings	13	**–**	**–**	**13 197**	**–**	**–**	**13 197**	**13 197**
Reinsurance liabilities	6	**–**	**–**	**–**	**123 728**	**–**	**123 728**	**N/A**
Reinsurance payables	17	**–**	**–**	**–**	**13 378**	**–**	**13 378**	**N/A**
Insurance payables	17	**–**	**–**	**–**	**34 132**	**–**	**34 132**	**N/A**
Accruals and sundry creditors	17	**–**	**–**	**86 714**	**–**	**–**	**86 714**	**86 714**

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	5	9 394 917	–	–	–	–	9 394 917	9 394 917
International listed	5	38 258	–	–	–	–	38 258	38 258
Debt securities								
Government and local bonds	5	6 175 113	–	–	–	–	6 175 113	6 175 113
International listed	5	99 174	–	–	–	–	99 174	99 174
Unit trusts and pooled funds	5	4 503 522	–	–	–	–	4 503 522	4 503 522
Reinsurance assets	6	–	–	–	1 083	–	1 083	N/A
Insurance receivables	7	–	–	–	19 328	–	19 328	N/A
Prepayments	7	–	–	–	–	4 940	4 940	4 940
Other receivables	7	–	76 020	–	–	–	76 020	76 020
Reinsurance receivables	7	–	–	–	28 462	–	28 462	N/A
Cash and cash equivalents	8	1 944 323	82 521	–	–	–	2 026 844	2 026 844
Insurance contract liabilities	10	–	–	–	18 736 580	–	18 736 580	N/A
Investment contract liabilities	11	386 871	–	–	–	–	386 871	386 871
Liabilities to unit trust holders	12	2 726 268	–	–	–	–	2 726 268	2 726 268
Borrowings	13	–	–	24 941	–	–	24 941	24 941
Reinsurance payables	17	–	–	–	89 283	–	89 283	N/A
Insurance payables	17	–	–	–	11 340	–	11 340	N/A
Accruals and sundry creditors	17	–	–	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 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
Year ended 31 December 2013					
Opening net book amount	**58 300**	**26 970**	**25 494**	**5 806**	**116 570**
Revaluation surplus	**8 485**	**–**	**–**	**–**	**8 485**
Depreciation relating to revaluation	**(60)**	**–**	**–**	**–**	**(60)**
Additions	**3 324**	**8 290**	**12 772**	**445**	**24 831**
Disposals: Cost	**–**	**–**	**114**	**–**	**114**
Disposals: Accumulated depreciation	**–**	**–**	**(114)**	**–**	**(114)**
Depreciation charge	**(749)**	**(12 724)**	**(8 689)**	**(1 977)**	**(24 139)**
Closing net book amount	**69 300**	**22 536**	**29 577**	**4 274**	**125 687**
At 31 December 2013					
Cost or valuation	**78 810**	**72 806**	**66 711**	**11 031**	**229 358**
Accumulated depreciation	**(9 510)**	**(50 270)**	**(37 134)**	**(6 757)**	**(103 671)**
Net book amount	**69 300**	**22 536**	**29 577**	**4 274**	**125 687**
Non-current	**69 300**	**22 536**	**29 577**	**4 274**	**125 687**

The land and buildings revaluation reserve represents the capital appreciation on the owner-occupied property. As the properties are held to back insurance policy liabilities, with discretionary participation features, the movement in insurance policy liabilities as a result of the revaluation is recognised directly in equity.

Deferred tax has been provided on the revaluation difference arising on owner-occupied property in 2013 and 2012, based on the amounts and at the rate applicable to capital gains.

Owner-occupied property is carried at fair value and is classified as Level 3 in terms of the IFRS 7 hierarchy.

The Group's owner-occupied property was revalued at 31 December 2013 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 discounts 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	
	2013 R'000	2012 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		
	Investment property R'000	**Investment property under construction R'000**	**Total R'000**
Net Carrying Value			
Opening balance at 1 January 2012	–	–	–
Additions	45 023	–	45 023
Revaluation surplus	–	–	–
Net carrying value at 31 December 2012	45 023	–	45 023
Opening balance at 1 January 2013	**45 023**	**–**	**45 023**
Additions	**13 394**	**22 784**	**36 178**
Revaluation surplus	**1 784**	**–**	**1 784**
Net carrying value at 31 December 2013	**60 201**	**22 784**	**82 985**

Investment property was valued by an independent valuer on 31 December 2013. Valuations were performed using the discounted cash flow of future income stream method. Investment property is carried at fair value. Fair value measurement is classified at level 3.

Investment property under construction is carried at cost.

4. INTANGIBLE ASSET – SOFTWARE DEVELOPMENT COSTS

	Group	
	2013 R'000	2012 R'000
Cost beginning of year	**113 641**	97 616
Accumulated amortisation	**(77 153)**	(64 724)
Net book amount beginning of year	**36 488**	32 892
Additions	**20 903**	16 113
Amortisation	**(13 061)**	(12 517)
Closing net book amount	**44 330**	36 488
Cost	**134 544**	113 641
Accumulated amortisation	**(90 214)**	(77 153)
Net book amount end of year	**44 330**	36 488

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

	Group	
	2013 R'000	2012 R'000
Analysis of financial assets held at fair value through profit or loss		
Level 1 fair value financial assets		
Equity securities:		
– local listed	**10 488 141**	9 394 917
– international listed	**47 701**	38 258
	10 535 842	9 433 175
Debt securities – fixed interest rate:		
– government bonds and local listed	**7 976 672**	5 943 980
– international listed	**145 306**	99 174
	8 121 978	6 043 154
Total level 1 fair value financial assets	**18 657 820**	15 476 329

At 31 December, investments classified as Level 1 comprise approximately 76,2% (2012: 75,6%) 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.

	2013 R'000	2012 R'000
Level 2 fair value financial assets		
Debt securities – fixed interest rate:		
– government bonds and local listed	**231 308**	231 133
Unit trusts and pooled funds:		
– local pooled funds and unit trusts	**617 627**	536 309
– international equity unit trusts	**3 435 220**	2 639 523
– international fixed interest unit trusts	**417**	342
– international balanced unit trusts	**1 540 015**	1 327 348
	5 593 279	4 503 522
Total level 2 fair value financial assets	**5 824 587**	4 734 655
Total financial assets at fair value through profit or loss	**24 482 407**	20 210 984
The investment in local pooled funds and unit trusts comprises mainly of:		
Debt securities	**119 934**	26 205
Cash and cash equivalents	**26 396**	65 116
Equities	**293 208**	348 322
International	**178 089**	96 668

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

$1 = R10,49 (2012: $1 = R8,49)

N$1 = R1,00 (2012: N$1 = R1,00)

At 31 December, investments classified as Level 2 comprise approximately 23,8% (2012: 24,4%) 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 (2012: nil).

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for the year ended 31 December 2013 *(continued)*

	Group	
	2013 R'000	2012 R'000
Analysis of movements in financial assets held at fair value through profit or loss:		
Opening balance	**20 210 984**	16 766 761
Additions	**12 199 605**	10 923 887
Disposals at carrying value	**(10 644 097)**	(9 333 663)
Fair value net gains excluding net realised gains	**2 683 240**	1 855 642
Accrued interest movements	**32 675**	(1 643)
Closing balance	**24 482 407**	20 210 984
The spread of investments by sector:		
Industrial (%)	**40,5**	46,4
Financial (%)	**32,6**	30,4
Resources (%)	**26,9**	23,2
Maturity profile of fixed interest investments:		
Due in 1 year or less	**986 637**	702 102
Due between 1 year and 5 years	**3 516 380**	2 522 795
Due between 5 years and 10 years	**1 827 918**	1 266 043
Due after 10 years	**2 022 351**	1 783 346
	8 353 286	6 274 286

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.

6. REINSURANCE ASSETS AND LIABILITIES

	Group	
	2013 **R'000**	2012 R'000
Total assets arising from reinsurance contracts at beginning of the year	**1 083**	36 324
Transfer to reinsurance liabilities	**–**	(29 193)
Reinsurers' share of insurance policy liabilities	**(205)**	(6 048)
Total assets arising from reinsurance contracts at end of the year (note 10)	**878**	1 083
Non-current	**878**	1 083
REINSURANCE LIABILITIES		
Total liabilities arising from reinsurance contracts at beginning of the year	**89 283**	–
Transfer from reinsurance asset	**–**	(29 193)
Reinsurers' share of insurance policy liabilities	**34 445**	118 476
Total liabilities arising from reinsurance contracts at end of the year (note 10)	**123 728**	89 283
Non-current	**123 728**	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 7).

7. INSURANCE AND OTHER RECEIVABLES

	Group	
	2013 R'000	2012 R'000
Receivables arising from insurance and reinsurance contracts:	**55 630**	47 790
– due from contract holders	**38 482**	30 035
– less allowance for impairment losses from receivables from contract holders	**(9 708)**	(10 707)
– due from reinsurers	**26 856**	28 462
Other receivables:	**83 494**	76 020
– accrued interest	**5 450**	5 050
– accrued dividends	**830**	–
– other receivables	**77 214**	70 970
Prepayments	**4 997**	4 940
Total receivables including insurance receivables and prepayments	**144 121**	128 750
Current	**144 121**	128 750
Fair value of other receivables held at amortised cost	**83 494**	76 020
Allowances for impairment losses of receivables from contract holders		
Specific allowances for impairment		
At beginning of year	**10 707**	12 505
Impairment loss recognised	**1 138**	1 524
Impairment loss reversals	**(2 137)**	(3 322)
At end of year	**9 708**	10 707

8. CASH AND CASH EQUIVALENTS

	Group	
	2013 R'000	2012 R'000
Cash at bank and in hand	**293 387**	82 521
Level 2 fair value cash and cash equivalents		
Cash on call	**2 829 505**	1 944 323
Total Level 2 fair value cash and cash equivalents	**2 829 505**	1 944 323
Total cash and cash equivalents	**3 122 892**	2 026 844

The proportion of cash held to fund the working capital of the Group as part of the investment portfolio is 9,4% (2012: 4,1%) 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% (2012: 4,5%).

At 31 December, cash and cash equivalents classified as Level 2 comprise 100% (2012: 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.

9. 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 (2012: 2,6 times).This has resulted in R28,2 million (2012: R43,8 million) being allocated to accumulated funds in the current year.

10. INSURANCE POLICY LIABILITIES AND RELATED REINSURANCE ASSETS

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

(a) Process used to decide on assumptions

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

The determination of the non-DPF liabilities under long-term insurance contracts is dependent on estimates made by the Statutory Actuary. Any changes in estimates will impact on the size of the non-DPF policy liabilities and on the bonus rates the 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 1 January 2012 to 31 December 2012 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 1 January 2012 to 31 December 2012 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 8,3% (2012: 7,0%) 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% (2012: 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% (2012: 1,5%).

  Overall investment return: A weighted average rate of investment return is derived by combining different proportions of the above financial assets in a model portfolio, which is assumed to back the liabilities. The overall investment return was 8.9% gross of tax in 2013 (7,6% in 2012). 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% (2012: 2,75%) 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 is 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 2009 to 2013. 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 a decrease in liabilities of R98,5 million (2012: R220,0 million increase). The non-economic changes amounted to a R1,0 million increase (2012: R15,5 million decrease) in liabilities.

