FOR PROFESSIONALS

SINCE 1941

INTEGRATED REPORT 2016

Life Insurance | Investments | Financial Planning | Short-Term Insurance | Medical Aid

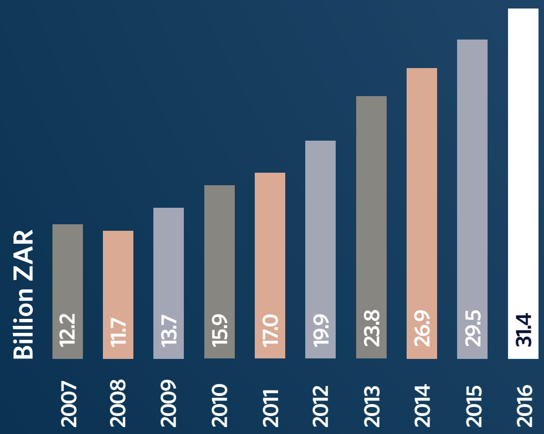
Table of contents

Highlights for 2016	**2**
Who we are	**4**
Our approach to integrated reporting	**5**
Group performance at a glance	**6**
Consolidated statement of financial position	**11**
Consolidated statement of profit or loss and comprehensive income	**12**
Chairman's statement	**14**
CEO's report	**16**
Key performance indicators	**20**
How PPS addresses principal risks and uncertainties	**21**
PPS in the future	**23**
Operating environment	**24**
PPS doing good	**26**
Group structure	**33**
PPS Holdings Trust board of trustees	**34**
PPS Insurance Company Limited board of directors	**36**
PPS Group Executive committee	**38**
PPS Healthcare Administrators board of directors	**40**
PPS Short-Term Insurance board of directors	**41**
PPS Investments board of directors	**42**
Annual Financial Statements 2016	**43**
Corporate governance report	**131**
Action required of members in regard to the 2017 annual general meeting	**152**
Notice of annual general meeting and CVs of candidates standing for election	**153**
Form of proxy	**165**

PPS HIGHLIGHTS FOR 2016

Total Assets Of

R31.4 billion*

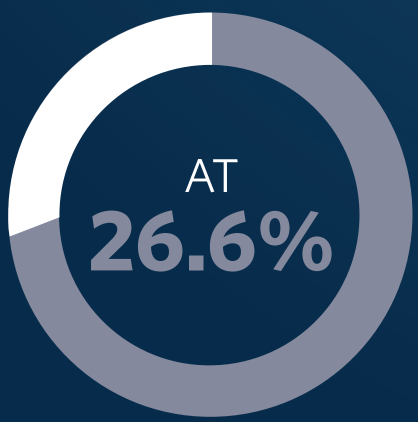


*Excluding assets in unit trusts for third parties

Policies In Force

261 763

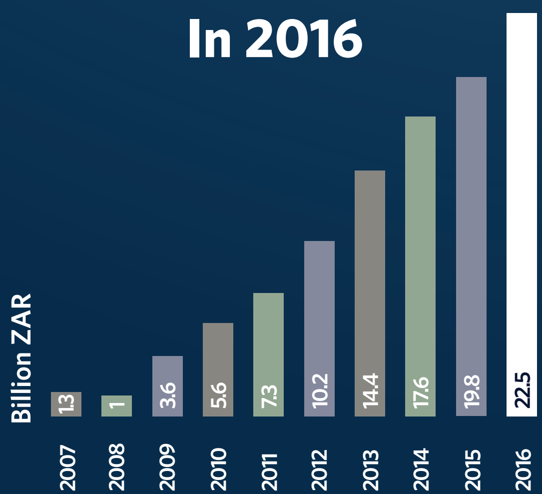
Black Ownership



Allocation to PPS Profit-Share Accounts Of Over

R2.7 billion

In 2016



R 22.5 bn cumulatively allocated over the last 10 years

As PPS enters a new chapter in its history, the Society will continue to serve its members and stay true to the purpose of being an exclusive organisation for graduate professionals, belonging to its members. IZAK SMIT, PPS CHIEF EXECUTIVE

PPS Investments

ASSETS UNDER MANAGEMENT

R25 billion

↑ 16%

PPS Millionaires

MORE THAN

4000

MEMBERS HAVE ACCUMULATED MORE THAN

R1 million

In their PPS Profit-Share Accounts

Growth In New Membership

↑ 9%

61% OF NEW MEMBERS UNDER THE AGE OF 30

Benefits Paid

R2.4 billion

VALUE OF TOTAL BENEFITS PAID IN 2016

Sickness	R 394.5 million
Permanent Incapacity	R 346.6 million
Life Cover	R 463.9 million
Critical Illness	R 104.9 million
Lump Sum Disability	R 71.1 million
Cessation	R 976.4 million
Motor & Household	R 65.2 million

Who we are

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

OUR MISSON

To be an exclusive organisation of graduate professionals, belonging to its members, which provides exceptional insurance benefits and a range of financial services to members, their families and associates.

We further strive to provide peace of mind, security and consequently wealth for our members during their working lives and in retirement.

OUR VALUES

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

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

OUR STRATEGY

The needs of the graduate professional have been central to PPS' strategic intent for the last 76 years. We have designed our products and servicing models accordingly and believe that the mutual model provides long-term benefits to our members that cannot be matched.

Our strategy therefore focuses on:

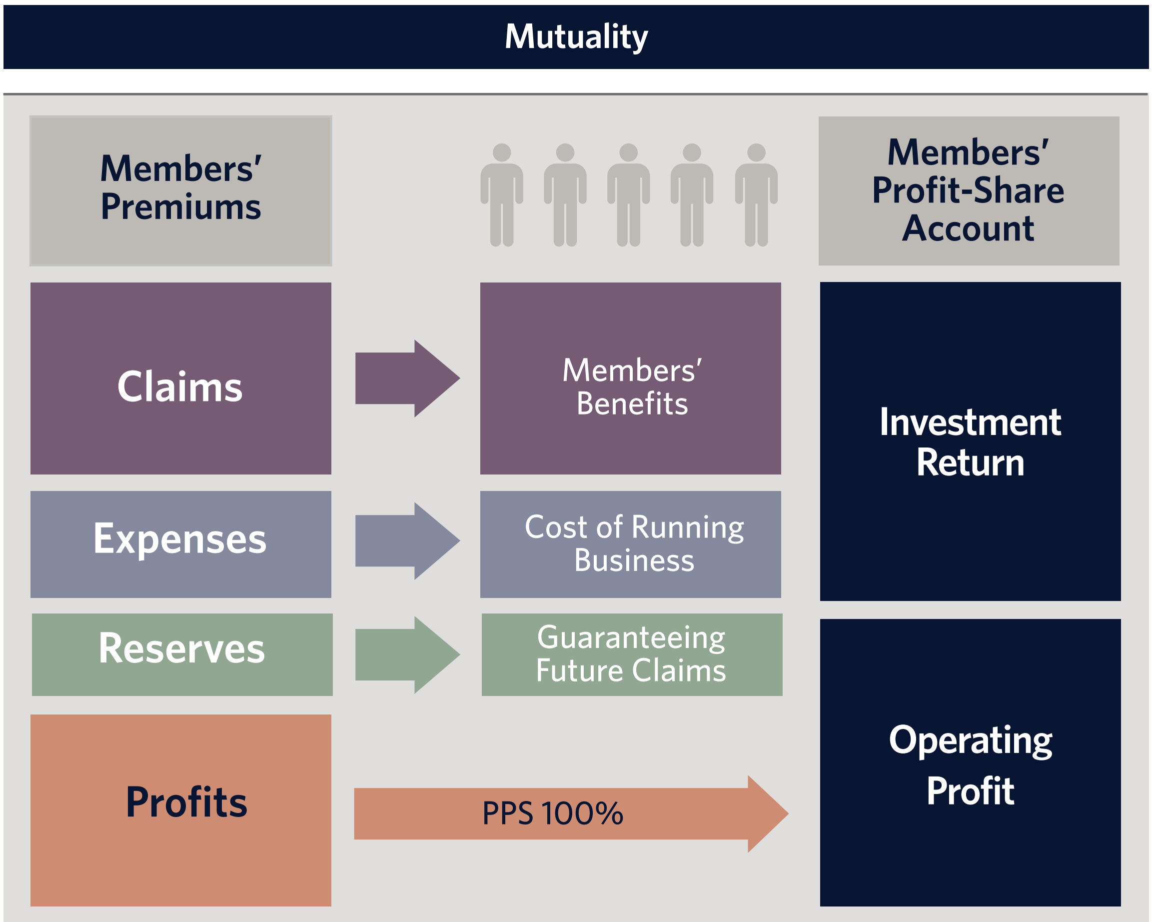
- mutuality and growing membership;
- group sustainability; and
- distribution.

WHY IS PPS UNIQUE?

MUTUALITY

Unlike most financial services providers in South Africa, PPS is not listed on the stock exchange and has no external shareholders – instead, PPS operates under the ethos of mutuality and all PPS' profits are allocated to PPS members with qualifying products on an annual basis by way of allocations to their PPS Profit-Share Accounts.

This means that **ALL** the profits and investment returns generated by the PPS Group are allocated to its qualifying members.



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

THE MUTUAL ETHOS

The PPS sustainable business model has three cornerstones which underpin the Group strategy.

- **FOCUS ON THE GRADUATE PROFESSIONAL MARKET**
- **SHARING ALL PROFITS WITH MEMBERS**
- **MEMBER PARTICIPATION IN GOVERNANCE**

LONG-TERM MINDSET
THE CIRCLE OF MUTUALITY

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

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

MEMBERS' RETURNS

PPS members shared in over R2.7 billion of PPS profits and investment returns during the year.

PPS has shared a total of R15.2 billion in profits and investment returns with its members over the last five years, and R22.5 billion over the last 10 years.

Once members retire from their PPS Insurance products, the profits they've accumulated over the course of their PPS membership through their PPS Profit-Share Account will vest and become accessible via the Vested PPS Profit-Share Account (which vests at retirement from age 60). Irrespective of whether they had ever claimed or not. This is a truly unique statistic in the South African insurance sector. The Vested PPS Profit-Share Account allows members to keep their PPS Profit-Share Account assets invested for longer to generate further returns and supplement their retirement savings.

GOVERNANCE

PPS Insurance is a registered insurer and is subject to the same governance requirements as a listed insurer. A unique additional layer of governance is the fact that our members and professional associations are represented at the PPS Holding Trust Board level – the ultimate control structure of the Group.

There is no other insurance company in South Africa where policyholders are specifically represented at Board level.

Our approach to integrated reporting

This integrated report tells the PPS story.

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

For video content, including an interview with our Chief Executive Officer Izak Smit, please visit the dedicated integrated reporting site.

SCOPE AND BOUNDARY

This Group report covers the 12 months ended 31 December 2016 and subsequent events up to the date that our financial statements are published.

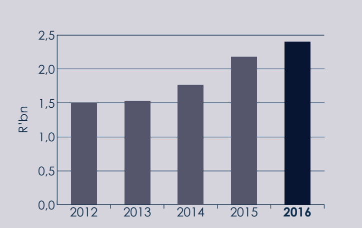
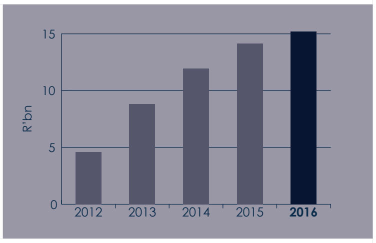
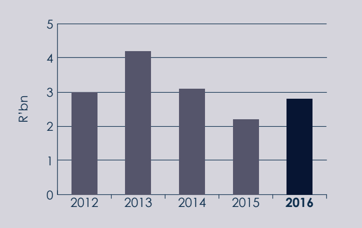
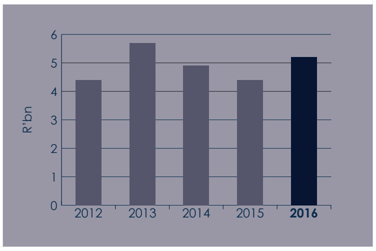
In line with the King Report on Governance of 2009 (King III), and the International Integrated Reporting Framework, this report aims to give a concise picture of PPS with a view to keeping our members and primary stakeholders better informed on all matters relevant to the Group's progress in providing members with world-class financial products in a socially, environmentally and economically responsible way. This report includes qualitative and quantitative data on the Group's performance, benchmarked against various targets and key performance indicators.

The complete consolidated annual financial statements, including the reports from our Audit Committee and Social and Ethics Committee and the Trustees' Report are available online, providing comprehensive information and giving stakeholders interactive functionality. Visit www.pps.co.za for more information.

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

Group performance at a glance

We operate as a mutual. There are five principal business units in South Africa and Namibia as outlined below.

THE PPS GROUP	KEY INDICATORS	2016	FIVE-YEAR REVIEW
PROFIT-SHARE ALLOCATIONS AND BENEFIT PAYMENTS	**Annual gross benefits paid to members**	**R2.4 billion**	
Through its unique mutual model, all the profits are ultimately attributable to our members. This is achieved by allocating operating profit and investment returns to the members' PPS Profit-Share Account, which is available to them on retirement, or their beneficiaries on death.	**Cumulative profit-share allocations for the last five years**	**R15.2 billion**	
	Annual profit-share allocations	**R2.7 billion**	
	Annual gross benefits paid to members plus profit-share allocations	**R5.1 billion**	

PPS Insurance

The culture of ongoing development and introduction of new and improved products and services to PPS members saw a number of innovative and significant improvements in 2016. The Critical Illness benefit was redefined and a new product, Education Cover, was introduced. This benefited PPS through increased sales, share of market and better retention of existing business.

By redefining the Critical Illness conditions for improved clarity and transparency to the members, as well as covering more conditions without an increase in premiums, higher sales were seen.

PPS' Sickness and Permanent Incapacity products remain the cornerstone of PPS' offerings, introduced at the inception of PPS 76 years ago. The addition of an extensive range of mortality and morbidity benefits have helped ensure continued growth in the past ten years.

PPS Life Broker Services enjoyed a very successful year, buoyed by increased support from PPS' long standing and loyal independent advisers and by continued innovation of products and services to this market.

Business review

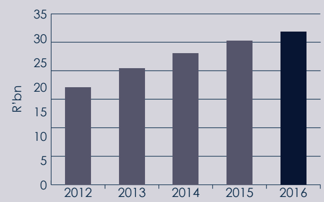
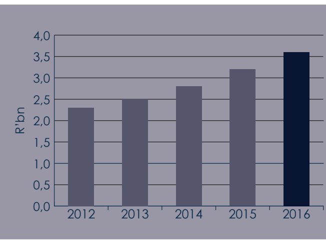
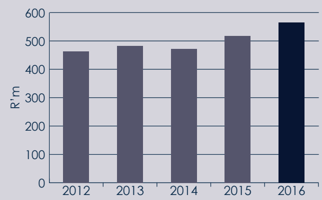
Total gross life premiums of over R3.6 billion (up 12% from prior year) have been received, supported by a 9% growth in new members.

The total number of policies in force increased healthily in 2016 to 261 763 and PPS continues to enjoy exceptionally low lapse rates, and high average sums assured on written business.

Prospects

The business achieved pleasing growth in members and policies in a difficult market where growth has stagnated. Management expects continued healthy growth in policies, premiums and market share because of the significant investments in recent years in distribution depth and breadth, and continued product innovation.

As the Society enters its 76th year, PPS will continue to serve its members by providing world class financial services covering needs from graduation to retirement.

SICKNESS AND LIFE INSURANCE	KEY INDICATORS	2016	FIVE-YEAR REVIEW
PPS Insurance Company provides long-term life, sickness, dread disease and disability insurance to eligible members. In terms of the mutual model, all the profits are ultimately attributable to our members.	**Total assets***	**R31.4 billion**	
	Gross premium revenue	**R3.6 billion**	
	New annual premium income	**R565.8 million**	

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

PPS Investments

PPS Investments is approaching its 10th anniversary in May 2017, and since inception has developed into a well-trusted mainstream investment business offering investors well-constructed products and portfolios to meet their needs throughout their lifetimes.

During this time, PPS Investments delivered quality investment services to over 32 000 individual investors who entrusted their savings to PPS Investments products. Assets under management have grown to R25 billion at the end of 2016, reflecting the value that our mutual model provides to individual investors.

Building on the success of the range of investment products, two new funds were launched at the end of 2015. The Global Balanced Fund of Funds and the PPS Balanced Index Tracker Fund offer investors diversification across investment styles and geographical focus.

PPS Investments have also launched the PPS Tax Free Investment Account for graduate professionals to meet their needs to build capital through long-term savings. The flexible and unrestricting tax-free investment account allows contributions up to a maximum of R30 000 per tax year and R500 000 over their lifetime.

Business review

Retail funds under management increased from R14.8 billion to R17.3 billion on the back of new client inflows of R3.5 billion, slightly ahead of the prior year.

The PPS Tax-Free Investment Account has seen over 700 investments in its first year, as investors have taken advantage of this opportunity.

2016 proved to be a challenging year for the financial markets with political events in Europe and the US having material impacts on the prognoses for global growth and hence, particularly on the emerging markets. The Rand demonstrated surprising strength during the year, particularly against Sterling following the UK electorate's unexpected decision to leave the Eurozone in the Brexit referendum. Against a low-single digit return environment for the broad local equity market, and after a number of disappointing years, the resources sector enjoyed a notably strong recovery.

The investment approach of PPS Multi-Managers has continued to seek diversified exposure across specifically skilled asset managers; seeking to avoid portfolio construction that is too focused on any one particular outcome or event. As such the multi-asset Funds of Funds enjoyed solid performance relative to peers, whilst the combination of quality managers within the PPS Equity Fund delivered strong returns in excess of its benchmark.

Product developments

The new portfolios that were launched towards the end of the previous year have started to gain traction as investors have sought diversification on a geographic basis using the PPS Global Balanced Fund of Funds, as well as others who have chosen to diversify into a passively managed Balanced Index Tracker Fund.

During the year, the PPS Managed Share Portfolio offering was extended to post-retirement products – allowing larger investors to invest Retirement Annuity and Living Annuity Assets in bespoke share portfolios having personalised mandates.

The continued focus on providing investors and intermediaries with the ability to access investment information and transact online has seen further developments in this regard throughout the year. At the end of 2016, the first PPS member smartphone app was launched with a strong focus on investments and savings to allow clients to stay in touch with their assets from wherever they are. The ability to access accounts to make additional contributions, to switch between portfolios, and to access savings when needed will further enhance the investor experience that is currently available.

Profitability and distributions

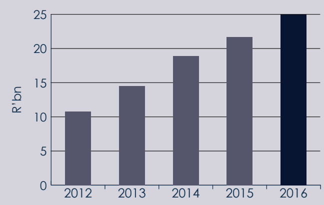
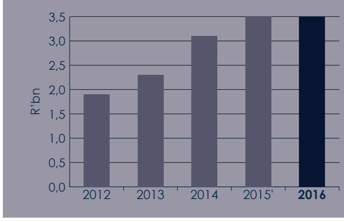
PPS Investments has contributed to the PPS Profit-Share Accounts for the fifth consecutive year. For the 2016 financial year, the aggregate profit allocation totalled R13.2 million, representing 10% growth year on year.

For the third consecutive year, members were eligible for two profit allocations from PPS Investments based on their investment into a PPS Investment product structure and on their investment into PPS unit trusts.

Prospects

As the business looks forward towards its second decade of operation, the focus will continue to be on meeting the needs of our investors with well-constructed portfolios and products that meet the needs of individual members. The emphasis on quality managers and portfolios that has served investors well over the past decade is a proven recipe for long-term wealth creation through challenging markets and this remains core to our approach.

The introduction of industry-leading digital capabilities for investors and intermediaries is expected to have an increasingly favourable impact on the level of investment of PPS members in the products of this modern investment platform.

<table>
<tr><th>PPS INVESTMENTS</th><th>KEY INDICATORS</th><th>2016</th><th>FIVE-YEAR REVIEW</th></tr>
<tr><td rowspan="2">PPS Investments is a 100% owned investment company that offers retirement and savings products to PPS members.</td><td>Total assets under management</td><td>R25.0 billion</td><td>
</td></tr>
<tr><td>New business: flows</td><td>R3.5 billion</td><td>
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PPS Short-Term Insurance

OVERVIEW

The 2016 financial year was a tough year for the insurance industry from both a subdued economy with pressure on take home pay, as well as catastrophes such as floods, fire and hail. This resulted in an inverse correlation of an increase in claims and downward pressure on premiums.

For PPS Short-Term Insurance, the year presented numerous challenges due to a delay in the granting of an insurance licence and other regulatory processes, as well as unexpected delays in the implementation of systems. The business got going in March, and has met its business plan for the first year of operation on its gross written premiums and maintained the claims/loss ratio within target.

Business review

In the year under review the business model changed completely, with PPS Short-Term Insurance now operating as an insurance company and not a broker. The professional skills in actuarial, insurance technicians and financial people were bolstered by growth of almost 50% in the staff complement.

In order to increase business flow and to attract new policyholders, distribution was opened to the wider short-term broker market.

To the initial offering of personal lines insurance, business insurance was added in mid-December, with a major marketing drive launched early in 2017. Other products to be rolled out in 2017 include professional indemnity and a value-added product bundle that will include cover for paint and dents, credit shortfall and credit life.

The fully-fledged insurance company benefited from the partnership with Santam. As an established insurer, Santam assisted with laying the foundation in providing access to its rating methodology, as well as underwriting procedures and product development. Subsequent to the launch of PPS Short-Term Insurance, Santam is managing its claims on an outsourced basis.

Prospects

The launch of the commercial offering will form the core of the thrust in 2017.

It is expected that the economy will remain subdued until 2018. The insurance cycle is expected to bottom out towards 2018, with a period of renewed growth in the sector in 2019.

PPS Short-Term Insurance is currently in the establishment stage and it will take a few years to attain the critical mass and required profitability to add to the PPS Profit-Share Accounts through its dividends that will accrue to PPS Insurance Company Limited.

MOTOR AND HOUSEHOLD INSURANCE

PPS Short-Term Insurance offers PPS members the opportunity to obtain short-term insurance at exclusive rates, in partnership with a leading underwriter in the South African market. (Established 2016)

PPS Financial Planning

OVERVIEW

Launched in July 2015, PPS Financial Planning has gained more insight into clients' needs regarding financial advice. This has seen a fundamental shift in the distribution strategy that was rolled out as from January 2016.

The distribution model centres around client-focused financial advice, with a financial plan specifically designed for every client based on their unique needs and financial goals.

From the outset, PPS Financial Planning introduced a remuneration model whereby members pay fees depending on the particular financial planning intervention, such as risk, retirement, estate planning etc.

The division has succeeded in its aim to employ graduate professionals as financial advisers in order to build rapport with clients. Amongst the 12 financial advisers currently employed in the major cities, all are **graduate professionals** and eight have the Certified Financial Planner (CFP) qualification. This model will result in **removing sales pressure** to market products.

The PPS offering

The division has embarked on a process of streamlining the internal distribution of the Group. The previous model, whereby the client potentially had to engage with three different people for advice – financial planner, risk product adviser and investment adviser - will be adjusted so that the client experiences one relationship leveraging the expertise of all the advisers in the channel. The financial planner will provide information to the risk and investment advice specialist to enable them to find the right products for the client and vice versa, to enable a holistic planning conversation with the financial planner. In the process the services of 270 advisers will be integrated into one team to also ensure a consistent member experience across the PPS Group.

Prospects

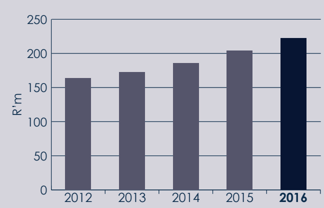
The changes in the internal distribution model will unlock the potential to market the financial planning offering to more of our members. By extending the offering to independent financial advisers, a further cohort of clients can be reached.

In January 2017, the division launched a digital financial planning tool, in line with the global trend towards "co-planning", where clients use web-based technology to design a financial plan with the assistance of an adviser.

To complete the offering to clients, PPS intends to launch fiduciary services soon, in line with PPS' commitment to do what is right for the members and to assist the graduate professional to live the life they want to live.

PPS Healthcare Administrators

Professional Provident Society Healthcare Administrators is the professional market's specialist medical scheme administrator and health risk management provider. Its focus is on providing excellent service in the administration of medical scheme contributions and claims management. It also offers expert financial and clinical risk management services to our client schemes. Its core focus is to act unfalteringly during those crucial times when it is needed the most by members of the Medical Scheme and their dependents.

PPS HEALTHCARE ADMINISTRATORS	KEY INDICATORS	2016	FIVE-YEAR REVIEW
PPS Healthcare Administrators is a company specialising in the administration of medical schemes.	**Administration fees received**	**R222.4 million**	

PPS GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	2016 R'000	2015 R'000	Change R'000	DESCRIPTION OF INDIVIDUAL ITEMS
ASSETS				
Property and equipment	**546 196**	467 147	79 049	Fixed assets. These include PPS' head office premises, furniture, equipment, computers and vehicles.
Investment property	**356 469**	378 506	(22 037)	Properties which are held for the purpose of rental income and capital appreciation. Reduction due to disposal of a property during the year.
Intangible asset	**73 187**	63 797	9 390	PPS Internally developed insurance software.
Other non-current assets	**37 149 710**	32 911 799	4 237 911	Assets backing 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	**2 382 905**	3 369 091	(986 186)	Primarily cash resources of PPS Group.
Total assets	**40 508 467**	37 190 340	3 318 127	
EQUITY AND LIABILITIES				
Total equity	**400 086**	300 071	100 015	Accumulated profit/losses of PPS Insurance's subsidiary companies as well as the statutory capital requirement of the insurance entities and revaluation reserve of the Group's owner-occupied properties.
Insurance policy liabilities	**28 216 448**	26 591 016	1 625 432	Policyholders' funds consisting of (a) capital held to settle future insurance claims, and (b) PPS Profit-Share Accounts.
Investment contract liabilities	**1 464 986**	1 139 647	325 339	Funds of members invested in PPS living annuities and endowment products.
Liabilities to unit trust holders	**9 088 757**	7 673 934	1 414 823	Value of outsiders' investments in unit trusts in which PPS owns a majority stake.
Other liabilities	**1 338 190**	1 485 672	(147 482)	Primarily short-term liabilities.
Total equity and liabilities	**40 508 467**	37 190 340	3 318 127	

PPS GROUP CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

for the year ended 31 December 2016

	2016 R'000	2015 R'000	Change %	**DESCRIPTION OF INDIVIDUAL ITEMS**
Net insurance premium revenue	**3 413 766**	2 985 698	14%	Premiums received from policyholders net of reinsurance premiums paid to reinsurers.
Other income	**369 232**	356 804	3%	Administration fees: Long- and short-term insurance, medical aid and retirement annuity. Short-term insurance commissions. Fees earned for asset management.
Investment income and net revaluation profits on financial assets held at fair value through profit or loss	**2 275 380**	2 683 238	(15%)	Interest, dividends and realised and unrealised growth on investment assets.
Attributable to unit trust holders	**(476 512)**	(278 818)	71%	Third-party unit trust holders' share of revaluation profits.
Total revenue	**5 581 866**	5 746 922	(3%)	
Gross insurance benefits and claims	**2 422 710**	2 177 256	11%	Gross benefits paid to members.
Reinsurance claims recoveries	**(160 042)**	(132 221)	21%	Insurance benefits recovered from reinsurers.
Increase in fair value of policyholder liabilities under investment contracts	**15 296**	69 023	(78%)	Investment income, net of expenses, relating to the underlying assets linked to the investment policyholder contracts.
Expenses	**1 507 437**	1 381 401	9%	Group operating expenses, commissions paid on new business written, and multi- manager fees paid by PPS Investments.
Profit before movement in insurance policy liabilities	**1 796 465**	2 251 463	(20%)	
Movement to insurance policy liabilities	**1 546 773**	1 820 625	(15%)	The amount allocated to members in their capacity as policyholders.
Tax	**226 342**	356 304	(36%)	Taxes raised in favour of the South African and Namibian Revenue Services.
Surplus after tax and policy movements	**23 350**	74 534	(69%)	Any adjustment required to maintain capital cover and the result of operations of subsidiaries, other than the long-term insurance subsidiary.

These are the benefits members receive when claiming from PPS

This amount is part of the annual allocation to members' PPS Profit-Share Accounts

Leadership commentary and key performance indicators

Chairman's statement

THE YEAR AT A GLANCE

The year 2016 was an extremely challenging year for the South African economy. Fears of lingering political uncertainty and a sluggish economic environment saw the country narrowly avoiding credit rating downgrades by major ratings agencies to sub-investment grade.

Economic growth is expected to slump to 1% in 2016, whilst the South African currency gained 12.88% against the dollar amidst great volatility; partly due to the fact that the South African currency is the most liquid among the emerging market currencies.

In aggregate, emerging market equities outperformed developed market equities for the first time since 2012. The Alsi delivered a negative 0.08% (excluding dividends) and grew by a muted 2.6% for the year on a total return basis.

PPS IN PERSPECTIVE

At PPS, the year held several exciting developments. A total of 7 662 new members were enrolled, bringing the membership up to 353 502. The year under review saw the appointment of a dynamic new CEO at PPS, Mr Izak Smit, on the retirement of Mr Mike Jackson, an icon of the insurance industry. The growth among student members from across a broad spectrum of campuses is particularly pleasing.

Total assets of the group grew to R31.4 billion and gross premium income to over R3.5 billion.

Despite the difficult investment market the dedication of our investment team increased the allocation to our members' PPS Profit-Share Accounts to over R2.7 billion. PPS now has more than 4 000 members with more than R1 million in their PPS Profit-Share Accounts.

A major development for the group was the establishment and launch of PPS Short-Term Insurance, which has been operating successfully as a brokerage for the past seven years, into a registered short-term insurance company. The company will in this new capacity continue to focus solely on the short-term insurance needs of the South African graduate professional market.

PPS Mutual was launched in Australia, following extensive research that indicated a gap in the market for a specialised mutual organisation dedicated to the needs of the growing graduate professional market in the region.

POWER OF MUTUALITY

PPS continues to operate under an ethos of mutuality. It remains a mutual organisation and is owned by its members to provide financial services to graduate professionals. The benefits of mutuality accrue to its members via the PPS Profit-Share Accounts.

The structure allows for board members to be elected and to be nominated by professional associations. In terms of best practice in corporate governance, PPS strives to ensure a balance of skills resides in the board and representatives encompass professionals from all spheres.

PROSPECTS

The economic environment is expected to remain weak. Economic growth is expected to improve marginally to 1% in 2017 and 1.6% in 2018, but political uncertainty will have a bearing on the rate of growth.

There is still a strong chance of a foreign ratings downgrade by ratings agencies to sub-investment grade due to sluggish economic growth and political uncertainty.

Combined with low economic growth, we can expect another volatile year on the markets.

PPS will continue to serve its members by providing world-class financial services. To enhance our service offering PPS will launch innovative technological solutions to cater for the new generation of millennials. The aim is to introduce "robo-advice" to assist brokers to meet the needs of the digital generation.

The members remain at the centre of all our strategic decisions as part of our commitment to the communities we serve.

THANKS

I would like to record my sincere gratitude to Mike Jackson, CEO of PPS Group, who retired at the end of September 2016. During his 13-year tenure, the group has experienced many changes, and the company has experienced magnificent growth under his inspired and exceptional leadership.

We welcome Izak Smit, the former Managing Executive of Absa Financial Services Distribution in South Africa, who was appointed as CEO of PPS. We look forward to work with him to take the business into the future, ensuring that the platform we have built together will continue to grow and guarantee that PPS remains the financial services home for all professionals.

It remains for me to record my deep indebtedness to Dr Sybil Seoka, the Vice-Chairman of the PPS Holdings Trust, for her ongoing 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 Mr Charles Erasmus, 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.

In conclusion, on behalf of our Board of trustees and the PPS Group entities, I record my sincere gratitude to the executive management as well as to all 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.

EA Moolla
Chairman

30 March 2017

PPS will continue to serve its members by providing world-class financial services. To enhance our service offering PPS will launch innovative technological solutions to cater for new generation of millennials.

CEO'S report

2016 IN REVIEW

On many fronts 2016 was a challenging year – and even more so for companies in an industry where performance is closely linked to financial markets. The year was shaped by unpredictable big events like Brexit and the US election. On the home front, the potential downgrades by ratings agencies loomed like a sword over the economy. In addition, policy uncertainty worsened an already unstable situation, resulting in dismal economic growth of only 1%.

Against this backdrop, it was generally a difficult year for investment managers. The JSE/FTSE All Share Index returned a paltry 2.6% (with dividends reinvested). Investment returns were further impacted by the rand strengthening by 12.88% against the US dollar. Despite this, PPS delivered a pleasing performance and most of our business goals were achieved. PPS is satisfied with the returns delivered by all our fund managers. However, members should take cognisance of the fact that our fund managers expect returns to remain in single digits for a couple of years.

During the year, new enterprises were launched, notably PPS Short-Term Insurance, the Financial Planning division and PPS Mutual in Australia. The distribution model also saw a complete overhaul.

As these new businesses gain traction, new avenues for profit growth will contribute to members' PPS Profit-Share Accounts.

