



# In Good Hands

Annual Financial  
Report 2014

bestMed







# IN GOOD HANDS

As we enter our 51st year of existence, we're proud to say our close on 200 000 members and dependents are in good hands. Our finances are sound, our management team is stable and our relationships with our stakeholders, suppliers and partners has never been stronger.

As you page through this annual report, you'll meet some of our hands-on people and get to know a little bit about them. It is our way of acknowledging the vital role each and every one of our family members play - and the contribution they all make - in ensuring and maintaining the success and longevity of our brand.

“Hands smack us gently, to help us first breathe.  
Hands quietly guide us through life's complex weave.  
Hands hold us close when tears start to fall.  
Hands, willing and able to take care of it all.

Hands brush our hair, or straighten a curl.  
Hands quickly comfort any hurts that unfurl.  
Hands point out stars, encourage us to reach.  
Hands clap and cheer and praise us and teach.

Hands push us gently out of harm's way.  
Hands punctuate words, show we mean what we say.  
Hands here to discipline, help bend a young tree.  
Hands shape and mould us into all we can be.

Hands now twisted from age and hard work,  
Hands that tell stories of joy, pain, triumph and hurt.  
Hands more beautiful than anything else.  
Hands are our heart, and our soul and our self.”

*Kevin Kleynhans*



**Christina Mhangani**  
ECI Assistant  
Claims

Member of the Bestmed family for 16 years.

I've found my home at Bestmed. Since 1999 they have given me every chance to grow and learn. I'm always busy and engaged and know so many wonderful people here thanks to the interaction and teambuilding opportunities. Whenever we can, our family of three girls heads outdoors to camp, watch movies or sporting events. Mamelodi Sundowns and Blue Bulls forever!









Medical Scheme (Registration Number 1252)  
Registered under Act 131 of 1998, as amended.

## Annual Financial Statements for the year ended 31 December 2014

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## STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The Board of Trustees is responsible for the preparation, integrity and fair presentation of the annual financial statements of Bestmed Medical Scheme. The financial statements presented on pages 25 to 99 have been prepared in accordance with International Financial Reporting Standards (IFRS) and include amounts based on judgements and estimates made by management.

The Board considers that in preparing the annual financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all International Financial Reporting Standards that they consider to be applicable have been followed.

The Board is satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the Scheme at year-end. The Board also prepared the rest of the information included in the annual report and is responsible for both its accuracy and its consistency with the annual financial statements.

The Board is responsible for ensuring that accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the Scheme which enables the Board to ensure that the annual financial statements comply with the relevant legislation.

Bestmed Medical Scheme operated in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute assurance that assets are safeguarded and the risks facing the business are being controlled.

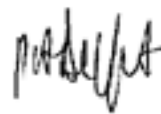
The going concern basis has been adopted in preparing the annual financial statements. The Board has no reason to believe that the Scheme will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These annual financial statements support the viability of the Scheme.

The Scheme's external auditors are responsible for auditing the financial statements in terms of International Standards on Auditing and their report is presented on 24.

The annual financial statements were approved by the Board of Trustees on 28 April 2015 and are signed on its behalf:



**RF CAMPHOR**  
CHAIRPERSON



**PROF PA DELPORT**  
VICE-CHAIRPERSON



**AM LA GRANGE**  
PRINCIPAL OFFICER

# STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

Bestmed Medical Scheme is committed to the principles of fairness, independence, openness, integrity and accountability in all dealings with its stakeholders. The Board conducts all its affairs according to ethical values and within a recognised governance framework. The affairs of the Scheme are managed according to the Rules of the Scheme and also adhere to all aspects of governance as required by the Medical Schemes Act 131 of 1998, as amended. The Board is also committed to the principles of the Code of Corporate Practices and Conduct as set out in the King Report on Governance (King III).

## Board of Trustees

The Board of Trustees consists of member representatives who are nominated and elected by the members of the Scheme, and appointed members who are appointed by the Board of Trustees. The Board meets regularly and monitors the performance of the Scheme, their own performance and that of the Board subcommittees against agreed terms of reference and performance targets. The Board addresses a range of key issues and ensures that discussion of items of policy, strategy and performance is critical, informed and constructive.

## Internal Control

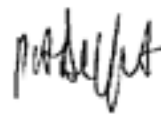
The adequacy and effectiveness of the internal controls are managed and evaluated through the appointment of internal auditors and, when required, experts are consulted for professional advice.

The Scheme maintains internal controls and accounting systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain adequate accountability for its assets. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties. The Board also concludes performance agreements annually with the managerial staff to evaluate the outcome of existing control measures.

The Board appointed a Risk Committee consisting of senior management and it is their duty to assess the risk register and plans to mitigate the risks. This Committee reports to the Board of Trustees independently.



RF CAMPHOR  
CHAIRPERSON



PROF PA DELPORT  
VICE-CHAIRPERSON



AM LA GRANGE  
PRINCIPAL OFFICER

# REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees hereby presents its report for the year ended 31 December 2014.