(c) *Sensitivity analysis*

The following table presents 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 2013 R'000**	**% change**	Change in liability 2012 R'000	% change
Liability per note 10.2		**3 330 812**		3 389 523	
Worsening in mortality	**10**	**980 703**	**29,44**	1 153 156	34,02
Worsening of morbidity rates	**10**	**578 971**	**17,38**	580 599	17,13
Worsening in Permanent Incapacity inception rate	**10**	**365 765**	**10,98**	287 352	8,48
Lowering of investment returns	**(1)**	**739 305**	**22,20**	917 480	27,02
Lowering of terminations	**(10)**	**93 603**	**2,81**	114 533	3,38
Worsening of maintenance expense level	**10**	**484 921**	**14,56**	405 123	11,95
Worsening of expense inflation rate	**10**	**323 099**	**9,70**	229 133	6,76

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 2012 and 2013:

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

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

	Group					
	2013			2012		
	Gross R'000	**Re-insurance R'000**	**Net R'000**	Gross R'000	Re-insurance R'000	Net R'000
Sickness and disability policies						
– Claims payable (notified claims)	**14 922**	**–**	**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 beginning of the year	**18 736 580**	**(88 200)**	**18 824 780**	16 278 928	36 324	16 242 604

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	Group					
	2013			2012		
	Gross R'000	Re-insurance R'000	Net R'000	Gross R'000	Re-insurance R'000	Net R'000
Change in Insurance policy liabilities per Statement of Comprehensive Income	**3 464 076**	**(34 650)**	**3 498 726**	2 501 326	(124 524)	2 625 850
Change in insurance policy liabilities per Statement of Changes in Equity	**8 066**	**–**	**8 066**	1 547	–	1 547
Movement in claims liabilities						
– arising from current year claims	**(14 895)**	**–**	**(14 895)**	(38 349)	–	(38 349)
– arising from prior year claims	**23 552**	**–**	**23 552**	(6 872)	–	(6 872)
Total movement in insurance policy liabilities	**3 480 799**	**(34 650)**	**3 515 449**	2 457 652	(124 524)	2 582 176
Total movement allocated	**3 480 799**	**(34 650)**	**3 515 449**	2 457 652	(124 524)	2 582 176
Sickness and disability policies						
– Claims payable (notified claims)	**1 779**	**–**	**1 779**	6 720	–	6 720
– Unintimated claims (IBNR)	**(5 017)**	**–**	**(5 017)**	(1 482)	–	(1 482)
– Non-DPF liability	**(93 776)**	**(35 064)**	**(58 712)**	195 275	(122 214)	317 489
– Cessation benefits (notified claims)	**(1 943)**	**–**	**(1 943)**	(111 016)	–	(111 016)
– DPF liability	**3 552 911**	**–**	**3 552 911**	2 314 657	–	2 314 657
Life policies						
– Claims payable (notified claims)	**18 484**	**–**	**18 484**	56 633	–	56 633
– Unintimated claims (IBNR)	**(4 187)**	**–**	**(4 187)**	4 137	–	4 137
– Life assurance policy reserve	**3 802**	**414**	**3 388**	(2 581)	(2 310)	(271)
Other benefits and liabilities	**8 746**	**–**	**8 746**	(4 691)	–	(4 691)

	Group					
	2013			2012		
	Gross R'000	Re-insurance R'000	Net R'000	Gross R'000	Re-insurance R'000	Net R'000
Analysis of balance at the end of the year:						
Sickness and disability policies						
– Claims payable (notified claims)	**16 701**	**–**	**16 701**	14 922	–	14 922
– Unintimated claims (IBNR)	**27 832**	**–**	**27 832**	32 849	–	32 849
– Non-DPF liability	**3 207 337**	**(123 474)**	**3 330 811**	3 301 113	(88 410)	3 389 523
– Cessation benefits (notified claims)	**122 304**	**–**	**122 304**	124 247	–	124 247
– DPF liability	**18 705 124**	**–**	**18 705 124**	15 152 213	–	15 152 213
Life policies						
– Claims payable (notified claims)	**79 863**	**–**	**79 863**	61 379	–	61 379
– Unintimated claims (IBNR)	**5 581**	**–**	**5 581**	9 768	–	9 768
– Life assurance policy reserve	**12 077**	**624**	**11 453**	8 275	210	8 065
Other benefits and liabilities	**40 560**	**–**	**40 560**	31 814	–	31 814
Total at the end of the year	**22 217 379**	**(122 850)**	**22 340 229**	18 736 580	(88 200)	18 824 780
Current	**292 841**	**–**	**292 841**	274 979	–	274 979
Non-current	**21 924 538**	**(122 850)**	**22 047 388**	18 461 601	(88 200)	18 549 801
Total	**22 217 379**	**(122 850)**	**22 340 229**	18 736 580	(88 200)	18 824 780

	Group 2013 R'000	2012 R'000
The non-DPF liabilities developed as follows:		
Liabilities at start of year	**3 389 523**	3 072 034
Unwinding of discount rate	**205 175**	226 007
Expected cash flows	**(23 653)**	377 468
Expected risk liability at year-end	**3 571 045**	3 675 509
Impact of movements	**133 833**	(36 529)
Change in valuation assumptions	**(98 478)**	205 467
Asset value adjustments	**1 750**	3 456
Risk benefit liability for new business issued	**(277 339)**	(458 380)
Liabilities at end of year	**3 330 811**	3 389 523
The DPF liabilities developed as follows:		
Liabilities at start of year	**15 152 213**	12 837 556
Claims paid during the year	**(664 198)**	(636 289)
Allocation of interest and dividends	**4 236 820**	3 022 839
Transfer from investment policyholder liabilities	**7 330**	(741)
Asset value adjustments	**(27 041)**	(71 152)
Liabilities at end of year	**18 705 124**	15 152 213
Analysis of total insurance policy liabilities, net of reinsurance:		
Non-DPF liabilities	**3 330 811**	3 389 523
DPF liabilities	**18 705 124**	15 152 213
Life assurance policy reserve	**11 453**	8 065
Current liabilities	**292 841**	274 979
Liabilities at end of year	**22 340 229**	18 824 780

11. INVESTMENT CONTRACT LIABILITIES

	Group 2013 R'000	2012 R'000
Level 2 fair value investment contract liabilities		
Linked investment contracts	**617 920**	386 871
Non-current	**617 920**	386 871

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	**2013 R'000**	2012 R'000
Linked contracts		
Balance at 1 January	**386 871**	221 311
Contributions received during the year	**182 971**	150 415
Fair value of policyholder liabilities under investment contracts	**74 389**	37 086
Net investment return credited to account balances	**79 506**	40 575
Net fees and charges deducted from account balances	**(5 117)**	(3 489)
Benefit payments	**(26 311)**	(21 941)
Balance at 31 December	**617 920**	386 871

12. LIABILITIES TO UNIT TRUST HOLDERS

	Group	
	2013 R'000	2012 R'000
Level 2 fair value liabilities to unit trust holders		
Balance at 1 January	**2 726 268**	1 954 410
Investment by unit trust holders	**2 304 294**	1 251 069
Redemptions by unit trust holders	**(1 171 575)**	(763 975)
Revaluation of liabilities to unit trust holders	**400 073**	284 764
Balance at 31 December	**4 259 060**	2 726 268
Current	**4 259 060**	2 726 268

Liabilities to unit trust holders are classified as Level 2, as the fair value of the unit trust funds are derived from unit prices published by the unit trust fund managers.

13. BORROWINGS

Group	Carrying amount and fair value 2013 R'000	2012 R'000
Amortised cost		
Outside shareholder loan in PPS Investments (Unsecured)	**–**	24 941
Mortgage loan (Secured)	**8 454**	–
Outside shareholder loan in PPS Property Fund Trust (Unsecured)	**4 743**	–
Total borrowings	**13 197**	24 941
Current	**6 002**	24 941
Non-current	**7 195**	–

Outside shareholder loan in PPS Investments carries interest at Nedbank Deposit rates. This loan was acquired by PPS Insurance Company Limited effective 1 October 2013 at carrying value. 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.

The mortgage loan bears interest at prime less 0,5% and payable monthly over 10 years, commencing on 1 September 2013. It is secured by a R9,1 million mortgage bond.

The outside shareholder loan in PPS Property Fund Trust carries interest at prime less 1%. The loan bears no fixed repayment term and is classified as short term.

14. DEFERRED TAX

	Group 2013 R'000	2012 R'000
Deferred tax assets:		
Provisions and impairments	**17 258**	16 269
Tax losses carried forward	**43 977**	38 720
End of year	**61 235**	54 989
Deferred tax liabilities:		
Unrealised gains on investments	**465 271**	218 768
Unrealised gains on land and buildings revaluation	**1 965**	1 607
End of year	**467 236**	220 375
Current asset	**17 258**	16 269
Non-current asset	**43 977**	38 720
Non-current liability	**467 236**	220 375

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 2012	51 134
Credited to the Statement of Comprehensive Income	3 855
At 31 December 2012	54 989
Credited to the Statement of Comprehensive Income	**6 246**
At 31 December 2013	**61 235**

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 2012	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
Debited to the Statement of Comprehensive Income	**276 997**	**–**	**276 997**
Debited to equity	**–**	**359**	**359**
Transfer to current income tax liabilities	**(30 495)**	**–**	**(30 495)**
At 31 December 2013	**465 270**	**1 966**	**467 236**

15. RETIREMENT BENEFIT OBLIGATIONS

	Group	
	2013 R'000	2012 R'000
Statement of Financial Position obligations for:		
– post-retirement medical benefits	**7 384**	54 816
	7 384	54 816
Statement of Comprehensive Income charge for (note 24):		
– post-retirement medical benefits	**16 661**	16 175
	16 661	16 175

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.

During 2013, the Group made an offer to settle this post retirement medical aid benefit to current and retired staff. 54 decided to exercise this option resulting in a cash settlement of R62.6 million being paid. 6 individuals elected to retain this benefit.

The amounts recognised in the Statement of Financial Position were determined as follows:

	Group	
	2013 R'000	2012 R'000
Present value of unfunded obligations	**7 384**	63 304
Unrecognised actuarial losses	**–**	(8 488)
Liability in the Statement of Financial Position	**7 384**	54 816
The latest actuarial valuation of the Group's post-employment benefits, carried out at 31 December 2013 indicated a present value of projected future benefits amounting to R7,3 million (2012: R54,8 million).		
The movement in the post-employment medical benefit obligation was as follows:		
Post-employment medical benefit obligation at beginning of year (1 January)	**63 304**	58 117
Current service cost	**1 502**	1 780
Interest cost	**5 064**	4 723
Benefits paid	**(1 492)**	(1 620)
Settlement	**(62 601)**	–
Actuarial losses recognised during the year	**1 607**	304
Post-employment medical benefit obligation at end of year (31 December)	**7 384**	63 304

	Group	
	2013 **R'000**	2012 R'000
The amounts recognised in the Statement of Comprehensive Income are as follows:		
Current service cost	**1 502**	63 304
Interest cost	**5 064**	–
Actuarial losses recognised during the year	**10 095**	9 672
Total included in staff costs (note 24)	**16 661**	72 976
The principal actuarial assumptions used were as follows:		
Discount rate based on the Long-term Bond Index (%)	**8,44**	9,50
Medical cost inflation (%)	**7,94**	9,00

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	2009 R'000	2010 R'000	2011 R'000	2012 R'000	**2013** **R'000**
Trend information					
Present value of obligations	43 203	46 208	58 117	63 304	**7 384**
Experience adjustments (actuarial (loss)/gain before changes in assumptions) in respect of present value of obligations	(2 320)	(96)	(1 459)	(1 706)	**7 384**

Sensitivity results

Group	Healthcare cost inflation		
	Central assumption 9,00%	R'000 (1)%	R'000 1%
Accrued liability 31 December 2013 (R'000)	7 384	6 792	8 064
Percentage change (%)		(8,00)	9,20
Current service cost plus interest cost 2012/2013 (R'000)	597	548	656
Percentage change (%)		(8,40)	9,60

Group	Central assumption 9,00%	5% for 5 years	10% for 5 years
Accrued liability 31 December 2013 (R'000)	7 384	8 861	10 602
Percentage change (%)		20,00	43,58

Group	Discount rate		
	Central assumption 9,50%	R'000 (1)%	R'000 1%
Accrued liability 31 December 2013 (R'000)	7 384	8 101	6 771
Percentage change (%)		9,71	(8,30)

Group	Expected retirement age		
	Central assumption 65 years	R'000 1 year younger	R'000 1 year older
Accrued liability 31 December 2013	7 384	7 384	7 384
Percentage change (%)		–	–

16. EMPLOYEE RELATED OBLIGATIONS

	Group	
	2013 R'000	2012 R'000
Leave pay accrual		
Opening balance	**15 410**	12 671
Charged to the Statement of Comprehensive Income		
– additional provisions	**10 911**	10 736
Used during the year	**(8 554)**	(7 997)
Closing balance	**17 767**	15 410
Current	**17 767**	15 410
Provision for performance related incentives		
Opening balance	**62 533**	44 968
Charged to the Statement of Comprehensive Income		
– additional provisions (executive directors and employees)	**67 308**	56 244
Used during the year	**(52 176)**	(38 679)
Closing balance	**77 665**	62 533
Total provisions	**95 432**	77 943
Current	**41 866**	33 179
Non-current	**35 799**	29 354

17. INSURANCE AND OTHER PAYABLES

	Group	
	2013 R'000	2012 R'000
Payables arising from insurance and reinsurance contracts:		
– due to contract holders	**29 738**	22 913
– due to contract holders – life assurance policy	**415**	514
– reinsurance payables	**13 378**	11 340
– subscriptions received in advance	**3 979**	1 554
Other payables:		
– accruals	**62 612**	69 834
– employees tax	**9 010**	6 593
– sundry creditors	**13 601**	12 602
– related parties	**1 491**	1 523
Total insurance and other payables	**134 224**	126 873
Current	**134 224**	126 873

18. NET INSURANCE PREMIUM REVENUE

	Group	
	2013 R'000	2012 R'000
Individual premiums from policyholders	**2 310 107**	2 038 279
Group reinsurance premiums inwards	**206 081**	212 318
Premium revenue arising from insurance contracts issued	**2 516 188**	2 250 597
Individual premium revenue ceded to reinsurers on insurance contracts issued	**(155 256)**	(131 318)
Net insurance premium revenue	**2 360 932**	2 119 279

19. OTHER INCOME

	Group	
	2013 R'000	2012 R'000
Policy administration and collection services	**23 334**	22 068
Administration fees	**175 318**	169 839
Investment management services	**53 264**	33 472
Commission	**22 409**	23 954
Rental income	**7 486**	820
Profit share	**–**	(1 133)
– Current year	**–**	79
– Prior year over provision	**–**	(1 212)
Other income	**281 811**	249 020