GROWTH IN THE PPS PROFIT-SHARE ACCOUNTS

The primary advantage for members of PPS remains the profits that accrue to members on retirement through the unique PPS Profit-Share Accounts. Apart from the investment returns, the operating profit is also shared with members. In the year under review, operating profit grew by 17%, driven mainly by three factors: Expenses were strictly managed, claims payments were within budget and the investments in new business were below budget.

PPS is pleased to be able to share over R2.7 billion with members through their PPS Profit-Share Accounts.

RETIREMENT BENEFITS

During 2016, 978 members retired with a total value in their PPS Profit-Share Accounts of R668.1 million. Individual amounts varied between R50 000 to R3 million, depending on the tenure with PPS and the amount of the premiums paid together with the number of products held.

Sharing Our Success

For the past 76 years, PPS has shared its success with members by way of our PPS Profit-Share Account allocations. This unique benefit significantly enhances the Sickness and Permanent Incapacity Benefit (SPPI) at retirement and in most cases the profit allocation exceeds the premiums paid by PPS policyholders with qualifying products.

The actual real examples below show the benefits of members who retired between the ages of 60 to 67 who have been members for between 28 and 44 years. Profit allocations varied between R977 483 and R2.3 million. This also shows the significant benefit of starting early with PPS membership!

The examples below illustrates PPS' value proposition. PPS members, in most instances, have received more in profit allocations than what they have paid in premiums.

This is truly unique, members receive the profit allocation no matter how many claims they have submitted throughout their tenure with PPS.

PROFESSION	RETIREMENT AGE	YEARS OF MEMBERSHIP	TOTAL PREMIUMS PAID	TOTAL CLAIMS PAID	PPS PROFIT SHARE PAID
Medical doctor	66	39	R 1 604 727	R 686 870	R 1 980 330
Consultant	62	41	R 935 649	-	R 977 483
Medical doctor	67	44	R 1 782 659	R 377 112	R 2 320 209
Financial services	60	28	R 957 508	R 1 202 812	R 1 350 099
Advocate	65	38	R 1 316 794	R 877 267	R 1 687 151

Members with qualifying products share all the profits of PPS. The PPS Profit-Share Account vests from age 60 onwards.
Past performance is not necessarily indicative of future performance.

GROWTH IN MEMBERSHIP

Membership is still growing strongly. In the year under review, new membership grew by 9% with membership totalling 353 502. Despite the disruption on campuses due the fees must fall campaign, a pleasing number of newly qualified professionals joined the group. 61% of our new members in 2016 were younger than 30 years of age, which ensures a sustainable insurance business.

In the coming year, PPS will focus on introducing products that will add value and projects to enhance the sense of community amongst our members. The member workshops launched during the year have proven to be very popular amongst our members and we will continue to expand the offering.

DISTRIBUTION

The distribution model saw an overhaul in 2016. The implementation of a new, innovative distribution model is an exciting development at the group. Various distribution models were carefully evaluated and PPS decided on a model that is cost-effective, allows cross service between the various products and utilises technology.

This required an internal reorganisation, resulting in a leaner management structure and combining of support functions.

The new structure will assist PPS to better serve its members and to meet their high expectations in terms of products and service.

SUBSIDIARIES

Inflows into the new enterprises were somewhat slow, but indications are that members can look forward to a healthy profit contribution from the new businesses in due course.

PPS Healthcare administers Profmed and Key Health. Key Health proved to be popular with 35 683 members at year-end.

Profmed is a restricted medical scheme for graduate professionals. At December 2016, Profmed provided cover to 31 787 members – an increase of 4.7% from 2015. Profmed and Key Health are well capitalised and claims are being well managed.

PPS Investments saw assets under management grow to R25 billion. Approaching its 10th anniversary in May 2017, quality investment services are provided to over 32 000 individual investors. Retail funds under management increased from R14.8 billion to R17.3 billion on the back of new client inflows of R3.5 billion, slightly ahead of the prior year.

PPS Short-Term Insurance was launched in March 2016 and the uptake has been slower than anticipated. Initially personal lines were introduced, but it was followed by a commercial insurance offering launched in December.

PPS Financial Planning is another division that we are very excited about. The new approach to financial planning is a move away from product sales to the development of financial plans, comprising retirement planning, risk planning, estate planning, budget planning and more. All advice will be product agnostic, financial planners are incentivised to provide financial plans and not to sell products. The fee model has been adjusted since the division was launched and the team of 270 advisers will be combined into one team to offer an integrated service to members.

We are also very excited about the digital channels that will be launched in 2017. This is aimed at the millennials that prefer digital channels to assist their intermediaries with rendering financial advice.

GEOGRAPHICAL EXPANSION

PPS Mutual was launched in Australia in February, after careful viability assessments and based on research that showed Australia to be the most desirable option. Since the launch, some progress has been made and at the end of December a total of 144 financial plans were in force.

The business is supported by the back-office administration based in Johannesburg, with a significant cost saving for the group.

South African members of PPS will benefit from the growth in the Australian business and the royalties paid to the South African business.

Once the Australian business is well established, PPS will carefully consider expansion into other geographies that meet the criteria. PPS will concentrate on countries with a large number of South African expatriots and where the number of qualifying graduate professionals will add critical mass.

REGULATORY DEVELOPMENTS

The implementation of Solvency Assessment Management (SAM) has been postponed from 1 January to June 2017. At PPS, all the required milestones around the implementation were successfully achieved and the group is ready to comply with the new regulation.

PPS also fully supports the implementation of the Retail Distribution Review (RDR). RDR is being implemented in phases and the new distribution model introduced at PPS complies with the principles set out in the RDR.

CHANGE IN LEADERSHIP

Personally, it is a great honour to take over as CEO from Mike Jackson, who has served PPS in an exemplary way for 13 years. The organisation that was built over 75 years, benefited further from Mike's dedicated and committed leadership. The business he left behind is well positioned for the future with a strong management team and the support of all its board members. As PPS enters a new chapter in its history, the Society will continue to serve its members and stay true to the purpose of being an exclusive organisation for graduate professionals, belonging to its members.

PROSPECTS

In all likelihood 2017 will be another tough year for the South African economy. Some of the headwinds facing our country have dissipated, but economic growth will remain low, with the IMF and World Bank predicting growth rates of respectively 0.8% and 1.1% for South Africa in 2017. Furthermore, the shadow of a possible credit downgrade is still lingering, undermining the confidence in our investment markets.

However, there are indications that the resources cycle has turned, which is positive for the South African economy.

THANKS

All that remains for me, is to thank the dedicated board members, especially our chairman, Mr Ebi Moolla, and Mr Charles Erasmus, chairman of PPS Insurance. Their guidance and assistance in the transition period is greatly appreciated. PPS is blessed with a strong board to lead the company into the future.

My appreciation also goes to our staff members for their dedication and commitment that has positioned PPS as the preferred provider of financial services to graduate professionals.

During the year, new enterprises were launched, notably PPS Short-Term Insurance, the Financial Planning division and PPS Mutual in Australia. As these new businesses gain traction, new avenues for profit growth will continue to members' PPS Profit-Share Accounts.

IJ Smit

CEO

30 March 2017

Key performance indicators (KPIs)

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

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

HOW DID WE DO IN 2016?

OUR KEY KPIS		Unit of measure	2016 PERFORMANCE	2016 GOAL		COMMENTARY
FINANCIAL STABILITY	**Gross premium income**	**Rand billions**	3.7	3.6	🟢	Gross premium income (long-term and short-term) exceeded expectations.
	Total assets*	**Rand billions**	31.4	32.6	🟡	Total asset growth expectation is measured over a three year rolling period. Muted market movements for the year resulted in total assets being slightly behind expectations although a prudent investment policy will ensure sustained growth into the future.
	Efficiency ratio	**%**	14.3	15.4	🟢	Cost control remains an imperative of the Group.
	New annual premiums	**Rand millions**	704.0	735.3	🟡	New premiums performed below target. The Group is focusing on strengthening its distribution capabilities in 2017.
	New investment inflows	**Rand billions**	3.5	4.4	🟡	Performance is in line with prior year, but below the internal target.
MEMBERSHIP	**Number of new members recruited during the year**	**Individuals**	7662	7500	🟢	New member recruitment exceeded target in 2016.
SERVICE	**Average number of monthly ombudsman queries**	**Number of queries**	3	< 5	🟢	PPS strives to treat members fairly, which is reflected in the low number of queries.
	Customer satisfaction survey results	**Rating**	98	> 80	🟢	Customers are generally satisfied with our service. Ratings are based on the level of professionalism as well as effective query resolution.
STAFF	**Employee satisfaction survey results**	**%**	92	90	🟢	Employee satisfaction scores remain in excess of target.
	Training spend as a percentage of payroll	**%**	3.8	> 4.0	🟡	Training spend is slightly behind target. Budgets have been increased for 2017.

** Excluding assets in unit trusts for third parties*

🟢 Achieved
🟡 Partly achieved
🔴 Not achieved

How PPS addresses principal risks and uncertainties

PPS exists to take care of the financial interests of its members, by providing advice, products and services for the optimal creation, protection and management of the wealth of its members throughout their lives and their legacies.The principles of mutuality as well as the objectives to operate ethically, responsibly and within the confines of applicable legislation are key considerations which determine PPS' risk appetite.

PPS is cognisant of the key business risks, as outlined below, which may have a material impact on our operations. Strategies are in place to mitigate these risks wherever possible.

RISK	MANAGEMENT ACTIONS
1. Slow economic growth	• Grow our brand awareness • Continuously enhance group product and service offerings • Grow distribution reach
2. Membership growth	• Build member community • Digital engagement • Profit-Share Account benefits
3. Market risk and volatile investment return	• Long-term investment horizon • Balanced portfolios with international exposure • Multiple asset managers

The future, our operating environment and risk management

PPS in the future

OUR STRATEGY

The PPS Distribution strategy has evolved over time as the business has evolved from a single insurance product provider to a multiple business group. The strategy has served the business well with the continued growth in the life insurance business and the establishment of the subsidiary businesses namely investments, short-term insurance and health administration. Over the next one to three years PPS intends to make enhancements to this distribution model to improve the advisor and customer experience when engaging with the group.

Our key strategic priorities are:

OUR STRATEGIC PRIORITIES FOR 2016 AND BEYOND	KEY INITIATIVES ACTIONS 2016 - 2018
Mutuality	Continue to grow our brand awareness
	Engage with members using innovative approaches
	Drive focus on customer experience to members
Group sustainability	Meet our members' insurance and savings needs by offering a full suite of products
	Drive organic growth in all our subsidiaries
	Ensure that the group remains compliant with regulation
Distribution	Launch of Digital initiatives
	Focus on growing our share of the independent broker market business
	Review distribution to ensure compliance with RDR legislation

OUR PEOPLE

As PPS Group continues to grow, the emphasis continues to be around ensuring that our people have the competencies and capabilities required to support the future growth of the business. We also want to make sure that PPS has a compelling Employee Value Proposition (EVP) that attracts and retains the talent required by the business.

In 2016 we started the process of developing an EVP statement, defining core standards that will be applicable as a prerequisite for all business areas and subsidiaries and an implementation framework to ensure delivery against the EVP.

The purpose of the group EVP statement is to define the PPS' people promise to prospective and current employees. The statement will outline the organisation's intention to attract and retain a professional workforce and to create a professional working environment that will enable the workforce to deliver the Member Value Proposition (MVP) to our members. An EVP Framework has been recommended to structure the development of various components of the EVP and is made up of EVP levers that contain EVP lever statement definitions. The EVP levers have been reviewed. EVP lever statement definitions will now be finalised and in turn will be developed into core standards which are to be applied consistently throughout the organisation.

Some draft EVP statement options have been crafted and sent to key business stakeholders for review, comment and approval. These have been derived from insights gained through the various internal engagements, as well as external benchmarked sources. The following underlying concepts from the MVP were considered:

- Integration – our people philosophy provides for an integrated employee value chain to employees, focusing on a consistent employee experience across all components of the employee life cycle.
- Changing the world for the better – we are a responsible employer committed to transformation and bringing about sustainable change in the community.
- Exclusivity – we recognise the exclusive nature of our member group and that our employees are selectively chosen to be part of an exclusive workforce. We are committed to professionalism in all that we do.
- Recognising that our purpose is that of delivering quality products and services to our members – we are committed to providing our members with superior products and services through a workforce motivated and rewarded to deliver exceptional service to all members.

PPS in the future (continued)

- Legacy – Our employee offerings are focused on delivering value across the full lifespan of our employees. We invest in the career and personal development of our employees to support bringing about meaningful change in their lives.

Employee Experience

Recent research by Francois du Plessis (inavit iQ); Clarissa Muir (University of Johannesburg); and Dr. Anton Verwey (inavit iQ) titled "*The Future Proof Organisation*" – March 2016, reveals that "The customer experience and the employee experience are becoming more and more intertwined, to the point where the one cannot exist without the other. The employee experience (internal brand) is a key determinant of the customer experience". It is our priority therefore, to focus on ensuring that our EVP levers ensure improved employee engagement and improved employee experience.

PPS' Digital Journey

2016 saw a continued focus on customer experience, with significant effort placed on ensuring that our members are able to access PPS anytime, anywhere and from any device. To achieve this level of access, PPS developed and launched a mobile app. Members are now able to engage with PPS on the go at times that are convenient to them.

On social media there was steady growth across PPS' main platforms (LinkedIn and Facebook), with emphasis being placed on using social media platforms as critical tools for meaningful communication and engagement with members.

PPS members and intermediaries can look forward to state of the art, innovative digital tools that will be rolled out over the next few months. These tools are aimed at empowering both members and intermediaries in their engagements with PPS, reducing the admin burden and meeting our clients' expectations of being able to engage on their preferred channels.

Operating environment

PROFESSIONALS

The total number of professionals in the South African market has stabilised post the era of emigration in the 1980s and 1990s. In terms of growth, new entrants in the professional market more or less replace those who retire annually.

Professionals surveyed in our Graduate Professional Index (GPI) voice their opinion about certain macro issues, such as healthcare, education, unemployment and the economic outlook for South Africa. The majority of these professionals (73%) indicated a high confidence in the future of their profession over the next five years, and 36% of those stated that it is because they work in a sought after profession. In addition, 55% of the respondents indicated that they will encourage their children to enter their profession.

The PPS Student Confidence Index (SCI) targets prospective PPS members by surveying students in their fourth year who are studying towards a degree that qualifies them for PPS membership, such as accounting, law, engineering or medical. In the latest SCI it was clear that the high cost of tertiary education remains an issue for most, but it was very positive to note that 84% of the student respondents indicated that they are confident that their degree sufficiently prepares them for their chosen profession.

Our stakeholders

and

PPS doing good

PPS doing good

Building the PPS brand

Advertising campaigns

PPS has celebrated its 75th anniversary with an advertising campaign throughout 2016 where we celebrated "the power of professional thinking" by calling for nominations and acknowledging their contributions to society. The campaign was launched on 18 February 2016 at PPS Centurion Square in Centurion at an event where the CEO of the International Cooperative and Mutual Insurance Federation (ICMIF), Shaun Tarbuck, toasted the success of PPS over the 75 years of its existence. The event was attended by representatives from professional associations as well as a strong media contingent.

The 75th anniversary campaign culminated in a dinner that was hosted by the Chairmen of the PPS Holdings Trust and PPS Insurance Company on 27 August 2016. This was also an opportunity to recognise a number of people who contributed to the success of PPS.

The #RareisRewarding advertising campaign was launched in September 2016, and is based on the creative concept that professionals have rare skills and qualifications and can be rewarded for that by joining PPS and qualifying for the PPS Profit-Share Accounts. It has been the most successful campaign in the history of PPS if measured by reference to the number of online qualifying leads. It was also recognised in September 2016 for its creative execution by AdForum, which selects five campaigns internationally every month.

For the first time in the history of PPS, PPS Group Marketing introduced the concept of predictive modelling in PPS, whereby the purchasing behaviour of PPS members are analysed and a predictive model applied to identify other PPS products that these members might be considering.

Digital engagement: www.pps.co.za

2016 was a ground-breaking year for the PPS Group in building the PPS brand and members' digital engagement with PPS. The new PPS Group website was launched in April 2016, which combines all PPS member offerings into a single website. The new website graphically showcases the unique brand attribute of PPS by way of the circular device which illustrates the fact that PPS is an exclusive organisation which only allows select graduate professionals as members.

A large percentage of our website leads is generated through Google search and related paid digital advertising. With the launch of the new website, our quality score dropped on Google, which was expected. However, our digital marketing campaigns in 2016 have produced the highest number of qualified online leads thanks to the addition of new digital advertising platforms and techniques that we have implemented over the various campaigns.

PPS Group Marketing and our public relations partner achieved a record level of media coverage in 2016. The PPS Graduate Professional Index, whereby PPS members participate in an online survey to identify the socio-political issues that are top of mind to them, also within their particular professions, generated much of the media coverage. That has created a platform for PPS to be presented as a thought-leader within the professional landscape.

SAcsi: South African Customer Satisfaction Index

A specially commissioned survey conducted by research company Consulta to compare PPS Life Insurance against other major industry players using the South African Customer Satisfaction Index (SAcsi) Life Insurance Industry Benchmark, revealed that PPS received the highest Net Promoter Score (NPS) in the life insurance sector in 2016. This score indicates the likelihood of clients to recommend the company to family, friends, colleagues and associates.

The NPS is derived from one question in the survey where respondents are asked to indicate how likely they would be to recommend the company to friends, family or colleagues. Responses are captured using a 0 to 10 point scale, where a 0 indicates a very unlikely outcome and a 10 denotes very high likelihood. PPS' score of 37.5% ranks well above the industry average of 28.9%.

Member and professional association engagement

It remains the vision of PPS to be a thought-leader in the professional niche market that we serve. Meaningful engagements with the PPS membership have not only allowed PPS the opportunity to listen to our members, it has also allowed PPS to create a sense of a community of members, which is one of the manifestations of our mutual business model.

Many of the engagements that took place in 2016 have been by way of interactions with the professional associations which represent the interests of the various professions that are eligible for PPS membership. In addition, PPS has also arranged direct engagements with our members. It is the intention of PPS to have a far greater range of member engagements in 2017 and in the years ahead.

Member engagements in 2016

Portfolio&Co events

PPS partnered with Portfolio&Co to arrange sessions on 1 October and 26 November 2016 at PPS Indaba Centre in Parktown where members over the age of 50 were addressed on issues that might be relevant to them as professionals at that particular stage of their lives; the concept of a "portfolio life" was explored. These sessions alerted members to the opportunities that might be available to them in the next phase of their working lives, post formal retirement, and how to prepare for this.

Health care event

On 24 November 2016 PPS hosted a session where Professor Alex van den Heever, Chair of Social Security at the WITS School of Governance and others addressed PPS members on "The state of the South African health care system and possible futures". Dr Mzukisi Grootboom, Chairman of the South African Medical Association (SAMA) also served as a panellist.

Professional association engagement

During 2016, PPS engaged with 55 professional associations by sponsoring their events, hosting events at PPS premises and other engagements. PPS advertises in a range of professional association publications and is featured on email newsletters and on the websites of 11 associations.

PPS also issued several joint media releases on a range of topics with spokespersons of various professional associations during 2016:

- "Not enough funds allocated towards infrastructure projects to alleviate water and electricity issues." April 2016 – Spokesperson: Manglin Pillay (South African Institution of Civil Engineering);
- "Medical professionals support shorter working hours for junior doctors." November 2016. Spokesperson: Professor Mark Sonderup (South African Medical Association);
- "Engineers still concerned about government's infrastructure spend in SA". December 2016. Vaughan Rimbault (South African Institution of Mechanical Engineering).

On 27 September 2016 PPS hosted a workshop with the professional association on trustees that are represented on PPS Holdings Trust. This resulted in the creation of a new forum for such engagements, and it was agreed to meet twice yearly to set strategies and gauge the success of PPS member engagements, also via the professional association trustees.

PPS FOUNDATION & PPS EDUCATIONAL TRUST

Message from the chairman – Dr Sybil Seoka

PPS, the home of the graduate professional, is an organisation managed by the members for the members. Recognising our country's unfortunate past and the current challenges facing it, PPS has always been committed to being a responsible corporate citizen.

PPS has been involved in various extensive corporate social responsibility programmes and projects to which it has committed significant financial and other resources. In 2016 the decision was taken to consolidate these programmes and projects into vehicles that enhance their effectiveness and promote efficiencies, hence the birth of the PPS Foundation (Foundation) and the PPS Training Academy (Academy).

It is envisaged that our members, who recognise the privileges they have, will work with us in making a difference in the lives of the less privileged in our society. Together we will strive to make South Africa an economically attractive country by reducing the glaring skills gap that all of us are aware of. It is for this reason that the Foundation is involved in bursary schemes, among other things, and the Academy with Science, Technology, Engineering and Mathematics (STEM)-initiatives and other further training activities.

We look forward to your involvement with both entities, not only with material and human resources, but also with ideas, suggestions and constructive criticism in order to further establish PPS as a responsible corporate citizen of South Africa.

Overview

The year 2016 saw the birth of the PPS Foundation Trust and the PPS Educational Trust – two entities through which the organisation will drive transformation. The mandates of the two trusts are inextricably intertwined as they both seek to improve access to Science, Technology, Engineering and Mathematics (STEM) related professions and build the professional pipeline, especially in the scarce skills disciplines.

The PPS Training Academy, soon to be a registered Further Education and Training (FET) institution, will provide learning and development services to the PPS group as well as to external customers, PPS Foundation beneficiaries and the insurance sector at large.

It has been an exciting and adventurous year for the organisation, the Foundation and Academy teams as well as the project beneficiaries. We made some significant shifts in our approach to CSI and we hope to see the benefits in the medium to long term.

Some of these changes include:

- extending our PPS Bursary criteria to include a pilot group of 1st year students strictly in the STEM disciplines;
- in the context of the student movement against fees (#FeesMustFall), coupled with fast-dwindling government financial support for institutions of higher learning, we began shifting away from pure infrastructure projects to a stronger bias on priority projects within the universities, as identified by the faculty.

- creating efficiencies and a user-friendly applicant experience by digitising the bursary application process;
- optimising the Professionals Connect career portal and extending its value proposition to young graduates to include a mentorship programme; and
- introducing a group staff volunteerism programme driven by PPS employees. We invited members to participate in some of the projects.

Partnering with Masijabule High School, one of the country's top performing underprivileged schools in rural KZN that produces some of the best mathematics and science students. We donated a vast book and stationery supply (through the employee volunteerism programme) and pledged bursaries to two of the school's top Grade 12 learners of 2016 for their first year tertiary studies.

We began exploratory partnership discussions with important players in bridging math and science in impoverished high schools across the country. A key benefit for the PPS Foundation is the ability to make an impact far earlier in the graduate development value chain than we did historically. This stands us in good stead as we begin to establish strong ties with our future PPS alumni.

Transformation @PPS

PPS recognises the business imperative of driving meaningful transformation and effecting measurable social change in the communities in which we operate. The establishment of the PPS Foundation and Educational Trust is a key milestone towards the achievement of our transformation objectives. To realise the intent of the Financial Sector Charter (FSC), these Trusts will focus on driving the Employment Equity, Skills Development, Consumer Education, Enterprise and Supplier Development as well as Socio-Economic Development elements of the Charter across the PPS Group. Once fully operational, we envision a PPS Foundation and PPS Academy that are actively participating in and shaping the socio-economic agenda of the country, and providing a platform for PPS members to contribute financially and of their time, skills and knowledge.

Our Transformation Philosophy

PPS Group Exco adopted the Transformation Philosophy, which sets out the company's commitment and principles to drive the transformation agenda effectively.

Our Board members and Group Executive subscribe to principles of transformation that:

- create an inclusive, diverse and value-based culture;
- take active ownership of, and champion the transformation agenda;
- drive business outcomes in line with transformation; and
- demonstrate commitment that goes beyond compliance.

Broad-based Black Economic Empowerment (B-BBEE)

PPS achieved a Level 3 status in the 2015/2016 reporting cycle, an improvement against the Level 4 rating attained in the previous year. This improvement can be attributed, in part, to:

- a more representative Employment Equity profile (especially at the senior and top management levels);
- improved black representation at board level; and
- early payments to qualifying enterprises which enhanced the procurement and enterprise development spend.

The draft amended Financial Sector Charter (FSC) codes have introduced more onerous targets with certain elements being prioritised to ensure a more emphatic focus by employers. The elements include ownership, skills development, enterprise and supplier development as well as empowerment financing. Our 2017 plans for B-BBEE are informed by these priorities and those in the business which we need to improve on.

Employment Equity

We prioritised Employment Equity (EE) this year and focused on aligning our targets as well as reconstituting our Transformation Forum.

EE targets will be driven by the group executives and we should, by 2018, see a positive shift towards their achievement.

2017 will be an important year of priority implementations such as launching the Consumer Financial Education project on campuses across the country; embedding improved practices in skills development and refining others in procurement. We will develop and implement a pilot Enterprise and Supplier Development (ESD) project aimed initially at our Qualifying Small Enterprises (QSE). All of this will be supported by change management and diversity dialogue across the group.

Socio-economic Development Programmes of the PPS Foundation

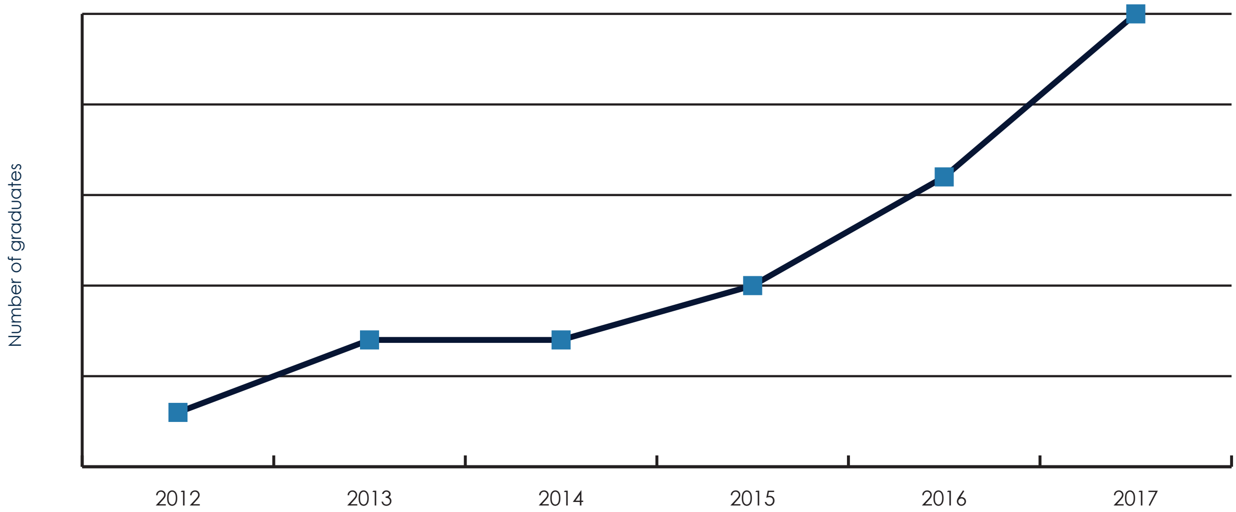
PPS Graduate Internship Programme

Our graduate internship programme has grown from strength to strength since its inception in 2012, with the intake growing almost 5 times. It has evolved over the years to include a far more robust graduate engagement programme with intensive classroom and on-the-job training. The business has continued to enjoy the benefits of such a programme as evidenced by the almost 100% absorption rate of the graduates every year. In 2016, the business successfully employed all but two interns.

Number of PPS graduates per year

Year	2012	2013	2014	2015	2016	2017
Number of Graduates	3	7	7	10	16	25

The Interns came from universities across the country, such as Fort Hare, UKZN, University of Pretoria and Wits among others, with qualifications ranging from law to economics others:



2016 PPS Graduates

From L-R: Tshepo Matampi, Amanda Zuma, Lanche Munro, Malebo Molewa, Subashni Gounder, Mpho Moleme, Chantal Moodley, Lidans Mamitwa

PPS doing good (continued)

PPS Bursary Programme

PPS Foundation bursaries are awarded to students studying through a recognised South African university or university of technology. The grants, awarded on the basis of financial need and outstanding academic performance, cover tuition and textbooks for the duration of one academic year. This year we began to align more closely to the PPS Foundation Trust mandate of improving access to STEM disciplines, and provided bursaries to students pursuing STEM-related studies.

We advanced bursaries to the value of R2,1 million across such disciplines as commerce, law and science to students from across most of the public universities in South Africa.

This year we also introduced bursaries to first year students as we seek to establish a longer and deeper relationship with students. This is the genesis of our PPS Alumni, a group of beneficiaries with whom we want to establish brand ambassadorship and ultimately PPS membership.

Ironically, the #FeesMustFall movement presented a risk to the bursary programme this year. The disruption to the academic programme coupled with the violent protests on campuses across the country had a negative effect on our ability to engage in on-campus marketing of the programme.

We expect the number of applications to rise given the backlog of the past year.

Number of bursary recipients by year

2013	2014	2015	2016
15	27	37	90

PPS Foundation bursary recipients

University Support Programme

We shifted our historical focus on pure infrastructure projects in 2016 as we began aligning our university support programme investments more closely to the mandate of the PPS Foundation. Among other criteria, we selected historically disadvantaged institutions, faculty programmes that are aligned to national interests or issues high on the country's socio-economic agenda, such as water. Our engagements with university administration and faculties will continue in 2017 as we look to establish deeper and more impactful partnerships that alleviate the financial void left by dwindling government funding for public universities.

We spent R1.6 million on the University Support Programme, which included projects such as the Nelson Mandela Metropolitan University's (NMMU) computer laboratory extension project at its Engineering and Built Environment faculty and the upgrade of the multipurpose teaching facility in the Water Sciences faculty of the North-West University (NWU).

Project investments at universities across the spectrum ranged from R50 000 to R350 000 per project.

Professionals Connect

Professionals Connect is a graduate outreach portal dedicated to South African students, professional graduates and entry-level employees. It provides a free and user-friendly platform from which to access employment opportunities and information that will equip them in the transition from academia into the workplace. The portal currently provides users with career and industry-related content and jobs.

Additionally, it provides information on bursaries, mentorship and entrepreneurial opportunities.

In 2016, the website was upgraded to support its revised service offerings that aim to cater to a larger audience. In 2017, Professionals Connect launched a pilot mentorship programme which will provide registered users with the opportunity to choose from and connect with a pool of mentors who are PPS members, employees and other experienced professionals.

PPS EDUCATIONAL TRUST BOARD OF TRUSTEES

- Dr S N E Seoka
- Adv T N Aboobaker
- Dr D P Du Plessis
- Dr M J Grootboom
- Ms L A Dlamini

PPS TRAINING ACADEMY

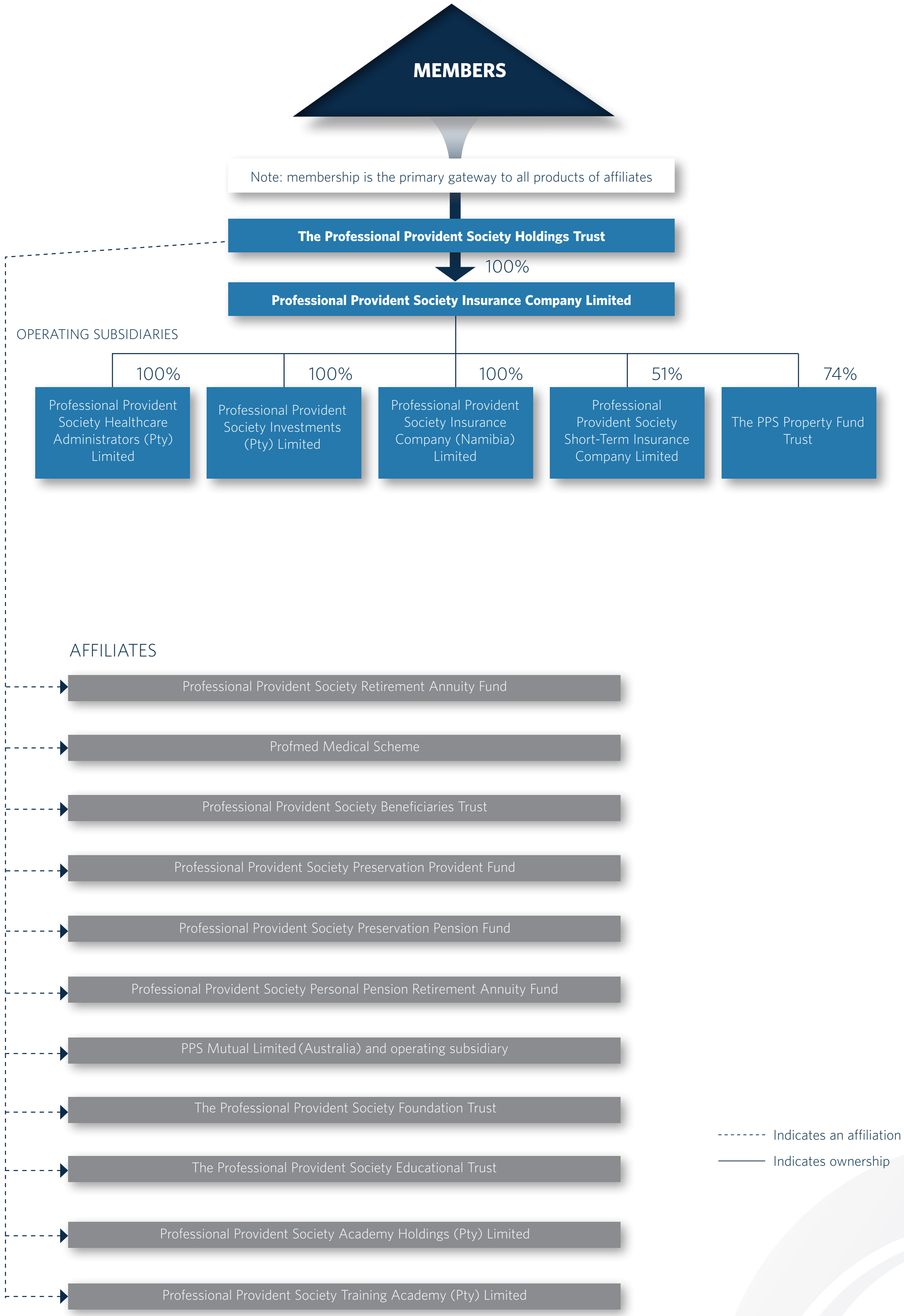
The PPS Academy operates under the auspices of the PPS Educational Trust, whose purpose and mandate is to make a meaningful impact on public education in South Africa by improving access to Science, Technology, Education and Mathematics (STEM) and related professions in order to build the professional pipeline in the country.