## 1. DESCRIPTION OF THE MEDICAL SCHEME

### 1.1 Terms of Registration

Bestmed Medical Scheme is a not-for-profit open medical scheme registered in terms of the Medical Schemes Act 131 of 1998, as amended, with registration number 1252. The Scheme is self-administered and the administration accreditation number is 62.

### 1.2 Benefit Options

The Scheme offered ten benefit options for the year under review:

Beat1  
Beat2  
Beat3  
Beat4  
Pace1  
Pace2  
Pace3  
Pace4  
Pulse1  
Pulse2

### 1.3 Savings Plan

In order to provide a facility for medical scheme members to set funds aside to meet future healthcare costs not covered in the benefit options, the Board of Trustees has made the savings plan option available for some of its benefit options.

Members pay an agreed sum into this savings account. These amounts differ per option and comprise the following percentage of gross contributions:

Beat1	None
Beat2	17%
Beat3	17%
Beat4	20%
Pace1	22%
Pace2	15%
Pace3	18%
Pace4	3%
Pulse1	None
Pulse2	None

Savings contributions are refundable upon a member enrolling in another benefit option or medical scheme without a personal medical savings account, or does not enroll in another medical scheme, in which case the money will be transferred to the member in terms of the Medical Scheme Rules.

Unexpended savings amounts are accumulated for the long-term benefit of the member. Interest is payable on credit balances equal to the interest earned on cash and cash equivalents and money market funds invested and no interest is charged on savings advances to members.

The liability to the members in respect of the savings plan is reflected as a current liability in the financial statements, but constitute trust monies and are managed on the members' behalf in terms of the Scheme Rules. All unspent personal medical savings balances are invested in a separate trust account and do not form part of the assets of the Scheme.

Where a member cannot be traced within five years of the member leaving the Scheme and after all reasonable attempts at tracing the member have been made, any unclaimed personal medical savings account balances must be paid to the Guardian's Fund.

### 1.4 Risk Transfer Arrangements

The Scheme had the following risk transfer arrangements in 2014:

ER24 provided transportation or emergency medical response to the Scheme's members. Claims incurred and recoveries received were calculated based on utilisation figures obtained from ER24. The net income on the risk transfer arrangement was R1 961 190 (2013: net expense of R673 850).

Preferred Provider Negotiators provided members on the Beat3 and Beat4 and all the Pace options with optical services which include consultations, frames, lenses and contact lenses. Claims incurred and recoveries received were calculated based on utilisation figures obtained from Preferred Provider Negotiators. The net expense on the risk transfer arrangement was R1 734 118 (2013: net income of R157 794).

OneCare provided out-of-hospital healthcare services to members on the Pulse2 option. The claims incurred and recoveries received were calculated based on utilisation figures obtained from OneCare. The net income on the risk transfer arrangement was R904 379 (2013: net expense of R3 824 476).

CareCross replaced Prime Cure to provide primary healthcare services to members on the Pulse1 option during 2014. The claims incurred and recoveries received were calculated based on utilisation figures obtained from CareCross. The 2014 net income on the risk transfer arrangement was R4 600 434.

Prime Cure provided primary healthcare services during 2013 to members on the Pulse1 option but final fees were paid to them at the beginning of 2014. The claims incurred and recoveries received were calculated based on utilisation figures obtained from Prime Cure. The net 2014 expense on the risk transfer arrangement was R105 279 (2013: net income of R1 214 577).

Refer to Note 18 in the annual financial statements for further disclosure.

	<b>Term of Office</b>
<a href="#">Dr J Moncrieff</a>	2014 - 2018
<i>Elected May 2014</i>	
<a href="#">WJ Myburgh</a>	2012 - 2016
<a href="#">EL Steenkamp</a>	2014 - 2018
<i>Elected May 2014</i>	

**Removed as from 13 November 2014\***

<a href="#">Adv GW Alberts</a> (Chairperson)	2012 - 2016
<a href="#">P de V Swart</a>	2014 - 2018
<a href="#">S Harmse</a>	2012 - 2016

**Appointed 19 November 2014\***

<a href="#">Dr WJ Botes</a>	2014 - 2018
<a href="#">RF Camphor</a> (Chairperson)	2014 - 2016
<a href="#">CM Mowatt</a>	2014 - 2016

**2.1.2 Appointed**

**Removed as from 13 November 2014\***

<a href="#">B Albrecht</a>	2012 - 2016
<a href="#">DJ Fredericks</a>	2012 - 2016
<a href="#">AI Minnaar</a>	2012 - 2016
<a href="#">Dr BR Slabbert</a> (Vice-Chairperson)	2014 - 2018
<a href="#">Prof MJ van der Merwe</a>	2014 - 2018
<a href="#">Prof S Vil-Nkomo</a>	2014 - 2018

**Appointed 19 November 2014\***

<a href="#">Prof PA Delpoort</a> (Vice-Chairperson)	2014 - 2018
<a href="#">WJ du Plessis</a>	2014 - 2016
<i>Resigned March 2015</i>	
<a href="#">PM Kennedy</a>	2014 - 2016
<a href="#">H Kruger</a>	2014 - 2016
<i>Resigned March 2015</i>	
<a href="#">Dr M Serfontein</a>	2014 - 2018
<i>Resigned February 2015</i>	

\* Refer to note 13 of the Board of Trustees Report for details on the nine trustees that have been removed by the Council for Medical Schemes in terms of Section 46 of the Medical Schemes Act with effect from 13 November 2014.