20. INVESTMENT INCOME

	Group	
	2013 R'000	2012 R'000
Net revaluation profits on financial assets held at fair value through profit or loss consist of the following components:		
– Interest income	**495 515**	468 240
– Dividend income	**247 756**	235 642
– Net realised gains on disposal of financial assets	**779 991**	556 758
– Net realised foreign exchange gains	**9 178**	124 430
Total investment income	**1 532 440**	1 385 070

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21. 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	
	2013 R'000	2012 R'000
Designated at fair value through profit or loss on initial recognition		
Interest income	**495 515**	468 240
Dividend income	**247 756**	235 642
Net gains on disposal of financial assets	**779 991**	556 758
Net foreign exchange gains	**9 178**	124 430
Total investment income	**1 532 440**	1 385 070
Revaluation of liabilities to unit trust holders	**400 073**	284 764
Fair value gains on investment property	**1 784**	–
Net unrealised gains on revaluation of financial assets	**2 283 167**	1 570 878
Net revaluation profits on financial assets held at fair value through profit or loss	**2 685 024**	1 855 642
Total net gains recognised in the Statement of Comprehensive Income	**4 217 464**	3 240 712

22. NET INSURANCE BENEFITS AND CLAIMS

	Group	
	2013 R'000	2012 R'000
Gross		
Long-term insurance contracts with and without DPF		
– Individual sickness and incapacity benefits: current year	**550 615**	536 971
– Individual sickness and incapacity benefits: under/(over) provision for prior year	**23 552**	(6 872)
– Group non-DPF component of death benefits	**369 056**	383 311
– Individual DPF component of death, retirement and resignation benefits	**583 445**	577 404
Total gross insurance benefits and recoveries	**1 526 668**	1 490 814
Reinsurance recoveries		
Long-term insurance contracts with and without DPF		
– Individual sickness and incapacity benefits	**(26 254)**	(25 090)
– Death benefits	**(61 321)**	(79 799)
Total reinsurance recoveries	**(87 575)**	(104 889)
Total net insurance benefits and claims	**1 439 093**	1 385 925

23. EXPENSES

	Group	
	2013 R'000	2012 R'000
Costs incurred for the acquisition of insurance contracts expensed in the year	**152 032**	147 452
– Sickness and incapacity policies	**94 426**	87 617
– Whole life policies	**57 606**	59 835
Multi-managers' fees – PPS Investments	**45 065**	33 271
Marketing and administrative expenses include:		
– Amortisation of intangible asset (note 4)	**13 061**	12 517
– Auditors' remuneration	**4 922**	4 465
– Audit fees	**4 264**	3 948
– Other services	**658**	517
– Data processing and information technology systems maintenance	**70 695**	67 262
– Depreciation on property and equipment (note 2)	**24 139**	22 007
– Directors/Trustees and executive remuneration	**25 487**	22 622
– Directors/Trustees – non executive	**4 709**	3 852
– Directors of other subsidiaries	**2 185**	1 669
– Executive directors of PPS Insurance	**18 593**	17 101
– Employee benefit expenses (note 24)	**428 900**	385 439
– Fees for services	**12 262**	9 217
– Actuarial	**6 886**	5 071
– Legal	**3 972**	2 868
– Internal audit	**1 404**	1 278
– Investment management fees	**67 475**	60 718
– Maintenance, product development and other administration expenses	**104 648**	101 126
– Operating lease rentals	**25 329**	24 470
– Reversal of impairment of insurance and other receivables (note 7)	**(999)**	(1 799)
Total expenses	**973 016**	888 767

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

24. EMPLOYEE BENEFIT EXPENSES

	Group	
	2013 R'000	2012 R'000
Salaries and related costs	**322 036**	292 173
Pension costs – defined contribution plans	**32 195**	29 223
Other post-employment benefits (note 15)	**16 661**	16 175
Performance-related incentives	**58 008**	47 868
Total employee benefit expenses	**428 900**	385 439

25. TAX

	Group	
	2013 R'000	2012 R'000
Current tax		
– Current year tax	**193 053**	212 865
– Prior year over provision	**(71 933)**	(122)
Deferred tax	**270 752**	125 108
Dividend withholding tax	**38 847**	13 727
Total tax	**430 719**	351 578
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	**4 373 709**	3 297 234
Tax calculated at domestic tax rates applicable to profits in South Africa/Namibia	**1 127 365**	838 197
Tax effect of income not subject to tax	**(1 358 178)**	(1 076 264)
Tax effect of non-deductible expenses	**551 934**	573 732
Tax effect of tax rate on Dividend Withholding Tax being different to tax rate on the individual policyholder fund ('IPF')	**32 993**	11 897
Prior year under-provision	**71 933**	122
Assessed loss utilised in the current year	**(598)**	–
Unrecognised deferred tax asset not raised on estimated tax loss	**834**	–
Deferred tax raised – prior year	**(7 113)**	–
Tax effect of change in CF tax rate	**11 549**	3 894
Total tax per Statement of Comprehensive Income	**430 719**	351 578

The applicable tax rate was 28% (2012: 28%) for South African companies and 33% (2012: 34%) for 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 policyholders' 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 R154,5 million (2012: R138,3 million) available in certain subsidiaries for offset against future taxable income in those subsidiaries.

26. CASH GENERATED FROM OPERATIONS

	Group	
	2013 R'000	2012 R'000
Reconciliation of profit before movement in insurance policy liabilities to cash generated by operations:		
Profit before movement in policy liabilities	**4 373 709**	3 297 234
Investment contract receipts	**182 971**	150 415
Investment contract surrenders	**(26 311)**	(21 941)
Adjustments for:		–
– Depreciation	**24 139**	22 007
– Fair value of policyholder liabilities under investment contracts	**74 389**	37 086
– Amortisation of intangible asset	**13 061**	12 517
– Realised profit on disposal of property and equipment	**(88)**	(235)
– Investment income	**(1 532 440)**	(1 385 070)
– Net revaluation profit on financial assets held at fair value through profit or loss	**(2 685 024)**	(1 855 642)
Changes in working capital:		
– Insurance and other receivables	**(14 141)**	(42 049)
– Insurance and other payables	**(22 592)**	26 735
– Insurance policy liabilities	**8 657**	(45 221)
Cash generated from operations	**396 330**	195 836

27. TAX PAID

	Group 2013 R'000	2012 R'000
Tax payable/(receivable) at beginning of year	**52 252**	(20 389)
Current tax as per Statement of Comprehensive Income	**159 968**	226 470
Transfer from deferred tax liability	**30 495**	36 544
Tax receivable/(payable) at end of year	**37 785**	(52 252)
Total tax paid	**280 500**	190 373

28. COMMITMENTS

	Group 2013 R'000	2012 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	**157 671**	54 453
(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 23.		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Due in 1 year or less	**19 525**	21 512
Due between 1 year and 5 years	**26 167**	40 375
Due after 5 years	**–**	1 079

29. DIRECTORS'/TRUSTEES' REMUNERATION

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 N Aboobaker	116 750	27 100	143 850
Dr D R Anderson	40 550	815 000	855 550
Ms U Botha	123 275	–	123 275
Dr N G Campbell	137 900	101 100	239 000
Ms D L T Dondur	157 425	130 250	287 675
Mr J A B Downie	171 590	108 200	279 790
Dr D P du Plessis (Appointed 3 June 2013)	70 250	–	70 250
Mr Y N Gordhan	145 900	131 850	277 750
Mr UD Jivan	129 800	33 600	163 400
Mr I Kotzé	129 800	–	129 800
Dr C M Krüger	129 800	16 800	146 600
Mr E A Moolla	388 725	134 200	522 925
Dr J Patel	129 800	–	129 800
Dr D G C Presbury (Retired 3 June 2013)	53 450	51 400	104 850
Mr P Ranchod	129 800	57 200	187 000
Mr V P Rimbault	123 275	–	123 275
Dr S N E Seoka	251 820	117 900	369 720
Dr MW Sonderup	123 275	–	123 275
Mr D L Smollan (Appointed 3 June 2013)	57 200	–	57 200
Mr S Trikamjee	136 025	–	136 025
Mr H A C van den Bout	129 800	8 700	138 500
Mr B R Topham (Resigned 3 June 2013)	61 550	37 850	99 400
Total	**2 937 760**	**1 771 150**	**4 708 910**

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 in 100% of the shares of Professional Provident Society Insurance Company Limited, which it acquired from Professional Provident Society NPC during 2011. Professional Provident Society NPC formerly was a company 'limited by guarantee' and has been deregistered.

Subsidiaries

PPS's related parties are its subsidiary company Professional Provident Society Insurance Company Limited, as well as Professional Provident Society Insurance Company (Namibia) Limited, Plexus Properties Proprietary Limited, Professional Medical Scheme Administrators Proprietary Limited, Professional Provident Society Marketing Services Proprietary Limited, Professional Provident Society Investments Proprietary Limited, Professional Provident Society Multi-Manager Proprietary Limited, PPS Management Company Proprietary Limited (RF), The PPS Property Fund Trust, PPS Property Fund Proprietary Limited and PPS Black Economic Empowerment SPV Proprietary Limited, which are subsidiary companies of Professional Provident Society Insurance Company Limited.

Key management information

Key management personnel have been defined as all trustees of The Professional Provident Society Holdings Trust and group executive committee members, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management personnel. A complete list of trustees of The Professional Provident Society Holdings Trust is disclosed in the trustees' report.

The PPS Group appoints its prescribed officers at the PPS Insurance entity level.

Aggregate details of insurance between The Professional Provident Society Holdings Trust, any of its subsidiaries, and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management personnel are set out below:

	Group	
	2013 R'000	2012 R'000
Life and disability cover	**183 230**	157 154
– Premiums	**949**	918
– Claims	**–**	–
Sickness benefit cover	**4 128**	4 455
– Premiums	**786**	879
– Claims	**235**	81
PPS Profit-Share Account	**10 472**	8 829
Motor and household cover	**168 878**	179 766
– Premiums	**608**	363
– Claims	**633**	192
Investment contracts	**30 514**	24 413

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

The aggregate compensation of The Professional Provident Society Holdings Trust trustees and Professional Provident Society Insurance Company Limited executives paid by the Group is set out below:

	Group	
	2013 R'000	2012 R'000
Salaries and other employee benefits	**21 619**	17 999
Performance payments	**16 390**	13 360
Trustee/Director remuneration	**4 734**	3 852
	42 743	35 211

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 10.1.

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 24 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 9,00% (2012: 9,25%), the average rentals for office space in the area (R115 per square metre) (2012: R105 per square metre), and estimated annual expenses relating to the building of R1 115 000 (2012: R1 383 910). 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% (2012: 14,0%), the turnover of staff participating in the scheme (nil) (2012: 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.

31.7 Consolidation of entities in which the Group holds less than 50%

The trustees have concluded that the Group controls unit trusts managed by Professional Provident Society Investments Proprietary Limited, even though it holds less than half of the economic interest in some of these funds. The trustees deem it prudent to consolidate all these unit trusts in the annual financial statements of the Group, regardless of economic interest held by the Group.

32. CHANGE IN ACCOUNTING POLICY

IFRS 10, 'Consolidated Financial Statements', became effective in the current financial year. As a consequence, it became necessary to consolidate certain unit trust funds deemed to be controlled by PPS. As required under IFRS 10, the change in policy has been applied retrospectively and, as a consequence, adjustments were recognised in the financial statements as of 1 January 2012. The tables below show the effect of the change in accounting policy on individual line items in each of the financial statements. Line items that were not affected by the change have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Prior year restatement

Income Statement (extract)	2012 Restated R'000	Profit: (Increase)/ decrease R'000	2012 Previously stated R'000
Net revaluation profits on financial assets held at fair value through profit or loss	1 855 642	(84 631)	1 771 011
Attributable to unit trust holders	(284 764)	84 631	(200 133)

Statement of cash flows (extract)	2012 Restated R'000	Increase/ (decrease) R'000	2012 Previously stated R'000
Purchase of financial assets	(9 672 818)	668 778	(9 004 040)
Proceeds from disposal of financial assets	9 250 876	(420 057)	8 830 819
Net increase in cash and bank	205 256	248 721	453 977
Cash and bank at beginning of year	1 821 588	(668 778)	1 152 810
Cash and bank at end of year	2 026 844	(420 057)	1 606 787

Balance Sheet (extract)	2012 Restated R'000	Increase/ (decrease) R'000	2012 Previously stated R'000
ASSETS			
Financial assets – Investments at fair value through profit or loss	20 210 984	(550 482)	19 660 502
Cash and cash equivalents	2 026 844	(420 057)	1 606 787
Total assets	22 626 762	(970 539)	21 656 223
LIABILITIES			
Liabilities to unit trust holders	2 726 268	(970 539)	1 755 729
Total liabilities	22 502 233	(970 539)	21 531 694
Total equity and liabilities	22 626 762	(970 539)	21 656 223

33. MANAGEMENT OF RISKS

33.1 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;
- coordinates the Group's relationship with its regulators;

- evaluates the impact of forthcoming legislative regulatory changes and provides advice on potential process and control changes required and whether the proposed control will be adequate;
- reports to 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.