2016 was a year of transition and saw the consolidation of various learning and development capabilities across the business to form the foundation of the Academy. Presently the Academy provides technical, behavioural and management development solutions to all PPS staff, financial advisors and graduate interns.

Following the registration of the Educational Trust earlier in 2016, and our recent accreditation of NQF 5 level qualifications by the Insurance Sector Education and Training Authority (INSETA), the PPS Academy will be registered as a Further Education and Training (FET) institution by the end of 2017. It will be poised to provide the business, the general public and the industry with accredited programmes on the scarce and critical skills.

Group structure, our Leadership and governance

Group structure



PPS HOLDINGS TRUST BOARD OF TRUSTEES

Back Row: From left to right

Dr J P Patel
B ChD
Practising Dentist
Independent Non-Executive Trustee

Dr N G Campbell
BDS
Dentist
Independent Non-Executive Trustee

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

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

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

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

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

Front Row: From left to right

Mr U D Jivan
BA, LLB
Practising Attorney
Conveyancer and Notary Public
Independent Non-Executive Trustee

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

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

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

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

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

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

Adv T N Aboobaker
BA LLB
Practising Senior Advocate
Independent Non-Executive Trustee

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

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

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

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

Prof M W Sonderup
B Pharm, MB ChB, FCP(SA)
Senior Specialist, Groote Schuur Hospital
and Lecturer, University of Cape Town
Independent Non-Executive Trustee

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

ABSENT:
Dr D P du Plessis
B Sc (QS), Doctor of
Business Administration
Director of Companies
Independent Non-Executive Trustee

PPS INSURANCE BOARD OF DIRECTORS

Back Row: From left to right

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

Dr N G Campbell
BDS
Dentist
Independent Non-Executive Director

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

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

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

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

Front Row: From left to right

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

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

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

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

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

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

ABSENT:

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

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

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

PPS GROUP EXECUTIVE COMMITTEE

Back Row: From left to right

Mr D Semwayo
B Com (Hons), FASSA, CFA
Executive: Actuarial and Technical

Mr V E Barnard
B Com
Group Company Secretary

Mr N J Coetzee
B Com (Hons), CFA, CFP
Executive: Internal Distribution

Mrs Z Saungweme
B Com, MBA
Former Executive: Social Media/Project Office

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

Mrs L A Dlamini
BA, LLM (Tax law)
Group Executive: Human Resources

Front Row: From left to right

Mr W J Mouton
B Proc
Executive: Life Broker Services

Dr D Stott
MB ChB, BSc (Hons), BA
Executive: Medical Standards and Services

Mr E G Joubert
BA, LLM, MBA
Executive: Group Marketing and Stakeholder Relations

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

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

Mr N Hoosen
B Acc Sc, MBA
Chief Executive: PPS Short-Term Insurance

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

Dr H D P Hoffman
MB ChB, M Med (Paed), FCP(SA)
Chief Executive: PPS Healthcare Administrators

PPS HEALTHCARE ADMINISTRATORS BOARD OF DIRECTORS

Standing: From left to right

Dr H D P Hoffman
MB ChB, M Med (Paed), FCP(SA)
Chief Executive

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

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

Dr N G Campbell
BDS
Non-Executive Director

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

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

ABSENT:

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

PPS SHORT-TERM INSURANCE BOARD OF DIRECTORS

Standing: From left to right

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

Mr P D V Rademeyer
CA(SA)
Independent Non-Executive Director

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

Ms F Jabaar
B Com (Hons), CA(SA)
Non-Executive Director

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

Mr N Hoosen
B Acc, MBA
Chief Executive

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

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

ABSENT:

Mr A H Nortje
M Compt, CA(SA)
Non-Executive Director
(Resigned 27 January 2017)

PPS INVESTMENTS BOARD OF DIRECTORS

Standing: From left to right

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

Mr E A Moola
B Iuris
Independent Non-Executive Chairman

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

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

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

Mr N G Payne
B Com (Hons), CA(SA), MBL
Independent Non-Executive Director

ABSENT:

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

Mr A C Pillay
B BusSc, CA(SA), CFA, AMP (Harvard)
Independent Non-Executive Director

Annual Financial Statements 2016

Contents

Statement of responsibility by the Board of Trustees	**45**
Certificate by the Secretary	**46**
Independent Auditor's Report	**47**
Report of the Independent Actuary	**49**
Investment returns and profit allocation to policyholders' PPS Profit-Share Account	**52**
Trustees' Report	**54**
Audit Committees' Report	**56**
Group Social and Ethics Committee's Report	**60**
Group Accounting Policies	**62**
Consolidated Statement of Financial Position	**75**
Consolidated Statement of Profit or Loss and other Comprehensive Income	**76**
Consolidated Statement of Changes in Equity	**77**
Consolidated Statement of Cash Flows	**78**
Notes to the Consolidated Financial Statements	**79**
PPS Holdings Trust Annual Financial Statements	**129**
Corporate Governance Report	**131**
Action required by members in regard to the 2017 Annual General Meeting	**152**
Notice to members of the Annual General Meeting and Form of Proxy	**153**

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: 30 March 2017

Statement of responsibility by the Board of Trustees

for the year ended 31 December 2016

The trustees accept responsibility for the fair presentation of the financial statements of The Professional Provident Society Holdings Trust, comprising the financial statements of the trust itself and the consolidated financial statements of the trust and its subsidiaries. These financial statements have been prepared in accordance with International Financial Reporting Standards, and in the manner required by the 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 62 to 130, were approved by the board of trustees and are signed on its behalf by:

Mr E A Moolla
Chairman

Mr I J Smit
Chief Executive

Mrs T Boesch
Financial Director

The Professional Provident Society Holdings Trust

Johannesburg
30 March 2017

Certificate by the Secretary

In my capacity as the Secretary of The Professional Provident Society Holdings Trust, I hereby certify in terms of section 88(2)(e), of the Companies Act of 2008 and the Trust Deed that for the year ended 31 December 2016, the Group has lodged with the Companies and Intellectual Property Commission all such returns as are required in terms of this Act. I also confirm that all returns to the Master of the High Court's office, required for The Professional Provident Society Holdings Trust in terms of its Trust Deed and the Trust Property Control Act of 1988, are to the best of my knowledge and belief true, correct and up to date.

V E Barnard
Group Company Secretary

The Professional Provident Society Holdings Trust

30 March 2017

Independent Auditor's Report

To the members of The Professional Provident Society Holdings Trust

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of The Professional Provident Society Holdings Trust (the Trust) and its subsidiaries (the group) as at 31 December 2016, 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.

What we have audited

The Professional Provident Society Holdings Trust consolidated and separate financial statements set out on pages 62 to 130 comprising the:

- The Consolidated and Separate Statements of Financial Position as at 31 December 2016;
- The Consolidated and Separate Statements of Comprehensive Income for the year then ended;
- The Consolidated and Separate Statements of Changes in Equity for the year then ended;
- The Consolidated and Separate Statements of Cash Flows for the year then ended; and
- The Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The trustees are responsible for the other information. The other information obtained at the date of this auditor's report is the Statement of responsibility by the Board of Trustees, Certificate by the Secretary, Report of the Independent Actuary, Investment returns and profit allocation to the policyholder PPS Profit-Share Account report, Trustees' report, Audit Committees' report, Group Social and Ethics Committee's report and Corporate governance report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the trustees for the financial statements

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

Independent Auditor's Report (continued)

To the members of The Professional Provident Society Holdings Trust

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCooperInc. has been the auditor of the Professional Provident Society Holdings Trust and its subsidiaries for 16 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: C. Volschenk

Registered Auditor

Johannesburg
30 March 2017

Report of the Independent Actuary

for the year ended 31 December 2016

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 2016, 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

30 March 2017

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

PPS Insurance	Paragraph	2016 R'000	2015 R'000
Net assets	2	**28 458 935**	26 643 053
Insurance liabilities	3	**28 090 818**	26 313 209
Apportionment and Special Benefit Accounts		**22 516 223**	20 887 963
Risk benefit reserves		**3 546 970**	3 773 491
Investment benefits		**2 027 625**	1 651 755
Excess of assets over liabilities		**368 117**	329 844
Capital adequacy requirement	4	**139 891**	125 171
Ratio of excess assets to Capital Adequacy Requirement		**2,6**	2,6

PPS Namibia	Paragraph	2016 N$'000	2015 N$'000
Net assets	2	**998 640**	924 076
Insurance liabilities	3	**992 640**	918 076
Apportionment and Special Benefit Accounts		**780 513**	730 748
Risk benefit reserves		**212 127**	187 328
Excess of assets over liabilities		**6 000**	6 000
Capital adequacy requirement	4	**4 000**	4 000
Ratio of excess assets to Capital Adequacy Requirement		**1,5**	1,5

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 stabilisation reserves were established. There was no bonus stabilisation reserve (i.e. N$0) at 31 December 2016 as well as at 31 December 2015.

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 2015 to 31 December 2015. The morbidity investigation was conducted on the experience for 2015. The mortality experience related to the period 1 January 2015 to 31 December 2015.

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 6,60% (2015: 7,40%) 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 2016	9,35%
Equity return	12,35%
Cash	7,85%
Property return	10,35%

The assumed future gross investment return is 9,60% p.a. (2015: 10,40% p.a.).

4. STATUTORY CAPITAL ADEQUACY REQUIREMENTS

The statutory capital adequacy requirement is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of a significant negative departure of actual future experience from the assumptions made in calculating actuarial liabilities and for significant fluctuations in the value of assets. The capital adequacy requirement has been calculated in accordance with 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 combined excess of the assets over the liabilities for the life companies on the statutory basis is 2.6 times (2015: 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 24% increase in fixed interest asset values (as a result of a 25% decrease in fixed interest yields) will occur, in accordance with SAP104.

In the case of PPS Insurance, 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 R328 million. This is equivalent to a reduction in the current profit allocation of 26,2%.
- 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 R124 million, which is equivalent to a reduction in the current profit allocation of 9,9%.
- 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 R58 million, which is equivalent to a reduction in the current profit allocation of 4,7%.
- The allowance for operational risk in the CAR calculation is R141 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 11,3%.
- The allowance for credit risk in the CAR calculation amounted to R66 million. The impact of these credit risk events materialising will result in a reduction to Special Benefit Accounts. This is equivalent to removing 0,5% of the Special Benefit Account balances at 31 December 2016.
- 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 R3.34 billion, which is equivalent to reducing the current special benefit accounts by 26,1%. 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 special benefit accounts of R3.86 billion. This is equivalent to a reduction in the current level of special benefit accounts of 30,3%. 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 allocations of policyholders' PPS Profit-Share Account

for the year ended 31 December 2016

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.

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

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

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

For all policyholders from age 60 to 65, the full balance of the PPS Profit-Share Account is available through the Vested Profit-Share Account to such policyholders on termination of cover or resignation, subject to the vesting rules as contained in the policy document, and it is paid to the policyholders' beneficiaries or their estates on death. For all policyholders ages 66 or older, the full balance of the PPS Profit-Share Account is available through the Vested Profit-Share Account to such policyholders, and it is paid to the policyholders' beneficiaries or their estates on death. On surrender of a policy prior to the age of 60, policyholders are entitled to receive a lump sum termination payment determined as a proportion of the PPS Profit-Share Account at the time.

Allocation to Special Benefit Accounts

The following investment allocations (Note 1) for 2016 were made to the Special Benefit Accounts:

PPS Insurance	**2016 R million**	2015 R million
PPS BEE Investment Income Gains	**5.7**	4.3
Investment Income and Gains	**1 255.2**	919.7
Total allocated	**1 260.9**	924.0

PPS Namibia	**2016 N$ million**	2015 N$ million
Total allocated	**26.1**	18.5

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

Allocation to apportionment accounts

The allocations at 31 December 2016 to policyholders' Apportionment Accounts are set out as follows:

PPS Insurance	2016 R'000	2015 R'000
Total investment income allocation	**222 063**	**168 215**
PPS Sickness and Permanent Incapacity Benefit		
Ordinary (Full)	749 520	703 420
Ordinary (Reduced)	14 202	16 731
Supplementary A	85 952	44 112
Supplementary B	4 977	5 021
Deferred	59 063	19 594
Accident	4 632	4 183
Hospital Benefits		
Ordinary (Full)	56 738	53 433
Ordinary (Reduced)	1 378	1 626
Supplementary A	8 737	3 879
Supplementary B	537	541
Accident	1 470	1 343
PPS Provider		
Professional Life Provider	130 374	104 393
Professional Health Provider	33 446	18 341
Professional Disability Provider	10 083	7 747
Accident Benefit	116	87
Bonus allocation for PPS Investments' Portfolios	13 196	12 002
Bonus allocation for PPS Medical Aid products	10 028	10 844
BEE allocation	2 685	2 454
Total Profit allocation	**1 187 134**	**1 009 751**
Total allocated	**1 409 197**	**1 177 966**

PPS Namibia	2016 N$'000	2015 N$'000
Total Investment Income allocation	**10 354**	**8 110**
PPS Sickness and Permanent Incapacity Benefit		
Ordinary (Full)	35 405	34 318
Ordinary (Reduced)	1 322	1 636
Supplementary A	2 286	956
Supplementary B	179	191
Deferred	2 261	436
Accident	171	169
Hospital Benefits		
Ordinary (Full)	3 327	3 252
Ordinary (Reduced)	107	132
Supplementary A	285	101
Supplementary B	26	27
Accident	61	61
PPS Retirement Annuity	1 232	-
Total Profit allocation	**46 662**	**41 279**
Total allocated	**57 016**	**49 389**

Trustees' Report

HOLDING ENTITY

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

PRINCIPAL ACTIVITIES

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

PPS Insurance Company Limited ('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.

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 119 000 policyholders. Without this reinsurance arrangement, the Namibian subsidiary with over 4 800 Namibian policyholders would be exposed to higher volatility from participating in a significantly smaller risk pool.

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

Professional Provident Society Short-term Insurance Company Limited ('PPS Short-Term Insurance') is a subsidiary of PPS Insurance. During 2016 PPS Insurance and PPS Short-Term Insurance concluded a transaction with Santam Limited, pursuant to which PPS Short-Term Insurance obtained a short-term insurance licence in February 2016, in which Santam Limited holds a 49% interest and PPS Insurance the remaining 51%. PPS Short-Term Insurance is operating independently from Santam as a fully-fledged short-term insurer and is under the control of PPS Insurance.

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

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

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

The Professional Provident Society Foundation Trust is a trust founded by PPS Insurance and registered by the Master of the High Court on 19 March 2016 in terms of the Trust Property Control Act of 1988, and is expected to commence operating during 2017. It has the following principal objectives:

- To work with strategic partners to improve access to Science, Technology, Engineering and Mathematics (STEM) related professions and build the professional pipeline, especially the scarce skills disciplines;
- To make a measurable contribution to sustainable development within South Africa's communities (as defined in the DTI B-BBEE Codes of Good Practice) and FSC by:
  - Empowering black school leavers with the necessary skills, competencies and FCS knowledge to access professional qualifications;
  - Enhancing job readiness and skills by supporting black students in tertiary institutions to ensure that they qualify as professionals;
  - Providing tools, programmes and mechanisms for bridging into employment;
  - Building strategic relationships with other organisations which have the same aims and objects as the Foundation in order to leverage and enhance impact.
- To ensure that every Rand that flows through the Foundation is spent on real sustainable, measurable benefits for the professional pipeline they serve.

The Professional Provident Society Educational Trust is a trust founded by PPS Insurance and registered by the Master of the High Court on 19 March 2016 in terms of the Trust Property Control Act of 1988, and is expected to commence operating during 2017. It has the following principal objectives:

- To secure financial support that makes a meaningful impact on public education in South Africa by improving access to STEM and related professions in order to build the professional pipeline in the country;

- To serve as a repository for all the donations from the donors and to allocate same to the Trust Fund;
- To acquire shares in PPS Academy Holdings and other designated entities, and any other assets which the Trust may acquire from time to time;
- To make grants to the Beneficiaries from the Trust Fund pursuant to the Trust Activities;
- To seek to make a measurable contribution to sustainable development within South Africa's communities (as defined in the DTI B-BBEE Codes of Good Practice and FSC) by obtaining and deploying funding to advance education to build the professional pipeline;
- To offer bridging programmes between secondary and tertiary education, and between tertiary education and the workplace.

Professional Provident Society Academy Holdings (Pty) Limited was incorporated by PPS Insurance and registered by the Companies and Intellectual Property Commission ('CIPC') on 5 August 2016, in which The Professional Provident Society Educational Trust holds a 51% interest and PPS Insurance the remaining 49%. The purpose of the company is to act as a holding company for Professional Provident Society Training Academy (Pty) Limited and is expected to commence operating during 2017.

Professional Provident Society Training Academy (Pty) Limited was incorporated by PPS Insurance and registered by the CIPC on 19 July 2016, and is a wholly-owned subsidiary of Professional Provident Society Academy Holdings (Pty) Limited, which is expected to commence operating as a training academy for the PPS Group during 2017.

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 62 to 130 set out the results of the Trust and the Group (comprising PPS Holdings Trust and all its subsidiaries).

Audit Committees' Report

INTRODUCTION

The PPS Holdings Trust Audit Committee ('TAC') and the PPS Group Audit Committee ('GAC') are committees of PPS Holdings Trust and PPS Insurance, respectively. The responsibilities of these committees are prescribed by the Trust Deed and the Companies Act, and are outlined in their written terms of reference, which are in line with King III, and are reviewed and updated 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. This includes oversight over the respective Risk and Audit Committees of PPS Investments and PPS Short-Term Insurance, which make reports to the GAC.

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

COMPOSITION OF THE PPS HOLDINGS TRUST AUDIT COMMITTEE

Members:

Independent non-executive Trustees of PPS Holdings Trust:

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

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

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

The appointment of the Members of the TAC was confirmed by PPS members at the annual general meeting held on 30 May 2016.

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

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

PPS Holdings Trust Audit Committee	10 March 2016	10 November 2016
Ms D L T Dondur (Chairman)	✓	✓
Mr E A Moolla	✓	✓
Mr P Ranchod	✓	✓

COMPOSITION OF THE PPS GROUP AUDIT COMMITTEE

Members:

Independent non-executive directors of PPS Insurance:

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

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

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

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

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

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

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 attendance thereat:

Group Audit Committee	10 March 2016	8 June 2016	14 September 2016	10 November 2016
Prof H E Wainer (Chairman)	✓	✓	✓	✓
Ms D L T Dondur	✓	✓	✓	✓
Mr C Erasmus	✓	✓	✓	✓
Mr E A Moolla	✓	✓	✓	✓
Mr N G Payne	✓	AP	✓	✓
Mr P Ranchod	✓	✓	✓	✓
Prof C E Rabin*	✓	✓	✓	✓

**Consultant*

AP = Apology

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

The boards are satisfied that the members of these committees have sufficient recent and relevant financial experience to enable them to carry out their duties and responsibilities and that the members of the committees bring a wide range of relevant experience. 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 members of the Group Actuarial Committee are also members of the GAC. The Head of the Actuarial Control Function, the Company Actuary, the external auditors, the Head of the Internal Audit Function and other relevant role players are present at each meeting of the GAC. The external auditors are present at each meeting of the TAC by invitation.

The TAC and GAC meet both the external and internal auditors separately in private sessions, without executive management being present. The Chief Executive and the 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 the GAC. The committees conduct a formal external auditor evaluation process. This evaluation occurs annually and includes various criteria and standards such as independence, audit planning, technical abilities, audit process/outputs and quality control, business insight and general factors (such as black economic empowerment credentials). The committees keep abreast of current and emerging trends in international accounting standards.

Both committees have satisfied themselves:

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

ROLE OF THE AUDIT COMMITTEES

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

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

- Reviewed and recommended for approval the annual financial statements;
- Considered the factors and risks that might affect the financial reporting;
- Confirmed the going-concern basis of preparation of the annual financial statements;
- Reviewed and recommended for approval the integrated report;
- Assessed the effectiveness of internal financial controls systems and formed the opinion that there were no material breakdowns in internal control;
- Ensured that a combined assurance model was applied to provide a coordinated approach to all assurance activities;
- Reviewed the Internal Audit Policy in line with King III recommendations, and recommended the approval thereof to the PPS Insurance Board;
- Approved the internal audit plan for the financial year;
- Reviewed and evaluated reports relating to internal audit and risk management;
- Nominated PricewaterhouseCoopers Inc. ('PwC') as the PPS Group's external auditors;
- Approved the external audit engagement letter and determined the audit fees payable to the external auditors;
- Reviewed the quality and effectiveness of the external audit process and the audit plan;
- Obtained and considered a statement from the independent auditors confirming that its independence was not impaired;
- Confirmed that no reportable irregularities had been identified or reported by the independent auditors under the Auditing Profession Act;
- Ensured no limitations were imposed on the scope of the external audit;
- Determined the nature and extent of non-audit services that the external auditors may provide and pre-approved any such services;
- Maintained oversight over fraud and corruption risk management.
- Considered whether there were any concerns or complaints whether from within or outside the PPS Group relating to the accounting practices and internal audit of the PPS Group, the content or auditing of the PPS Group's financial statements, the internal financial controls of the PPS Group or any related matter;
- Made submissions to the board on matters concerning the PPS Group's accounting policies, financial control, records and reporting.

EXTERNAL AUDITORS

PwC served as the PPS Group's external auditors for the 2016 financial year. The auditors' terms of engagement were approved prior to the audit. The committees satisfied themselves that the external auditors' appointment complies with the Companies Act and in particular Section 90(2) thereof, as well as the Auditing Profession Act.

The 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.

Non-audit services were relatively immaterial for the current year and within the self-imposed limit set by the Group Audit Committee.

EXPERTISE AND EXPERIENCE OF THE FINANCIAL DIRECTOR AND THE FINANCE TEAM

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

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

APPROVAL OF THE REPORT

The TAC and GAC confirm for the 2016 financial year that they have functioned in accordance with their terms of reference and as required by the Companies Act and Trust Deed of PPS Holdings Trust and that their reports have been approved by the directors and trustees.

On behalf of the audit committees:

Ms D L T Dondur
Chairman of TAC

30 March 2017

Prof H E Wainer
Chairman of GAC

30 March 2017

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. The SEC is supported in discharging its duties by the Group Remuneration Committee, the Group Risk Committee and the Group Audit Committee.

Members

Mr N G Payne (Chairman), Independent Non-Executive Director

Mrs T Boesch, Executive Director

Mr C K de Klerk, Executive Director (resigned 15 April 2016)

Mr C Erasmus, Independent Non-Executive Director

Mr I J Smit, Chief Executive (appointed 1 September 2016)

Functions

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

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

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

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

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

Group Social and Ethics Committee	10 Mar 2016	7 Nov 2016
Mr N G Payne (Chairman)	✓	✓
Mrs T Boesch	AP	✓
Mr C K de Klerk (Resigned 15 April 2016)	✓	N/A
Mr C Erasmus	✓	AP
Mr I J Smit (Appointed 1 September 2016)	N/A	✓

AP = Apology

N/A = Not applicable

Report to PPS Insurance members by the SEC

During 2016 the committee discharged its statutory duties and was not required to bring any issues in regard to the matters under its purview to the attention of the PPS Insurance Group Boards. 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 Nations Global Compact Principles are not legislation but reflect international best practice. PPS conducts its business in accordance with the principles regarding human rights, labour standards, the environment and anti-corruption. • Compliance with the Employment Equity Act is managed in accordance with a report and a plan submitted to the Department of Labour, which are frequently tracked at executive management and Board level. • Various action plans are in place to address the requirements of the sectoral Broad-based Black Economic Empowerment Act and Financial Services Charter.
Good corporate citizenship	• PPS promotes equality and prevents unfair discrimination against both employees and members. • Various corporate social investment initiatives are in place to develop the professional community and students studying towards qualifying degrees. • Various sponsorships, donations and charitable initiatives are undertaken and are regularly reviewed.
Assessment of the ethical risk profile	• Corruption and fraud management is a priority for PPS and a Fraud Management Policy and Response Plan, as well as a confidential reporting facility, operated by an independent third party, are in place, and have been appropriately communicated to staff.
Consumer relationships	• PPS has implemented Treating Customers Fairly (TCF) and has fully integrated it into its operations, achieving a high score using the self-assessment tool provided by the FSB for this purpose. • Industry-specific consumer protection legislation is in place (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 to minimise the environmental impact of the operations of the organisation continue. • The occupational health and safety of employees and clients in buildings occupied by PPS are monitored and a high level of compliance is achieved. • Excellent working conditions are in place for all employees. • Employment relationships are valued at PPS and best employee practice is observed in the PPS Group, which is evidenced by the seal of excellence awarded to PPS from 2011 to 2015 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.

No complaints were received by the SEC during the year ended 31 December 2016 and based on the above monitoring reports, the SEC concluded that there were no specific issues under its purview which required reporting to the Board or members of the PPS Group.

On behalf of the PPS Group Social and Ethics Committee:

Mr N G Payne
Chairman of SEC

30 March 2017

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 preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 34 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. 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 2016:

- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28,'Investments in associates and joint ventures'
- Amendments to IAS 1, 'Presentation of financial statements'
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets'
- Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, Agriculture'
- IAS 19, 'Employee Benefits'
- Amendments to IAS 27, 'Separate financial statements'
- Amendment to IFRS 7, 'Financial Instruments: Disclosures'
- Amendment to IAS 19, 'Employee Benefits'

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

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

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

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

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

Non-controlling interest

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

Associates

An associate is an entity over which the Group has the ability to exercise significant influence, but not joint control, through participation in the financial and operating policy decisions of the entity. Judgement is applied in assessing which entities the Group has the ability to exercise significant influence. The Group has no shareholding in associates and therefore no rights to either net profits/losses, or net assets.

3. FINANCIAL INSTRUMENTS

3.1 General

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

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

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 Profit or Loss and other Comprehensive Income as net fair value gains on financial assets in the period in which they arise.

Equity fair values are based on regulated exchange quoted bid prices at the close of business on the last trading day on or before the reporting date. Bond fair values are based on regulated exchange quoted closing prices at the close of business on the last trading day, on or before the reporting date. Unit trust fair values are based on the 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 4.2.3) and third-party financial liabilities arising on consolidation of unit trusts (accounting policy note 2) designated on initial recognition as at fair value through profit and loss.

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

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

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

Third-party financial liabilities arising on consolidation of unit trusts are 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 Profit or Loss and other Comprehensive Income.

3.4 Derecognition of financial assets and financial liabilities

The Group derecognises an asset:

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

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

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

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

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

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

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

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

4. INSURANCE AND INVESTMENT CONTRACTS

4.1 Classification of contracts

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

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. These are contracts where the Group does not actively manage the investments of the policyholder over the lifetime of each policy contract. Benefits are linked to the performance of a designated pool of assets, selected based on the 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 long-term insurance contracts that contain a discretionary participation feature ('DPF'). This feature entitles the contract holder to receive, as a supplement to guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer; and
- 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 long-term insurance contracts that transfer insurance risk and include a DPF component. Such contracts may also transfer financial risk. The DPF component in the Group's insurance contracts cannot be determined and separated from the insurance component from inception. The respective cash flows relating to each component are also not independent of each-other.

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

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

- Personal insurance, consisting of insurance provided to individuals and their personal property; or
- Commercial insurance, providing cover on the assets and liabilities of business enterprises.

4.2 Valuation and recognition

4.2.1 Long-term insurance contracts

Principles of valuation and profit recognition

The accounting policy for the measurement of liabilities in respect of insurance contracts has been determined having regard to the Standard of Actuarial Practices (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;
- APN 102: Life Offices – HIV/AIDS;
- APN 105: Recommended AIDS extra mortality bases.

Valuation

The insurance contracts are valued in terms of the financial soundness valuation ('FSV') basis contained in 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 upon death or retirement to pay contract holders the DPF component of their benefits (the members' apportionment and special benefit account) with a certain deduction on resignation. This deduction that is not paid out is retained as a liability for the benefit of all contract holders until paid to them individually in future periods.

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

Recognition: Insurance contracts

Premiums

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

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 Company with reinsurers under which the Company is compensated for losses on one or more insurance contracts issued by the Company 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 Company under which the contract holder is another insurer (inwards reinsurance) are recognised as reinsurance contracts.

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

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

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

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

Reinsurance premiums

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

Reinsurance recoveries

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

Reinsurance inwards

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

Receivables and payables related to insurance contracts

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

4.2.2 Short-term insurance contracts

Gross written premium

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

Provision for unearned premiums

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

Provision for unexpired risk

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

Provision for claims

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

The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges. Claims provisions are not discounted.

Provision for claims incurred but not reported (IBNR)

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the Company at that date. This provision is calculated using actuarial modeling (refer note 13.2).

Reinsurance contracts outwards

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

Reinsurance premiums

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

Reinsurance claims

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

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

Reinsurance UPR

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

Reinsurance Commission Revenue/Deferred Revenue Liability

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

Reinsurance assets

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

Reinsurance liabilities

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

4.2.3 Investment contracts

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

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

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

Receivables and payables related to investment contracts

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

5. FOREIGN CURRENCY TRANSLATION

5.1 Transactions and balances

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

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

5.2 Group companies

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

- Assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that entity's most recent statement of financial position.
- Income and expenses for each Statement of Profit or Loss and other Comprehensive Income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).
- 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 five-fund method applicable to life insurance companies.

7. CASH AND CASH EQUIVALENTS

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

8. PROPERTY AND EQUIPMENT

Owner-occupied property represents 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 Profit or Loss and other Comprehensive Income and are determined by comparing sales proceeds with the carrying amount.

9. INTANGIBLE ASSETS

Computer software development costs

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

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

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

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

10. INVESTMENT PROPERTY

Investment properties are held for the purpose of earning rental income and for capital appreciation. Investment properties are initially recorded at cost and include transaction costs on acquisition. Subsequent expenditure is 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.

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 under construction, which are 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 is transferred to the carrying value of investment property and subsequently valued independently.

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

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

11. LEASES

Operating leases where a Group company is the lessee

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

Operating leases where a Group company is the lessor

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

12. IMPAIRMENT OF ASSETS

Financial assets

The Group assesses 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 either 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 Profit or Loss and other Comprehensive Income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (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 Profit or Loss and other 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 Profit or Loss and other Comprehensive Income.

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

13. DEFERRED TAXATION

Deferred tax is provided, using the liability method, on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not recognised on initial recognition of the assets and liabilities. 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.

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

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.

14.3 Termination benefits

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

14.4 Leave pay provision

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

14.5 Management bonuses

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

14.6 Long-term incentive and retention schemes

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

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

The growth of the benefit under the retention scheme is based on applying the five-year historical rolling average.

15. REVENUE RECOGNITION

15.1 Net insurance premium revenue

Details of net insurance premium revenue are disclosed under accounting policies 4.2.1 and 4.2.2.

15.2 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 long-term insurance policies which are underwritten by other insurance companies as well as retirement annuities housed in the PPS Retirement Annuity Fund.

Fees are recognised as services are rendered.

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

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

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

15.3 Investment income

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

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

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

Net unrealised profits and 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 Profit or Loss and other Comprehensive Income.

Consolidated Statement of Financial Position

as at 31 December 2016

		Group	
	Note	**2016 R'000**	2015 R'000
ASSETS			
Property and equipment	2	**546 196**	467 147
Investment property	3	**356 469**	378 506
Intangible asset	4	**73 187**	63 797
Deferred tax	17	**83 686**	60 743
Financial assets – Investments at fair value through profit or loss	5	**36 990 318**	32 851 056
Reinsurance assets	6,12,13	**75 706**	–
Insurance and other receivables	7	**420 983**	592 017
Current income tax asset		**45 283**	15 458
Cash and cash equivalents	8	**1 916 639**	2 761 616
TOTAL ASSETS		**40 508 467**	37 190 340
EQUITY AND LIABILITIES			
Accumulated funds	9	**313 085**	267 687
Revaluation reserve	10	**31 936**	23 030
Non-controlling interest	11	**55 065**	9 354
TOTAL EQUITY		**400 086**	300 071
LIABILITIES			
Long-term insurance policy liabilities	12	**28 199 985**	26 591 016
Short-term insurance policy liabilities	13	**16 463**	–
Investment contract liabilities	14	**1 464 986**	1 139 647
Liabilities to unit trust holders	15	**9 088 757**	7 673 934
Borrowings	16	**186 379**	191 011
Deferred tax	17	**263 583**	353 080
Retirement benefit obligations	18	**6 738**	7 708
Employee related obligations	19	**157 210**	147 389
Reinsurance liabilities	6,12	**-**	7 851
Insurance and other payables	20	**721 478**	774 879
Current income tax liabilities		**2 802**	3 754
TOTAL LIABILITIES		**40 108 381**	36 890 269
TOTAL EQUITY AND LIABILITIES		**40 508 467**	37 190 340

Consolidated Statement of Profit or Loss and other Comprehensive Income

for the year ended 31 December 2016

	Note	Group	
		2016 R'000	2015 R'000
Net insurance premium revenue	21	**3 413 766**	2 985 698
Other income	22	**369 232**	356 804
Investment income	23	**1 658 022**	1 410 121
Investment gains	24	**617 358**	1 273 117
Attributable to unit trust holders	15	**(476 512)**	(278 818)
		5 581 866	5 746 922
Net insurance benefits and claims	25	**2 262 668**	2 045 035
Movement in fair value of policyholder liabilities under investment contracts	14	**15 296**	69 023
Expenses	26	**1 507 437**	1 381 401
Profit before movement in insurance policy liabilities		**1 796 465**	2 251 463
Movement to insurance policy liabilities	12	**1 546 773**	1 820 625
Tax	28	**226 342**	356 304
Surplus after tax and policy movements		**23 350**	74 534
Other comprehensive income:			
Revaluation of owner-occupied property net of deferred tax		**8 324**	24 404
Total comprehensive income for the year		**31 674**	98 938

The mutual nature of PPS should be noted. The allocation to policyholders – described above as 'Movement to insurance policy liabilities' – is a portion of the annual allocation to members' PPS PSA 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 2016

	Note	Accumulated funds R'000	Revaluation reserve R'000	Non-controlling interest R'000	Total R'000
Group					
Balance at 1 January 2015		200 515	–	1 992	202 507
Movement in insurance policy liabilities	12.2	–	(1 374)	–	(1 374)
Total comprehensive income for the year		67 172	24 404	7 362	98 938
Surplus for the year		67 172	–	7 362	74 534
Other comprehensive income for the year		–	24 404	–	24 404
Balance at 31 December 2015		267 687	23 030	9 354	300 071
Movement in insurance policy liabilities	12.2	**-**	**582**	**-**	**582**
Effect of shares issued to third party in excess of Net Asset Value by subisdiary		**14 532**	**-**	**53 227**	**67 759**
Total comprehensive income/(loss) for the year		**30 866**	**8 324**	**(7 516)**	**31 674**
Surplus for the year		**30 866**	**-**	**(7 516)**	**23 350**
Other comprehensive income for the year		**-**	**8 324**	**-**	**8 324**
Balance at 31 December 2016		**313 085**	**31 936**	**55 065**	**400 086**

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	Note	Group 2016 R'000	Group 2015 R'000
Cash flows from operating activities			
Cash generated from operations	29	**316 548**	409 496
Interest received		**1 078 280**	1 019 546
Dividend received		**604 369**	205 771
Tax paid	30	**(370 246)**	(395 448)
Net cash from operating activities		**1 628 951**	1 239 365
Cash flows from investing activities			
Purchases of property and equipment	2	**(104 896)**	(113 756)
Improvements to investment property	3	**(96)**	(275 955)
Software development	4	**(26 784)**	(25 389)
Purchase of financial assets	5,15	**(16 683 118)**	(12 292 223)
Proceeds from sale of furniture and equipment		**339**	1 357
Proceeds from sale of investment property		**42 795**	–
Proceeds from disposal of financial assets		**14 237 205**	12 387 943
Net cash used in investing activities		**(2 534 555)**	(318 023)
Cash flows from financing activities			
Proceeds from issue of share capital of subsidiary		**65 259**	–
(Decrease)/increase in borrowings	16	**(4 632)**	111 086
Net cash from financing activities		**60 627**	111 086
Net (decrease)/increase in cash and bank		**(844 977)**	1 032 428
Cash and bank at beginning of year		**2 761 616**	1 729 188
Cash and bank at end of year	8	**1 916 639**	2 761 616

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

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 2015								
Equity securities								
Local listed	5	11 273 923	–	–	–	–	11 273 923	11 273 923
International listed	5	71 804	–	–	–	–	71 804	71 804
Debt securities								
Government and local bonds	5	5 621 794	–	–	–	–	5 621 794	5 621 794
International listed	5	212 138	–	–	–	–	212 138	212 138
Unit trusts and pooled funds	5	15 671 397	–	–	–	–	15 671 397	15 671 397
Reinsurance assets	6	–	–	–	–	–	–	N/A
Insurance receivables	7	–	–	–	28 833	–	28 833	N/A
Prepayments	7	–	–	–	–	33 904	33 904	33 904
Other receivables	7	–	471 670	–	–	–	471 670	471 670
Reinsurance receivables	7	–	–	–	57 610	–	57 610	N/A
Cash and cash equivalents	8	2 566 467	195 149	–	–	–	2 761 616	2 761 616
Insurance contract liabilities	12	–	–	–	26 591 016	–	26 591 016	N/A
Short-term insurance policy liabilities	13	–	–	–	–	–	–	–
Investment contract liabilities	14	1 139 647	–	–	–	–	1 139 647	1 139 647
Liabilities to unit trust holders	15	7 673 934	–	–	–	–	7 673 934	7 673 934
Borrowings	16	–	–	191 011	–	–	191 011	191 011
Reinsurance liabilities	6	–	–	–	7 851	–	7 851	N/A
Reinsurance payables	20	–	–	–	16 562	–	16 562	N/A
Insurance payables	20	–	–	–	37 014	–	37 014	N/A
Accruals and sundry creditors	20	–	–	721 303	–	–	721 303	721 303

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 2016								
Equity securities								
Local listed	5	**12 815 373**	**-**	**-**	**-**	**-**	**12 815 373**	**12 815 373**
International listed	5	**59 285**	**-**	**-**	**-**	**-**	**59 285**	**59 285**
Debt securities								
Government and local bonds	5	**6 684 947**	**-**	**-**	**-**	**-**	**6 684 947**	**6 684 947**
International listed	5	**201 335**	**-**	**-**	**-**	**-**	**201 335**	**201 335**
Unit trusts and pooled funds	5	**17 229 378**	**-**	**-**	**-**	**-**	**17 229 378**	**17 229 378**
Reinsurance assets	6	**-**	**-**	**-**	**75 706**	**-**	**75 706**	**N/A**
Insurance receivables	7	**-**	**-**	**-**	**32 829**	**-**	**32 829**	**N/A**
Prepayments	7	**-**	**-**	**-**	**-**	**39 959**	**39 959**	**39 959**
Other receivables	7	**-**	**291 538**	**-**	**-**	**-**	**291 538**	**291 538**
Reinsurance receivables	7	**-**	**-**	**-**	**56 657**	**-**	**56 657**	**N/A**
Cash and cash equivalents	8	**1 527 746**	**388 893**	**-**	**-**	**-**	**1 916 639**	**1 916 639**
Insurance contract liabilities	12	**-**	**-**	**-**	**28 199 985**	**-**	**28 199 985**	**N/A**
Short-term insurance policy liabilities	13	**-**	**-**	**-**	**16 463**	**-**	**16 463**	**16 463**
Investment contract liabilities	14	**1 464 986**	**-**	**-**	**-**	**-**	**1 464 986**	**1 464 986**
Liabilities to unit trust holders	15	**9 088 757**	**-**	**-**	**-**	**-**	**9 088 757**	**9 088 757**
Borrowings	16	**-**	**-**	**186 379**	**-**	**-**	**186 379**	**186 379**
Reinsurance liabilities	6	**-**	**-**	**-**	**-**	**-**	**-**	**N/A**
Reinsurance payables	20	**-**	**-**	**-**	**22 270**	**-**	**22 270**	**N/A**
Insurance payables	20	**-**	**-**	**-**	**46 995**	**-**	**46 995**	**N/A**
Accruals and sundry creditors	20	**-**	**-**	**652 213**	**-**	**-**	**652 213**	**652 213**

2. PROPERTY AND EQUIPMENT

	Owner-occupied property R'000	Computer hardware R'000	Vehicles, office furniture and equipment R'000	Leasehold improve-ments R'000	Total R'000
Group					
Year ended 31 December 2015					
Opening net book amount	72 200	32 837	32 262	5 049	142 348
Revaluation surplus	24 867	–	–	–	24 867
Depreciation relating to revaluation	(403)	–	–	–	(403)
Additions	49 490	24 608	20 748	18 910	113 756
Transferred from investment property under construction	218 470	–	–	–	218 470
Disposals: Cost	–	(2 061)	(3 247)	(7 597)	(12 905)
Disposals: Accumulated depreciation	–	1 957	2 565	7 167	11 689
Depreciation charge	(841)	(16 554)	(10 428)	(2 852)	(30 675)
Closing net book amount	363 783	40 787	41 900	20 677	467 147
At 31 December 2015					
Cost or valuation	375 685	119 774	95 782	24 834	616 075
Accumulated depreciation	(11 902)	(78 987)	(53 882)	(4 157)	(148 928)
Net book amount	363 783	40 787	41 900	20 677	467 147
Non-current	363 783	40 787	41 900	20 677	467 147
Year ended 31 December 2016					
Opening net book amount	**363 783**	**40 787**	**41 900**	**20 677**	**467 147**
Revaluation surplus	**9 491**	**-**	**-**	**-**	**9 491**
Depreciation relating to revaluation	**(480)**	**-**	**-**	**-**	**(480)**
Additions	**56 093**	**30 207**	**18 269**	**2 826**	**107 395**
Transferred from Investment property under construction	**-**	**-**	**-**	**-**	**-**
Disposals: Cost	**-**	**(320)**	**(677)**	**-**	**(997)**
Disposals: Accumulated depreciation	**-**	**320**	**547**	**-**	**867**
Depreciation charge	**(865)**	**(21 200)**	**(12 027)**	**(3 135)**	**(37 227)**
Closing net book amount	**428 022**	**49 794**	**48 012**	**20 368**	**546 196**
At 31 December 2016					
Cost or valuation	**441 269**	**149 661**	**113 374**	**27 660**	**731 964**
Accumulated depreciation	**(13 247)**	**(99 867)**	**(65 362)**	**(7 292)**	**(185 768)**
Net book amount	**428 022**	**49 794**	**48 012**	**20 368**	**546 196**
Non-current	**428 022**	**49 794**	**48 012**	**20 368**	**546 196**

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

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

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

The Group's owner-occupied property owned by PPS Insurance Company Limited at a carrying value after revaluation of R114.0 million (2015: R97.6 million) was revalued at 31 December 2016 by CB Richard Ellis (Pty) Limited, an independent valuator. The property consists of an office block situated at 6 Anerley Road, Parktown, which is occupied by the Group. The property is revalued annually.

Owner-occupied properties owned by the PPS Property Fund Trust consist of PPS Centurion Square at a carrying value after revaluation of R257.7 million (2015: R241.5 million) and 11 Eton Road at R22.1 million (2015: R25.8 million). PPS Centurion Square was revalued at 31 December 2016 by Mills Fitchet (Pty) Limited and 11 Eton Road by Quadrant Properties (Pty) Limited, both independent valuators. These properties are occupied by the Group and revalued as described in Accounting policy note 8.

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

If land and buildings were stated on a historical cost basis, the amounts would be as follows:

	Group	
	2016	2015
	R'000	R'000
Cost	**343 166**	292 072
Accumulated depreciation	**(10 384)**	(9 519)
Net book amount as at 31 December	**332 782**	282 553

3. INVESTMENT PROPERTY

	Investment property R'000	Group Investment property under construction R'000	Total R'000
Net carrying value			
Opening balance at 1 January 2015	218 925	96 418	315 343
Additions	153 903	122 052	275 955
Revaluation surplus	5 678	–	5 678
Transfer to owner-occupied property	–	(218 470)	(218 470)
Net carrying value at 31 December 2015	378 506	–	378 506
Opening balance at 1 January 2016	**378 506**	**-**	**378 506**
Additions	**96**	**-**	**96**
Revaluation surplus	**17 511**	**-**	**17 511**
Disposals	**(39 644)**	**-**	**(39 644)**
Net carrying value at 31 December 2016	**356 469**	**-**	**356 469**

Investment properties were valued by independent valuators on 31 December 2016 who holds a recognised and relevant qualification. 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	
	2016	2015
	R'000	R'000
Cost beginning of year	**178 955**	155 967
Accumulated amortisation beginning of year	**(115 158)**	(102 565)
Net book amount beginning of year	**63 797**	53 402
Opening net book amount	**63 797**	53 402
Additions	**26 784**	25 389
Obsolete: Cost	**-**	(2 401)
Obsolete: Accumulated amortisation	**-**	2 401
Amortisation	**(17 394)**	(14 994)
Closing net book amount	**73 187**	63 797
Cost	**205 739**	178 955
Accumulated amortisation	**(132 552)**	(115 158)
Net book amount end of year	**73 187**	63 797

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

	Group	
	2016	2015
	R'000	R'000
Analysis of financial assets held at fair value through profit or loss		
Level 1 fair value financial assets		
Equity securities:		
– local listed	**12 815 373**	11 273 923
– international listed	**59 285**	71 804
	12 874 658	11 345 727
Level 2 fair value financial assets		
Debt securities – fixed interest rate:		
– government bonds and local listed	**6 684 947**	5 621 794
– international listed	**201 335**	212 138
	6 886 282	5 833 932
Unit trusts and pooled funds:		
– local pooled funds and unit trusts	**11 824 709**	9 618 376
– international equity unit trusts	**3 074 118**	3 353 564
– international fixed interest unit trusts	**147 032**	107 109
– international balanced unit trusts	**2 183 519**	2 592 348
	17 229 378	15 671 397
Total level 2 fair value financial assets	**24 115 660**	21 505 329
Total financial assets at fair value through profit or loss	**36 990 318**	32 851 056
The investment in local pooled funds and unit trusts comprises mainly of:		
Debt securities	**5 934 816**	5 251 439
Cash and cash equivalents	**315 812**	67 048
Equities	**4 272 753**	3 058 144
International	**1 301 328**	1 241 745

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

- \$1 = R13,71 (2015: \$1 = R15,52); and
- N\$1 = R1,00 (2015: N\$1 = R1,00).

At 31 December, investments classified as level 2 comprise approximately 65,2% (2015: 65,0%) of financial assets measured at fair value. Debt securities classified as level 2 as directly observable market inputs other than level 1 have been used to value these bonds. The observable inputs used to determine the fair value of unit trusts and pooled funds classified as level 2 are the unit prices published by the unit trust fund managers.

At 31 December, no financial assets are classified as level 3 (2015: nil).

	Group	
	2016	2015
	R'000	R'000
Analysis of movements in financial assets held at fair value through profit or loss:		
Opening balance	**32 851 056**	30 132 493
Additions	**19 553 668**	17 643 961
Disposals at carrying value	**(15 866 278)**	(15 928 452)
Fair value net gains excluding net realised gains	**293 530**	1 002 506
Accrued interest movements	**158 342**	548
Closing balance	**36 990 318**	32 851 056
The spread of investments by sector:		
Industrial (%)	**46,6%**	50,4%
Financial (%)	**32,8%**	31,2%
Resources (%)	**20,6%**	18,4%
Maturity profile of fixed interest investments:		
Due in one year or less	**1 212 248**	861 770
Due between one year and five years	**2 071 295**	2 192 989
Due between five years and 10 years	**1 573 454**	812 799
Due after 10 years	**2 029 285**	1 966 374
	6 886 282	5 833 932

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	
	2016	2015
	R'000	R'000
REINSURANCE ASSETS		
Total assets arising from reinsurance contracts at beginning of the year	**-**	2 827
Transfer from/to reinsurance liabilities	**(7 851)**	(2 827)
Reinsurers' share of long-term insurance policy liabilities (note 12.2)	**81 322**	–
Reinsurers' share of short-term insurance policy liabilities (note 13.2)	**2 235**	–
Total assets arising from reinsurance contracts at end of the year	**75 706**	–
Non-current	**75 706**	–
REINSURANCE LIABILITIES		
Total liabilities arising from reinsurance contracts at beginning of the year	**(7 851)**	(107 232)
Transfer to/from reinsurance assets	**7 851**	2 827
Reinsurers' share of long-term insurance policy liabilities (note 12.2)	**-**	96 554
Reinsurers' share of short-term insurance policy liabilities (note 13.2)	**-**	–
Total liabilities arising from reinsurance contracts at end of the year	**-**	(7 851)
Non-current	**-**	(7 851)

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	
	2016	2015
	R'000	R'000
Receivables arising from insurance and reinsurance contracts:	**89 486**	86 443
– due from contract holders	**45 929**	41 001
– less allowance for impairment losses from receivables from contract holders	**(13 100)**	(12 168)
– due from reinsurers	**56 657**	57 610
Other receivables:	**291 538**	471 670
– accrued interest	**6 506**	9 117
– accrued dividends	**89 321**	269 678
– loan to associate company	**135 079**	110 584
– other receivables	**60 632**	82 291
Prepayments	**39 959**	33 904
Total receivables including insurance receivables and prepayments	**420 983**	592 017
Current	**420 983**	592 017
Fair value of other receivables held at amortised cost	**291 538**	471 670
Allowances for impairment losses of receivables from contract holders		
Specific allowances for impairment		
At beginning of year	**12 168**	11 280
Impairment loss recognised	**4 470**	5 512
Impairment loss reversals	**(3 538)**	(4 624)
At end of year	**13 100**	12 168

8. CASH AND CASH EQUIVALENTS

	Group	
	2016	2015
	R'000	R'000
Cash at bank and in hand	**388 893**	195 149
Level 2 fair value cash and cash equivalents		
Cash on call via unit trust	**1 527 746**	2 566 467
Total level 2 fair value cash and cash equivalents	**1 527 746**	2 566 467
Total cash and cash equivalents	**1 916 639**	2 761 616

The proportion of cash held to fund the working capital of the Group as part of the investment portfolio is 20,0% (2015: 7,0%) of total cash and cash equivalents. The balance of the cash is held as part of the investment portfolio. The effective interest rate earned was 6,65% (2015: 5,75%).

At 31 December, cash and cash equivalents classified as level 2 comprise 100% (2015: 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 as this is part of the amount the Group must retain to cover the long-term insurance statutory capital adequacy requirement ('CAR'). The Group has maintained its level of CAR cover at 2.6 times (2015: 2.6 times) which has resulted in R38.3 million (2015: R45.2 million) being allocated to accumulated funds in the current year from the surplus after tax. Additional allocations to accumulated funds arise from the surplus after tax and non-controlling interests of subsidiaries.

10. REVALUATION RESERVE

	Group	
	2016	2015
	R'000	R'000
Opening balance	**23 030**	–
Revaluation surplus	**9 491**	24 867
Deferred tax	**(687)**	(60)
Depreciation relating to cumulative revaluation	**(480)**	(403)
Transfer to Insurance policy liabilities and related insurance assets	**582**	(1 374)
Closing balance	**31 936**	23 030

Revaluation reserve consists of fair value gains/ losses on the revaluation of owner-occupied properties in the Group.

11. NON-CONTROLLING INTEREST

	Group	
	2016	2015
	R'000	R'000
Non-controlling interest	**55 065**	9 354

Non-controlling interest consists of minorities' share of the Net Asset Value of PPS Short-term Insurance Company Limited, and PPS Property Fund Trust.

12. LONG-TERM INSURANCE POLICY LIABILITIES

12.1 Long-term 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 01/01/2015 to 31/12/2015 morbidity experience of the Group. The main source of uncertainty is epidemics such as AIDS, Severe Acute Respiritory Syndrome, economic conditions and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits. These uncertainties could result in future morbidity being worse than in the past for the age groups in which the Group has significant exposure to morbidity risk. The estimated morbidity experience determines the value of the future benefit payments in the policy liabilities.

  The rates of disability 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 2015 to 31 December 2015 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 9,4% (2015: 10,2%) 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% (2015: 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% (2015:1,5%).

  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 9,6% gross of tax in 2016 (10,4% in 2015). 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 may 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% (2015: 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 are in line with the Group's past practice and members' reasonable expectations.

(a) *IBNR*

The IBNR liability calculation is based on run-off tables using historical data from 2011 to 2016. Due to the short term over which these liabilities will be settled, no allowance is made for claims handling expenses, claims inflation, adjustments for trends, unusual claims or loss ratios, and the IBNR liability is undiscounted.

(b) *Change in assumptions*

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

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

The economic basis changes led to an increase in liabilities of R464.0 million (2015: R449.6 million decrease). The non-economic changes amounted to a R2.0 million decrease (2015: R1.7 million increase) in liabilities.

(c) Sensitivity analysis

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

Variable	Change in variable %	Change in liability 2016 R'000	% change	Change in liability 2015 R'000	% change
Liability per note 12.2		**3 816 579**		4 002 882	
Worsening in mortality	**10**	**1 313 110**	**34,41**	966 406	24,14
Worsening in morbidity rates	**10**	**1 424 067**	**37,31**	1 162 280	29,04
Worsening in PI inception rate	**10**	**400 911**	**10,50**	318 095	7,95
Lowering of investment returns	**(1)**	**1 297 880**	**34,01**	1 040 913	26,00
Lowering of terminations	**(10)**	**354 278**	**9,28**	293 181	7,32
Worsening of maintenance expense level	**10**	**860 577**	**22,55**	633 727	15,83
Worsening of expense inflation rate	**10**	**1 010 869**	**26,49**	814 349	20,34

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

PGN104 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 2015 and 2016:

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

12.2 Movements in long-term insurance policy liabilities and re-insurance assets – Long-term insurance contracts with and without DPF

	Group					
	2016			2015		
	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)	**14 500**	**-**	**14 500**	14 577	–	14 577
– Unintimated claims (IBNR)	**56 865**	**-**	**56 865**	42 115	–	42 115
– Non-DPF liability	**3 989 359**	**(13 523)**	**4 002 882**	3 293 346	(107 534)	3 400 880
– Cessation benefits (notified claims)	**119 482**	**-**	**119 482**	139 887	–	139 887
– DPF liability	**22 223 556**	**-**	**22 223 556**	21 014 757	–	21 014 757
Life policies						
– Claims payable (notified claims)	**93 901**	**-**	**93 901**	64 178	–	64 178
– Unintimated claims (IBNR)	**30 596**	**4 615**	**25 981**	25 101	2 362	22 739
– Life assurance policy reserve	**1 872**	**1 057**	**815**	1 658	767	891
Other benefits and liabilities	**60 886**	**-**	**60 886**	51 128	–	51 128
Total at beginning of the year	**26 591 017**	**(7 851)**	**26 598 868**	24 646 747	(104 405)	24 751 152
Change in Insurance policy liabilities per Statement of Comprehensive Income	**1 628 095**	**81 322**	**1 546 773**	1 917 179	96 554	1 820 625
Change in insurance policy liabilities per Statement of Changes in Equity	**(582)**	**-**	**(582)**	1 374	–	1 374
Movement in claims liabilities						
– arising from current year claims	**(7 155)**	**-**	**(7 155)**	17 646	–	17 646
– arising from prior year claims	**(11 390)**	**-**	**(11 390)**	8 070	–	8 070
Total movement in insurance policy liabilities	**1 608 968**	**81 322**	**1 527 646**	1 944 269	96 554	1 847 715
Total movement allocated	**1 608 968**	**81 322**	**1 527 646**	1 944 269	96 554	1 847 715
Sickness and disability policies						
– Claims payable (notified claims)	**(544)**	**-**	**(544)**	(77)	–	(77)
– Unintimated claims (IBNR)	**2 446**	**-**	**2 446**	14 750	–	14 750
– Non-DPF liability	**(104 836)**	**81 467**	**(186 303)**	696 013	94 011	602 002
– Cessation benefits (notified claims)	**23 836**	**-**	**23 836**	(20 405)	–	(20 405)
– DPF liability	**1 725 384**	**-**	**1 725 384**	1 208 799	–	1 208 799
Life policies						
– Claims payable (notified claims)	**(39 135)**	**-**	**(39 135)**	29 723	–	29 723
– Unintimated claims (IBNR)	**(2 905)**	**524**	**(3 429)**	5 495	2 253	3 242
– Life assurance policy reserve	**(1 190)**	**(669)**	**(521)**	214	290	(76)
Other benefits and liabilities	**5 912**	**-**	**5 912**	9 757	–	9 757
Analysis of balance at the end of the year:						
Sickness and disability policies						
– Claims payable (notified claims)	**13 956**	**-**	**13 956**	14 500	–	14 500
– Unintimated claims (IBNR)	**59 311**	**-**	**59 311**	56 865	–	56 865
– Non-DPF liability	**3 884 523**	**67 944**	**3 816 579**	3 989 359	(13 523)	4 002 882
– Cessation benefits (notified claims)	**143 318**	**-**	**143 318**	119 482	–	119 482
– DPF liability	**23 948 940**	**-**	**23 948 940**	22 223 556	–	22 223 556
Life policies						
– Claims payable (notified claims)	**54 766**	**-**	**54 766**	93 901	–	93 901
– Unintimated claims (IBNR)	**27 691**	**5 139**	**22 552**	30 596	4 615	25 981
– Life assurance policy reserve	**682**	**388**	**294**	1 872	1 057	815
Other benefits and liabilities	**66 798**	**-**	**66 798**	60 885	–	60 885
Total at the end of the year	**28 199 985**	**73 471**	**28 126 514**	26 591 016	(7 851)	26 598 867
Current	**365 840**	**5 139**	**360 701**	376 229	4 615	371 614
Non-current	**27 834 145**	**68 332**	**27 765 813**	26 214 787	(12 466)	26 227 253
Total	**28 199 985**	**73 471**	**28 126 514**	26 591 016	(7 851)	26 598 867

	Group 2016 R'000	2015 R'000
The non-DPF liabilities developed as follows:		
Liabilities at beginning of the year	**4 002 884**	3 400 880
Unwinding of discount rate	**380 195**	237 864
Expected cash flows	**699 106**	582 155
Expected risk liability at year-end	**5 082 185**	4 220 899
Impact of movements	**(37 535)**	(55 237)
Change in valuation assumptions	**(465 946)**	447 847
Asset value adjustments	**14 898**	(571)
Risk benefit liability for new business issued	**(777 023)**	(610 056)
Liabilities at end of year	**3 816 579**	4 002 882
The DPF liabilities developed as follows:		
Liabilities at beginning of the year	**22 223 557**	21 014 757
Claims paid during the year	**(1 023 105)**	(930 413)
Allocation of profits	**2 758 492**	2 223 871
Asset value adjustments	**(10 004)**	(84 659)
Liabilities at end of year	**23 948 940**	22 223 556
Analysis of total insurance policy liabilities, net of reinsurance:		
Non-DPF liabilities	**3 816 579**	4 002 882
DPF liabilities	**23 948 940**	22 223 556
Life assurance policy reserve	**294**	815
Current liabilities	**360 701**	371 614
Liabilities at end of year	**28 126 514**	26 598 867

13. SHORT-TERM INSURANCE POLICY LIABILITIES

13.1 Short-term insurance contracts – assumptions

Insurance risks are unpredictable and the Group recognises that it is not always possible to forecast, with absolute precision, future claims payable under existing insurance contracts. Over time, the Group has developed a methodology that is aimed at establishing insurance provisions that have an above-average likelihood of being adequate to settle all its insurance obligations.

Unearned premium provision

Unearned premiums represent the proportion of premiums written in the current year, which relate to risks that have not expired by the end of the financial year. The Group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires. Most of the Group's insurance contracts have an even risk profile. Therefore, the unearned premium provision is released evenly over the period of insurance using a time proportion basis. For the remainder of the insurance portfolio, which consists of crop and alternative risk business, the unearned premium is released on a basis consistent with the increasing, decreasing or uneven risk profile of the contracts involved. This risk profile is determined based on a historic time-based analysis of the incurred claims. The provision for unearned premiums is first determined on a gross level and thereafter the reinsurance impact is separately recognised based on the relevant reinsurance contract. Reinsurance commission revenue is recognised on a basis that is consistent with the related provision for unearned premiums. At each reporting date an assessment is made of whether the provisions for unearned premiums are adequate. A separate provision can be made, based on information available at the reporting date, for any estimated future underwriting losses relating to unexpired risks (unexpired risk provision).

Unexpired risk provision

If the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to those policies, after deduction of any deferred commission expenses, management assesses the need for an unexpired risk provision. The need for an unexpired risk provision is assessed on the basis of information available at the reporting date. Claims events occurring after the statement of financial position date in relation to the unexpired period of policies in force at that time are not taken into account in assessing the need for an unexpired risk provision. Management will base the assessment on the expected outcome of those contracts, including the available evidence of claims experience on similar contracts in the past year, as adjusted for known differences, events not expected to recur, and the normal level of seasonal claims.

Outstanding claims

Outstanding claims represent the Group's estimate of the cost of settlement of claims that have occurred and were reported by the reporting date, but that have not yet been finally settled. Claims provisions are determined based on previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on the interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard for the specific circumstances, information available from the insured and/or loss adjuster, past experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions. The Group employs employees experienced in claims handling and rigorously applies standardised policies and procedures to claims assessment. The ultimate cost of reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Therefore, case estimates are reviewed regularly and updated when new information becomes available. The provision for outstanding claims is initially estimated at a gross level. A separate calculation is performed to estimate reinsurance recoveries. The calculation of reinsurance recoveries considers the type of risk underwritten, the year in which the loss claim occurred, under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or formed part of a catastrophe reinsurance claim.

Claims incurred but not reported (IBNR)

There is also considerable uncertainty concerning the eventual outcome of claims that have occurred but had not yet been reported to the insurer by the reporting date. The IBNR provision relates to these events. The stochastic chain-ladder methodology assists in developing a greater understanding of the trends inherent in the data being projected to estimate the ultimate cost of claims. This process is performed separately for each line of business.

Stochastic chain-ladder methodology

The basic technique involves analysing historical claims development factors and selecting estimated development factors based on this historical pattern. The selected development factors are applied to cumulative internal claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year. It is the nature of this technique that a weighted average of claims inflation within the past data will be projected into the future.

A stochastic process is applied to the choice of development factors for each accident year in accordance with standard statistical practices. Numerous simulations are performed to obtain a distribution of the ultimate claims cost. The IBNR reserve is held so as to be at least sufficient at the 75th percentile of the ultimate cost distribution.

As this method uses historical claims development information, it assumes that the historical claims development pattern is a predictor of future claim developments. There are reasons why this may not be the case. Such reasons include:

- change in processes that affect the development/recording of claims paid and incurred;
- economic, legal, political and social trends;
- changes in mix of business; and
- random fluctuations, including the impact of large losses.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder. There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. The establishment of insurance liabilities is an inherently uncertain process and as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims can vary substantially from the initial estimates. The Group seeks to provide appropriate levels of claims provisions taking the known facts and experience into account. It should be emphasised that the estimation techniques for the determination of insurance liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate.

13.2 Short-term insurance policyholder liabilities

	Group					
	2016			2015		
	Gross R'000	Re-insurance R'000	Net R'000	Gross R'000	Re-insurance R'000	Net R'000
Notified claims	-	-	-	–	–	–
Incurred but not reported	-	-	-	–	–	–
Total at beginning of the year	-	-	-	–	–	–
Movement in claims liabilities						
– Notified claims	**10 501**	**2 235**	**8 266**	–	–	–
– Incurred but not reported	**5 836**	-	**5 836**	–	–	–
Movement in unearned premiums	**126**	-	**126**	–	–	–
Total movement in insurance policy liabilities	**16 463**	**2 235**	**14 228**	–	–	–

	Group	
	2016 R'000	2015 R'000
Claims and loss adjustment expenses developed as follows:		
Notified claims	-	–
Incurred but not reported	-	–
Total at the beginning of the year	-	–
Increase in liabilities		
– arising from current year claims	**14 102**	–
Liabilities at the end of year	**14 102**	–
Notified claims	**8 266**	–
Incurred but not reported	**5 836**	–
Total	**14 102**	–
Unearned premiums is developed as follows:		
Total at the beginning of the year	-	–
Charged to the Statement of Profit or Loss and other Comprehensive Income	**126**	–
Liabilities at the end of year	**126**	–

14. INVESTMENT CONTRACT LIABILITIES

	Group	
	2016	2015
	R'000	R'000
Level 2 fair value investment contract liabilities		
Linked investment contracts	**1 464 986**	1 139 647
Non- current	**1 464 986**	1 139 647

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	
	2016	2015
Movement table for investment contract liabilities	**R'000**	R'000
Linked contracts		
Balance at 1 January	**1 139 647**	825 699
Contributions received during the year	**420 263**	346 623
Fair value of policyholder liabilities under investment contracts	**15 295**	69 023
Net investment return credited to account balances	**29 887**	80 523
Net fees and charges deducted from account balances	**(14 592)**	(11 500)
Benefit payments	**(110 219)**	(101 698)
Balance at 31 December	**1 464 986**	1 139 647

15. LIABILITIES TO UNIT TRUST HOLDERS

	Group	
	2016	2015
	R'000	R'000
Liabilities to unit trust holders		
Balance at 1 January	**7 673 934**	5 848 820
Investment by unit trust holders	**2 870 550**	5 351 738
Redemptions by unit trust holders	**(1 932 239)**	(3 805 442)
Total comprehensive income attributable to unit trust holders	**476 512**	278 818
Balance at 31 December	**9 088 757**	7 673 934
Current	**9 088 757**	7 673 934

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.