33.2 Insurance product risk management

General

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

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

The table on page 157 to 159 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 permanent incapacity benefit options with differing premium rates and benefit levels. The premium rates and benefits are not guaranteed and may be revised at the discretion of the insurer. To qualify for sickness and permanent incapacity benefits, the applicant must apply for cover units. Such a benefit entitles a policyholder to claim an amount determined by the units of cover for sickness and incapacity, held by a policyholder. The amount of cover units obtainable are limited by the applicant's annual gross professional income and maximum limits applied by the Group. The non-DPF component of this product is the sickness and incapacity cover. The DPF component of this product is the PPS Profit-Share Account. These policies are sold to individuals.

Type of contract	Terms and conditions
Professional Life Provider (PPS Provider Policy) Old Generation PPS Life & Disability Assurance Scheme	The policy offers lump sum life and disability cover for a specified term or whole life. The premiums are payable monthly and are age rated. The premium increases after the policyholder's birthday. For this new generation of life and disability policies, PPS Insurance is the risk carrier. The previous generation of policies are classified as being part of a grouped individual policy. For these policies Sanlam is the insurer with significant reinsurance back to PPS Insurance. This class is closed for new business. A reinsurance policy to reduce the variability of the claims expenses is in place. These policies transfer insurance risk only, are accounted for as reinsurance inwards, and do not contain a DPF component.
Professional Health Provider (PPS Provider Policy) Professional Health Preserver	The Professional Health Provider (Provider PHP) was launched in 2007, as an enhanced product based on the Professional Health Preserver (PHP) (which was launched in 2004). These products pay a lump sum benefit according to severity levels upon assessment of standard dread disease conditions and physical impairment events. The premiums increase annually with age. The premiums are not guaranteed and may be revised at the discretion of the insurer. Professional Health Preserver (PHP) is the previous generation product which pays a lump sum benefit, according to severity levels, upon assessment of standard dread disease conditions and physical impairment events. PHP is closed to new business. The premiums for this cover are determined according to age, and increase annually held to individuals. 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.
Professional Disability Provider (PPS Provider Policy)	In 2009, PPS launched the Professional Disability Provider which 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 diagnoses of a severe dread disease (like a stage 3 or 4 cancer, or advanced Alzheimer's). The premiums are payable monthly and are age rated. The premium increases on the 1st of the month following the life insured's birthday. 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 Provider Policy	The PPS Provider Policy contains a DPF component, being the PPS Profit-Share Account. This component continues until retirement, or earlier cancellation of the policy. No premium is payable for the DPF component.

Type of contract	Terms and conditions
Business Provider (PPS Provider Policy)	In 2007, PPS introduced two products tailored for the business insurance market, namely 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 pay out for the more sever critical illness and physical impairment conditions only. The premiums for both products increase annually with age. The premiums 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 was launched in 2007 and 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.
PPS Living Annuity	The PPS Living Annuity was launched in 2007. It is a compulsory purchase linked 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 sickness and incapacity contracts include a DPF element. The participating nature of these contracts results in the insurance risk being carried by the insured parties. All variations in claims, persistency or termination rates are carried by the insured parties by means of variations in the amounts allocated to the DPF element. However, the Group continues to manage the insurance risk in order to maximise the benefits available to policyholders.

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

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

Insurance contracts

(a) ***Frequency and severity of claims***

For contracts where morbidity is the insured risk, the most significant factors that could increase the overall frequency of claims are diseases (such as AIDS), epidemics (such as Cholera and SARS), economic conditions, abnormal weather conditions, quality of healthcare or widespread changes in lifestyle, such as 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.

Further, undue concentration of risks by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Group manages these risks through its underwriting strategy. The underwriting strategy ensures that the risks underwritten are drawn from specified professions only. Medical selection is also included in the Group's underwriting procedures where premium loadings or benefit exclusions may be imposed which reflect the health condition and family medical history of the applicants. The Group has maximum exposure limits in respect of any single life insured. Where appropriate, reinsurance contracts are in place to limit the Group's ultimate liability. Maximum exposures are determined relative to gross professional income to ensure that policyholders are not over-insured. These limits are increased annually in line with expected salary inflation for professionals.

Where appropriate, reinsurance contracts are in place to limit the Group's potential liability and to mitigate the impact on PPS of variability of claims. 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
2013	**4 914 492**	**46 715**
2012	4 581 801	42 834

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.

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

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 2013 R'000	**Non-DPF component of insurance liabilities**	**DPF component of insurance liabilities**	**Total**
South Africa			
Gross	**3 062 666**	**18 056 573**	**21 119 239**
Net of reinsurance	**3 186 922**	**18 056 573**	**21 243 495**
Namibia			
Gross	**144 671**	**575 915**	**720 586**
Net of reinsurance	**143 890**	**575 915**	**719 805**

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

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.

33.3 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 reviewed on a quarterly basis with the respective asset managers.

Credit and counterparty risk

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

- debt securities and cash and cash equivalents;
- amounts due from insurance and investment contract policyholders;
- amounts due from intermediaries;
- reinsurers' share of insurance liabilities; 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, a formal communication is sent to members after the first month and second month of premium defaults. In the third month of default, members are informed that premium collections have ceased and all benefits are suspended. In the event of default on the part of the individual, where the Apportionment Account has vested to the individual, there is a legal right of offset of the Apportionment Account against any outstanding premiums payable. This significantly reduces the credit risk on insurance policyholder recoverables.

The Group only enters into reinsurance agreements with reinsurers registered with the 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 of 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**	**2013**	2012
Debt securities	**8 473 220**	6 049 477
Reinsurance assets	**878**	1 083
Insurance receivables	**28 774**	19 328
Cash and cash equivalents	**3 149 288**	1 737 022
Other receivables	**83 494**	75 931
Reinsurance receivables	**26 856**	28 462
Total	**11 762 510**	7 991 303

Corporate and government debt

Included in the category designated at fair value through profit or loss are interest instruments of corporate and government debt. Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt. To mitigate this risk, management has formulated guidelines based on ratings from Standard and Poor's, 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 R8 473 million (2012: R6 049 million) at 31 December 2013. The following represent the major industry sectors to which the Group is exposed as at 31 December 2013:

Group Rm	2013	2012
Government	**3 028**	1 951
Banks	**2 574**	3 174
Utilities	**216**	618
Corporate	**2 655**	306
Total	**8 473**	6 049

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 2013 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	3 340 607	3 696 320	1 337 005	99 289	–	8 473 221
Reinsurance assets	–	–	878	–	–	878
Insurance receivables	–	–	–	–	28 774	28 774
Cash and cash equivalents	373 875	2 770 422	–	4 992	–	3 149 289
Other receivables	–	–	–	–	83 494	83 494
Reinsurance receivables	–	–	26 856	–	–	26 856

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	–	–	1 083	–	–	1 083
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	–	–	28 462	–	–	28 462

Ageing of financial assets

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

Group 2013 R'000	**Neither past due nor impaired**	**Financial assets that are past due**			**Carrying value**
		0 – 2 months	**3 – 5 months**	**More than 5 months**	
Insurance receivables	**12 619**	**1 399**	**183**	**14 573**	**28 774**
Reinsurance assets	**878**	**–**	**–**	**–**	**878**
Reinsurance receivables	**22 690**	**4 166**	**–**	**–**	**26 856**
Other receivables	**72 620**	**10 823**	**51**	**–**	**83 494**
Cash and cash equivalents	**3 149 289**	**–**	**–**	**–**	**3 149 289**

Group 2012 R'000	Neither past due nor impaired	Financial assets that are past due			Carrying value
		0 – 2 months	3 – 5 months	More than 5 months	
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

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	**2013** Gross	 Impairment losses	 Net	2012 Gross	 Impairment losses	 Net
Due from contract holders	**38 482**	**9 708**	**28 774**	30 035	10 707	19 328

Liquidity risk

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

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

- Policyholder funds are invested in assets that in aggregate match the reasonable benefit expectation of policyholders, which includes the expectation that funds will be available to pay out benefits as required by the insurance contract.
- Policyholder funds are primarily invested in assets that are listed financial instruments on various stock and bond exchanges and cash or cash equivalents that are actively traded on the various stock and bond exchanges, resulting in the ability to liquidate most of these investments at relatively short notice to be able to timeously pay out benefits as required by the policy contract. Some policyholder funds are invested in less liquid assets, such as fixed property, but not to the extent that this creates a material liquidity risk in meeting commitments to policyholders.
- Furthermore, the operational cash flow is sufficient to cover cash flow of a normal operational nature for example, in order to settle outstanding trade creditor balances.

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

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

Group 2013 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	**18 705 124**	**18 705 124**	**1 016 171**	**2 883 513**	**4 067 444**	**6 597 884**	**4 140 112**
Insurance contract liabilities – non-DPF	**3 330 812**	**(6 644 119)**	**456 150**	**1 209 365**	**670 146**	**396 226**	**(9 376 006)**
Reinsurance payables	**13 378**	**13 378**	**13 378**	**–**	**–**	**–**	**–**
Third-party financial liabilities arising on consolidation of unit trusts	**4 259 060**	**4 259 060**	**4 259 060**	**–**	**–**	**–**	**–**
Investment contract liabilities	**617 920**	**617 920**	**617 920**	**–**	**–**	**–**	**–**
Other financial liabilities	**86 714**	**86 714**	**86 714**	**–**	**–**	**–**	**–**

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	472 316	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	2 726 268	2 726 268	2 726 268	–	–	–	–
Investment contract liabilities	386 871	386 871	386 871	–	–	–	–
Other financial liabilities	90 552	90 552	90 552	–	–	–	–

Market risk

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

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on assets. The nature of the Group's exposure to market risk and its objectives, policies and procedures for managing market risks have not changed significantly from the prior period although rigour has been applied to these in light of current market conditions and volatility. Refer below for more detail.

Management of market risk

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

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 2013	Non-pre-retirement option benefits R'000	%	Pre-retirement option benefits R'000	%
Local				
Equity	**8 253 279**	**45,2**	**399 714**	**24,5**
Fixed interest	**3 765 518**	**20,6**	**744 865**	**45,7**
Cash	**1 732 870**	**9,5**	**291 723**	**17,9**
International				
Equity	**4 507 144**	**24,7**	**192 419**	**11,9**
	18 258 811	**100,0**	**1 628 721**	**100,0**

Group 2012	Non-pre-retirement option benefits R'000	%	Pre-retirement option benefits 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

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 are thus given a voluntary option each year to switch to more conservative investment portfolios from age 55, i.e. portfolios where there is reduced exposure to equities.

The assets held to back the non-DPF component of the policy liabilities are as follows:

Group	**2013 R'000**	**%**	2012 R'000	%
Local				
Equity	**534 023**	**15,8**	**559 200**	**16,5**
Fixed interest	**2 549 299**	**77,5**	**2 371 180**	**70,0**
Cash	**81 866**	**1,5**	**333 627**	**9,8**
International				
Equity	**165 624**	**5,2**	**125 516**	**3,7**
Total	**3 330 812**	**100,0**	**3 389 523**	**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 international investment returns are shown in US Dollars and the effect of the trading in different currencies is reflected in the investment performance which is measured against an internal benchmark. In terms of legislation, up to 25% of the Group's investments may be invested in foreign currency assets.

The potential impact of currency movements on the share prices of domestic equities with significant foreign currency earnings is addressed by the asset managers in their assessment of the appropriate equities to hold in their mandates with PPS.

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/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 2013 R'000	2012 R'000
Interest rate risk		
Lower limit: 7,3% yield	**(787 718)**	(878 917)
Upper limit: 9,3% yield	**610 400**	658 429

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 reinsured. A sickness experience report is annually presented analysing claim patterns and trends. The latest report indicated no significant deterioration in claim patterns.

The acceptance of underwriting risk is controlled by the underwriters of PPS, who adhere to detailed and stringent underwriting protocols and procedures. These protocols and procedures are reviewed on a regular basis to ensure they take into account current medical experience and reflect the insurance risks allowed for in PPS' insurance products. They are also reviewed to ensure they reflect best practice in respect to medical and financial underwriting standards.

The underwriting decisions are further governed by a delegation of authority to ensure the more significant risks are assessed by more senior, experienced staff. Underwriting decisions are reviewed regularly by both senior management and by PPS' reinsurers to ensure they adhere to the underwriting policies and standards.

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 products and rate tables are approved by the Statutory Actuary.

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 as on their global credit rating.

Claims risk

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

Products and pricing risk

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

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

Expense risk

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

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

Business volume risk

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

Data and model risk

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

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 advisers 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;
- 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	**2013**		2012	
R'000	**South Africa**	**Namibia**	South Africa	Namibia
Capital held	**263 594**	**5 223**	235 321	5 223
Regulatory capital	**99 391**	**4 000**	88 817	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 for the board. The results of the ALM investigations may lead to changes in the approved asset class mixes contained in the Investment Policy, in order to address any increases in the risk of volatility identified in the ALM investigation.

There have been no material changes in the Group's management of capital during the period. The Group has maintained its level of CAR cover at 2,6 times. This decision has resulted R28,3 million (2012: R43,8 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.

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 of Funds

Investment objective

To maximise total portfolio return while outperforming a moderate real return target of CPI + 4% per annum over the medium term.