The total comprehensive income attributed to unit trust holders are their share of gains/losses in the unit trust.

16. BORROWINGS

Group	Carrying amount and fair value 2016 R'000	2015 R'000
Amortised cost		
Mortgage loans (Secured)	**165 075**	171 926
Minority shareholder loan in PPS Property Fund Trust (Unsecured)	**21 304**	19 085
Total borrowings	**186 379**	191 011
Current	**22 774**	19 085
Non-current	**163 605**	171 926

A mortgage loan of R6.6 million bears interest at prime less 0,5% and payable monthly over 10 years, commencing on 1 September 2013.

A mortgage loan of R158.5 million bears interest at prime less 1%. It was converted from a development loan to a 10-year mortgage loan at prime less 1% at PPS Property Fund Trust's election, on 20 January 2016.

The minority shareholder loan in PPS Property Fund Trust carries interest at prime less 1%. The loan bears no fixed repayment terms and is only repayable once the mortgage loans have been settled.

17. DEFERRED TAX

	Group 2016 R'000	2015 R'000
Deferred tax assets:		
Provisions and impairments	**43 060**	29 703
Tax losses carried forward	**40 626**	31 040
End of year	**83 686**	60 743
Deferred tax liabilities:		
Unrealised gains on investments	**260 797**	350 981
Unrealised gains on land and buildings revaluation	**2 786**	2 099
End of year	**263 583**	353 080
Current asset	**32 420**	29 703
Non-current asset	**51 266**	31 040
Non-current liability	**263 583**	353 080

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 2015	57 825
Recognised in profit or loss	2 918
At 31 December 2015	60 743
Recognised in profit or loss	**22 943**
At 31 December 2016	**83 686**

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. It is assessed as recoverable based on the probability of the future profitability of the entity, 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 2015	372 865	2 039	374 904
Recognised in profit or loss	11 635	–	11 635
Recognised directly in equity	–	60	60
Transfer to current income tax liabilties	(33 519)	–	(33 519)
At 31 December 2015	350 981	2 099	353 080
Recognised in profit or loss	**4 746**	**-**	**4 746**
Recognised directly in equity	**-**	**687**	**687**
Transfer to current income tax liabilties	**(94 930)**	**-**	**(94 930)**
At 31 December 2016	**260 797**	**2 786**	**263 583**

18. RETIREMENT BENEFIT OBLIGATIONS

	Group	
	2016 R'000	2015 R'000
Statement of Financial Position obligations for:		
– post-retirement medical benefits	**6 738**	7 708
Statement of profit or loss and other comprehensive income charge for (note 27):		
– post-retirement medical benefits	**(361)**	(961)

Post-employment medical benefits

The Group provides for the unfunded post-retirement healthcare benefits of those employees and retirees employed before 4 October 1999, as well as their spouses and dependants. The entitlement to post-retirement healthcare benefits is based on an employee remaining in service up to retirement and completion of a minimum service period.

The latest actuarial valuation of the Group's post-employment benefits, carried out at 31 December 2016, indicated a present value of projected future benefits amounting to R6.7 million (2015: R7.7 million).

The principal actuarial assumptions used were as follows:

	Group	
	2016	2015
Discount rate based on the Long-term Bond Index (%)	**9,25%**	10,28%
Medical cost inflation (%)	**8,49%**	9,77%

The assumed rates of mortality are as follows:

During employment: SA85-90 (Light) ultimate table ; and

Post-employment: PA(90) ultimate table rated down 2 years plus 1% improvement per annum (from a base year of 2006)
.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2016

19. EMPLOYEE RELATED OBLIGATIONS

	Group 2016 R'000	2015 R'000
Leave pay accrual		
Opening balance	**22 978**	20 436
Charged to the Statement of profit or loss and other comprehensive income		
– additional provisions	**15 907**	13 408
Used during the year	**(13 015)**	(10 866)
Closing balance	**25 870**	22 978
Current	**25 870**	22 978
Provision for performance related incentives		
Opening balance	**124 411**	90 886
Additional provisions (executive directors and employees)	**89 361**	99 565
Used during the year	**(82 432)**	(66 040)
Closing balance	**131 340**	124 411
Current	**63 462**	63 398
Non-current	**67 878**	61 013
Total employee related obligations	**157 210**	147 389

20. INSURANCE AND OTHER PAYABLES

	Group 2016 R'000	2015 R'000
Payables arising from insurance and reinsurance contracts:		
– due to contract holders	**41 253**	31 746
– due to contract holders- life assurance policy	**70**	78
– reinsurance payables	**22 270**	16 562
– subscriptions received in advance	**5 672**	5 190
Other payables:		
– accruals	**614 356**	692 128
– employees tax	**12 584**	12 255
– sundry creditors	**25 273**	16 920
Total insurance and other payables	**721 478**	774 879
Current	**721 478**	774 879

21. NET INSURANCE PREMIUM REVENUE

	Group	
	2016	2015
	R'000	R'000
Individual premiums from policyholders	**3 519 008**	3 142 487
Long-term	**3 514 230**	3 142 487
Short-term	**4 778**	-
Group reinsurance premiums inwards	**131 267**	41 006
Long-term	**43 160**	41 006
Short-term	**88 107**	-
Premium revenue arising from insurance contracts issued	**3 650 275**	3 183 493
Individual premium revenue ceded to reinsurers on insurance contracts issued	**(236 509)**	(197 795)
Long-term	**(230 515)**	(197 795)
Short-term	**(5 994)**	-
Total net insurance premium revenue	**3 413 766**	2 985 698
Long-term	**3 326 875**	2 985 698
Short-term	**86 891**	-

22. OTHER INCOME

	Group	
	2016	2015
	R'000	R'000
Policy administration and collection services	**11 877**	12 868
Administration fees	**230 294**	210 810
Investment management services	**59 959**	53 090
Commission	**10 025**	23 699
Rental income	**48 404**	36 656
Profit share	**8 673**	19 681
Total other income	**369 232**	356 804

23. INVESTMENT INCOME

	Group	
	2016	2015
	R'000	R'000
Financial assets held at fair value through profit or loss		
– Interest income	**1 234 010**	1 025 483
– Dividend income	**424 012**	384 638
Total investment income	**1 658 022**	1 410 121

24. INVESTMENT GAINS

	Group	
	2016	2015
	R'000	R'000
Financial assets held at fair value through profit or loss		
– Net realised gains on disposal of financial assets	**321 636**	223 032
– Net realised foreign exchange (losses)/gains	**(18 470)**	41 901
– Net unrealised gains on revaluation of financial assets	**293 530**	1 002 506
Investment property		
– Fair value gains on investment property	**17 511**	5 678
– Net realised gains on disposal of investment property	**3 151**	-
Total Investment gains	**617 358**	1 273 117

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2016

25. NET INSURANCE BENEFITS AND CLAIMS

	Group	
	2016	2015
	R'000	R'000
Gross		
Long-term insurance contracts with and without DPF:		
– Individual sickness and incapacity benefits: current year	**874 202**	830 551
– Individual sickness and incapacity benefits: under provision for prior year	**(11 391)**	8 070
– Group non-DPF component of death benefits	**518 248**	456 539
– Individual DPF component of death, retirement and resignation benefits	**976 429**	882 096
Short-tem insurance contracts:		
– Personal lines	**65 222**	–
Total gross insurance benefits and recoveries	**2 422 710**	2 177 256
Reinsurance recoveries		
Long-term insurance contracts with and without DPF:		
– Individual sickness and incapacity benefits	**(54 439)**	(53 908)
– Death benefits	**(105 603)**	(78 313)
Total reinsurance recoveries	**(160 042)**	(132 221)
Total net insurance benefits and claims	**2 262 668**	2 045 035

26. EXPENSES

	Group	
	2016	2015
	R'000	R'000
Costs incurred for the acquisition of insurance contracts expensed in the year:		
- Long-term Insurance	**222 782**	200 065
– Sickness and incapacity policies	**175 607**	101 311
– Whole life policies	**47 175**	98 754
- Short-term Insurance-incurred during the year	**11 587**	-
Multi-managers' fees – PPS Investments	**71 397**	60 117
Marketing and administrative expenses include:		
– Amortisation of intangible asset (note 4)	**17 394**	14 994
– Auditors' remuneration	**6 872**	5 835
– Audit fees	**5 822**	5 232
– Other services	**1 050**	603
– Data processing & information technology systems maintenance	**130 760**	110 504
– Depreciation on property and equipment (note 2)	**37 227**	30 675
– Directors'/Trustees' and executives' remuneration	**31 797**	29 414
– Directors /Trustees – non executive	**7 726**	6 670
– Directors of other subsidiaries	**1 682**	1 267
– Executive directors of PPS Insurance	**22 389**	21 477
– Employee costs (note 27)	**685 293**	615 853
– Fees for services	**13 904**	19 688
– Actuarial	**6 744**	11 790
– Legal	**4 881**	6 222
– Internal audit	**2 279**	1 676
– Investment management fees	**76 291**	122 547
– Other administration, maintenance and product development expenses	**175 028**	137 784
– Operating lease rentals	**27 105**	33 925
Total expenses	**1 507 437**	1 381 401

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

27. EMPLOYEE COSTS

	Group	
	2016	2015
	R'000	R'000
Salaries and related costs	**564 484**	480 665
Pension costs – defined contribution plans	**47 658**	42 813
Other post-employment benefits (note 18)	**(361)**	(961)
Performance related incentives	**73 512**	93 336
Total employee costs (excluding executives)	**685 293**	615 853

28. TAX

	Group	
	2016	2015
	R'000	R'000
Current tax	**196 900**	304 952
– Current year tax	**196 709**	257 620
– Prior years under provision	**191**	47 332
Deferred tax	**(18 197)**	8 717
Dividend withholding tax	**47 639**	42 635
Total tax	**226 342**	356 304
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 before movement in policy liabilities	**1 796 465**	2 251 463
Tax calculated at domestic tax rates applicable to profits in South Africa/Namibia	**526 699**	640 814
Tax effect of income not subject to tax	**(1 169 819)**	(1 181 729)
Tax effect of non-deductible expenses	**816 475**	792 448
Tax effect of tax rate on Dividend Withholding Tax being different to tax rate on the individual policyholder fund ('IPF')	**41 847**	37 439
Prior year under provision	**191**	47 332
Assessed loss utilised in the current year	**-**	4 659
Deferred tax raised – prior year	**(266)**	–
Tax effect of change in CF tax rate	**11 215**	15 341
Total tax per Statement of profit or loss and other comprehensive income	**226 342**	356 304

The applicable tax rate was 28% (2015: 28%) for South African companies and 32% (2015: 32%) 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%). Professional Provident Society Insurance Company Limited does not qualify as having a Risk Policy Fund as defined under Section 29A of the Income Tax Act No 58 of 1962. The tax reconciliation is done on total tax on all funds. The Professional Provident Society Holdings Trust is taxed at 40%.

Dividend withholding tax is payable on dividends received in the individual policy fund.

The Group has accumulated losses of R160.8 million (2015: R115.2 million) available in certain subsidiaries for offset against future taxable income in those subsidiaries.

29. CASH GENERATED FROM OPERATIONS

	Group 2016 R'000	2015 R'000
Reconciliation of profit before movement in insurance policy liabilities to cash generated by operations:		
	2 272 977	2 530 281
Profit before movement in policy liabilities	**1 796 465**	2 251 463
Attributable to unit trust holders	**476 512**	278 818
Investment contract receipts	**420 263**	346 623
Investment contract surrenders	**(110 219)**	(101 698)
Adjustments for:		
- Depreciation	**37 227**	30 675
- Fair value of policyholder liabilities under investment contracts	**15 295**	69 023
- Amortisation of intangible asset	**17 394**	14 994
- Realised profit on disposal of property and equipment	**(80)**	(141)
- Investment income	**(1 658 022)**	(1 410 121)
- Net unrealised (profit) on financial assets held at fair value through profit or loss	**(617 359)**	(1 273 117)
Changes in working capital:		
– Insurance and other receivables	**(11 934)**	(131 519)
– Insurance and other payables	**(44 550)**	308 780
–Short-term policy liabilities	**14 102**	-
– Insurance policy liabilities	**(18 546)**	25 716
Cash generated from operations	**316 548**	409 496

30. TAX PAID

	Group 2016 R'000	2015 R'000
Tax (receivable)/payable at beginning of year	**(11 704)**	2 638
Current tax as per Statement of profit or loss and other comprehensive income	**244 539**	347 587
Transfer from deferred tax liability	**94 930**	33 519
Tax receivable at end of year	**42 481**	11 704
Total tax paid	**370 246**	395 448

31. COMMITMENTS

	Group 2016 R'000	2015 R'000
(a) Capital expenditure contracted for at the reporting date but not yet incurred is as follows:		
– Committed but not contracted for	**103 873**	91 095
(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 profit or loss and other comprehensive income during the year is disclosed in note 26.		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Due in 1 year or less	**31 974**	36 088
Due between 1 year and 5 years	**83 920**	112 573
Due after 5 years	**5 263**	89 726
(c) Operating lease commitments – where a Group company is the lessor		
The Group leases out its investment property (see Note 3) under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.		
The lease revenue charged to the statement of profit or loss and other comprehensive income during the year is disclosed in note 22.		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Due in 1 year or less	**31 699**	38 124
Due between 1 year and 5 years	**52 188**	102 590
Due after 5 years	**733**	7 249

32. TRUSTEES' REMUNERATION

The PPS Holdings Trust trustees' remuneration from the Group

Trustees	The PPS Holdings Trust (including committees) Rand	Subsidiary Companies (including committees) Rand	Total remuneration (including committees) Rand
Adv. T Aboobaker	159 000	–	159 000
Dr N Campbell	195 200	140 950	336 150
Ms DLT Dondur	198 400	220 950	419 350
Mr JAB Downie	210 650	232 650	443 300
Dr D P du Plessis	152 950	10 650	163 600
Mr C Erasmus	67 200	1 335 675	1 402 875
Dr MJ Grootbom	159 000	10 650	169 650
Mr U Jivan	158 500	41 200	199 700
Mr I Kotze	158 500	–	158 500
Dr C Kruger	195 200	140 950	336 150
Mr E Moolla	528 550	244 050	772 600
Mr N Nyawo	166 500	5 325	171 825
Dr J Patel	166 500	–	166 500
Mr P Ranchod	177 300	435 075	612 375
Mr V Rimbault	159 000	–	159 000
Dr S Seoka	334 500	175 650	510 150
Dr M W Sonderup	151 000	–	151 000
Mr B Topham	166 500	30 550	197 050
Mr S Trikamjee	189 550	191 550	381 100
Prof HE Wainer	31 000	784 950	815 950
Total	**3 725 000**	**4 000 825**	**7 725 825**

33. RELATED PARTIES

Holding Company

The Professional Provident Society Holdings Trust is the holding entity of the Group effective from 26 April 2011. The Professional Provident Society Holdings Trust is a trust incorporated in South Africa and has as its sole investment in 100% of the shares of Professional Provident Society Insurance Company Limited, which it acquired from Professional Provident Society NPC during 2011. Professional Provident Society NPC formerly was a company 'limited by guarantee' and has been deregistered.

Subsidiaries

PPS's related parties are its subsidiary company Professional Provident Society Insurance Company Limited, as well as Professional Provident Society Insurance Company (Namibia) Limited, Plexus Properties Proprietary Limited, Professional Provident Society Healthcare Administrators Proprietary Limited, Professional Provident Society Short-Term Insurance Company Limited, Professional Provident Society Investments Proprietary Limited, Professional Provident Society Multi-Managers Proprietary Limited, Professional Property Trust Investment Administrators Proprietary Limited, PPS Management Company Proprietary Limited (RF), PPS Property Fund Trust, and PPS Property Fund Proprietary Limited, which are subsidiary companies/trusts of Professional Provident Society Insurance Company Limited.

Other Controlled entities

Entities listed below are controlled through board representation:

PPS Foundation Trust, PPS Education Trust, PPS Academy Holdings Proprietary Limited, PPS Training Academy Proprietary Limited and Professional Provident Society Collective Investment Scheme.

Associates

PPS Mutual Limited and PPS Mutual Insurance Proprietary Limited (Australian entities) are Associates of the Group. PPS Insurance Company has significant influence over PPS Mutual Limited Group, through its representation on their boards. The PPS Group has no shareholding in PPS Mutual Limited and therefore no rights to either net profits/losses, or net assets. The Group received R6.7 million (2015: R3.9 million) of interest for the year on loan funding of R135.0 million (2015: R110.5 million) provided to PPS Mutual Limited Group.

PPS Mutual Limited and PPS Mutual Insurance Proprietary Limited were classified as Related Parties in the 2015 PPS Group Annual Financial Statements by virtue of having the same executive directors as PPS Insurance Company Limited. In 2016, these entities were reclassified as Associates. The reclassification has no impact on the Consolidated Statement of Financial Position, or the Consolidated Statement of Profit or loss and other Comprehensive Income.

Transactions between related parties are made on terms equivalent to those that prevail in arm's length transactions. Professional Provident Society Insurance Company Limited owes PPS Holdings Trust a fee for member services rendered.

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 corporate governance 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	
	2016 R'000	2015 R'000
Life and disability cover	**299 106**	291 067
– Premiums	**1 623**	1 486
Sickness benefit cover	**5 447**	4 957
– Premiums	**1 109**	958
– Claims	**85**	92
PPS Profit-Share Account	**15 643**	14 027
Motor and household cover	**379 509**	334 099
– Premiums	**789**	717
– Claims	**351**	565
Investment contracts	**34 792**	36 149

The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions.

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

Salaries and other employee benefits	**33 091**	26 895
Performance payments	**24 660**	21 450
Trustees' remuneration	**7 726**	6 670
Total compensation	**65 477**	55 015

34. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at reporting date as well as affecting the reported income and expenses for the year. Estimates and judgements are evaluated annually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

34.1 Valuation of long-term insurance policy liabilities

The determination of the liabilities under insurance contracts is dependent on estimates and assumptions made by the Group. In determining the value of these insurance policy liabilities, assumptions regarding mortality, persistency, investment returns, expense level and inflation, tax and future profit allocations have been made. For details on these assumptions refer to note 12.1.

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

34.2 Valuation of short-term insurance policy liabilities

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events.

Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of the insurance company, principally in respect of the insurance liabilities of the company. Insurance liabilities include the provisions for unearned premiums (including an evaluation of the necessity for an unexpired risk provision), outstanding claims and incurred but not reported (IBNR) claims. For details on these assumptions refer to note 13.1.

34.3 Income tax

The Group is subject to tax in South Africa and Namibia. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination was made. The corporate tax rate in South Africa was 28% for the year under review. 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%). The Group does not meet the requirements of the Risk Policy Fund.

34.4 Employee benefit liabilities

The cost of the benefits and the present value of post-retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions.

The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the post-retirement medical obligations. In determining the appropriate discount rate, the Group considers the interest rate on high quality corporate bonds and Government bonds that have terms to maturity approximating the terms of the related liability. Additional information is provided in Note 18 of these financial statements.

34.5 Valuation of owner-occupied property

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 was based on a yield range of 8,75% to 9,50% (2015: 8,25% to 9,00%). Any change in these assumptions will impact the values of the buildings.

34.6 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.

34.7 Valuation of long-term incentive and retention schemes

The cost of the benefits of the long-term incentive scheme depends on a number of assumptions used in calculating the present value under the projected unit credit method. The assumptions used in determining the charge to the Statement of Profit or loss and other Comprehensive Income arising from these obligations include the expected growth in the apportionment account (rolling five-year average historical growth 12,9% (2015: 13,8%), the turnover of staff participating in the scheme (nil) (2015: nil) and the discount rate (an appropriate market-related yield curve as at the reporting date). Any changes in these assumptions will impact the charge to the Statement of Profit or loss and other Comprehensive Income.

The assumptions used in determining the charge to the Statement of Profit or Loss and other Comprehensive Income arising from obligations in terms of the Retention Scheme include the expected growth in the PPS Profit-Share Account (rolling five-year average historical growth 13,5%, and the turnover of staff participating in the scheme (nil).

34.8 Consolidation of entities in which the group holds less than 50%

The trustees have concluded that the Group controls, in the manner contemplated by IFRS, unit trusts managed by Professional Provident Society Investments Proprietary Limited, even though it holds less than half of the economic interest in some of these funds.

35. MANAGEMENT OF RISKS

35.1 General

The Board has overall responsibility for the Group's systems of internal control and risk management. The Chief Executive and executive management are responsible for the management and implementation of the PPS Group Enterprise Risk Management Framework and Governance Frameworks.

To assist the Board in the execution of its fiduciary duties in regard to risk management, legal and compliance accountabilities, as set out in detail in policies and frameworks adopted by the PPS Group, the **Group Risk Committee** has the following responsibilities:

- assisting the Board in setting risk strategy policies in liaison with management and in the discharge of its duties relating to corporate accountability and associated risk in terms of management assurance and reporting;
- assisting the Board in overseeing the Group's compliance with applicable legal and regulatory requirements, industry standards and the Group's Codes of Conduct;
- monitoring external developments relating to the practice of corporate accountability and the reporting of specifically associated risk, including emerging and prospective impacts;
- providing an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk, also taking account of reports by management, the Group Actuarial Committee and the Group Audit Committee to the Board on all categories of identified risks facing PPS;
- performing the functions as may be prescribed by the Registrar of Long and Short -Term Insurance and in particular, ensuring that PPS has implemented an effective on-going process to identify risk, to measure its potential impact against a broad set of assumptions and then to activate what is necessary to proactively manage these risks and to recommend to the Board, PPS' appetite and tolerance for risk;
- to discharge the specific responsibilities ascribed to the Committee in terms of policies and frameworks adopted by the Group in compliance with Solvency Assessment and Management regulation;
- recommending the risk policy and framework to the Board for approval;
- recommending the risk appetite and tolerance framework to the Board for approval;
- ensuring the establishment of an independent risk management control function and reviewing its effectiveness;
- recommending the risk management plan for approval by the Board and reviewing progress against it;
- approving the combined assurance plan and overseeing all assurance activities;
- annually reviewing the risk bearing capacity of the Group in the light of its reserves, insurance coverage, guarantee funds or other such financial structures for approval by the Board;
- ensuring that regular assessments of the risk management function and risk management system are performed;
- considering, in particular, the management of Information Technology risks;
- considering the Opportunities Register and making recommendations in this regard to the Board; and
- providing feedback to other PPS Boards and committees on identified risks that may be relevant for those particular Boards and committees.

The Board has delegated to the PPS Group Audit Committee an oversight role of financial reporting, accounting, the external auditor, appropriate internal controls and the internal auditors, and regulatory compliance, inter alia to ensure the integrity of reporting and financial controls. The internal control systems continue to be enhanced and developed to safeguard the assets of PPS and to ensure timely and reliable monitoring and reporting. These controls encompass suitable policies, processes, tasks and behaviors with the aim of ensuring compliance with applicable laws and regulations to meet the needs of an ever changing business environment. The PPS **Group Audit Committee's** mandate from the Board is to, *inter alia*:

- ensure compliance with all statutory duties imposed in terms of the Companies Act and, where appropriate, the recommendations of the King Code with regard to the auditors of the Group;
- oversee the preparation of an integrated report annually that conveys adequate information about the operations of the Group and its integrated sustainability and financial reporting;
- ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities;
- review the expertise, resources and experience of the Group's Finance function, and disclose the results of the review in the integrated report;

- oversee internal audit and consider the effectiveness of internal audit at least annually and report to the Board on the assessment from internal audit on the adequacy of the internal controls;
- as an integral component of the risk management process, oversee the financial reporting risks; internal financial controls; IT risks as it relates to financial reporting; and fraud and corruption risk management;
- deal with all aspects of the annual financial statements of the company and the Group and ensure compliance with relevant legislation and, where appropriate, the King Code; make submissions to the board on any matter concerning the Group's accounting policies;
- oversee and monitor financial and internal control, reporting and regulatory compliance; and
- ensure compliance with all statutory requirements in relation to the external auditors including to review the quality and effectiveness of the audit process and assess whether the external auditors have performed the audit as planned.

The following control functions within the Group are responsible for discharging the operations of risk management:

Risk management

- directing and assisting in the co-ordination and monitoring of risk management activities within PPS;
- ensuring adherence to the Risk Management Plan;
- maintaining the Enterprise Risk Management Framework and Plan for approval by the Board in terms of the appropriate international standards (ISO 31000) and the King Code of Governance Principles;
- 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 software solution (CURA) is used for recording and tracking the risk management process in real-time and to ensure that risks are kept on top of mind;
- drive risk management in PPS by promoting awareness of risk management to both management and staff;
- ensure effective risk management training programmes are established;
- assist management with the embedding of risk management in the day-to-day business activities of the Group; and
- ensure that risk management is considered when setting strategic goals and objectives.

Compliance

- monitors and reports on compliance with regulatory requirements;
- monitors that systems and controls are in place to ensure that the Group's exposure is minimised;
- has a risk based compliance monitoring plan/risk matrix;
- coordinates the Group's relationship with its regulators;
- evaluates the impact of forthcoming legislative regulatory changes and provides advice on potential process and control changes required and whether the proposed control will be adequate;
- reports to Group Risk Committee on the status of compliance of the Group; 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 Group Risk Committee and approval at the Group Audit Committee; and
- provides the independent assessment of the effectiveness of management's implementation of the PPS Group Enterprise Risk Management Framework to the Group Risk Committee.

35.2 Insurance product risk management

General

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

The risk under any one insurance contract is the 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 below provides an overview of the types of products and the terms and conditions of life insurance contracts written by the Group:

Type of contract	Terms and conditions
Sickness and permanent incapacity benefit (PPS Provider Policy)	The PPS Provider Policy offers a variety of sickness and incapacity benefit options. The premiums for these benefits are level or age rated premiums and are payable monthly. Premium rates and benefits are not guaranteed and may be revised at the discretion of the insurer. These benefits entitle a policyholder to claim for periods of sickness and incapacity. The amount of cover obtainable is limited by the applicant's annual gross professional income and maximum limits applied by the Company. The sickness benefit continues as long as the member continues to practice their occupation. The sickness and incapacity benefits are non-DPF benefits.
Professional Life Provider (PPS Provider Policy) **PPS Life And Disability Policy**	The PPS Provider policy also offers lump sum life and disability cover for a specified term or whole life. The premiums are payable monthly and either age rated or level may be selected as the premium pattern. PPS Insurance is the risk carrier. The PPS Life and Disability Policy which replaced the previous PPS Life Disability Assurance Scheme, is insured by PPS Insurance and is closed to new business. The previous generation of policies (PPS Life & Disability Assurance Scheme) was classified as being part of a grouped individual policy. The premiums and benefits under both generations of policies are not guaranteed and may be revised at the discretion of the insurer. Reinsurance agreements are in place to reduce the impact on PPS of variability in claims experience. The life and disability benefits are non-DPF benefits.
Professional Health Provider (PPS Provider Policy) **Professional Health Preserver**	These products pay a lump sum benefit according to severity levels on assessment of standard dread disease conditions and physical impairment events. The premiums are payable monthly and are age rated. The Professional Health Preserver is closed to new business. The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer. Reinsurance agreements are in place to reduce the impact on PPS of variability in the claims experience. The dread disease and physical impairment benefits are non-DPF benefits.

Type of contract	Terms and conditions
Professional Disability Provider **(PPS Provider Policy)**	The Professional Disability Provider offers lump sum disability cover for a specified term. At age 66, or earlier retirement (if this is over the age of 60), the Professional Disability Provider converts automatically into a severe illness benefit. This is a benefit that pays a once off lump sum benefit on diagnosis of a severe dread disease (such as a stage 3 or 4 cancer). The premiums are payable monthly and are age rated. The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer. Reinsurance policies are in place to reduce the variability of the claims experience. The disability benefits are non-DPF benefits.
PPS Provider Policy	The PPS Provider Policy contains a DPF component, being the PPS Profit-Share Account. This component continues until retirement, or earlier cancellation of the policy. No premium is payable for the DPF component.
Business Provider (PPS Provider Policy)	The Business Provider Policy provides for the Business Life Provider and the Business Health Provider. The Business Life Provider product provides benefits very similar to those of the Professional Life Provider. The Business Health Provider product provides benefits similar to those of the Professional Health Provider, but tailored to payout for the more severe critical illness and physical impairment conditions only. The premiums and benefits are not guaranteed and may be revised at the discretion of the insurer. Both products are closed for new business. Reinsurance policies are in place to reduce the variability of the claims experience. The policies transfer insurance risk only and do not contain a DPF component.
PPS Education Cover	The Education Cover Policy pays the actual public or private school and university fees of the child beneficiary, up to PPS determined maximums, directly to the education facility at the beginning of the academic year, upon receipt of a valid invoice, in the event of death, disability or Severe illness of the life insured. The premiums and benefits under both generations of policies are not guaranteed and may be revised at the discretion of the insurer. Reinsurance agreements are in place to reduce the impact on PPS of variability in claims experience. The Education Cover benefits are non-DPF benefits.

Type of contract	Terms and conditions
PPS Corporate Endowment	The PPS Endowment and PPS Corporate Endowment afford policyholders the ability to save in a cost effective, transparent and flexible manner. The underlying investments are unit trusts, and no guarantees are offered on these products. The policies do not transfer insurance risk and do not contain a DPF component. These products are available to individuals and corporates respectively.
PPS Living Annuity	The PPS Living Annuity is a compulsory purchase linked living annuity and does not offer risk benefits or investment guarantees. The underlying investments are unit trusts. The policies do not transfer insurance risk and do not contain a DPF component.

The PPS Provider Policy includes a DPF element. The participating nature of these contracts results in the insurance risk being carried by the insured parties. All variations in claims, persistency or termination rates are carried by the insured parties by means of variations in the amounts allocated to the DPF element.

However, the Group continues to manage the insurance risk in order to sustainably provide for the insurance benefits and to grow the DPF benefits available to policyholders.

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to appropriately charge for the insurance risks accepted.

The Group has implemented a comprehensive reinsurance strategy to mitigate the risks of variability in the frequency and severity of claims on different portfolios of insurance contacts. This strategy continues to be effective in reducing the impact on PPS of variability in claims.

The table below provides an overview of the types of products and the terms and conditions of short-term insurance contracts written by the Group:

Type of contract	Terms and conditions
Motor	Covers risks relating to the possession, use or ownership of a motor vehicle. This cover can include risks relating to vehicle accident, theft or damage to third-party property or legal liability arising from the possession, use or ownership of the insured vehicle.
Property	Covers risks relating to the use, ownership, loss of or damage to movable or immovable property other than a risk covered more specifically under another insurance contract.
Liability	Provides cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.
Miscellaneous	Provides cover for risks relating to matters not otherwise defined in Section 1 of the Short-Term Insurance Act, No 53 of 1998.

35.2.1 Insurance contracts – Long-term

(a) Frequency and severity of claims

For contracts where morbidity is the insured risk, the most significant factors that could increase the overall frequency of claims are diseases (such as AIDS), epidemics (such as Cholera and Severe Acute Respiratory Syndrome), economic conditions, abnormal weather conditions, quality of healthcare and wide spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

The Group has comprehensive claims assessing processes and protocols in terms of which all claims received are assessed. Delegation of authority levels are applied to ensure that larger claims and repeat claims are assessed by senior assessors and management, and the forensics team if required, before being paid. The Group also conducts regular claims investigations to monitor experience.

The Group manages these risks through its underwriting strategy. The underwriting strategy ensures that the risks accepted are in line with PPS' risk appetite. Medical risk selection is included in the underwriting protocols. Premium loadings and benefit exclusions may be imposed which reflect the health and medical history of the applicant. The Group has maximum exposure limits in respect of any single life insured. Maximum exposures are determined relative to gross professional income to ensure that policyholders are not over insured. These limits are increased annually in line with expected salary inflation for professionals. Policyholders are reminded each year of their benefits and asked to review these benefits to ensure they are not over insured relative to their income as this may impact on future claims.

In some instances, maximum exposures are not increased annually where not appropriate.

Where appropriate, reinsurance contracts are in place to limit the Group's liability. There is a board approved reinsurance strategy in place, which is regularly reviewed by the Actuarial Committee for its on-going appropriateness.

The table below presents the total insured benefits per month and the average benefit per month per individual life assured on the basic sickness and disability contract.

Group	Total insured monthly benefit R'000	Benefit per month per life Rand
2016	**5 826 770**	**61 635**
2015	5 567 248	55 690

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

The Group has factored the impact of contract holders behaviour into the assumptions used to measure these liabilities (see note 12).

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

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

The Group uses appropriate base tables of standard mortality and morbidity rates. An investigation into the actual experience of the Group over the last year is carried out, to produce a best estimate of the expected morbidity and mortality for the future. The best estimate of future mortality is based on standard industry tables adjusted for the Group's overall experience and where no such table exists, tables are developed specifically on PPS historic experience.

Lapse experience can have a significant impact on the Group. To manage lapse risk, the Group conducts monthly lapse analyses for each of the product lines. Where experience is worse than long-term valuation expected lapse experience management intervention is taken, over and above normal on-going retention efforts to reduce overall lapse and exits.

(c) Risk exposure and concentrations of risk

The following table shows the Group's exposure to insurance risk (based on the carrying value of the long-term insurance liabilities at the reporting date) per category of business. The table also shows the geographical concentration of these risks and the extent to which the Group has covered these risks by reinsurance:

Group 2016 R'000	Non-DPF component of insurance liabilities	DPF component of insurance liabilities	Total
South Africa			
Gross	**3 665 177**	**23 080 499**	**26 745 676**
Net of reinsurance	**3 602 295**	**23 080 499**	**26 682 794**
Namibia			
Gross	**219 346**	**780 513**	**999 859**
Net of reinsurance	**214 284**	**780 513**	**994 797**

Group 2015 R'000	Non-DPF component of insurance liabilities	DPF component of insurance liabilities	Total
South Africa			
Gross	3 803 238	21 404 880	25 208 118
Net of reinsurance	3 814 037	21 404 880	25 218 917
Namibia			
Gross	186 121	730 748	916 869
Net of reinsurance	188 845	730 748	919 593

35.2.2 Insurance contracts – Short-term

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

The Group believes that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to appropriately charge for the insurance risks accepted.

Pricing for the Group's short-term insurance products is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes trended forward to recognise anticipated changes in claims patterns. While claims remain the Group's principal cost, the Group also makes allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance and for a profit loading that adequately covers the cost of the capital.

Underwriting limits are set to ensure that the underwriting policy is consistently applied. Underwriting performance is monitored continuously and the pricing policy is revised accordingly. Risk factors considered as part of the review would typically include factors such as age of the insured person, past loss experiences, past insurance history, type and value of asset covered, security measures taken to protect the asset and major use of the covered item. The Group has the right to re-price and change the conditions for accepting risks on renewal and/or 30 days.

Expenses are monitored by business unit based on an approved budget and business plan. The underwriting strategy aims to ensure that the risks underwritten are well diversified in terms of type and amount of risk, size and geography. Insurance risk is further mitigated by ensuring that reserve and reinsurance risk is adequately managed. Reserve risk relates to the risk that the claim provisions held for both reported and unreported claims as well as their associated expenses may prove insufficient.

The Group currently calculates its short-term insurance technical reserves on two different methodologies, namely the 'percentile approach' and the 'cost-of-capital approach'. The 'percentile approach' is used to evaluate the adequacy of technical reserves for financial reporting purposes, while the 'cost-of-capital approach' is used as one of the inputs for regulatory reporting purposes.

(a) Percentile approach

Under this methodology, reserves are held to be at least sufficient at the 75th percentile of the ultimate loss distribution. The first step in the process is to calculate a best-estimate reserve. Being a best-estimate, there is an equally likely chance that the actual amount needed to pay future claims will be higher or lower than this calculated value. The next step is to determine a risk margin. The risk margin is calculated such that there is now at least a 75% probability that the reserves will be sufficient to cover future claims. For more detail on the reserving techniques used in this approach, refer to note 13.

(b) Cost-of-capital approach

The cost-of-capital approach to reserving is aimed at determining a market value for the liabilities on The Statement of Financial Position. This is accomplished by calculating the cost of transferring the liabilities, including their associated expenses, to an independent third party. The cost of transferring the liabilities off The Statement of Financial Position involves calculating a best-estimate of the expected future cost of claims, including all related run-off expenses, as well as a margin for the cost of capital that the independent third party would need to hold to back the future claims payments.

Two key differences between the percentile and cost-of-capital approaches are that under the cost-of-capital approach, reserves must be discounted using a term-dependent interest rate structure and that an allowance must be made for unallocated loss adjustment expenses.

The cost-of-capital approach will result in different levels of sufficiency per class underwritten so as to capture the differing levels of risk inherent within the different classes. This is in line with the principles of risk-based solvency measurement.

The net claims ratio for the Group, which is important in monitoring short-term insurance risk is summarised below:

Loss history	2016
Net claims paid and provided % of net earned premiums	72,5%

Reinsurance Risk Management

Reinsurance risk is the risk that the reinsurance cover placed is inadequate and/or inefficient relative to the Group's risk management strategy and objectives. The Group obtains third-party short-term reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or the Group's capital. It is believed that the reinsurance programme suits the risk management needs of the business.

The core components of the reinsurance programme comprise:

- A Personal Lines Risk, Clash & Catastrophe Excess of loss treaty with 5 layers. PPS Short-term Insurance retains the first R1 million of each and every claim, excluding reinstatement premiums as a result of a claim against the cover.
- A Personal Lines Liability Insurance and Extended Legal Liability (Personal Umbrella) treaty whereby PPS Short-term Insurance effectively cedes all risk in excess of R1 million to reinsurers by means of a 100% Quota Share Treaty for claims in excess of R1 million.

The PPS Short-term Insurance board approves the reinsurance renewal process on an annual basis. The reinsurance programme is placed with external reinsurers that are registered with the FSB and have a domestic credit rating of no less than A-.

Risk exposure and concentrations of risk

The following table shows the Group's exposure to short-term insurance risk (based on the carrying value of the insurance liabilities at the reporting date) per category of business:

2016	Motor R'000	Property R'000	Liability R'000	Miscellaneous R'000
Gross	42 727	21 129	244	1 120
Reinsurance	(352)	(1 882)	–	–
Net of reinsurance	42 375	19 247	244	1 120

35.2.3 Risk management relating to investment contracts

The Group commenced selling investment products during 2007 through its subsidiary PPS Investments (Pty) Limited ('PPS Investments'). For these policies the investment risk is carried by the policyholders. In PPS Investments there is a risk of reduced income from fees where these are based on the underlying value of the invested assets. There is furthermore a reputational risk if actual investment performance is not in line with policyholders' expectations. These risks are managed through a rigorous multi-manager investment research process applied by PPS Investments' investment managers, which includes both technical and fundamental analysis.

The investment products underwritten by PPS Insurance are the PPS Endowment, the PPS Corporate Endowment and the PPS Living Annuity.

35.3 Financial risk management

The Group is exposed to financial risk through its financial assets, financial liabilities (including investment contracts), reinsurance assets and insurance policy liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk (comprising interest rate risk, equity price risk and foreign currency risk), liquidity risk and credit risk. The participating nature of the contracts issued results in the financial risk being carried by the insured parties by means of variations in the amounts allocated to the DPF element. However, the Group continues to manage the financial risk in order to maximise the benefits available to policyholders.

These financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The primary risk that the Group faces arises from the impact of volatility in equity prices and interest rates on the value of assets and liabilities.

The Group manages exposure to investment volatility as part of an annual review of the assets held to back the insurance policy liabilities using asset liability modeling techniques. The asset-liability risk management framework allows for asset liability modeling to drive the optimal long-term asset class composition. This approach ensures the expected return on assets is sufficient to fund the required return on the risk reserves and to 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 long-term insurance 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 Accounts has vested to the individual, there is a legal right of offset of the Apportionment Account against any outstanding premiums payable. This significantly reduces the credit risk on insurance policyholder recoverables.

The Group only enters into reinsurance agreements with reinsurers registered with the 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+ for long-term insurance and A- for short term insurance.

Cash and cash equivalents are invested with financial institutions holding credit ratings within the guidelines set by the board, similar to corporate and government debt indicated below, as well as restrictions in the Collective Investment Schemes Control Act No. 45 of 2002, as amended. The spread of cash between financial institutions is determined in line with limits 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**	**2016**	2015
Debt securities	**12 821 098**	11 085 371
Reinsurance assets	**75 705**	–
Insurance receivables	**32 829**	28 833
Cash and cash equivalents	**2 232 452**	2 828 664
Other receivables	**291 524**	471 670
Reinsurance receivables	**56 657**	57 610
Total	**15 510 265**	14 472 148

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 Group's total exposure to corporate debt amounted to R12 821 million (2015: R11 085 million) at 31 December 2016. The following represent the major industry sectors to which the Group is exposed as at 31 December 2016:

Group R'm	2016	2015
Government	**5 592**	4 505
Banks	**3 559**	3 210
Utilities	**121**	96
Corporate	**3 549**	3 274
Total	**12 821**	11 085

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 2016 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	**6 100 441**	**4 782 027**	**273 030**	**1 665 600**	**-**	**12 821 098**
Reinsurance assets	**-**	**-**	**73 471**	**2 235**	**-**	**75 706**
Insurance receivables	**-**	**-**	**-**	**-**	**32 829**	**32 829**
Cash and cash equivalents	**308 230**	**1 455 427**	**86 651**	**382 144**	**-**	**2 232 452**
Other receivables	**-**	**-**	**-**	**-**	**291 524**	**291 524**
Reinsurance receivables	**-**	**-**	**56 657**	**-**	**-**	**56 657**

Group 2015 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	4 917 472	3 167 025	2 572 193	428 681	-	11 085 371
Reinsurance assets	-	-	-	-	-	-
Insurance receivables	-	-	-	-	28 833	28 833
Cash and cash equivalents	947 339	1 092 889	519 905	268 531	-	2 828 664
Other receivables	-	-	-	-	471 670	471 670
Reinsurance receivables	-	-	57 610	-	-	57 610

Ageing of financial assets

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

Group 2016 R'000	Neither past due nor impaired	Financial assets that are past due 0 - 2 months	3 - 5 months	More than 5 months	Carrying value
Insurance receivables	**21 233**	**1 302**	**394**	**9 900**	**32 829**
Reinsurance assets	**75 706**	**-**	**-**	**-**	**75 706**
Reinsurance receivables	**53 716**	**2 941**	**-**	**-**	**56 657**
Other receivables	**237 011**	**48 191**	**6 322**	**-**	**291 524**
Cash and cash equivalents	**2 232 452**	**-**	**-**	**-**	**2 232 452**

Group 2015 R'000	Neither past due nor impaired	Financial assets that are past due 0 - 2 months	3 - 5 months	More than 5 months	Carrying value
Insurance receivables	16 966	247	278	11 342	28 833
Reinsurance assets	-	-	-	-	-
Reinsurance receivables	57 610	-	-	-	57 610
Other receivables	450 658	19 197	1 815	-	471 670
Cash and cash equivalents	2 828 664	-	-	-	2 828 664

The Group does not have collateral or other credit enhancements for its credit risk exposure from financial assets and insurance contract assets during the current or prior year.

There are no financial assets where the terms have been renegotiated for the current or prior year.

Individually impaired assets

The analysis of overall credit risk exposure indicates that the Group has receivables from contract holders that are impaired at the reporting date. The assets are analysed below:

Group R'000	Gross 2016	Impairment losses 2016	Net 2016	Gross 2015	Impairment losses 2015	Net 2015
Due from contract holders	**45 929**	**13 100**	**32 829**	41 001	12 168	28 833

Liquidity risk

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

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

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

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

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

Group 2016 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	**23 948 940**	**23 948 940**	**1 228 557**	**3 458 041**	**5 073 715**	**8 712 692**	**5 475 936**
Insurance contract liabilities - non-DPF	**3 816 579**	**(14 240 040)**	**573 499**	**1 561 683**	**728 789**	**(380 100)**	**(16 723 911)**
Short-term Insurance liabilities	**-**	**-**	**15 726**	**737**	**-**	**-**	**-**
Reinsurance payables	**22 270**	**22 270**	**22 270**	**-**	**-**	**-**	**-**
Third-party financial liabilities arising on consolidation of unit trusts	**9 088 757**	**9 088 757**	**9 088 757**	**-**	**-**	**-**	**-**
Investment contract liabilities	**1 464 986**	**1 464 986**	**1 464 986**	**-**	**-**	**-**	**-**
Other financial liabilities	**652 213**	**652 213**	**652 213**	**-**	**-**	**-**	**-**

Group 2015 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	22 223 556	22 223 556	688 540	4 160 230	4 769 202	8 014 534	4 591 050
Insurance contract liabilities – non-DPF	4 002 882	(18 206 869)	441 536	945 308	(37 424)	(1 720 657)	(17 835 632)
Short-term Insurance Liabilities	–	–	–	–	–	–	–
Reinsurance payables	16 562	16 562	16 562	–	–	–	–
Third-party financial liabilities arising on consolidation of unit trusts	7 673 934	7 673 934	7 673 934	–	–	–	–
Investment contract liabilities	1 139 647	1 139 647	1 139 647	–	–	–	–
Other financial liabilities	721 303	721 303	721 303	–	–	–	–

Market risks

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

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

Management of market risk

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

(a) Interest rate risk

Interest rate risk arises primarily from the Group's investments in debt securities 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 2016	**Non-pre- retirement option benefits R'000**	**%**	**Pre-retirement option benefits R'000**	**%**
Local				
Equity	**11 580 126**	**52,3**	**1 099 680**	**33,4**
Fixed interest	**4 142 942**	**18,7**	**1 378 067**	**41,8**
Cash	**1 598 811**	**7,2**	**123 232**	**3,7**
International				
Equity	**4 828 821**	**21,8**	**693 666**	**21,1**
Total	**22 150 700**	**100,0**	**3 294 645**	**100,0**

Group 2015	Non-pre- retirement option benefits R'000	%	Pre-retirement option benefits R'000	%
Local				
Equity	11 488 812	55,3	669 250	24,0
Fixed interest	2 606 653	12,5	1 229 825	44,1
Cash	1 457 973	7,0	327 038	11,7
International				
Equity	5 226 757	25,2	561 917	20,2
Total	20 780 195	100,0	2 788 030	100,0

The assets held to back the non-DPF component of the liabilities similarly reflect the Group's understanding of the risk appetite of the policyholders and the results of an asset liability modeling exercise undertaken during the year. Investment profits or losses arising from the impact of fluctuations in market values of assets and interest rates on the value of assets and non-DPF policy liabilities will be transferred to policyholders by adjusting the allocations made to the DPF component of their benefits.

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	**2016 R'000**	**%**	2015 R'000	%
Local				
Equity	**593 154**	**15,5**	500 469	12,5
Fixed interest	**2 971 921**	**77,9**	3 215 154	80,3
Cash	**30 235**	**0,8**	34 107	0,9
International				
Equity	**221 268**	**5,8**	253 152	6,3
Total	**3 816 578**	**100,0**	4 002 882	100,0

(b) Currency risk

The Group's operations in Namibia created no additional sources of foreign currency risk due to the fact that there is no exchange difference between the Namibian Dollar and the South African Rand.

The asset managers actively manage the currency risk when decisions are made in regard to investing internationally. All international investment returns are shown in US Dollars and the effect of the trading in different currencies is reflected in the investment performance which is measured against an internal benchmark. In terms of legislation, up to 25% of the Group's investments may be invested in foreign currency and hence the Company has less than 25% exposure to currency risk.

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.

(c) Equity price risk

The Group holds a significant portfolio of equities which are subject to price movements. The majority of these assets are held to support contractual liabilities arising from unit-linked insurance contracts, contracts with DPF and investment contracts and therefore the price movements are matched with corresponding movements on contractual obligations.

The exposure to equities is managed to ensure that the Group's internal capital requirements are met at all times, as well as those mandated by the Group's external regulators.

Benchmarks and risk parameters are set against which the Group measures the asset managers. A monthly compliance statement is provided by each asset manager stating their adherence to the investment mandate, and highlighting any deviations and the corrective action to be taken to rectify the deviations. The performance of the assets against benchmarks, and the adherence to mandates, are monitored monthly by management. The asset managers present the performance against benchmarks and adherence to mandates, to the board, on a biannual basis.

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 Profit or loss and other Comprehensive Income.

The only other impact is the change in the investment management fees, which will fluctuate as a percentage of the movement in the assets.

This is also disclosed within the movement in policy liabilities on the Statement of Profit or loss and other Comprehensive Income. Therefore a market risk sensitivity analysis has not been included for this component of the business.

The market risk sensitivity is shown below:

	Contracts with non-DPF Impact on profit/(loss) before movement in insurance policyholder liabilities	
Group	**2016 R'000**	2015 R'000
Interest rate risk		
Lower limit: 8,35% yield	**(1 270 522)**	(1 103 089)
Upper limit: 10,35% yield	**946 563**	696 040

The effect of changes in the net capital value of non-DPF contracts due to market movements are fully absorbed by adjusting the net capital value of DPF contracts resulting in a zero impact on total net capital of the Group.

Assumptions, methodology and limitations of sensitivity analysis

The effects of the specified changes in factors are determined using actuarial and statistical models, as relevant. The level of movements in market factors on which the sensitivity analysis is based were determined based on economic forecasts and historical experience of variations in these factors.

The sensitivity table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the sensitivity analysis is based on the Group's financial position at the reporting date and may vary at the time that any actual market movement occurs. As investment markets move past pre-determined trigger points, management action would be taken which would alter the Group's position.

Underwriting risk: Long-Term Insurance

Underwriting risk is the risk that the actual exposure to mortality, disability and medical risks in respect of policyholder benefits will exceed prudent exposure.

Underwriting risk is controlled by underwriting principles. The underwriting process takes into account actual and prospective mortality, morbidity and the expense experience.

The 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.

Reinsurance inwards: Long-term insurance

A comprehensive, Board approved, reinsurance strategy is in place for the Group. Certain life, disability, dread disease and physical impairment risks are reinsured. The risks to be reinsured have been decided upon by balancing the need to reduce variability of claims experience against the cost of reinsurance. The reinsurers contracted with have been assessed on their ability to provide the Group with product, pricing, underwriting and claims support, as well on as their global credit rating.

Claims risk: Long-term Insurance

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

Products and pricing risk: Long-Term Insurance

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

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

Expense risk

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

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

Business volume risk

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

Data and model risk

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

Capital management

Long-term Insurance

The Group's capital management objectives are:

- To comply with the insurance regulatory capital requirements in the 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	**2016**		2015	
R'000	**South Africa**	**Namibia**	South Africa	Namibia
Capital held	**368 117**	**6 000**	329 844	6 000
Regulatory capital	**139 891**	**4 000**	125 171	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 12) as the policy holders 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 in R38.3 million (2015: R45.1 million) being allocated to accumulated funds.

Short-term Insurance

The Board's policy is to maintain an adequate capital base to protect policyholders' and creditors' interests and satisfy regulators whilst still creating value for shareholders.

The level of accumulated funds required by the Company is determined by the Short-Term Insurance Act 53 of 1998.

The minimum capital requirements must be maintained at all times during the year.

The Group has a level of CAR cover at 1.81 times.

The Group has complied with all externally and internally imposed capital requirements throughout the period.

PPS Collective Investment Scheme Funds managed by PPS Multi-Managers (Pty) Ltd

The Group invests in various registered unit trusts in order to match obligations provided in policyholder contracts.

Each fund has its own legal constitution and operates within a defined fund mandate delegated to the appointed fund manager. Market and credit risks assumed within the assets held are controlled by various protection mechanisms within the mandate and in law. For example, the Collective Investment Schemes Control Act, No 45 of 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.

PPS Investments employs a multi-manager investment approach that is designed to generate acceptable levels of returns at lower than average levels of risk. This is achieved by:

- thorough and ongoing quantitative and qualitative research process of potential managers in the domestic 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.

The unit trust funds which are defined as subsidiaries can be grouped under one manager, namely Professional Provident Society Investments (Pty) Ltd ('PPS Investments'), a fellow Group subsidiary. Described below is the unit trust subsidiary and its respective mandate and objective.

(a) PPS Conservative Fund of Funds

Investment objective

To maximise total portfolio return while outperforming a conservative real return target of CPI + 2% per annum over the medium term.

Investment mandate

This multi-managed fund invests in a number of underlying managers with the specific mandate to employ real return strategies to provide real capital growth. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 40% of the portfolio value.

Typical investments

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

Risk exposure

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

(b) PPS Moderate Fund of Funds

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

Investment mandate
This multi-managed fund invests in a number of underlying managers with the specific mandate to employ real return strategies to provide real capital growth. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 60% of the portfolio value.

Typical investments
The managers invest in fixed instruments such as money market and bonds, as well as local and international equities.

Risk exposure
A moderate fund exposed to credit risk, interest rate risk, local and international equity price risk and currency risk.

(c) PPS Enhanced Yield Fund

Investment objective
To provide an enhanced level of income in excess of a broad short-term fixed interest benchmark.

Investment mandate
This 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.

(d) PPS Flexible Income Fund

Investment objective
To provide investors with a total return with a strong income bias while also seeking to protect capital in terms of bond market index.

Investment mandate
This multi-managed flexible fund invests in a number of underlying managers with the specific mandate to actively manage the fund by investing without prescribed maturity limits. Asset allocation is defensive with exposure to fixed interest instruments, including high-yielding corporate bonds and securities, government bonds, listed property, preference shares and inflation-linked bonds and to the extent as allowed by the Act.

Typical investments
The manager invests in income-yielding fixed instruments such as money market, bonds and preference shares.

Risk exposure
A flexible income fund exposed to credit risk, interest rate risk and currency risk.

(e) PPS Equity Fund

Investment objective
To provide long-term capital growth that exceeds the return provided by a broad equity market index.

Investment mandate
This multi-managed fund invests in a number of underlying managers with the specific mandate to actively manage exposures to domestic listed equities in order to deliver long-term performance.

Typical investments
This multi-manager invests in equities and cash.

Risk exposure
An equity fund exposed to local equity price risk, company specific risk and indirect currency risk.

(f) PPS Balanced Fund of Funds

Investment objective

To maximise total portfolio returns while outperforming a peer-relative benchmark over the medium to long-term.

Investment mandate

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

Typical investments

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

Risk exposure

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

(g) PPS Managed Flexible Fund of Funds

Investment objective

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

Investment mandate

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

Typical investments

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

Risk exposure

A medium to high risk fund, exposed to credit risk, interest rate risk, local and international equity price risk and currency risk. The fund can hold up to 100% offshore, but is expected to be between 40% and 60% invested in international assets.

(h) PPS Global Balanced Fund of Funds

Investment objective

To maximise total portfolio returns while outperforming a composite industry benchmark over the medium to long-term.

Investment mandate

This multi-managed fund invests in a number of underlying managers who invest in a spectrum of international securities with the specific focus on long-term capital and income growth.

Typical investments

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

Risk exposure

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

(i) PPS Balanced Index Tracker Fund

Investment objective

To track the customised PPS Balanced Index, a published multi asset high equity composite index that is diversified across a number of constituent indices, and calculated and published daily by a recognised index compiler.

Investment mandate

This index tracker invests in the type of securities necessary to effectively track the index.

Typical investments

The multi asset, high equity composite index that the PPS Balanced Index Tracker Fund tracks includes local and international equities, domestic bonds, domestic cash and domestic property.

Risk exposure

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

(j) PPS Institutional Multi-Asset Low Equity Fund

Investment objective

Deliver a consistent benchmark beating return over rolling 36-month period, while aiming to minimize capital loss over any 12 month period.

Investment mandate

This institutional multi-managed fund has a focus on capital protection and diversification. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 40% of the portfolio value.

Typical investments

The manager invests in fixed instruments such as money market and bonds, as well as local property and equities.

Risk exposure

A conservative fund exposed to credit risk, interest rate risk, and local equity price risk.

(k) PPS Institutional Bond Fund

Investment objective

To outperform the broad bond market index within defined duration limits relative to the benchmark, with more consistency than a typical bond fund.

Investment mandate

This institutional multi-managed bond fund invests in underlying managers that invests in a spectrum of fixed interest securities with the focus on benchmark relative performance, together with a regular and high level of income.

Typical investments

The portfolio will invest in a spread of listed and unlisted bonds, fixed deposits and other interest-bearing securities. The portfolio may invest in short, intermediate and long-dated securities.

Risk exposure

A bond fund exposed to credit risk, interest rate risk and inflation risk.

(l) PPS Institutional Multi-Asset Flexible Fund

Investment objective

To maximise total portfolio return while outperforming CPI for all urban areas over a rolling three year period. The portfolio has a focus on capital protection and diversification.

Investment mandate

This institutional multi-managed fund invests in a number of underlying managers with a specific mandate to allocate assets based on their best view. Flexible asset allocation provides diversification across all asset classes and sectors, with equity exposure limit to not more than 75% of the portfolio value.

Typical investments

The managers may invest in a flexible combination of listed and unlisted investments in equity, bond, money market and property market.

Risk exposure

A moderate to high risk fund exposed to credit risk, interest rate risk and local equity price risk.

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST ANNUAL FINANCIAL STATEMENTS

Statement of Financial Position

as at 31 December 2016

	Note	Trust 2016 R'000	2015 R'000
ASSETS			
Investment in 100% of the shares issued by subsidiary, PPS Insurance Company Limited, at cost		**10 000**	10 000
Prepayments and receivables from PPS Insurance Company Limited		**4 316**	2 283
Current income tax asset		**596**	126
Cash at bank		**1 450**	1 941
TOTAL ASSETS		**16 362**	14 350
EQUITY AND LIABILITIES			
Accumulated funds	1	**15 820**	13 786
TOTAL EQUITY		**15 820**	13 786
LIABILITIES			
Accruals and value-added tax payable		**542**	564
TOTAL LIABILITIES		**542**	564
TOTAL EQUITY AND LIABILITIES		**16 362**	14 350

Statement of Profit or Loss, other Comprehensive Income and Equity

for the year ended 31 December 2016

	Note	Trust 2016 R'000	2015 R'000
Administration fees from PPS Insurance Company Limited		**10 673**	10 023
Investment income		**-**	1
Total income		**10 673**	10 024
Total expenses		**7 282**	6 446
Trustees fees		**3 725**	3 403
Professional fees		**426**	419
Administration fees		**3 131**	2 624
Surplus before tax		**3 391**	3 578
Tax	2	**1 357**	1 438
Surplus after tax		**2 034**	2 140
Total comprehensive income for the year		**2 034**	2 140
Accumulated funds at the beginning of the year		**13 786**	11 646
Accumulated funds at the end of the year	1	**15 820**	13 786

Statement of Cash Flows

for the year ended 31 December 2016

		Trust	
	Note	**2016 R'000**	2015 R'000
Cash flows from operating activities			
Cash generated from operations		**1 336**	3 449
– Surplus before tax		**3 391**	3 578
– Investment income		**-**	(1)
– Receivables		**(2 033)**	(271)
– Payables		**(22)**	143
Investment income		**-**	1
Tax paid		**(1 827)**	(1 798)
– Tax (receivable)/payable at beginning of year		**(126)**	234
– Current tax as per Statement of profit or loss and other comprehensive income		**1 357**	1 438
– Tax receivable at end of year		**596**	126
Net cash (used in)/from operating activities		**(491)**	1 652
Net (decrease)/increase in cash and bank		**(491)**	1 652
Cash and bank at beginning of year		**1 941**	289
Cash and bank at end of year		**1 450**	1 941

Notes to the Annual Financial Statements

1. EQUITY

Permanent Capital

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

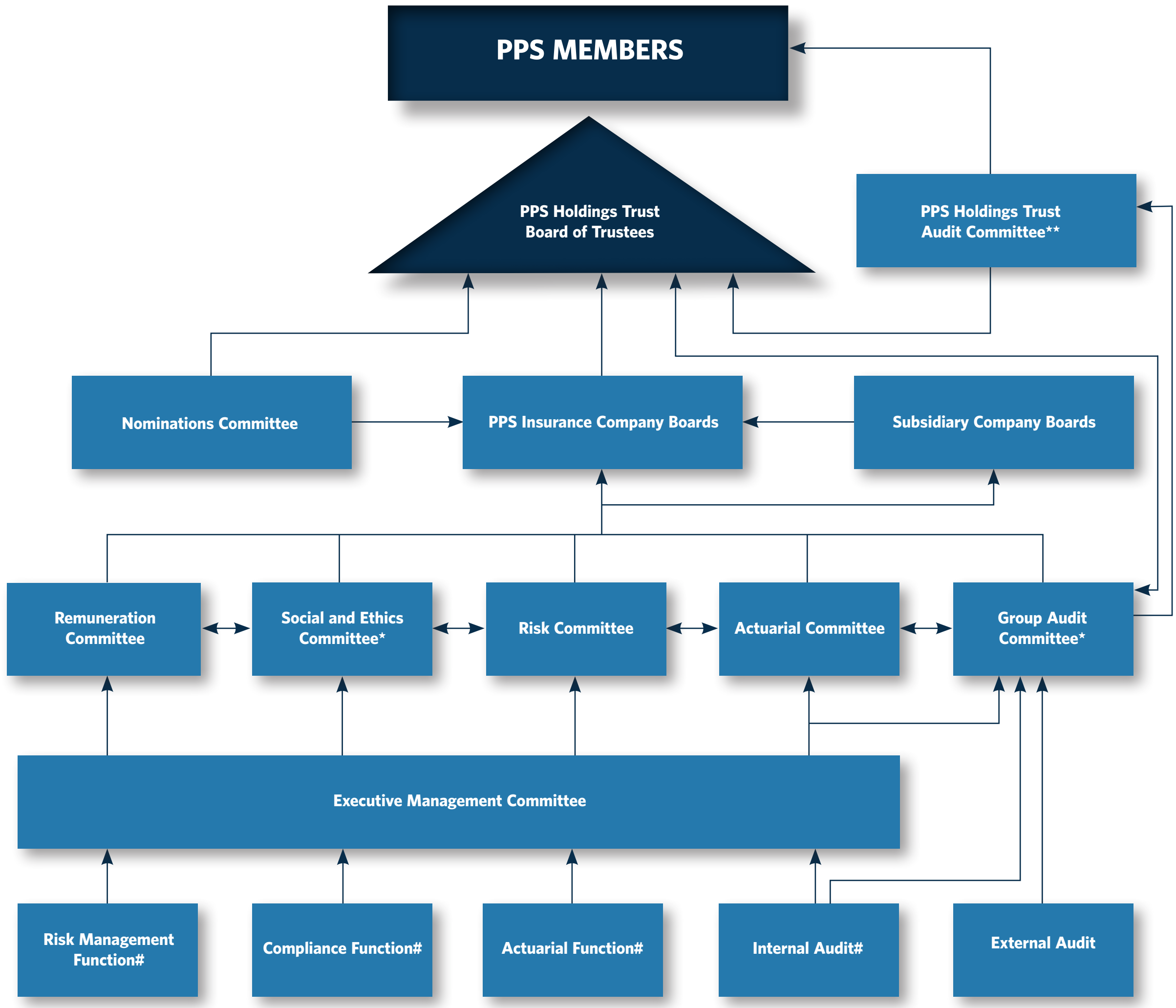
Accumulated funds

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

2. TAX

	Trust	
	2016 R'000	2015 R'000
Current tax		
– Current year tax	**1 357**	1 438
Total tax	**1 357**	1 438
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	**3 391**	3 578
Tax calculated at domestic tax rates applicable to trust profits in South Africa (40%)	**1 357**	1 438
Total tax per Statement of Profit or Loss, other Comprehensive Income and Equity	**1 357**	1 438

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.
# These functions also have direct reporting lines to the appropriate Board Committees.

GOVERNANCE

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

The governance framework consists of three parts being:

- Boards and Board Committees – The composition, governance and structure of the PPS Holdings Trust Board of Trustees, the PPS Insurance Board of Directors, the Boards of Directors of the operating subsidiary companies, with well-defined roles and responsibilities, as well as statutory and other board committees, being the PPS Holdings Trust Audit Committee, the Group Audit, Risk, Social and Ethics, Actuarial, Remuneration and Nominations committees, as well as the Risk & Audit Committees of certain subsidiaries.
- Risk management system – The risk management system includes the following key policies:
  - Enterprise Risk Management Framework;
  - Fit and Proper Policy;
  - Remuneration Policy;
  - Asset-Liability and Investment Management Policy;
  - Reinsurance and Risk Transfer Policy;
  - Financial Risk Policy;
  - Strategic and Operational Risk Policy;
  - Fraud and Corruption Policy and Response Plan.
- Internal control system.

The PPS governance framework was further enhanced 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, its associated risks and is based on key principles as set out in this report.

TRANSPARENT ORGANISATIONAL STRUCTURE

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

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

'FIT AND PROPER'

In terms of BN 158 of 2014 (Governance and Risk Management Framework) and BN 158 of 2015 (Fit and Proper Requirements), the following persons must at all times meet 'Fit and Proper' requirements:

- Trustees and Directors;
- Senior management (CEO and persons reporting directly to the CEO with decision-making powers);
- Heads of Control Functions;
- Public Officers;
- Auditors;
- Significant owners of insurance companies in the PPS Group.