Investment mandate

This multi-managed fund invests in a number of underlying managers with the specific mandate to employ real return strategies to provide real capital growth. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 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 moderate 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, interest rate risk and currency 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.

PPS Balanced Fund of Funds

Investment objective

To maximise total portfolio returns while outperforming a composite industry benchmark over the medium to long term. (Please note that the fund's benchmark will change to a peer-relative one from January 2014 onwards.)

Investment mandate

This multi-managed fund invests in a number of underlying managers who invest in a spectrum of local and international securities within the parameters of Regulation 28 of the Pension Funds Act (No. 24 of 1956) with the specific focus on long-term growth.

Typical investments

The managers invest in local bonds and property, as well as local and international money market instruments and equities.

Risk exposure

A medium to high risk fund, exposed to credit risk, interest rate risk, local and international equity price risk and currency risk.

PPS Managed Flexible Fund of Funds

Investment objective

To maximise total portfolio returns while outperforming a real return target of CPI + 6% per annum over the long term.

Investment mandate

This multi-managed fund invests in a number of underlying managers who invest in a spectrum of local and international securities with the specific mandate to provide real capital growth. Flexible asset allocation provides diversification across all asset classes and sectors.

Typical investments

The managers invest in local bonds and property, as well as local and international money market instruments and equities.

Risk exposure

A medium to high risk fund, exposed to credit risk, interest rate risk, local and international equity price risk and currency risk.

PPS Institutional Multi Asset Fund

Investment objective

It seeks to maximise total portfolio returns while outperforming CPI inflation over the medium to long term.

Investment mandate

This multi-managed fund invests in a number of underlying managers with the specific mandate to outperform its relevant peer group and consequently provide inflation-beating returns over the medium to long term.

Typical investments

The managers invest in local bonds and property, as well as local and international money market instruments and equities.

Risk exposure

A medium to high risk fund, exposed to credit risk, interest rate risk, local and international equity price risk and currency risk.

34. STANDARDS AND INTERPRETATIONS ISSUED

Amendments to published standards mandatory for the Group's accounting periods beginning on or after 1 January 2013:

- 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 amendment did not have a material impact on the Group's financial statements.

- IAS 19 (Amendment): 'Employee benefits' (effective 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendment did not have 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 controls as the basis of consolidation and sets out the accounting requirements for the preparation of consolidated financial statement. The amendment had 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 amendment did not have 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 amendment did not have 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 IFRSs. 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 IFRSs. The amendment did not have 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 amendment did not have 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 amendment did not have a material impact on the Group's financial statements.

- IFRS 1 (Amendment): 'First-time Adoption of IFRS' (effective 1 January 2013). The amendment clarifies that an entity may apply IFRS 1 more than once under certain circumstances. The amendment clarifies that an entity can choose to adopt IAS 23, 'Borrowing costs', either from its date of transition or from an earlier date. The consequential amendment (as a result of the amendment to IAS 1 discussed below) clarifies that a first-time adopter should provide the supporting notes for all statements presented. The amendment did not have a material impact on the Group's financial statements.

- IAS 1 (Amendment): 'Presentation of Financial Statements' (effective 1 January 2013). The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either: as required by IAS 8, 'Accounting policies, changes in accounting estimates and errors'; or voluntarily. The amendment did not have a material impact on the Group's financial statements.

- IAS 16 (Amendment): 'Property, Plant and Equipment' (effective 1 January 2013). The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. The amendment did not have a material impact on the Group's financial statements.

- IAS 32 (Amendment): 'Financial Instruments: Presentation' (effective 1 January 2013). The amendment clarifies the treatment of income tax relating to distributions and transaction costs. The amendment clarifies that the treatment is in accordance with IAS 12. So, income tax related to distributions is recognised in the income statement, and income tax related to the costs of equity transactions is recognised in equity. The amendment did not have a material impact on the Group's financial statements.

- IAS 34 (Amendment): 'Interim Financial Reporting' (effective 1 January 2013). The amendment brings IAS 34 into line with the requirements of IFRS 8, 'Operating segments'. A measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the CODM and there has been a material change in those measures since the last annual financial statements. The amendment did have 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 Company

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2014 or later periods, and the Company has not early adopted them:

- IFRS 9: 'Financial instruments' (effective 1 January 2015). This is part of a wider project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The new standard will not result in a material impact on the Group's financial statements.

- IFRS 9: 'Financial instruments (effective 1 January 2015). IFRS 9 has been updated to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss. The new standard will not result in a material impact on the Group's financial statements.

- IFRS 9 (Amendment): 'Financial Instruments' (effective 1 January 2015). This amendment to IFRS 9, 'Financial instruments' delays the effective date to annual periods beginning on or after 1 January 2015. The original effective date was for annual periods beginning on or after from 1 January 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time. The requirement to restate comparatives and the disclosures required on transition have also been modified. The new standard will not result in a material impact on the Group's financial statements.

- IAS 32 (Amendment) 'Financial Instruments: Presentation' (effective 1 January 2014). Amendments have been issued to the application guidance in IAS 32, 'Financial instruments: Presentation', that clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. However, the clarified offsetting requirements for amounts presented in the Statement of Financial Position continue to be different from US GAAP. The new standard will not result in a material impact on the Group's financial statements.

- IAS 39 (Amendment): 'Financial Instruments: Recognition and Measurement' (effective 1 January 2014). IAS 39 has been amended to provide relief from discontinuing hedge accounting when novation of a hedging instrument to a CCP meets specified criteria. Similar relief will be included in IFRS 9, 'Financial Instruments'. The new standard will not result in a material impact on the Group's financial statements.

- IAS 36 (Amendment): 'Impairment of assets' (effective 1 January 2014). These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. The new standard will not result in a material impact on the Group's financial statements.
- IFRS 10 (Amendment): 'Consolidated Financial Statements'; IFRS 12 (Amendment): 'Disclosure of Interests in Other Entities' and IAS 27 (Amendment): 'Separate Financial Statements (effective 1 January 2014). The amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made in IFRS 12 to introduce disclosures that an investment entity needs to make. The new standard will result in a material impact on the Group's financial statements.
- IFRIC 21: 'Accounting for levies' (effective 1 January 2014). The interpretation sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses diversity in practice around when the liability to pay a levy is recognised. The new standard will not result in a 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 an impact on the Group's financial statements.

35. EVENTS AFTER REPORTING PERIOD

No reportable events occurred between the reporting date and the date of approval of the annual financial statements.

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

		Trust	
	Note	**2013 R'000**	2012 R'000
ASSETS			
Investment in subsidiary company	1	**10 000**	10 000
Receivables	2	**1 349**	1 386
Cash and cash equivalents	3	**347**	75
Total assets		**11 696**	11 461
Capital and accumulated funds			
Accumulated funds	4	**6 168**	2 281
EQUITY		**6 168**	2 281
LIABILITIES			
Payables	5	**5 558**	9 117
Current income tax liabilities		**(30)**	63
Total liabilities		**5 528**	9 180
Total equity and liabilities		**11 696**	11 461

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

		Trust	
	Note	**2013 R'000**	2012 R'000
Other income	6	**14 038**	12 761
Total Income		**14 038**	12 761
Expenses	7	**7 560**	7 469
Surplus before tax		**6 478**	5 292
Tax	8	**2 591**	2 117
Surplus after tax		**3 887**	3 175
Total comprehensive income for the year		**3 887**	3 175

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Accumulated funds R'000	Total R'000
Trust		
Balance at 1 January 2012	**(894)**	(894)
Surplus for the year	**3 175**	3 175
Balance at 31 December 2012	**2 281**	2 281
Surplus for the year	**3 887**	3 887
Balance at 31 December 2013	**6 168**	6 168

STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

		Trust	
	Note	**2013 R'000**	2012 R'000
Cash flows from operating activities			
Cash generated from operations	9	**2 956**	2 251
Tax paid	10	**(2 684)**	(2 206)
Net cash from operating activities		**272**	45
Net increase in cash and bank		**272**	45
Cash and bank at beginning of year		**75**	30
Cash and bank at end of year	3	**347**	75

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

(continued)

1. INVESTMENT IN SUBSIDIARY COMPANY

	Trust 2013 R'000	2012 R'000
Professional Provident Society Insurance Company Limited		
Shares issued at 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.

2. RECEIVABLES

	Trust 2013 R'000	2012 R'000
Value added tax receivable	**1 324**	1 364
Prepayments	**25**	22
Total receivables	**1 349**	1 386
Current	**1 349**	1 386
Fair value of other receivables held at amortised cost	**1 324**	1 364

3. CASH AND CASH EQUIVALENTS

	Trust 2013 R'000	2012 R'000
Cash at bank and in hand	**347**	75
Total cash and cash equivalents	**347**	75

4. EQUITY

PERMANENT CAPITAL

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

ACCUMULATED FUNDS

The Accumulated funds balance represents the cumulative profits and losses of the trust since inception.

5. PAYABLES

	Trust 2013 R'000	2012 R'000
Other payables		
– accruals	**690**	893
– related parties	**4 868**	8 224
Total payables	**5 558**	9 117
Current	**5 558**	9 117

6. OTHER INCOME

	Trust 2013 R'000	2012 R'000
Administration fees	**14 038**	12 761
Other income	**14 038**	12 761

7. EXPENSES

	Trust 2013 R'000	2012 R'000
– Administration expenses	**4 622**	4 723
– Trustees fees	**2 938**	2 686
– Legal fees	**–**	60
Total expenses	**7 560**	7 469

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

(continued)

8. TAX

	Trust	
	2013 R'000	2012 R'000
Current tax		
– Current year tax	**2 591**	2 117
Total tax	**2 591**	2 117
Tax on the Trust's profit before tax does not differ from the theoretical amount that would arise using the tax rate applicable to South African trusts:		
Surplus before tax	**6 478**	5 292
Tax calculated at domestic tax rates applicable to trust profits in South Africa (40%)	**2 591**	2 117
Total tax per Statement of Comprehensive Income	**2 591**	2 117

9. CASH GENERATED FROM OPERATIONS

	Trust	
	2013 R'000	2012 R'000
Reconciliation of surplus before tax to cash generated by operations:		
Surplus before tax	**6 478**	5 292
Changes in working capital:		
– Receivables	**37**	(36)
– Payables	**(3 559)**	(3 005)
Cash generated from operations	**2 956**	2 251

10. TAX PAID

	Trust	
	2013 R'000	2012 R'000
Tax payable at beginning of year	**63**	152
Current tax as per Statement of Comprehensive Income	**2 591**	2 117
Tax receivable/(payable) at end of year	**30**	(63)
Total tax paid	**2 684**	2 206

11. RELATED PARTIES

The transactions and balances with Professional Provident Society Insurance Company Limited and Professional Provident Society Marketing Services Proprietary Ltd are listed below:

	Trust	
	2013 R'000	2012 R'000
Professional Provident Society Insurance Company Limited		
Fees	**13 388**	12 136
Receivable from Professional Provident Society Insurance Company Limited		
Balance at the beginning of the year	**8 220**	11 673
Fees	**(15 262)**	(13 835)
Paid by Professional Provident Society Insurance Company Limited on behalf of PPS Holdings Trust	**11 896**	10 382
Balance at the end of the year	**4 854**	8 220
The amount receivable from Professional Provident Society Insurance Company Limited has no written terms for repayment or ongoing interest charge.		
Professional Provident Society Insurance Company Limited owes PPS Holdings Trust (previously Professional Provident Society NPC) a fee for member services rendered.		
Professional Provident Society Marketing Services Proprietary Limited		
Payable to Professional Provident Society Marketing Services Proprietary Limited		
Balance at the beginning of the year	**5**	1 036
Fees	**35**	81
Paid to Professional Provident Society Marketing Services Proprietary Limited	**(40)**	(1 112)
Balance at the end of the year	**–**	5

The amount payable to Professional Provident Society Marketing Services Proprietary Limited has no written terms for repayment or ongoing interest charge.

ABRIDGED CORPORATE GOVERNANCE REPORT

GOVERNANCE

Good corporate governance is an integral part of the Group's operations and PPS is fully committed to the principles of King III and the requirements of the Insurance Laws Amendment Bill, 16 of 2013 (ILAB). In terms of ILAB an insurer is required to adopt, implement and document an effective governance framework comprising of:

- an adequate, transparent organisational structure with clear allocation and segregation of duties;
- 'fit and proper' requirements for directors, senior management and heads of control functions;
- a risk management system;
- an internal control system;
- risk management, compliance, actuarial and internal audit control functions;
- outsourcing; and
- written policies.

Although ILAB has not yet been enacted, the principles articulated in the Bill were adopted by PPS and various structures were put in place to accommodate its requirements, while retaining flexibility to adjust as the legislation is finalised and more guidance is published by the FSB. As a result, the PPS governance framework was enhanced during 2013 and provides for the prudent management and oversight of PPS as well as adequately protecting the interests of our members. The framework is appropriate given the nature, scale and complexity of the PPS Group, the associated risks and it is based on the following key principals:

TRANSPARENT ORGANISATIONAL STRUCTURE

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

The Board of Trustees is authorised to delegate some of the activities or tasks associated with its roles and responsibilities to a Board Committee, Senior Management or any other person within the PPS Group. In order to execute this, an appropriate system of delegation is in place.

'FIT AND PROPER'

The following persons must at all times meet the 'Fit and Proper' requirements (see below):

- Directors and Trustees;
- Senior Management (CEO and persons with decision making powers);
- Head of Control Functions;
- Public Officer;
- Auditor; and
- Statutory Actuary.

The Fit and Proper Policy facilitates sound and prudent management of PPS by including requirements which are based on the principles of honesty and integrity, competence, qualifications, ongoing professional development and experience.

RISK MANAGEMENT SYSTEM

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

The risk management system comprises the following components:

- A clearly defined and documented risk management strategy that includes the risk management objectives, principals and approach to assumption setting, and assignment of risk management responsibilities across all activities consistent with the overall business strategy;
- Adequate written policies consistent with the risk management strategy;
- Appropriate processes, procedures and tools for identifying, measuring, monitoring, managing and reporting on all material risks;
- Reports to inform Senior Management, the Risk Committee and the Board of Directors and Trustees on all material risks faced by PPS and on the effectiveness of the risk management system itself; and
- Processes for ensuring adequate contingency planning, business continuity and crisis management.

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

INTERNAL CONTROL SYSTEM

The internal control system consists of the totality of strategies, policies, procedures and controls to assist the Boards of Directors, Trustees and management in the fulfilment of their oversight and management responsibilities.

The internal control system provides the Boards of Directors, Trustees and Senior Management with reasonable assurance from a control perspective that the business is operated consistently within the following:

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

ABRIDGED CORPORATE GOVERNANCE REPORT

(continued)

The internal control system comprises the following components:

- Appropriate controls to ensure the availability and reliability of financial and non-financial information;
- Annual compliance plan;
- Appropriate segregation of duties and controls to ensure that such segregation is observed;
- Regular monitoring of all controls to ensure that the totality of controls form a coherent system and that the internal control system functions as intended, fit within the overall governance framework and complement the risk identification, risk assessment and risk management activities; and
- Regular independent testing and assessments to determine the adequacy, completeness and effectiveness of the internal control system and its usefulness to the Boards of Directors, Trustees and Senior Management for controlling the operations.

CONTROL FUNCTIONS

The following four key control functions are in place:

- Risk management
- Actuarial
- Compliance
- Internal Audit

The control functions are structured to include the necessary authority, independence, resources, expertise, access to the Boards and all relevant employees as well as information for them to exercise their authority and perform their responsibilities. Where appropriate, a control function may be outsourced – subject to the provisions of the Outsourcing Policy – in the light of the nature, scale and complexity of the business, risks, legal and regulatory obligations. The Actuarial Control function is currently performed in-house in collaboration with the Statutory Actuary (as appointed in terms of the Long-term Insurance Act), currently outsourced to Mr C van der Riet of Deloitte. The internal audit control function is performed by KPMG in terms of an outsourced arrangement.

The existence of the control functions does not relieve the Boards of Directors and Trustees or Senior Management from their respective governance and related responsibilities. The governance framework will continue to evolve to ensure compliance with emerging legislation and to enhance the ability of the Boards of Directors and Trustees, Senior Management and Heads of Control Functions to manage PPS soundly and prudently. The Actuarial, Audit, Risk, Remuneration and Social and Ethics Committees fulfil a key role in ensuring good corporate governance within the PPS Group. Processes are reviewed regularly to ensure compliance with legal obligations and codes of governance.

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

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.

GROUP LEGAL

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 these risks are appropriately mitigated across all entities. This is achieved by providing or sourcing appropriate legal advice, ensuring that legal risks are optimally negotiated, documented and monitored, and that the necessary controls are implemented.

GROUP COMPLIANCE

The Boards of PPS are ultimately accountable for compliance. The primary objective of the Compliance function is to assist the Boards with this responsibility. Management is committed to ensuring that the business is run with integrity, complies with all regulatory and best practice requirements and is conducted in accordance with the highest ethical standards. The appointed Compliance Officer is responsible for the effective implementation of the compliance 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 Boards set 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 continuously.
- Compliance requirements are addressed in business processes.
- Management and staff are trained on the compliance requirements relevant to their roles.
- Compliance monitoring is conducted to provide assurance on the level of compliance.
- Compliance incidents or suspected incidents are reported and managed.

GROUP RISK MANAGEMENT

The taking of risk, in an appropriate manner, is an integral part of business. Success relies on optimising the trade-off between risk and reward, following an integrated risk management process and by considering all internal and external risk factors. 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. The PPS Group Risk Management Framework is aligned to such standards. More refinements were undertaken during 2013 to further align the framework to the demands of the Solvency Assessment and Management Act (SAM) and governance, risk management and internal controls as envisaged in The Insurance Laws amendment Bill (ILAB).

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

Management and employees are responsible for the management of risk in accordance with the risk framework and incorporating risk management into the day-to-day operations of the Group. Management is assisted by the Risk Management Control Function Department in performing annual risk assessments, updating these 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. A Risk Report containing the findings and conclusions of the risk environment of the PPS Group is prepared on a quarterly basis and reviewed by the Risk Committee. Other operational risk registers are continuously managed by the relevant business areas.

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

The Risk, Audit, Actuarial, Remuneration and Social and Ethics Committees make reports and recommendations to the Boards, enabling them to discharge their responsibilities with regards to risk management.

ANTI-FRAUD AND WHISTLE BLOWING

PPS maintains a Fraud and Corruption Policy and Response Plan and a Whistle Blowing Policy 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 independently from PPS by Deloitte, provides a facility to enable employees to report suspicious activities and unethical behaviour. All financial crime-related suspicious transactions and reports are managed through the Fraud Committee and other unethical behaviour is 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 at PPS, as well as the investment strategy adopted by the PPS Insurance Board. The PPFM document is available to all policyholders on the PPS website at www.pps.co.za.

INFORMATION TECHNOLOGY (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 also 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 2013, PPS conducted an IT controls audit, and two information security audits. 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 2013 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' information security system in terms of its strategy and the implementation. Both these audits revealed no major adverse findings.

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 malicious code and unauthorised end-user modification of systems.

ABRIDGED CORPORATE GOVERNANCE REPORT

(continued)

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 Boards and Management to ensure adherence to, and compliance with, the new requirements.

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. A parallel run will be implemented from July 2014 to December 2015 in two distinct phases in order to facilitate a smooth implementation of the SAM requirements. PPS has established a project team to ensure the successful implementation of SAM and good progress has been made against the implementation plan.

PPS participated in the FSB's consultative process preceding the implementation of SAM and submitted two Quantitative Impact Studies during 2012 and 2013. The FSB undertook a project in 2013 to analyse the potential impact of the implementation of the SAM framework on the South African economy. This project produced proposals for mitigating any potentially adverse impacts resulting from the implementation of SAM. PPS participated in this project and submitted a response to a questionnaire to the FSB. Based on these, PPS Insurance would remain financially sound under the SAM framework and is well-positioned to deal with SAM requirements. The challenges faced are around resource allocation to this project and to ensure that measures are designed that are relevant, given the nature and scale of the business.

2. Treating Customers Fairly (TCF)

PPS has adopted a risk management framework to implement the TCF legislation. A TCF Steering Commmittee (Steercom) was established in 2012 which meets regularly to address key issues influencing PPS' implementation and establishes guidelines for the wider Group. This group Steercom reports progress and presents management information (MI) to the Risk Committee, which in turn provides feedback to the Social and Ethics Committee. The PPS values fully embrace the successful TCF outcomes set out below and the PPS Board has approved a Member Protection Policy that ensures the delivery of TCF outcomes.

The six TCF outcomes are:

- **Outcome 1:** Customers are confident that they are dealing with firms where the fair treatment of customers is central to the firm's culture.
- **Outcome 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.
- **Outcome 3:** Customers are given clear information and are kept appropriately informed before, during and after the time of contracting.
- **Outcome 4:** Where customers receive advice, the advice is suitable and takes account of their circumstances.
- **Outcome 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.
- **Outcome 6:** Customers do not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint.

During the course of 2013, we monitored the outcomes of the pilot study relative to TCF completed by the FSB and have managed and treated all the risks of not achieving the outcomes that were identified. In that pilot project, PPS also identified a number of initiatives – mostly minor adjustments to existing policies and procedures – to reflect the achievement of these outcomes. These included the formalisation of some policies, the most notable being the Product Development Policy, which was enhanced to ensure that TCF concerns are addressed throughout the product development cycle and this requires on-going monitoring of product performance.

We identified the need for a comprehensive Communication Policy and this policy is now implemented. This policy addresses the tone and content of all communications while ensuring that information is clear, transparent and complete throughout the life of the customer relationship. We adjusted training programs and evaluated all processes to ensure that the TCF outcomes were highlighted in these materials. We improved access to information and made more information readily available electronically.

In all, we identified over 150 tasks and tracked the delivery across the PPS Group. Those tasks addressing the highest exposures are complete and we have not identified any material residual risks threatening our achievement of the TCF outcomes.

3. ’Twin Peaks’

The ‘Twin Peaks’ model, due for implementation during 2014, is a strategy to divide the financial regulatory system into two regulatory regimes. These two regimes will be headed by a prudential regulator and a market conduct regulator. The FSB will regulate market conduct and the prudential regime will be regulated by the South African Reserve Bank. The objectives of this model are financial stability, consumer protection, combating of financial crimes, and transparency. These changes will be funded, amongst other things, by increasing the levies paid by financial institutions.

2013 saw the publication of a ‘Twin Peaks’ Roadmap. According to the FSB, the commencement of the implementation of ‘Twin Peaks’ is expected in 2014. A second draft of legislation is in process. This will entail an overarching Act which confirms the mandates and structures of both regulators and will include TCF principles (Phase 1). After Phase one, the FSB will focus on further refinement of the powers and functions of each regulator (Phase 2).

4. Protection of Personal Information Bill

The Protection of Personal Information Act aims to give effect to the right to privacy, by introducing measures to ensure that personal information of an individual (such as a member of PPS) is safeguarded when it is processed by accountable parties (such as PPS). The Act 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 Act 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 Protection of Personal Information Bill was passed in 2009 and the parliamentary process was finalised during 2013. The Protection of Personal Information Act was published in the Government Gazette on 26 November 2013. The commencement date of the Act has not yet been announced and there may be different dates for different sections of the Act, but an overall one year implementation timetable is envisaged. PPS relies on the ability to collect and process member information in conducting its business and has various measures currently in place to protect our members’ personal information. PPS is confident that personal information will be treated and protected in accordance with the Act.

ABRIDGED CORPORATE GOVERNANCE REPORT

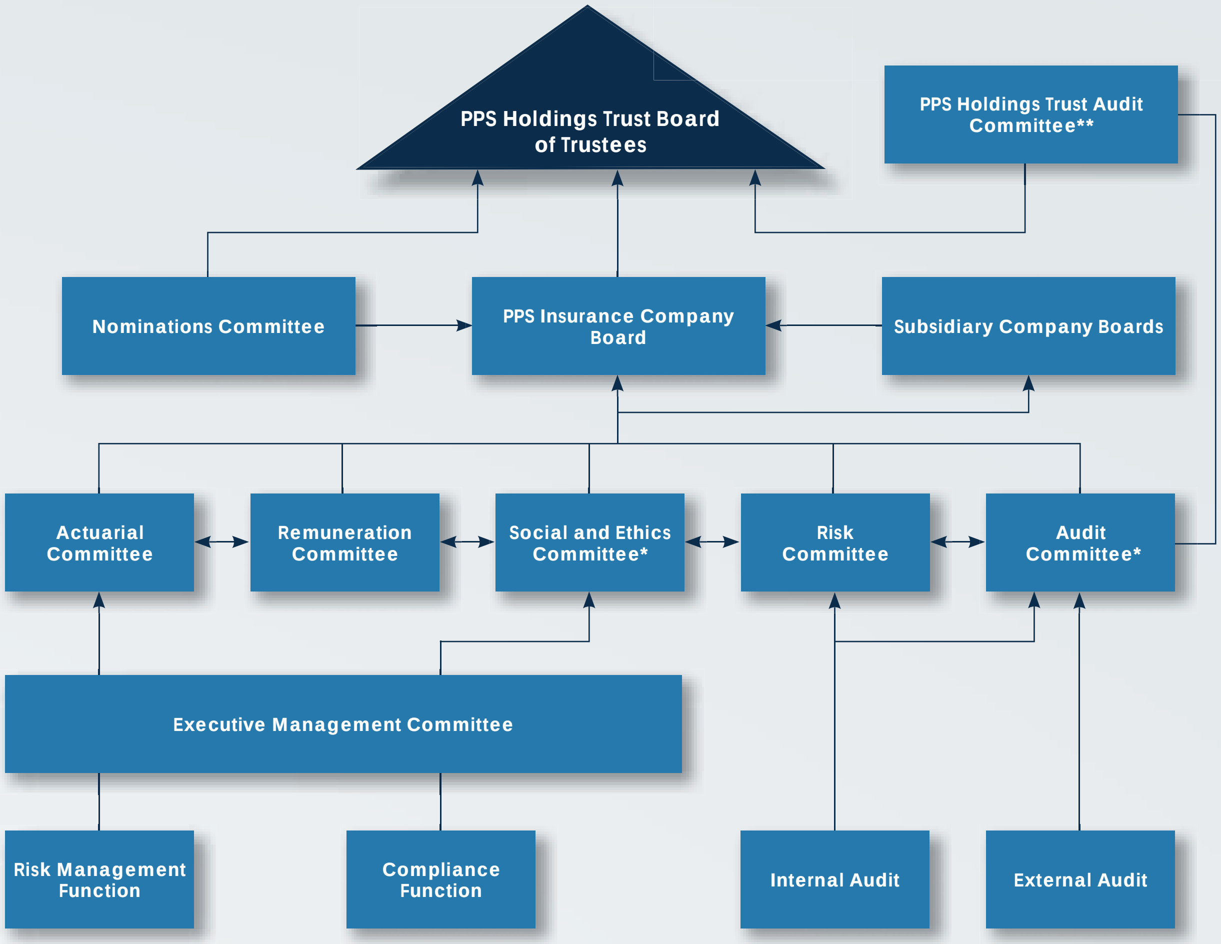
(continued)