The Fit and Proper Policy adopted by the PPS Group 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 current and emerging material risks and is part of the day-to-day business activities conducted at the PPS Group. The system takes into account the probability, potential impact, and duration of risks and is adapted as the business and the external environment change. The system supports the boards of directors and trustees in meeting their responsibilities relating to the furtherance of the safe and sound operation of the PPS Group and the protection of its members. The objectives of the PPS Group are aligned with its environmental policies. The risk management system takes into account the alignment of sustaining and growing the business while preserving the environment.

The risk management system comprises the following components:

- A clearly defined and documented risk management strategy, which takes into account the overall business strategy and business activities;
- Documented procedures which clearly define the decision-making processes within the framework of the risk management system;
- An adequate written overall risk management policy and component policies, consistent with the risk management strategy;
- Appropriate processes, procedures and tools for identifying, measuring, monitoring, managing and reporting (including communication and escalation mechanisms) on all material risks;
- Reports to inform senior management, the Group Risk Committee and the boards of directors and trustees on all material risks faced by the PPS Group and on the effectiveness of the risk management system itself;
- Processes for ensuring adequate contingency planning, business continuity and crisis management.

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

INTERNAL CONTROL SYSTEM

The internal control system consists of the totality of strategies, policies, procedures and controls to assist the boards of directors, trustees and managing executives in the fulfilment of their oversight and management responsibilities.

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

- Business objectives of 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, as well as related risk management policies and procedures, determined by the boards of directors and trustees;
- Applicable laws and regulations.

The internal control system comprises the following components:

- Appropriate 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;
- Key business procedures and policies;
- Written inventory of key procedures and policies and of the key controls in place in respect of such procedures and policies;
- Training in respect of relevant components of the internal control system, particularly for employees in positions of trust or responsibility, or carrying out activities that have significant risk;
- 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, fits within the overall governance framework and complements the risk identification, risk assessment and risk management activities;
- 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 managing executives for controlling the operations;
- Delegations of authority, approved by the boards, which are regularly reviewed by the boards of directors.

CONTROL FUNCTIONS

In terms of Board Notice 158 of 2014, insurance companies must have certain control functions in place. The following four key control functions are in place within the two PPS Group insurance companies:

- Risk management;
- Actuarial;
- Compliance;
- Internal audit.

The control functions are structured to include the necessary authority, independence, resources, expertise, access to the boards and all relevant employees, as well as information to enable them to exercise their authority and perform their responsibilities. Where appropriate, the Heads of Internal Audit and Actuarial Control functions 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 functions are performed by Deloitte in terms of outsourced arrangements. Mr C van der Riet of Deloitte serves as the Head of the Actuarial Control function for PPS Insurance, while Mr J van der Merwe of Deloitte serves as the Head of the Actuarial Control function for PPS Short-Term Insurance. The Internal Audit Control function is performed by KPMG in terms of an outsourced arrangement. Ms I Fourie, of KPMG, serves as the Head of the Internal Audit Control function for both insurance companies. The Compliance and Risk Management Control functions are performed in-house and may only be outsourced with the approval of the Registrar. Mrs T Boesch serves as the Head of the Compliance and Risk Management Control functions for PPS Insurance. For PPS Short-Term Insurance, Mr H van Heerden serves as the Head of the Risk Management Control Function, while Mr J Andrews serves as the Head of the Compliance Control function.

The existence of the control functions does not relieve the boards of directors and trustees or 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, managing executives and heads of control functions to manage PPS soundly and prudently. The Actuarial, Audit, Risk, Remuneration and Social and Ethics committees fulfil a key role in ensuring good corporate governance within the PPS Group. Processes are reviewed regularly to ensure compliance with legal obligations and codes of governance.

GOVERNANCE DEPARTMENTS

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

GROUP COMPANY SECRETARIAT

The Chairmen of the Boards of PPS Holdings Trust, PPS Insurance and its subsidiaries, the board sub-committees and the Group Chief Executive are assisted by the Group Company Secretary in ensuring good corporate governance and adherence to the PPS Group's governance policies. By working closely with the respective board Chairmen and the Chief Executive of the PPS Group, the Group Company Secretary ensures that the agendas for board, board committee and the Group Executive Committee meetings address the key business and governance issues and that the boards are adequately informed to enable them to discharge their duties and make informed decisions. He is responsible for the determination of the corporate calendar to ensure all required matters are addressed by the respective boards and committees. The Group Company Secretary also has a significant role in supporting the Group Nominations Committee in the discharge of its duties to ensure that the PPS Group boards and committees are appropriately constituted, comply with Fit and Proper requirements, have appropriate Terms of Reference and are evaluated and trained.

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

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

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

GROUP LEGAL

All legal advisers employed in such capacity report to the Head of Legal and Compliance and are 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 PPS Group boards are ultimately accountable for compliance with applicable laws and adopted non-binding rules, codes and standards. The primary objective of the Compliance function is to assist the boards with this responsibility. Management is committed to ensuring that the business is run with integrity, complies with all regulatory and best practice requirements and is conducted in accordance with the highest ethical standards. The appointed Compliance Officer is responsible for the effective implementation of the Compliance 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 a decentralised compliance function. Group Compliance is the central department, whose main role is the development of the compliance policy (the boards determine such 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 which have their own compliance functions that are responsible for implementing the PPS Group policies, monitoring the activities of the business units and reporting the status of compliance to Group Compliance. PPS Investments, PPS Healthcare Administrators, PPS Short-Term Insurance and Professional Provident Society Insurance Company (Namibia) Limited (PPS Namibia) have their own business unit compliance officers with oversight by Group Compliance for compliance related matters. Group Compliance assumes direct responsibility for compliance risk management in PPS Insurance and its divisions.

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

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

GROUP RISK MANAGEMENT

The taking of risk, in an appropriate manner, is an integral part of business. Success relies on optimising the trade-off between risk and reward, following an integrated risk management process and by considering all internal and external risk factors. 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 the ISO 31000 standard on Risk Management, SAM Pillar II Risk Management requirements and King IV. The PPS Group Enterprise Risk Management Framework is aligned to such standards.

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

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

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

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

An opportunity assessment methodology has been implemented by PPS. The purpose of using this methodology is to identify opportunities and the material risks associated with new opportunities, 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 PPS Holdings Trust Audit Committee, the Group Risk, Audit, Actuarial, Remuneration and Social and Ethics Committees, as well as the Risk & Audit Committees of subsidiaries make reports and recommendations to the boards, enabling them to discharge their responsibilities in regard to risk management.

MANAGEMENT OF FRAUD AND CORRUPTION RISK AND CONFIDENTIAL REPORTING

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

PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT

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

INFORMATION TECHNOLOGY (IT) GOVERNANCE

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

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

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

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

REGULATORY DEVELOPMENTS

During the year under review, there was a significant volume of proposed legislation and amendments to existing legislation, all of which will impact 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 Financial Services Board (FSB) introduced a new methodology for statutory reporting of assets, liabilities and solvency capital requirements for South African insurers, aligned to the European Union Solvency II standard. The official target date for SAM implementation is 1 July 2017. The SAM project at the FSB has entered the final phase of implementation. The initial parallel run commenced in July 2014 and will continue in 2017. PPS continues to use its project team to ensure the successful implementation of SAM and the PPS Group is fully prepared for the anticipated 1 July 2017 implementation.

The PPS Group participated in the FSB's consultative process preceding the implementation of SAM and numerous SAM returns have subsequently been submitted, including Quantitative Impact Studies, Annual Returns, Quarterly Returns and an Own Risk and Solvency Assessment (ORSA). Based on these, PPS Insurance would remain financially sound under the SAM framework and is well-positioned to deal with SAM requirements. The challenge faced is around embedment to ensure that measures designed are entrenched in decision-making and the day-to-day operations of the business.

2. 'Twin Peaks'

The 'Twin Peaks' model is a strategy to divide the financial regulatory system into two regulatory regimes. These two regimes will be headed by a Prudential Authority and a Financial Sector Conduct Authority. 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.

2015 saw the introduction into Parliament of the Financial Sector Regulation Bill, which is an overarching Bill that confirms the mandates and structures of both regulators and includes TCF principles (phase 1). National Treasury has published an updated Financial Sector Regulation Bill based on matters raised by the Standing Committee on Finance ('SCOF') hearings in July 2016 in Parliament. The updated Bill sets out Treasury's responses to the comments of the SCOF and various stakeholders. The Bill is intended to give effect to the decision to shift to a twin peaks model of financial sector regulation for South Africa.

3. Draft long-term and short-term insurance regulations on demarcation between health policies and medical schemes

The third draft Regulations were published in October 2016, which will be finalised and gazetted after taking account of the required parliamentary process. The draft Regulation is intended to take effect from 1 April 2017. The Regulations specify which types of contracts are regulated under the Long-term Insurance

Act, No 52 of 1998 and Short-term Insurance Act, No 53 of 1998, as health policies and accident and health policies, and accordingly excluded from the Medical Schemes Act, No 131 of 1998, despite such contracts meeting the definition of the business of a medical scheme. The Regulations seek to clearly demarcate the responsibility for supervision of medical schemes and health insurance products, and ensure that health insurance products do not undermine the medical scheme environment. The draft Regulations do not allow insurers to continue to provide Primary healthcare insurance policies, but allow insurers to continue to provide Medical Expense Shortfall policies and Non-medical Expense cover as a result of hospitalisation policies in a manner that complements medical schemes, subject to strict underwriting and marketing conditions.

4. Retail distribution review (RDR)

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

The RDR paper sets out a total of 55 specific proposals that cover:

- Types of services provided by intermediaries;
- Relationships between product suppliers and intermediaries;
- Intermediary remuneration.

RDR will have a significant impact on how product suppliers and financial service providers conduct their business. During December 2016 the FSB published a status update document on progress with implementing the proposals of the RDR. The document provides an overview of the status of specific regulatory instruments that will give effect to the RDR Phase 1 proposals and an update on current thinking for proposals in Phases 2 and 3. RDR Phase 1 is being given effect to through proposed amendments to the following regulatory instruments:

- The General Code of Conduct for Authorised Financial Services Providers and Representatives, issued under the Financial Advisory and Intermediary Services Act ("FAIS Act"), No 37 of 2002;
- Fit and Proper Requirements for Financial Services Providers, issued under the FAIS Act;
- Regulations under the FAIS Act; and
- Regulations and Policy Protection Rules under the Long-term Insurance Act, No 52 of 1998 and Short-term Insurance Act, No 53 of 1998.

5. Financial intelligence centre (FIC) Amendment Bill

The Draft Financial Intelligence Centre Amendment Bill was released during 2015. The Bill follows National Treasury's and the FIC's Consultation Paper on the Review of the Financial Intelligence Centre Act (FICA) which was released in May 2014. The Bill will amend the Financial Intelligence Centre Act and aims to enhance South Africa's ability to combat financial crimes by proposing measures to address threats to the stability of South Africa's financial system posed by money laundering and terrorist financing. The Bill also seeks to more closely align South Africa's anti-money laundering and counter terrorist financing legislation with international standards. During 2016 the FIC published an Issue Paper on guidance required to implement the FIC Amendment Bill as well as proposed amendments to Schedules 1 to 3 of the Act to widen the scope thereof to include certain businesses or institutions which, in the FIC's view, may present a higher risk of being used to facilitate money laundering or terror financing activities. Amongst the list of new possible inclusions are persons who provide trust and/or company services and short-term insurers.

6. Insurance bill

On 17 April 2015, the National Treasury and the FSB released the Draft Insurance Bill 2015 for public comment. The Bill has been in development for the past six years. The Bill gives effect to the SAM framework and provides a consolidated legal framework for the prudential supervision of the insurance sector that is consistent with international standards for insurance regulation and supervision. It is envisaged that the Bill will replace those sections of the Long-term Insurance Act and the Short-Term Insurance Act that relate to prudential supervision.

The objective of the Bill is to establish a legal framework for insurers and insurance groups that:

- Facilitates the monitoring and preserving of the safety and soundness of insurers;
- Enhances the protection of policyholders and potential policyholders;
- Increases access to insurance for all South Africans;
- Contributes to the stability of the financial system in general.

The Bill was tabled in Parliament on 28 January 2016. Comments on the Bill are to be submitted to the SCOF by 3 February 2017 and it is envisaged that its promulgation is imminent.

7. King IV

A new version IV of the Code on Corporate Governance issued by the King Committee (King IV) was launched on 1 November 2016. The King Reports, of which this is the fourth iteration, contain the philosophy, principles and leading practices for corporate governance in South Africa. King IV differs from King III in several ways. The Code is now integrated into the Report, with a clear differentiation between principles and practices, which is intended to make it user friendly. King III's "apply or explain" principle has been elevated to "apply and explain". King III's 75 principles have been distilled to 16 principles in King IV, with an additional 17th principle which is applicable to institutional investors such as retirement funds and insurance companies. Disclosure on the application of King IV is effective in respect of financial years starting on or after 1 April 2017, but immediate transition is encouraged. King IV replaces King III in its entirety.

8. FAIS Fit and Proper Requirements

In October 2016, commentary was received on the first publication of the proposed fit and proper requirements published in 2015 and the Registrar, where appropriate, incorporated these comments into the current proposed amendments to the fit and proper requirements published in 2016. The amendments proposed in the first publication did not address those aspects of the competency framework that were under review. The proposed amendments are designed to meet the consumer protection objectives of the FAIS Act, 2002, and to ensure clarification of applicable requirements. The Registrar clarified that the honesty and integrity of a juristic person must be demonstrated through its corporate behaviour and through the personal behaviour of its directors and key individuals.

9. Long- and Short-Term Insurance: proposed replacement of policyholder protection rules

A proposed replacement of the Policyholder Protection Rules (PPRs) under the Long-term Insurance Act and Short-term Insurance Act was published in December 2016. The amendments to the Regulations and the PPRs are steps towards Government's move to a 'Twin Peaks' model of regulation and the implementation of the TCF approach to improved customer protection in the financial services industry. The conduct of business reforms that will be given effect to through the PPRs are: RDR, enhanced disclosure requirements facilitating TCF, improved claims management processes, rules regarding advertising, brochures and similar communications, enhanced complaints management processes, premiums reviews, minimum data governance requirements and no negative option marketing. The intended effective date of the regulatory changes is 1 May 2017, with appropriate transitional provisions, where necessary.

10. Long- and Short-Term Insurance: Regulations

Proposed amended regulations under the Long-term Insurance Act and Short-term Insurance Act were published in December 2016. The conduct of business reforms that will be given effect to through the regulations are: limitations on persons who may enter into binder agreements, as well as prescribed maximum fees to be paid to binder holders and other outsourced relationships, general principles for determining remuneration, minimum data governance requirements and reducing maximum causal event charges from between 30% and 40% down to 5%, over time. The intended effective date of the regulatory changes is 1 May 2017, with appropriate transitional provisions, where necessary.

GOVERNANCE OF THE PPS GROUP BY THE BOARDS

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

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

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

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

BOARD COMPOSITION, APPOINTMENTS AND SUCCESSION PLANNING

The PPS Holdings Trust Board is comprised of 20 trustees, all of whom are independent non-executive trustees. In terms of its trust deed, PPS Ordinary Members may nominate and elect 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, at the invitation of the PPS Holdings Trust Board. The PPS Holdings Trust Board has co-opted a further two members for their specific skills, as provided for in the trust deed. All PPS Holdings Trust Board members are appointed for specific terms and re-appointment is not automatic.

In turn, the PPS Holdings Trust Board appoints the Board members of PPS Insurance, which in turn, appoints the Board members of its subsidiaries.

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

The Group Nominations Committee considers trustee and director succession planning and makes appropriate recommendations to the PPS Group boards. This encompasses an evaluation of the skills, knowledge and experience required to add value to the PPS Group, as well as compliance with Fit and Proper requirements, for all trustees and directors, including PPS Holdings Trust trustees standing for re-election, as well as new candidates standing for election for the first time. All elections of trustees of PPS Holdings Trust are made in terms of a formal and transparent procedure and are subject to approval by the members of PPS Holding Trust at the annual general meeting. The PPS Holdings Trust Board has considered and is of the view that the PPS Group boards and committees are appropriately constituted to meet statutory requirements and the PPS Group's needs. Amendments to the trust deed of PPS Holdings Trust are being proposed for approval by members at the 2017 annual general meeting, as set out in the notice of the meeting, aimed at limiting the number of trustees to 20, which is the current number of trustees serving on the PPS Holdings Trust Board.

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

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

Mr E A Moolla has held the position of Chairman of the PPS Holdings Trust Board of Trustees since 2012. Dr S N E Seoka has held the position of Deputy Chairman of the PPS Holdings Trust Board of Trustees since 2012. In terms of PPS Insurance's Memorandum of Incorporation, the Chairman and Deputy Chairman of PPS Holdings Trust are appointed *ex officio* to the PPS Insurance Board and form part of the eight PPS Holdings Trust trustees nominated annually by the PPS Holdings Trust Board to serve on the PPS Insurance Board.

CHAIRMAN AND DEPUTY CHAIRMAN OF THE PPS INSURANCE BOARD OF DIRECTORS

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

CHIEF EXECUTIVE OF THE PPS GROUP

Mr M J Jackson retired as Chief Executive of the PPS Group on 25 July 2016 and was succeeded by Mr I J Smit. Mr Jackson will continue to serve on certain subsidiary Boards (as indicated in this report) in a non-executive capacity.

BOARD CHARTERS AND TRUST DEED

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

The trust deed of the PPS Holdings Trust incorporates key elements of the Companies Act, 2008, and its trustees have similar responsibilities and duties to those of company directors, including the statutory responsibilities imposed on directors by the Companies Act. Certain amendments to the trust deed are being proposed for approval by PPS' members at the 2017 annual general meeting, as set out in the notice of the annual general meeting, which forms part of this Integrated Report.

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

FUNCTIONING OF THE BOARDS AND BOARD COMMITTEES

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

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

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

The Chief Executive has overall responsibility for the management of the PPS Group's business and its operations, in line with the policies and strategic objectives set and agreed by the PPS Insurance Board. The Chief Executive reports to the PPS Insurance Board on the performance of the PPS Group and any other material matters at regular board meetings which are scheduled six times per annum. He reports on how the PPS Group has performed against key indicators following the monthly meetings of the 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. Additional meetings of the boards are scheduled as may be required.

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

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

BOARD PERFORMANCE ASSESSMENT

The Group Nominations Committee is mandated by the PPS Holdings Trust and PPS Insurance Boards to institute formal and comprehensive Board evaluation programmes for the assessment of the PPS Group's trustees and directors in accordance with regulatory requirements. In terms of these programmes the boards of PPS Holdings Trust and PPS Insurance, as well as the individual trustees and directors serving on those boards are evaluated with the assistance of independent consultants in accordance with best local and international governance and board evaluation practices, including the Fit and Proper requirements stipulated by the FSB's Board Notice 158. The results of the evaluations are reported to the boards and the identified areas for improvement are incorporated into the board training programme.

RETIREMENT OF ELECTED BOARD MEMBERS BY ROTATION

One-third of the 12 elected trustees of the PPS Holdings Trust, who are not representatives of a professional association or co-opted, and are appointed in terms of clause 5.3.1 of the Trust Deed, and who are in office as at the date of the annual general meeting, are subject to retirement by rotation at least every three years, but may stand for re-election at the annual general meeting, subject to the approval of the Group Nominations Committee. The names and abbreviated curricula vitae of the trustees who are retiring by rotation and are eligible for re-election, as well as for new nominees standing for election, at the forthcoming annual general meeting to be held on 22 May 2017, are stated in the notice of annual general meeting commencing on page 153 and up to page 163 of this Integrated Report.

In accordance with the amendments to the trust deed approved by members at the 2016 annual general meeting, PPS Holdings Trust trustees who are representatives of professional associations and trustees who are co-opted to the Board are now also appointed for a three-year term, after which they are required to retire, but may be nominated or co-opted for re-appointment by the PPS Holdings Trust Board.

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 2016, none of the directors/trustees had disclosed any interest in contracts or arrangements entered into by the PPS Group. The Chief Executive is required to disclose any appointments to non-PPS Group Boards. Directors and trustees are required to submit and maintain written declarations of interests, which are presented to the respective boards at each board meeting and board members are required to acknowledge in writing that they have read the written disclosures submitted.

PROFESSIONAL INDEMNITY INSURANCE

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

TRUSTEES OF THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST

Trustee	Age*	Qualification	Classification	Term of Office
Mr E A Moolla (Chairman) Independent Non-executive	66	B Iuris	Elected for a three-year term	Appointed 11 March 2002 Ends AGM 2019
Dr S N E Seoka (Deputy Chairman) Independent Non-executive	61	B Pharm, PhD, FPS	Co-opted for a three-year term	Appointed 15 August 2005 Ends AGM 2019
Adv T N Aboobaker Independent Non-executive	63	BA, LLB	Nominated for a three-year term(1)	Appointed 4 December 2006 Ends AGM 2017
Dr N G Campbell Independent Non-executive	66	BDS	Elected for a three-year term	Appointed 9 March 2002 Ends AGM 2017
Ms D L T Dondur Independent Non-executive	50	B Acc (Hons), B Compt, CA(SA), MBA	Nominated for a three-year term(2)	Appointed 6 July 2011 Ends AGM 2017
Mr J A B Downie Independent Non-executive	58	B Sc, MBA, CFP	Co-opted for a three year term	Appointed 15 April 2010 Ends AGM 2019
Dr D P du Plessis Independent Non-executive	62	B Sc (QS), MBA, DBA	Elected for a three-year term	Appointed 3 June 2013 Ends AGM 2019
Mr C Erasmus Independent Non-executive	65	B Sc, FIA, FASSA	Appointed ex officio	Appointed 1 June 2015 Ends N/A
Dr M J Grootboom Independent Non-executive	65	MB ChB, FCS (SA) ORTH, CIME (ABIME)	Elected for a three-year term	Appointed 1 June 2015 Ends AGM 2018
Mr U D Jivan Independent Non-executive	54	BA, LLB	Elected for a three-year term	Appointed 8 June 2009 Ends AGM 2018
Mr I Kotzé Independent Non-executive	60	B Pharm	Nominated for a three-year term(3)	Appointed 27 August 2001 Ends AGM 2017
Dr C M Krüger Independent Non-executive	51	MB ChB, M Prax Med, M Pharm Med	Elected for a three-year term	Appointed 21 June 2004 Ends AGM 2018
Mr N C Nyawo Independent Non-executive	37	B Com (Hons), CA(SA), MBA	Elected for a three-year term	Appointed 2 June 2014 Ends AGM 2019
Dr J Patel Independent Non-executive	64	B Chd	Nominated for a three-year term(4)	Appointed 8 June 2009 Ends AGM 2017
Mr P Ranchod Independent Non-executive	61	B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing	Elected for a three-year term	Appointed 6 June 2011 Ends AGM 2017

Corporate governance report (continued)

Trustee	Age*	Qualification	Classification	Term of Office
Mr V P Rimbault Independent Non-executive	53	B Sc Eng (Mech)	Nominated for a three-year term(5)	Appointed 12 September 2011 Ends AGM 2017
Prof M W Sonderup Independent Non-executive	48	B Pharm, MB ChB, FCP (SA)	Nominated for a three-year term(6)	Appointed 29 March 2012 Ends AGM 2017
Mr B R Topham Independent Non-executive	45	B Compt (Hons), B Proc, LLM, CA(SA)	Elected for a three-year term	Appointed 2 June 2014 Ends AGM 2019
Mr S Trikamjee Independent Non-executive	38	B Com (Hons), CA(SA)	Elected for a three-year term	Appointed 8 June 2009 Ends AGM 2018
Prof H E Wainer Independent Non-executive	55	B Acc, CA(SA), Registered Auditor	Appointed *ex officio*	Appointed 1 June 2015 Ends N/A

**As at 30 March 2017*

N/A = Not applicable

Nominated by:

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

PPS INSURANCE BOARD

Director	Age*	Qualification	Appointed
Mr C Erasmus (Chairman) Independent Non-executive	65	B Sc, FIA, FASSA	Appointed 19 February 2007
Prof H E Wainer (Deputy Chairman) Independent Non-executive	55	B Acc, CA(SA), Registered Auditor	Appointed 30 November 2009
Dr N G Campbell Independent Non-executive	66	BDS	Appointed 21 July 2003
Ms D L T Dondur Independent Non-executive	50	B Acc (Hons), B Compt, CA(SA), MBA	Appointed 24 June 2013
Mr J A B Downie Independent Non-executive	58	B Sc, MBA, CFP	Appointed 13 June 2013
Dr C M Krüger Independent Non-executive	51	MB ChB, M Prax Med, M Pharm Med	Appointed 29 June 2015
Mr E A Moolla Independent Non-executive	66	B Iuris	Appointed 24 February 2003
Mr N G Payne Independent Non-executive	57	B Com (Hons), CA(SA), MBL	Appointed 25 June 2007
Mr P Ranchod Independent Non-executive	61	B Compt (Hons), CA(SA), MBL, H Dip Business Data Processing	Appointed 24 June 2013
Dr S N E Seoka Independent Non-executive	61	B Pharm, PhD, FPS	Appointed 26 June 2006
Mr S Trikamjee Independent Non-executive	38	B Com (Hons), CA(SA)	Appointed 29 June 2015
Mr I J Smit (Chief Executive) (Executive)	49	B Com (Hons), FASSA	Appointed 25 July 2016
Mr N J Battersby (Executive)	49	B Sc, B Com (Hons), MBA, CFP	Appointed 28 September 2016
Mrs T Boesch (Financial Director) (Executive)	42	B Com (Hons), CA(SA)	Appointed 4 May 2009
Mr M J Jackson (Chief Executive) (Executive) (Retired 25 July 2016)	67	BA (Hons), MA	Appointed 29 September 2003
Mr C K de Klerk (Executive Director: Actuarial and Technical) (Resigned 15 April 2016)	45	B Sc, FIA, FASSA	Appointed 27 June 2011

* *As at 30 March 2017*

DIRECTORS/TRUSTEES OF SUBSIDIARIES AND AFFILIATES:

PPS Insurance Company Namibia	**PPS Healthcare Administrators**
Director	**Director**
Dr E Maritz (Chairman)	Mr M J Jackson (Chairman)
Adv N Bassingthwaighte	Mrs T Boesch
Mr C K de Klerk (Resigned 15 April 2016)	Dr N G Campbell
Mr M J Jackson (Retired 25 July 2016)	Dr H D P Hoffman (Chief Executive)
Mr W J Mouton (Appointed 20 June 2016)	Dr C M Krüger
Dr O J Oosthuizen	Mr I J Smit (Appointed 1 September 2016)
Mr I J Smit (Appointed 1 September 2016)	Mr S J van Molendorff (Chief Financial Officer)
Mr W A V J Vermeulen (Chief Executive)	

Corporate governance report (continued)

PPS Short-Term Insurance	PPS Investments	PPS Investment Administrators	PPS Multi-Managers	PPS Management Company
Director	**Director**	**Director**	**Director**	**Director**
Mr M J Jackson (Chairman)	Mr E A Moolla (Chairman)	Mr N J Battersby (Chairman)	Mr N J Battersby (Chairman)	Mr N J Battersby (Chairman)
Mrs T Boesch	Mr N J Battersby (Chief Executive)	Mr C K de Klerk (Resigned 15 April 2016)	Mr C K de Klerk (Resigned 15 April 2016)	Mr C K de Klerk (Resigned 15 April 2016)
Mr C K de Klerk (Resigned 15 April 2016)	Mrs T Boesch	Mr A J Fraser (Appointed 16 April 2016)	Mr D Crosoer	Mr A J Fraser (Appointed 16 April 2016)
Mr C Erasmus	Mr C K de Klerk (Resigned 15 April 2016)			Mr S M Gerber
Mr N Hoosen (Chief Executive)	Mr M J Jackson			Mr A J Woolfson
Ms F Jabaar#	Mr P J Koekemoer			
Mr A H Nortje# (Resigned 27 January 2017)	Mr N G Payne			
Mr P D V Rademeyer#	Mr A C Pillay			
Mr P Ranchod#	Mr I J Smit (Appointed 1 September 2016)			
Mr I J Smit (Appointed 1 September 2016)				

Appointed 4 February 2016

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

PPS Property Fund Trust	PPS Foundation[3]	PPS Educational Trust[3]	PPS Training Academy[1]	PPS Academy Holdings[2]
Trustee	**Trustee**	**Trustee**	**Director**	**Director**
Mr I J Smit (Chairman) (Appointed 1 September 2016)	Dr S N E Seoka (Chairman)	Dr S N E Seoka (Chairman)	Dr S N E Seoka (Chairman)	Dr S N E Seoka (Chairman)
Mr M J Jackson (Retired 25 July 2016)	Mrs L A Dlamini	Adv T N Aboobaker	Mrs L A Dlamini	Mrs L A Dlamini
Mr N J Battersby (Appointed 2 August 2016)	Mr P Ranchod	Mrs L A Dlamini	Dr D P du Plessis	Adv T N Aboobaker
Mrs T Boesch	Mr N C Nyawo	Dr D P du Plessis	Dr M J Grootboom	
Mr C K de Klerk (Resigned 15 April 2016)		Dr M J Grootboom		
Mr V Schroeder				

3 Registered 19 March 2016 | *3 Registered 19 March 2016* | *1 Incorporated 19 July 2016* | *2 Incorporated 5 August 2016*

PPS Retirement Annuity Fund	PPS Beneficiaries Trust
Trustee	**Trustee**
Mr J A B Downie (Chairman)	Mr S Trikamjee (Chairman)
Mrs R G Govender (Deputy Chairman)	Ms D L T Dondur
Ms D L T Dondur	Dr D P du Plessis
Mr H P du Toit	
Adv T J Ferreira (Appointed 1 January 2016)	
Mr U D Jivan	
Dr S N E Seoka	
Mr B R Topham	
Mr S Trikamjee	

* *As at 30 March 2017*

Plexus Properties	PPS Property Fund (Pty) Ltd
Director	**Director**
Mr M J Jackson (Retired 25 July 2016)	Mr M J Jackson (Retired 25 July 2016)
Mrs T Boesch	Mrs T Boesch
Mr C K de Klerk (Resigned 15 April 2016)	Mr C K de Klerk (Resigned 15 April 2016)
Mr I J Smit (Appointed 1 September 2016)	Mr I J Smit (Appointed 1 September 2016)

MEETINGS AND ATTENDANCE

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

The PPS Holdings Trust	6 Apr 2016	14 Jun 2016	29 Jun 2016 *	28 Sep 2016	30 Nov 2016
Mr E A Moolla (Chairman)	✓	✓	✓	✓	✓
Dr S N E Seoka (Deputy Chairman)	✓	✓	✓	✓	✓
Adv T N Aboobaker	✓	✓	AP	✓	✓
Dr N G Campbell	✓	✓	✓	✓	✓
Ms D L T Dondur	✓	AP	✓	✓	✓
Mr J A B Downie	✓	✓	✓	✓	✓
Dr D P du Plessis	✓	✓	AP	AP	AP
Mr C Erasmus	✓	✓	✓	✓	✓
Dr M J Grootboom	✓	✓	AP	✓	✓
Mr U D Jivan	✓	✓	✓	✓	✓
Mr I Kotzé	✓	✓	✓	✓	✓
Dr C M Krüger	✓	✓	✓	✓	✓
Mr N C Nyawo	✓	✓	✓	✓	✓
Dr J Patel	✓	✓	✓	✓	✓
Mr P Ranchod	✓	✓	AP	✓	✓
Mr V P Rimbault	✓	✓	AP	✓	✓
Prof M W Sonderup	AP	✓	✓	AP	✓
Mr B R Topham	✓	✓	✓	✓	✓
Mr S Trikamjee	✓	✓	✓	✓	✓
Prof H E Wainer	✓	✓	✓	✓	✓

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

PPS Insurance Company Limited	24 Feb 2016	4 Apr 2016	20 Jun 2016	29 Jun 2016 *	1 Sep 2016	26 Sep 2016	28 Nov 2016
Mr C Erasmus (Chairman)	✓	✓	✓	✓	✓	✓	✓
Prof H E Wainer (Deputy Chairman)	✓	✓	✓	✓	✓	✓	✓
Mr N J Battersby (Appointed 28 September 2016)	N/A	N/A	N/A	N/A	N/A	N/A	✓
Mrs T Boesch	✓	✓	✓	AP	✓	✓	✓
Dr N G Campbell	✓	✓	✓	✓	✓	✓	✓
Mr C K de Klerk (Resigned 15 April 2016)	✓	✓	N/A	N/A	N/A	N/A	N/A
Ms D L T Dondur	✓	✓	AP	✓	✓	✓	✓
Mr J A B Downie	✓	✓	✓	✓	✓	✓	✓
Mr M J Jackson (Retired 25 July 2016)	✓	✓	✓	✓	N/A	N/A	N/A
Dr C M Krüger	✓	✓	✓	✓	✓	✓	✓
Mr E A Moolla	✓	✓	✓	✓	✓	✓	✓
Mr N G Payne	✓	✓	✓	✓	✓	✓	✓
Mr P Ranchod	✓	✓	✓	AP	✓	✓	✓
Dr S N E Seoka	✓	✓	✓	✓	AP	✓	✓
Mr I J Smit (Appointed 25 July 2016)	N/A	N/A	N/A	N/A	✓	✓	✓
Mr S Trikamjee	✓	✓	✓	✓	✓	✓	✓

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

BOARD COMMITTEES

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

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

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

PPS HOLDINGS TRUST STANDING BOARD COMMITTEES

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

- PPS Holdings Trust Audit Committee;
- Group Nominations Committee.