OTHER CURRENT AND UPCOMING REGULATORY CHANGES

The following legislative changes were implemented during 2013:

Legislation	Impact
Guidance Note 3A of the Financial Intelligence Centre (FIC)	GN 3A was published by the FIC on 28 March 2013 and deals with the requirement for accountable institutions like PPS to identify and maintain a register of Politically Exposed Persons (PEPs) in the PPS customer base. PPS must follow an enhanced due diligence process relating to identified PEPs. PPS commenced implementation of a project to electronically identify PEPs and this project is currently in the testing phase where the matching criteria used are being refined.
Association for Savings and Investment SA (ASISA) Standard on Unclaimed Assets	ASISA published a reviewed standard that required all insurers to disclose to clients the process that will be followed in the event of assets being unclaimed, where the unclaimed assets remain intact until the claim is paid, and tracing beneficiaries of unclaimed assets. PPS is compliant with the new requirements.
ASISA Standard on Replacements	ASISA published a reviewed standard that required all insurers to amend their application forms and to insert a question as to whether any replacement led to confiscatory charges in excess of 15%. PPS amended its application forms accordingly.

BOARDS OF TRUSTEES AND DIRECTORS AND BOARD COMMITTEES



**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 COMPOSITION

The Group is governed by The Professional Provident Society Holdings Trust ('PPS Holdings Trust'), which has a unitary board of trustees, twelve of whom are directly nominated and elected by the members of PPS Holdings Trust, assisted by Boards of Directors and management committees as detailed below. The Board of 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.

ABRIDGED CORPORATE GOVERNANCE REPORT

(continued)

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 PPS Insurance Board. The Chief Executive reports to the PPS Insurance Board on the performance of the PPS Group and any other material matters at Board meetings. He reports on how the Group has performed against key indicators following the monthly meetings 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 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

The Chairmen of the Boards of PPS Holdings Trust, PPS Insurance and its subsidiaries, the Board sub-committees and the CEO are assisted by the Group Company Secretary in ensuring good corporate governance, the determination of agendas for meetings and ensuring that Board members and executives are appropriately informed to enable them to discharge their duties. The Group Company Secretary also has a significant role in supporting the Group Nominations Committee in the discharge of its duties.

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 and as a member and secretary of the Group Executive Committee. He advises them on all corporate governance matters, on Board procedures and on compliance with PPS Holdings Trust's trust deed and PPS Group companies' memoranda of incorporation.

Comprehensive agendas and papers are provided to the Boards by the Group Company Secretary in advance of the meetings of the Board, subsidiary Boards and 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 by the Companies Act.

Each committee of the Boards acts within agreed terms of reference and the Chairman of each committee reports, where appropriate, to the Board which constituted such committee at the scheduled meetings of that Board. 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 trustees/directors. At PPS Insurance, the roles of Chairman and Chief Executive Officer are separated, with a clear division of responsibility to ensure distinction between their respective duties and responsibilities. The Chairman has no executive functions. The role of all trustees and directors is to bring independent judgement and experience to the Boards' decision-making process and act in the best interests of the trust/company on whose Board such trustee/director serves.

BOARD APPOINTMENTS AND SUCCESSION PLANNING

The PPS Holdings Trust Board comprises of twenty trustees, all of whom are non-executive independent trustees. In terms of its trust deed, PPS members may nominate and elect 12 members to the Board of PPS Holdings Trust at its annual general meeting. A further six members of the current Board of PPS Holdings Trust are, subject to the approval of the Group Nominations Committee and in accordance with the provisions of the Trust Deed, nominated to serve on the PPS Holdings Trust Board by professional associations whose members are significantly represented in the PPS membership base. Board members who are not representative of a professional association or are 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 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 Boards are 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. Candidates who are financial advisors or intermediaries, or hold any office or interest, directly or indirectly, in any entity which competes in the same sphere of business as the PPS Group do not qualify for appointment to any PPS Group Board.

CHAIRMAN OF THE BOARD OF TRUSTEES

Dr D G C Presbury, having retired as chairman of the PPS Holdings Trust Board during 2012, retired from the PPS Boards on 3 June 2013. In order to facilitate an orderly handover of the chair, Mr E A Moolla, formerly the Deputy Chairman of The PPS Holdings Trust Board, was appointed as Chairman of the PPS Holdings Trust Board and Dr S N E Seoka was appointed as Deputy Chairman in place of Mr Moolla, during 2012.

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, including participation in discussions;
- 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 representatives of a professional association or co-opted, and are appointed in terms of clause 7 of the Trust Deed, are subject to retirement by rotation at least every three years, but may stand for re-election at the annual general meeting, subject to the approval of the Nominations Committee. 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 2 June 2014 are stated in the notice of annual general meeting commencing on page 210 and up to page 212.

INTERESTS IN CONTRACTS AND CONFLICTS OF INTEREST

Trustees and directors are required to avoid conflicts of interest, where possible, and where it cannot be avoided, to inform the respective Board/s on which they serve timeously of conflicts or potential conflicts of interest that they may have in relation to particular items of business and they are obliged to recuse themselves from discussions or decisions in relation to such matters. Trustees and directors are also required to disclose their interests in, and directorships of, other companies/entities in accordance with statutory requirements and to inform the Boards when any changes occur. During the year ended 31 December 2013, none of the directors/trustees had any undisclosed interest in contracts or arrangements entered into by the PPS Group.

PROFESSIONAL INDEMNITY INSURANCE

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

MEETINGS AND ATTENDANCE

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

The PPS Holdings Trust	27 March 2013	10 June 2013	7 October 2013	2 December 2013
Mr E A Moolla (Chairman)	√	√	√	√
Dr S N E Seoka (Deputy Chairman)	√	√	√	√
Adv T N Aboobaker	√	√	AP	√
Dr D R Anderson	√	√	√	√
Ms U Botha	√	√	√	√
Dr N G Campbell	√	√	√	√
Ms D L T Dondur	√	√	√	AP
Mr J A B Downie	√	√	√	√
Dr D P du Plessis (Appointed 3 June 2013)#	N/A	N/A	√	√
Mr Y N Gordhan	√	√	√	√
Mr U D Jivan	√	√	√	√
Mr I Kotzé	√	√	√	√
Dr C M Krüger	√	√	√	√
Dr J Patel	√	√	√	√
Dr D G C Presbury (Retired 3 June 2013)	√	N/A	N/A	N/A
Mr P Ranchod	√	√	√	√
Mr V P Rimbault	√	√	√	AP
Mr D L Smollan (Appointed 3 June 2013)#	N/A	N/A	√	AP
Dr M W Sonderup	√	√	√	√
Mr B R Topham (Not re-elected on 3 June 2013)	√	N/A	N/A	N/A
Mr S Trikamjee	√	√	√	√
Mr H A C van den Bout	√	√	√	√

AP = Apology

N/A = Not Applicable

 # = In terms of the Trust Property Control Act, the appointment of a Trustee only takes effect on the issue of Letters of Authority by the Master of the High Court. The Letters of Authority in respect of the appointment of Dr D P du Plessis and Mr D L Smollan were issued by the Master on 11 July 2013.

ABRIDGED CORPORATE GOVERNANCE REPORT

(continued)

PPS Insurance Company Limited	25 Feb 2013	25 Mar 2013	24 June 2013	26 Aug 2013	25 Sep 2013	25 Nov 2013
Dr D R Anderson (Chairman)	√	√	√	√	√	√
Mr C Erasmus (Deputy Chairman)	√	√	√	√	√	√
Adv T N Aboobaker (Resigned 10 June 2013)	√	√	N/A	N/A	N/A	N/A
Mrs T Boesch	√	√	√	√	√	√
Dr N G Campbell	√	√	√	√	√	√
Mr C K de Klerk	√	√	√	√	√	√
Ms D L T Dondur (Appointed 24 June 2013)	N/A	N/A	√	√	√	AP
Mr J A B Downie (Appointed 24 June 2013)	N/A	N/A	√	√	√	√
Mr Y N Gordhan	√	√	√	√	AP	√
Mr M J Jackson	√	√	√	√	√	√
Mr E A Moolla	√	√	√	√	√	√
Mr N G Payne	√	√	√	√	√	√
Dr D G Presbury (Retired 3 June 2013)	√	√	N/A	N/A	N/A	N/A
Mr P Ranchod (Appointed 24 June 2013)	N/A	N/A	√	√	√	√
Dr S N E Seoka	√	√	√	√	√	√
Mr B R Topham (Resigned on 3 June 2013)	AP	√	N/A	N/A	N/A	N/A
Prof H E Wainer	√	√	√	√	√	√

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 203 to 209.

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 (TAC)

The TAC was established pursuant to the Trust Deed of PPS Holdings Trust and comprises three independent non-executive trustees of PPS Holdings Trust. The members of the TAC are elected annually by the members of PPS Holdings Trust at its annual general meeting, after being nominated by the Group Nominations Committee and approved by the PPS Holdings Trust Board for election.

PPS Holdings Trust is a pure holdings entity which 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 TAC considers the recommendations of the GAC in regard to the Integrated Report. Two members of the TAC (including the chairman of the TAC) are also members of the GAC to ensure appropriate information is exchanged between the two audit committees and the Chairman of the GAC attends and reports at the meetings of the TAC. The TAC 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 TAC also 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 TAC, sets out what services may or may not be provided to PPS Holdings Trust by the external auditors. All non-audit services are pre-approved by the GAC. The TAC 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 TAC 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, 2008; and
- the external auditor is independent of PPS Insurance and its subsidiaries.

Particulars of the members of the TAC, its role, responsibilities and attendance at meetings are set out on page 93.

ABRIDGED CORPORATE GOVERNANCE REPORT

(continued)

GROUP AUDIT COMMITTEE (GAC)

This committee comprises of five 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, 2008, that all members of the GAC must be Board members. Four of the members of the GAC and the specialist consultant are Chartered Accountants. The fifth member of the GAC is an actuary.

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 some members 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 also meets both the external auditors and internal auditors separately in private sessions, without executive management being present. The Chief Executive and 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. All non-audit services are pre-approved by the GAC. 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, 2008; 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 94 and 96.

GROUP RISK COMMITTEE (RC)

Members

Mr N G Payne (Chairman),

Mr C Erasmus, and

Mr M J Jackson.

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.

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

Group Risk Committee	13 Mar 2013	11 Jun 2013	18 Sep 2013	19 Nov 2013
Mr N G Payne (Chairman)	√	√	√	√
Mr C Erasmus	√	√	√	√
Mr M J Jackson	√	√	√	√

ACTUARIAL COMMITTEE (AC)

Members

Dr D R Anderson (Chairman),

Mr C Erasmus,

Mr N G Payne (Appointed 24 June 2013), and

Prof H E Wainer.

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

The AC has an important role in ensuring the integrity of actuarial processes and the proper assessment of PPS Insurance'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 license.

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

- to assist the Board in fulfilling its oversight responsibilities regarding:
  - the accuracy and integrity of the actuarial statements;
  - the compliance with actuarial, legal and regulatory requirements; and
  - the performance of PPS Insurance's actuarial function.
- to assist the PPS Insurance Board in executing its fiduciary duties to policyholders; and
- to provide a sounding board for the Statutory Actuary in making recommendations to the Board and to consider, for tabling at Board meetings, the recommendations of the Statutory Actuary.

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

Actuarial Committee	13 Feb 2013	11 Jun 2013	18 Sep 2013	19 Nov 2013
Dr D R Anderson (Chairman)	√	√	√	√
Mr C Erasmus	√	√	√	√
Mr N G Payne (Appointed 24 June 2013)	N/A	N/A	√	√
Prof H E Wainer	√	√	√	√

N/A = Not Applicable

ABRIDGED CORPORATE GOVERNANCE REPORT
(continued)

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 57 and 58 of this report. Where incentives are target based, most of the targets are related to budget achievement and, as such, are objectively monitored and measured. The targets that are more subjective are given considerable scrutiny by the GRC to ensure that the members of the GRC have satisfied themselves that they have exercised their judgement appropriately. The management team is assessed using a 'Balanced Scorecard' approach where the key drivers of the business, both financial and non-financial, are measured. The objective in both the short and long-term, is to align rewards with management's performance and members' interests. Special care has been taken to ensure that the taking of excessive risk is not rewarded. The Board considered the nature of the PPS Group structure and is satisfied that Dr D R Anderson continues as Chairman of both the PPS Insurance Board, and the GRC.

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

Group Remuneration Committee	13 Mar 2013	8 May 2013	7 Aug 2013	26 Aug 2013	9 Oct 2013
Dr D R Anderson (Chairman)	√	√	√	√	√
Mr E A Moolla	√	√	√	√	√
Mr C Erasmus	√	√	√	√	√
Mr N G Payne	√	√	√	√	AP

AP = Apology

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),

Dr D R Anderson,

Dr N G Campbell,

Dr C M Krüger (Appointed 10 June 2013), and

Dr S N E Seoka.

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 qualifications, 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.

Any board members who have potential political connections and exposures are considered for appointment, but will not be appointed if such connections and exposures have a real or potential impact on the business and opportunities of the PPS Group. The GNC annually considers the continued service of Board members with a period of appointment in excess of nine years and is satisfied that such Board members still meet the requirements for independence.

The 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. PPS sponsors membership of the Institute of Directors for its Board members. In considering an appointment, the GNC assesses and defines the characteristics, qualities, skills and experience it believes would complement the overall balance and composition of the PPS Holdings Trust Board, subsidiary Boards and Board sub-committees. 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	11 Mar 2013	15 May 2013
Mr E A Moolla (Chairman)	√	√
Dr D R Anderson	√	√
Dr N G Campbell	√	√
Dr S N E Seoka	√	√
Dr C M Krüger (Appointed 10 June 2013)	N/A	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, and

Mr C Erasmus, independent non-executive director.

The board of PPS Insurance established the Group 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 (71 of 2008). The SEC comprises of four directors of PPS Insurance, of which two are independent non-executive directors. The SEC is tasked to monitor specific activities of the PPS Group as set out in the Companies Act and to advise the PPS Group boards in relation to such matters and report thereon to the PPS Insurance members at its annual general meeting. The SEC meets at least twice a year. The SEC is supported in discharging its responsibilities by the Group Remuneration Committee, the Group Risk Committee and the Group Audit Committee.

Particulars of the role and responsibilities of the SEC are set out in its report to PPS Insurance members on pages 97 to 99.

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 marketing and stakeholder relations, the Group Company Secretary, special projects and the subsidiary businesses of PPS Investments, PPS Marketing Services 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.

NOTICE TO THE MEMBERS OF THE ANNUAL GENERAL MEETING

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST

(Registration number IT312/2011)

('the Trust')

Notice is hereby given that the fourth annual general meeting ('the meeting') of the members of the Trust will be held on Monday, 2 June 2014 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 2013, 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').

   Ms U Botha, Dr N G Campbell, Mr Y N Gordhan and Mr P Ranchod retire by rotation at the meeting in terms of the Trust Deed and, with the exception of Ms Botha, have made themselves available for re-election.

   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 N G Campbell

   3.2 Mr Y N Gordhan

   3.3 Mr P Ranchod

   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 N C Nyawo

   3.5 Mr B R Topham

   (Abbreviated biographical details of the persons referred to above are set out on pages 213 to 218 of these 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 5 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 2014 to 30 June 2015:

    5.1 remuneration of the chairman, comprising a retainer of R325 300 and an attendance fee of R14 000 per meeting;

    5.2 remuneration of the deputy chairman, comprising a retainer of R216 900 and an attendance fee of R10 475 per meeting;

    5.3 remuneration of the co-opted members of the board of trustees, comprising a retainer of R154 700 and an attendance fee of R7 000 per meeting;

    5.4 remuneration of the remainder of the members of the board of trustees, comprising a retainer of R108 500 and an attendance fee of R7 000 per meeting;

    5.5 remuneration of the chairman of the Trust Audit Committee, being an attendance fee of R16 500 per meeting;

    5.6 remuneration of the members of the Trust Audit Committee, being an attendance fee of R8 250 per meeting;

    5.7 remuneration of the chairman of the Group Nominations Committee, being an attendance fee of R12 250 per meeting; and

    5.8 remuneration of the members of the Group Nominations Committee, being an attendance fee of R6 125 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.

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, it should be noted that there are four vacancies only. Accordingly, the vacancies will be filled by the four candidates receiving the highest number of favourable votes.

NOTICE TO THE MEMBERS OF THE ANNUAL GENERAL MEETING

(continued)

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, 28 May 2014:

- Physical address: 6 Anerley Road, Parktown, Johannesburg
- Postal address: PO Box 1089, Houghton, 2041
- Facsimile: 011 644 4641
- E-mail: Companysecretary@pps.co.za

By order of the board of trustees

V E Barnard
Secretary

The Professional Provident Society Holdings Trust

26 March 2014

ABBREVIATED *CURRICULA VITAE* FOR NOMINATED CANDIDATES

NEIL GORDON CAMPBELL

Date of birth

16 April 1950

Profession

Dental consultant to various groups

Tertiary qualifications

- BDS (Wits)

Positions held

- Secretary, Vice-President, President, Southern Transvaal Branch of SA Dental Association
- Member of National Council of DASA/SADA, Chairperson of Private Practice Committee DASA and SADA, President Elect, Member of unification team DASA. Holder of DASA Bronze Medal
- SADA Delegate to International Dental Federation 1997 to 2008 and member of the FDI Communication and Member Support Committee 2001 – 2009
- Regional vice-Chairperson of African Region of FDI 1997 – 2006
- Private Dental Practice 1973 – 1999 in UK, Welkom, Rustenburg and Bedfordview
- Chief Executive Officer, SA Dental Association 2000 – 2008
- Sometime examiner in Dental Ethics, Jurisprudence and Practice Management, Medunsa and sometime lecturer at Wits, Pretoria and Medunsa Universities
- Member of Medical and Dental Board of Health Professions Council of SA and CPD, Post Graduate Education and Foreign Graduate Registration Committees 2003 – 2011
- ORALnet 1997 – 2007
- Oral Health Marketing Committee 2000 – 2008
- Elands Properties 1997 – 2009

Directorships/Trusteeships

- Professional Provident Society Limited 2001 – 2011
- The Professional Provident Society Holdings Trust 2011 – present
- Professional Provident Society Insurance Company Limited 2004 to present
- PPS Group Nominations Committee PPS 2010 to present
- Member of the Board of Professional Medical Scheme Administrators (Pty) Ltd 2009 to present

ABBREVIATED *CURRICULA VITAE* FOR NOMINATED CANDIDATES

(continued)

YASWANT NAROTHAM GORDHAN

Date of birth

1 March 1951

Profession

Professional Accountant and Business Consultant

Tertiary qualifications and professional membership

- B.Com (Hons), CA(SA)
- Master of Science (Bus. Admin) Penn State University USA (1989)

Positions held

- Financial Director: Hendler and Hart (Pty) Limited (October 2000 to July 2003)
- Audit Consultant: Desai Jadwat Inc (2000)
- Chief Executive Officer of Public Accountants' and Auditor's Board (1998 – 1999)
- Financial and Auditing Consultant (1983 – 1998)
- Professor: Deputy Head of Department of Accounting, University of Zululand, Umlazi Campus (1991 – 1998)
- Vice-Dean: Umlazi Faculty of Commerce and Administration (1996 – 1998)
- Senior Lecturer: University of Durban-Westville (1981 – 1991)
- Financial Accountant: Anikem (Pty) Limited (1980)
- Audit Senior: Arthur Young and Company (1974 – 1980)
- Member: Regulating Committee governing Airports Company of South Africa and Air Traffic Navigation Services (1998 to 2011)
- Chairman: Education, Training, Development and Practices Audit Committee (2003 – 2006)
- Chairman: Audit Committees of Gauteng Departments of Education, Safety and Recreation (2001 – 2003)
- Chairman: Petronet Audit Committee (1996 – 2001)
- Member: Divisional Board of Petronet (1998 – 2001)
- Chairman: Remuneration Committee of Petronet (2000 – 2001)
- Chairman: ETDP SETA Audit Committee (2003 – 2006)
- Chairman: Department of Energy Audit Committee (2010 - 2013)

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 (2008 – 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
- Member: Mining Qualification Authority (2004 to date)
- Chairman: Amplats Group Provident Fund Audit Committee (2006 to date)
- Member: W & R SETA Audit Committee (2008 to date)
- Member: Company and Intellectual Property Commission (CIPC) Audit Committee (2011 to date)
- Non-Executive Director: Gauteng Gambling Board (2013 to date)
- Non-Executive Director: Johannesburg City Parks and Zoo NPC (2013 to date)

ABBREVIATED *CURRICULA VITAE* FOR NOMINATED CANDIDATES

(continued)

NJABULO CHARLES NYAWO

Date of birth

21 July 1979

Profession

Chartered Accountant, currently Head of Standard Bank Group MIS Global Markets Africa Finance

Tertiary qualifications and professional membership

- Bachelor of Commerce (1975)
- B.Com (Hons), CA(SA)
- MBA (Finance) (2011) (Heriot Watt University) (Edinburgh Business School)

Positions held

- Standard Bank Group: Head of Regulatory Reporting
- ABSA Group Treasury: Capital Analyst
- Drake and Scull, a division of Tsebo Holdings: Group Financial Manager
- Rand Merchant Bank: Accountant/Financial Manager
- PriceWaterhouseCoopers Inc.: Systems Programmer/Network Administrator
- Member of the SAICA Banking Project Group (2010 to 2012)

Directorships and professional memberships

- Member of the Black Management Forum (BMF)
- Member of the Association for the Advancement of Black Accountants of Southern Africa (ABASA)
- Member of the SAICA Initial Professional Development (IPD) Board Sub Committee (2013)
- Member of the Members In Business (MIB) Board Sub Committee
- Member of the Audit Committee of the Office of The Chief Justice of South Africa (2014)

PANKAJKUMAR RANCHOD

Date of birth

4 January 1956

Profession

Independent Business and Management Consultant

Tertiary qualifications and professional membership

- B.Compt (Hons), CA(SA)
- MBL (cum laude) (UNISA)
- H.Dip Business Data Processing (Wits)
- Certified Director (Institute of Directors)

Positions held

- Director: Strategy and Finance (Home Loans) – The Standard Bank of South Africa Limited
- Acting Managing director for BOE Insurance Limited: NSureline
- Executive Head: Insurance Services – Santam Limited

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 Insurance Company Limited since 2013
- Independent Non-Executive Chairman: South African Bank of Athens Limited
- Non-Executive Director: AIG South Africa Limited and AIG Life South Africa Limited
- Independent Non-Executive Chairman: Visual International Holdings Limited
- Non-Executive Director: South African National Youth Orchestra

ABBREVIATED *CURRICULA VITAE* FOR NOMINATED CANDIDATES

(continued)

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
- Post graduate certificate in advanced taxation

Positions held

- Member of the Board of Trustees of The Professional Provident Society Holdings Trust (2011 – 2013)
- Member of the Board of Professional Provident Society Limited (2007 – 2011)
- Member of the Board of Professional Provident Society Insurance Company Limited (2012 – 2013)
- Member of the Board of Trustees of The PPS Beneficiaries Trust (2011 – 2013), appointed as Chairman in 2011
- Member of the Board of Trustees of the Professional Provident Society Retirement Annuity Fund (2011 – 2013), appointed Chairman in 2012

Directorships and Trusteeships

- Member of the Board of Telemasters Holdings Limited since 2006
- Member of the Board of Seesa (Pty) Limited since 2007
- Member of the Board of TAG Business Advisors (Pty) Limited (England and Wales) since 2008
- Member of the Board of Escalator Holdings Limited since 2010
- Member of the Board of Biz Afrika 1150 (Pty) Limited, trading as Tau Mining Consultants (2013)
- TAG Plastics (Pty) Limited (2012)
- TAG Employee Fund Administrators (2011)

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, 2 June 2014 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 2013			
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 N G Campbell*			
	3.2 Mr Y N Gordhan*			
	3.3 Mr P Ranchod*			
	3.4 Mr NC Nyawo			
	3.5 Mr B R Topham			
4.	Ordinary resolution for the appointment of the members of the Trust Audit Committee			

FORM OF PROXY

(continued)

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			

There are four vacancies on the board of trustees to be filled by elected trustees. These vacancies will be filled by the four candidates receiving the highest number of favourable votes.

* 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 75% of the votes cast by members present (in person or represented by proxy) at the meeting is required.

Signed this ______________________ day of ______________________ 2014

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 t**o be received by 18:00 on Wednesday, 28 May 2014**.
2. **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.**
3. 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.
4. 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.
5. If the signatory does not indicate in the appropriate place on the face hereof how he/she wishes to vote in respect of any resolutions, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution.

RETURN OPTIONS

Either:

Deliver to: The Trust Secretary
6 Anerley Road
Parktown, 2193
Johannesburg

or Post to: The Trust Secretary
PO Box 1089
Houghton
2041

or Fax to: The Trust Secretary at
011 644 4641

or Email to: Companysecretary@pps.co.za

www.pps.co.za