PPS INSURANCE STANDING BOARD COMMITTEES

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

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

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

The composition, roles, responsibilities and attendance at meetings of the TAC and GAC are set out in the Audit Committees' report on pages 56 to 59 of this Integrated Report.

GROUP RISK COMMITTEE (GRC)

Members

Mr N G Payne (Chairman)

Mr C Erasmus

Mr M J Jackson (retired 25 July 2016)

Mr I J Smit (appointed 1 September 2016)

The role of the GRC is to assist the board in discharging its fiduciary duties regarding risk management within the PPS Enterprise Risk Management and Governance Frameworks, which includes:

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

The GRC comprises two independent non-executive PPS Insurance directors, who are risk management specialists, and the Chief Executive. The GRC is chaired by an independent non-executive director. The GRC is scheduled to meet at least four times a year. The non-executive members of the GRC are also members of the GAC. The internal auditors and Heads of Group Compliance and Risk Management are present at each meeting, when reports are tabled outlining the progress in terms of the risk management framework, internal audit plans and an overview of the PPS Group's risk profile. The GRC is satisfied that the risk assessments, responses and interventions are effective. The GRC is also responsible for the statutory compliance monitoring functions and makes reports to the GAC and Group Social and Ethics Committee on risk matters pertaining to those committees.

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

Group Risk Committee	9 Mar 2016	6 June 2016	8 Sep 2016	7 Nov 2016
Mr N G Payne (Chairman)	✓	✓	✓	✓
Mr C Erasmus	✓	✓	✓	AP
Mr M J Jackson (Retired 25 July 2016)	✓	✓	N/A	N/A
Mr I J Smit (Appointed 1 September 2016)	N/A	N/A	✓	✓

N/A = Not applicable
AP = Apology

GROUP ACTUARIAL COMMITTEE (AC)

Members

Mr C Erasmus (Chairman)

Mr N G Payne

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 Group Companies' 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 considering actuarial assumptions and experience, product pricing and design, valuation results and risk metrics and reporting guidelines and practices adopted by the Heads of Actuarial Control and the Company Actuaries as well as other actuarial matters as applicable to PPS Insurance and any of its subsidiaries operating a life or short-term insurance licence.

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

- To assist the boards in fulfilling their oversight responsibilities regarding:
  - the accuracy and integrity of the actuarial statements;
  - the compliance with actuarial, legal and regulatory requirements;
  - the performance of the Actuarial functions of PPS Insurance and PPS Short-Term Insurance.
- To assist the PPS Insurance, PPS Namibia and PPS Short-Term Insurance Boards in executing their fiduciary duties to policyholders.
- To provide a sounding board for the Heads of Actuarial Control and the Company Actuaries in making recommendations to the boards and to consider, for tabling at board meetings, the recommendations of the Heads of Actuarial Control and the Company Actuaries.

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

Group Actuarial Committee	22 Feb 2016	6 Jun 2016	8 Sep 2016	1 Dec 2016
Mr C Erasmus (Chairman)	✓	✓	✓	✓
Mr N G Payne	✓	✓	✓	✓
Prof H E Wainer	✓	✓	✓	✓

GROUP REMUNERATION COMMITTEE (REMCO)

Members

Mr N G Payne (Chairman)

Mr C Erasmus

Mr E A Moolla

Prof H E Wainer

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

The PPS Group is committed to a remuneration philosophy that is applied consistently across the group and focuses on rewarding consistent and sustainable individual, team and corporate performance. The remuneration policy underpins the reward strategy and is key to the PPS Employee Value Proposition. Taking due cognisance of the market and the competitive financial services sector, REMCO is responsible for developing a remuneration philosophy and remuneration policies and practices that aim to set appropriate remuneration levels which enable PPS to attract, engage, motivate, reward and retain executives, senior managers, key talent and other competent staff, with the appropriate values. The remuneration policy forms an integral part of PPS' corporate strategy and risk profile and maintains a sustainable balance between short-term and long-term value creation, building on PPS' long-term responsibility towards its stakeholders, namely members, employees, society, and other stakeholders.

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

- is aligned to the PPS Group's strategy, values and goals and the interests of members, staff and other stakeholders;
- retains key skills to promote short-term performance objectives and long-term value creation;
- is consistent with the PPS Group's risk appetite and does not induce excessive or inappropriate risk-taking;
- is consistent with and promotes sound and effective risk management;

- achieves the most effective returns for total employee spend;
- addresses diverse employee needs within and across different business units;
- appropriately balances the interests of members, operational and strategic requirements and providing attractive and appropriate remuneration packages for executive Directors, executives, senior management and employees.

REMCO's duties also include:

- ensuring that the mandates of remuneration committees, remuneration policies and practices of subsidiaries of the group are aligned to the group remuneration philosophy;
- the approval of the average annual percentage increases to guaranteed packages of staff;
- the approval of all short-term and long-term incentive scheme designs as well as any amendments thereto;
- the approval of recommended payments and allocations to be made in terms of any short-term and long-term incentive scheme;
- ensuring that the remuneration policy is appropriate considering the desired culture, size of the PPS Group, its organisational structure and the complexity of its activities. This policy forms part of the PPS Enterprise Risk Management Framework and component policies.

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

REMCO is mandated with responsibility for the determination of the remuneration of the non-executive trustees and directors of the PPS Group for recommendation to the respective boards for approval, and ultimate approval by the respective entities' members by special resolution at the respective annual general meetings, in advance of making payment of such remuneration to the board members. Non-executive directors/trustees are remunerated on the basis of annual retainers, as well as attendance fees for each meeting attended. Non-executive directors/trustees do not participate in the PPS Group's long-term or short-term incentive schemes.

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

Group Remuneration Committee	10 Mar 2016	18 May 2016	14 Sep 2016
Mr N G Payne (Chairman)	✓	✓	✓
Mr C Erasmus	✓	✓	✓
Mr E A Moolla	✓	✓	✓
Prof H E Wainer	✓	✓	✓

GROUP NOMINATIONS COMMITTEE (GNC)

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

Members

Mr E A Moolla (Chairman)

Mr C Erasmus (Deputy Chairman)

Dr N G Campbell

Dr C M Krüger

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

The GNC annually considers the continued service of board members with a period of appointment in excess of nine years and is satisfied that such board members still meet the requirements for independence.

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

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

Group Nominations Committee	9 Mar 2016	28 Apr 2016	31 May 2016	29 Jun 2016	22 Aug 2016
Mr E A Moolla (Chairman)	✓	✓	✓	✓	✓
Mr C Erasmus (Deputy Chairman)	✓	✓	✓	✓	✓
Dr N G Campbell	✓	✓	✓	✓	✓
Dr C M Krüger	✓	✓	✓	✓	✓
Dr S N E Seoka	✓	✓	✓	✓	✓

GROUP SOCIAL AND ETHICS COMMITTEE (SEC)

Particulars of the composition, role and responsibilities of the SEC and attendance at meetings are set out in the SEC's report on pages 60 to 61 of this Integrated Report.

GROUP EXECUTIVE COMMITTEE (GROUP EXCO)

Members

Mr I J Smit (Chairman) (Group Chief Executive) (Appointed 25 July 2016)

Mr V E Barnard (Group Company Secretary)

Mr N J Battersby (Chief Executive: PPS Investments)

Mrs T Boesch (Group Chief Financial Officer)

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

Mr C K de Klerk (Executive Director: Actuarial and Technical and Executive: Life Broker) (resigned 15 April 2016)

Ms L A Dlamini (Group Executive: Human Resources)

Mr R Govenden (Executive: Human Resources) (resigned 1 October 2016)

Dr H P D Hoffman (Chief Executive: PPS Healthcare Administrators)

Mr N Hoosen (Chief Executive: PPS Short-Term Insurance)

Mr E G Joubert (Group Executive: Marketing and Stakeholder Relations)

Mr J N Marsden (Executive: Life Advisory) (resigned 1 November 2016)

Dr D Stott (Executive: Medical Standards and Services) (resigned as a member of Group Exco 1 October 2016)

Ms Z Saungweme (Executive: Digital and Social Media) (resigned 15 February 2017)

Mr N J Coetzee (Executive: Internal Distribution) (appointed 1 October 2016)

Mr W J Mouton (Executive: External Distribution) (appointed 1 October 2016)

Mr D Semwayo (Executive: Actuarial and Technical) (appointed 1 October 2016)

Mr M J Jackson (Chairman) (former Group Chief Executive) (retired 25 July 2016)

Composition and meeting procedures

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

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

Administrative information

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST AND PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY LIMITED

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

PROFESSIONAL PROVIDENT SOCIETY INSURANCE COMPANY (NAMIBIA) LIMITED

Principal place of business	18 Robert Mugabe Avenue Windhoek Namibia Windhoek
Postal address	PO Box 1407 Windhoek, Namibia
Web address	www.pps.com.na

HEAD OF ACTUARIAL CONTROL FUNCTION AND STATUTORY ACTUARY OF PPS INSURANCE AND PPS NAMIBIA

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

HEAD OF ACTUARIAL CONTROL FUNCTION OF PPS SHORT-TERM INSURANCE

(in terms of the Short-term Insurance Act)
Mr J van der Merwe

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
Webber Wentzel
90 Rivonia Road
Sandton, Johannesburg, 2196, South Africa

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

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

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

Allan Gray South Africa (Pty) Limited
1 Silo Square, V&A Waterfront
Cape Town, 8001, South Africa

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

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

Action required by members in regard to the 2017 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, 22 May 2017 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.

It is proposed to amend the current Trust Deed of The Professional Provident Society Holdings Trust in regard to the constitution of the PPS Holdings Trust Board. Accordingly, the Notice of Annual General Meeting incorporated in this Integrated Report includes a special resolution for approval by members authorising the proposed amendment of the Trust Deed and sets out the reasons for the proposed amendment.

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 165 of this Integrated Report (please also refer to the notes to the form of proxy) and forwarding it to one of the following addresses or via facsimile or email, to be received by the Trust Secretary by no later than 18:00 on Wednesday, 17 May 2017:

Marked for the attention of the Trust Secretary

Physical address
6 Anerley Road
Parktown
Johannesburg

Postal address
PO Box 1089
Houghton
2041

Telephone
011 644 4200

Facsimile
011 644 4641

Email
Companysecretary@pps.co.za

Notice to the Members of the Annual General Meeting

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST

(Registration number: IT312/2011)
('the Trust')

Notice is hereby given that the seventh annual general meeting ('the meeting') of the members of the Trust will be held on Monday, 22 May 2017 at 18:00, in the PPS Indaba Centre, 6 Anerley Road, Parktown, Johannesburg, for the following purposes:

1. **To adopt, by ordinary resolution, the annual financial statements for the year ended 31December 2016, including the reports of the trustees and the auditors of the Trust.**
2. **To reappoint, by ordinary resolution, PricewaterhouseCoopers Inc. as the auditors of the Trust.**
3. **To pass the following special resolution approving the amendment of the deed of trust constituting the Trust ("Trust Deed"):**

   "RESOLVED THAT the Members of the Trust hereby, in terms of clauses 12.2.3 and 31.1.3 of the existing deed of trust constituting the Trust, being the Second Amended and Restated Trust Deed ("Trust Deed"), hereby approve the amendment of the Trust Deed, with effect from the end of the AGM at which this resolution is adopted but subject to the Registrar of Long-term Insurance confirming in terms of clause 31.1.4 of the Trust Deed that he does not object to the amendment, by:

   - the replacement of the words "twenty-five" in the first line of clause 5.1 of the Trust Deed with the word "twenty";
   - the replacement of the word "twelve" in the first line of clause 5.3.1 of the Trust Deed with the word "ten"; and
   - the replacement of the words "the number nearest to, but not less than, one-third of their aggregate number, shall retire from office" in clause 7.2.1.1 of the Trust Deed with the words "the whole number nearest to, but less than, one-third of their aggregate number, shall retire from office"."

   ### EXPLANATORY NOTE ON THE AMENDMENT OF THE TRUST DEED

   It is proposed to amend the current Trust Deed of the Trust in regard to the constitution of the Board of Trustees.

   Clause 5.1 of the Trust Deed currently authorises a maximum aggregate number of twenty-five trustees, of which up to twelve (approximately half of the aggregate number) may be elected trustees in terms of clause 5.3.1. It is now proposed to reduce the maximum aggregate number in clause 5.1 to twenty trustees in order to streamline the Board, it being noted that in fact the Board is currently only composed of twenty trustees.

   As a consequence of reducing the overall maximum size of the Board and in order to maintain the proportionality in terms of which half of the trustees will be elected trustees, the maximum number of elected trustees in clause 5.3.1 will be reduced from 12 to 10.

   A consequence of reducing the number of elected trustees to ten would be that, pursuant to the requirement in clause 7.2.1.1 for at least one-third (rounded up to the nearest whole number) of the elected trustees to retire by rotation every year, four out of 10 elected trustees would have to retire every year. However, that proportion is deemed to be excessive and it is therefore proposed that the requirement will in future be for at least one-third (rounded down to the nearest whole number) of the elected trustees to retire by rotation every year. This will mean that three out of ten elected trustees will have to retire every year. (For the sake of completeness it is noted that, in terms of clause 7.2.1.3 of the Trust Deed, any trustee who has been in office for three years at the date of an AGM will also have to retire even though this would result in more than one-third of the Board retiring.) These provisions for staggered rotation of the elected trustees are aligned with the recommendations of the King IV Report on Corporate Governance.

   The above proposed amendment of the Trust Deed has been approved by the Board in terms of clause 31.1.2 of the Trust Deed and, in terms of clause 12.2.3 requires the approval of resolution number 3 by at least 75% of the votes cast by members present at the annual general meeting. The proposed amendment of the Trust Deed is also subject to the approval of the Registrar of Long-term Insurance in terms of clause 31.1.4 of the Trust Deed.

4. **To elect and appoint trustees, by ordinary resolutions, in place of those trustees retiring in accordance with the Trust Deed which established and governs the Trust ('Trust Deed').**

   Dr N G Campbell, Dr M J Grootboom, Mr P Ranchod and Mr S Trikamjee retire by rotation at the meeting in terms of the Trust Deed and, with the exception of Dr N G Campbell, 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:

   4.1 Dr M J Grootboom

   4.2 Mr P Ranchod

   4.3 Mr S Trikamjee

In addition, the following candidates have been nominated for election and appointment as trustees of the Trust in terms of the Trust Deed:

4.4 Ms A Chowan

4.5 Ms C Flemming

4.6 Mr T J Mphela

4.7 Ms P Natesan

4.8 Mr M Pillay

(Abbreviated biographical details of the persons referred to above are set out on pages 156 to 163 of this Integrated Governance Report).

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. There are currently 10 elected trustees, of whom four are required to retire by rotation in terms of clause 7.2.1 of the current Trust Deed, following which there will be six elected trustees in office. If clause 5.3.1 of the Trust Deed is amended as proposed above, a maximum of 10 trustees may be appointed by the members in general meeting. If clause 5.3.1 of the Trust Deed is not amended as proposed above, a maximum of 12 trustees may be appointed by the members in general meeting. As a result, depending on whether clause 5.3.1 is so amended, there will be either four or six vacancies and there are eight nominees for these vacant positions (including the trustees who retire by rotation and who offer themselves for re-election and appointment). Each candidate will be voted upon by a separate resolution. In terms of the Trust Deed, if the number of persons approved by such resolutions exceeds the number of vacancies (being four or six), 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 candidates receiving the highest number of favourable votes.

5. **To elect the Audit Committee of the Trust by ordinary resolution. The following trustees, who meet the requirements of paragraph 26.1 of the Trust Deed, nominated by the Group Nominations Committee, have offered themselves for election:**

   5.1 Ms D L T Dondur

   5.2 Mr E A Moolla

   5.3 Mr P Ranchod

6. **To approve, by special resolution, the following remuneration of the trustees for the period 1 July 2017 to 30 June 2018[1]:**

   6.1 remuneration of the chairman, comprising a retainer of R396 000 and an attendance fee of R17 000 per meeting;

   6.2 remuneration of the deputy chairman, comprising a retainer of R264 000 and an attendance fee of R12 750 per meeting;

   6.3 remuneration of the co-opted members of the board of trustees, comprising a retainer of R189 000 and an attendance fee of R8 500 per meeting;

   6.4 remuneration of the remainder of the members of the board of trustees, comprising a retainer of R132 000 and an attendance fee of R8 500 per meeting;

   6.5 remuneration of the chairman of the Trust Audit Committee, being an attendance fee of R20 900 per meeting;

   6.6 remuneration of the members of the Trust Audit Committee, being an attendance fee of R10 450 per meeting;

   6.7 remuneration of the chairman of the Group Nominations Committee, being an attendance fee of R21 300 per meeting; and

   6.8 remuneration of the members of the Group Nominations Committee, being an attendance fee of R10 650 per meeting.

   [1] *Exclusive of VAT.*

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.

PROXIES

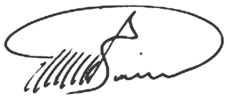
Any member who is entitled to attend and vote at the meeting may appoint a proxy (who need not be a member of the Trust) to attend, speak and on a poll to vote or abstain from voting in his/her stead.

A form of proxy is included in this Integrated Report on pages 165 to 166 and is also available for downloading from www.pps.co.za. **The form of proxy is accompanied by notes indicating the requirements for its completion. Forms of proxy which do not comply with these requirements will be rejected.**

Forms of proxy must be delivered at one of the following addresses physically or via facsimile or email, to be received by, and marked for the attention of, the Secretary, by no later than 18:00 on Wednesday, 17 May 2016 (please note that additional requirements apply to proxies submitted in terms of a Power of Attorney or Order of Court, as set out in the notes to the Proxy Form):

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

By order of the board of trustees



V E Barnard
Trust Secretary

The Professional Provident Society Holdings Trust

30 March 2017

Abbreviated *curriculum vitae* **for nominated candidate**

DR MZUKISI JULIUS GROOTBOOM

Date of birth

19 September 1951

Profession

Orthopaedic Surgeon

Tertiary qualifications

- MB ChB (1979)
- FSC (SA) ORTH
- CIME (ABIME)
- Specialist in Orthopaedics and qualified as an Orthopaedic Surgeon (1987)

Current positions

- Private Practice in Durban as an orthopaedic surgeon (since 1992)
- Chairman of South African Medical Association (SAMA) (since 2014), member of SAMA (since 1997)
- Director of Afrisun KZN (Pty) Ltd
- Director of Dolcoast Investments (Pty) Ltd
- Director of Yakhisizwe Investments (Pty) Ltd
- Director of Joint Medical Holding Ltd
- Foundation for Professional Development
- PPO Serve
- Trustee of the PPS Holdings Trust
- Trustee of the PPS Educational Trust
- Director of the PPS Training Academy (Pty) Ltd
- Councillor and Member of the World Medical Association
- Member of the Institute of Directors

Former positions

- Founder Member of the National Medical and Dental Association and Deputy Secretary (1989 to 1990)
- Consultant Orthopaedic Surgeon at the King Edward VIII Hospital (1988 to 1990)
- Held various positions at KZNC Branch of SAMA (President for two terms) and National level including the Chair of the Private Practice Committee

Abbreviated *curriculum vitae* **for nominated candidate**

MR PANKAJKUMAR RANCHOD

Date of birth

4 January 1956

Profession

Chartered Accountant

Tertiary qualifications

- B Compt (Hons) (1981)
- CA(SA) (1981)
- MBL (***cum laude***) (1989)
- H Dip Business Data Processing
- Certified Director (Institute of Directors South Africa) (2010)

Current positions

- Independent Business and Management Consultant
- Trustee and Audit Committee Member of the PPS Holdings Trust (since 2011)
- Director and Audit Committee Member of the Board of PPS Insurance Company Ltd (since 2013)
- Director and Chairman of the Risk and Audit Committee of the Board of PPS Short-Term Insurance Company Ltd
- Independent Non-executive Chairman and Member of the Risk and Capital Management Committee and Chairman of Social, Ethics and Transformation Committee of the South African Bank of Athens Ltd
- Non-executive Director, Member of the Audit Committee and Chairman of the Social and Ethics, Risk and Capital Committees of AIG South Africa Limited and AIG Life South Africa Ltd
- Member of the South African Institute of Chartered Accountants
- Member of the Institute of Directors South Africa

Former positions

- Non-executive Director and Chairman of the Audit and Risk Committee of Juta and Company Ltd (2008 to 2012)
- Non-executive Director and Member of the Audit and Risk Committee of Huysamer International Holdings (2007 to 2011)
- Non-executive Director of The South African National Youth Orchestra (2009 to 2015)
- Executive Director and Chairperson of the Audit and Risk Committee of Visual International Holdings (2014 to 2016)
- Director: Strategy and Finance (Home Loans) at Standard Bank of South Africa Ltd (2001 to 2003)
- Executive Head: Insurance Services at Santam (2003 to 2008)

Abbreviated *curriculum vitae* **for nominated candidate**

MR SHAYLEN TRIKAMJEE

Date of birth

9 November 1978

Profession

Chartered Accountant

Tertiary qualifications

- B Com (Acc) (2000)
- B Com (Acc) (Hons) (2001)
- CA(SA) (2005)

Current positions

- Client Solutions Sector Lead Principal at Barclays Africa Group
- Non-executive Director of the PPS Insurance Company Ltd
- Trustee of the PPS Holdings Trust
- Chairman of the PPS Beneficiaries Trust
- Trustee of the PPS Retirement Annuity Fund
- Member of the South African Institute of Chartered Accountants

Former positions

- Business Manager/Chief of Staff CIB Risk at Barclays Africa Group (2014 to 2016)
- Credit Analyst Mining and Project Finance at Barclays Africa Group (2013 to 2014)
- Vice-President of South African Resources at Merrill Lynch South Africa (2005 to 2010)
- Chairman of the Saxonwold Body Corporate (2011 to 2013)
- Vice-Chairman – Durban and District Society (2003 to 2004)
- District Commissioner at the Durban Central Scouts Association
- Owner Manager of Business in the Hospitality Industry (2010 to 2012)
- Trainee Accountant at Grant Thornton (2002 to 2005)

Abbreviated *curriculum vitae* **for nominated candidate**

MS ADILA CHOWAN

Date of birth

16 August 1974

Profession

Chartered Accountant

Tertiary qualifications

- B Acc (1995)
- B Acc (Hons) (1996)
- CA(SA) (2000)

Current positions

- Contractor to the Department of Public Works
- Board Member of Legal Aid South Africa
- Audit Committee Member of Legal Aid South Africa
- Audit Committee Member of the South African Maritime Safety Authority (SAMSA)
- SAMSA Risk Committee Chairperson
- Member of the South African Institute of Chartered Accountants (SAICA)
- Member of the SAICA Disciplinary Committee
- Member of the Tax Court

Former positions

- Board Member of Goscor (Pty) Ltd
- Board Member of Bobcat (Pty) Ltd
- Board Member of Petrosa (SOC) Ltd
- Board Member of Strategic Fuel Fund (SOC) Ltd
- Board Member of African Exploration (SOC) Ltd
- Board and Audit Committee Member of Petroleum Agency (SOC) Ltd
- Trustee of Imperial Pension Fund
- Trustee of Central Energy Fund (Pension Fund)
- Trustee of Central Energy Fund (Provident Fund)

Abbreviated *curriculum vitae* **for nominated candidate**

MS CHARMEL DIANE FLEMMING

Date of birth

3 March 1983

Profession

Chartered Accountant

Tertiary qualifications

- B Com (Acc) (***cum laude***) (2005)
- B Com (Acc) (Hons) (2006)
- CA(SA) (2009)

Current positions

- Senior Accountant at De Beers Consolidated Mines (Pty) Ltd (since 2014)
- Non-executive Director of Fresh Bread Ministries (since 2016)
- Trustee of the De Beers Benefit Society Medical Aid, Kimberley (since 2014)
- Trustee of the De Beers Pension Fund, Kimberley (since 2014)
- Audit and Risk Committee member of the De Beers Pension Fund (since 2012)
- Member of the African Women Chartered Accountants (since 2008)
- Member of the South African Institute of Chartered Accountants (since 2009)
- Member of the Institute of Directors of South Africa (since 2015)
- Audit and Risk Committee of the National Museum, Bloemfontein (since 2012)

Former positions

- Accountant at De Beers Consolidated Mines (Pty) Ltd (2009 to 2014)
- Trainee Accountant at KPMG Incorporated, Bloemfontein (2006 to 2008)
- Business Support Accountant (Ore extraction) at De Beers Consolidated Mines (Pty) Ltd (2009)
- Director of Conquest for Life, NGO, Johannesburg (2012 to 2017)
- Council Member and Pension Fund Trustee of the National Museum, Bloemfontein (2012 to 2015)

Abbreviated *curriculum vitae* **for nominated candidate**

MR TEBOGO JONES MPHELA

DATE OF BIRTH

7 August 1972

PROFESSION

Aviation Operations, Strategy and Projects Expert

TERTIARY QUALIFICATIONS

- B Com (2010)
- ICAO Professional Management "PM" (Concordia University, Canada) (2012)
- Manage-Mentor Management Programme (Harvard) (2013)
- MBA (2014)
- MBA Additional Elective: Business in Emerging Markets (2014)
- International Civil Aviation Organisation (ICAO) Certified AVSEC Auditor (2014)
- Board Core Leadership Programme (Gordon Institute of Business Science) (2015)

CURRENT POSITIONS

- Head: Airports and Airlines Operations (SA Civil Aviation Authority) (since 2005)
- Member of the Aviation Security Professional Managers Forum (since 2012)
- Member of the Black Management Forum (BMF) (since 2013)
- Member of the Institute of Directors in Southern Africa (IoDSA) (since 2013)
- BMF Member of Policy and Research Expert Sub-committee (since 2017)

FORMER POSITIONS

- AVSEC Auditor (South African Airways) (2000 to 2005)
- Financial Officer (South African Airways) (1997 to 2000)
- Chairperson of the Board of Trustees (Medshield Medical Scheme) (2014 to 2016)
- Chairperson of the Forum of Subcommittee Chairpersons, Member of Finance, Investment and Operations Subcommittee and Member of Human Resources and Remuneration Subcommittee (Medshield Medical Scheme) (2014 to 2016)

Abbreviated *curriculum vitae* **for nominated candidate**

MS PARMI NATESAN

Date of birth

6 August 1979

Profession

Chartered Accountant

Tertiary qualifications

- B Com (Acc) (***cum laude***) (2002)
- B Com (Acc) (Hons) (2003)
- CA(SA) (2006)

Current positions

- Executive: Centre for Corporate Governance at the Institute of Directors in Southern Africa (IoDSA) (since 2014)
- Member of Executive Committee at the IoDSA (since 2015)
- Member of Board of Directors, Social and Ethics and Investment Committees at the IoDSA (since 2015)
- Permanent invitee to Audit and Risk, Nominations and Remuneration Committees at the IoDSA (since 2015)
- Member of the Nominations Committee of the South African Institute of Professional Accountants (since 2013)
- Member of the South African Institute of Chartered Accountants (since 2006)
- Member of the IoDSA (since 2010)
- Member of the King Committee on Corporate Governance (since 2011)
- Member of the King IV Task team (since 2014)
- Member of the Code for Responsible Investing in South Africa (CRISA) Committee (since 2014)
- Member of the Global Network of Director Institutes Policy Committee (since 2012)
- Member of the Institute of Directors UK (since 2015)
- Member of the IoDSA Corporate Governance Network (since 2011)
- Member of the IoDSA Sustainable Development Forum (since 2011)
- Member of the IoDSA Remuneration Committee Forum (since 2014)
- Member of the IoDSA Audit Committee Forum (since 2008)
- Member of the Public Sector Audit Committee Forum (since 2012)
- Member of the Anti-Intimidation and Ethical Practices Forum (since 2014)
- Member of the Integrated Reporting Committee of South Africa (since 2014)
- Member of the Chartered Director (SA) Exam Committee (since 2014)
- Member of the 30 Percent Club Steering Committee (since 2016)

Former positions

- Senior Governance Specialist at the IoDSA (2010 to 2014)
- Senior Manager Technical at KPMG (2007 to 2010)
- Audit Manager at KPMG (2005 to 2006)

Abbreviated *curriculum vitae* **for nominated candidate**

MR MANGLIN PILLAY

Date of birth

31 March 1976

Profession

Business Executive
Civil, Environmental Engineer

Tertiary qualifications

- HDE (Education) (2000)
- B Sc Eng (Civil, Environmental)(2002)
- MBA (2015)

Current positions

- CEO, South African Institution of Civil Engineering (since 2010)
- Member of the Institute of Directors South Africa
- Member of the South African Institution of Civil Engineering (SAICE)
- Registered with the Engineering Council of South Africa (ECSA) as a Professional Engineer

Former positions

- Assistant Business Unit Manager, Bosch Stemele (Pty) Ltd (2009 to 2010)
- Director and Civil, Environmental Engineer, SLR Consulting (Pty) Ltd (2005 to 2009)
- Civil, Environmental Engineer, Bazisa Technical Waste Solutions (Pty) Ltd (2004 to 2005)
- Civil, Environmental Engineer, Department of Water Affairs and Forestry, Civil Design (2003 to 2004)

Form of proxy

THE PROFESSIONAL PROVIDENT SOCIETY HOLDINGS TRUST

(Registration number IT312/2011)

('the Trust')

Member's particulars:

Identity number:

Membership number:

Email address:

Postal address:

Cellphone:

Member: I,

being a member of the Trust, hereby appoint:

Proxy: Identity number:

or failing him/her, the Chairman of the meeting, as my proxy to attend, speak and on a poll vote for me and on my behalf at the annual general meeting of the Trust to be held at 18:00 on Monday, 22 May 2017 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 2016				
2.	Ordinary resolution for the reappointment of the auditors of the Trust				
3.	Special resolution approving the amendment and restatement of the deed of trust constituting the Trust ("the Trust Deed")**				
4.	Ordinary resolutions for the election and appointment of trustees#:				
	4.1	Dr M J Grootboom*			
	4.2	Mr P Ranchod*			
	4.3	Mr S Trikamjee*			
	4.4	Ms A Chowan			
	4.5	Ms C Flemming			
	4.6	Mr T J Mphela			
	4.7	Ms P Natesan			
	4.8	Mr M Pillay			
5.	Ordinary resolution for the appointment of the members of the Trust Audit Committee				
6.	Special resolution for the approval of trustees' remuneration for the period 1 July 2017 to 30 June 2018 as set out in the notice of the annual general meeting**				

\# *There will be either four or six vacancies on the Board of trustees to be filled by elected trustees. These four or six vacancies will be filled by the four or six candidates receiving the highest number of favourable votes. Refer to the Notice of the Annual General meeting for an explanation in this regard.*

* *Trustees who will retire at the meeting by rotation, in accordance with the Trust Deed and, being eligible, offer themselves for re-election.*

** *Authorisation of at least seventy-five per cent of the votes cast by members present (in person or represented by proxy) at the meeting is required.*

Signed this day of 2017

Signature

Notes to form of proxy

Instructions and requirements for completion of the form of proxy

1. **The form of proxy must be signed, dated and returned so as to be received at the registered office of the Trust by 18:00 on Wednesday, 17 May 2017**.
2. **Forms of proxy are required to be completed and signed by the Member appointing the proxy, or by his attorney or agent duly authorised in terms of a court order, or a power of attorney which was signed by the Member. If the form of proxy is completed in terms of a power of attorney or authority, the ORIGINAL, OR A CERTIFIED COPY of such power of attorney or authority has to be lodged with the form of proxy by 18:00 on Friday, 12 May 2017.**
3. The signatory may insert the name of any person whom the signatory wishes to appoint as his/her proxy in the blank space provided for that purpose. If no name is inserted, the Chairman of the meeting shall be appointed as the member's proxy.
4. By completing and lodging of the form of proxy, it will not preclude the member who is appointing the proxy from attending the annual general meeting and speaking and voting in person thereat, to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.
5. If the member does not indicate in the appropriate places on the face hereof how he/she wishes to vote in respect of any resolutions, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution. In regard to the ordinary resolutions for the election of trustees, any indication of how the member wishes to vote in regard to the candidates will be deemed to be the entire vote of the member, i.e. if the member has only indicated a vote for, or against, or to abstain for one or more candidate(s), the proxy holder shall not be entitled to exercise additional votes in respect of candidates for whom no votes were indicated by the member.
6. In respect of the election of trustees, each candidate will be voted upon by a separate resolution, either "For", "Against" or Abstain". In terms of the Trust Deed, if the number of persons approved by such resolutions exceeds the number of vacancies (being four or six as explained in the Notice of the Annual General Meeting), 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 candidates receiving the highest number of favourable votes.

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

Notes

Notes

www.pps.co.za

PPS For Professionals

@PPS_SA

PPS Insurance

T: +27 (0)11 644 4200 | F: +27 (0)11 644 4400 | E: info@pps.co.za | W: www.pps.co.za
6 Anerley Road, Parktown, 2193 | PO Box 1089, Houghton, 2041