**2. MANAGEMENT**

**2.1 Board of Trustees in office during the year under review:**

**2.1.1 Elected by the members**

**Term of Office**

<a href="#">Adv JJ Labuschagne</a>	2010 - 2014
<i>Retired 30 May 2014</i>	
<a href="#">AF Marais</a>	2010 - 2014
<i>End of term 30 May 2014</i>	

**2.2 Principal Officer**

AM la Grange

## 2. MANAGEMENT (continued)

### 2.3 Registered office address and postal address

Bestmed Medical Scheme PO Box 2297  
Block A PRETORIA  
Glenfield Office Park 0001  
361 Oberon Avenue  
Faerie Glen  
Pretoria  
0081

### 2.4 Investment Advisors

Towers Watson (Pty) Ltd  
First Floor PostNet Suite 154  
44 Melrose Boulevard Private Bag X1  
Melrose Arch Melrose Arch  
Johannesburg Johannesburg  
2196 2076  
FSP number: 2545

### 2.5 Investment Managers

Coronation Asset Management (Pty) Ltd  
Seventh Floor PO Box 44684  
Montclare Place Claremont  
Cnr Campground and Main Road Cape Town  
Claremont 7735  
7708  
FSP number: 548

Prudential Investment Managers SA (Pty) Ltd  
Seventh Floor PO Box 44813  
Protea Place Claremont  
40 Dreyer Street Cape Town  
Claremont 7735  
7708  
FSP number: 45199

Allan Gray Life Limited  
1 Silo Square PO Box 51318  
V&A Waterfront V&A Waterfront  
Cape Town Cape Town  
8001 8002  
FSP number: 6663

Investec Asset Management (Pty) Ltd  
36 Hans Strijdom Avenue PO Box 1655  
Foreshore Cape Town  
8000  
8001  
FSP number: 587

### 2.6 Actuaries

Insight Actuaries & Consultants (Previously known as The Health Monitor Company (Pty) Ltd)  
Ground Floor Private Bag X17  
Block J Halfway House  
400 Central Park 1685  
16th Road  
Midrand  
1683

### 2.7 Auditors

PricewaterhouseCoopers Inc.  
2 Eglin Road Private Bag X36  
Sunninghill Sunninghill  
2157 2157

## 3. INVESTMENT STRATEGY OF THE SCHEME

The Scheme's investment objectives are to maximise the return on its investments on a long-term basis at limited risk. The investment strategy takes into consideration the limitations imposed by the Medical Schemes Act 131 of 1998, as amended and those imposed by the Board of Trustees.

The Investment Committee monitors the performance of the Scheme's investments in conjunction with the Scheme's investment advisors to ensure that maximum returns are achieved. Expert advice is obtained from Towers Watson to assist in developing an appropriate investment strategy and portfolio.

Given that the central purpose of the Scheme is to provide medical benefits to members rather than to maximise investment returns, a moderate risk appetite is adopted. The Committee believes that the primary objective that the Scheme needs to manage is to earn a sufficient investment return in excess of inflation over a five-year period, without losing focus on

downside protection over a one-year period. The Committee believes that risk should be managed in part by holding a diversified portfolio, with a significant proportion of the assets providing returns that offer protection against inflation over the longer term.

#### 4. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

##### 4.1 Solvency Ratio

The solvency ratio is calculated on the following basis:

	<b>2014</b>	<b>2013</b>
	<b>R'000</b>	<b>R'000</b>
Total members' funds per statement of financial position	1 135 894	1 069 065
Cumulative losses on remeasurement to fair value of financial instruments and property and equipment included in accumulated funds	600	600
Balance at beginning of year	600	600
Revaluation reserves	(1 997)	(2 297)
Available-for-sale fair value reserve	(89 538)	(107 868)
<b>Accumulated funds as per Regulation 29</b>	<b>1 044 959</b>	<b>959 500</b>
Gross contributions	3 874 698	3 282 346
<b>Solvency ratio</b>	<b>26,97%</b>	<b>29,23%</b>

##### 4.2 Results of Operations

The results of the Scheme are set out in the annual financial statements and the Board of Trustees believe that no further clarification is required. The objectives, policies and procedures for managing insurance risk and the method used to manage those risks are included in Note 40 to the annual financial statements.

##### 4.3 Funds and Reserves Accounts

Movements in the reserves are set out in the Statement of Changes in Member Funds and Reserves. There have been no unusual movements that the Board of Trustees believe should be brought to the attention of the members of the Scheme.

##### 4.4 Outstanding Claims

Movements on the outstanding claims provision are set out in Note 14 to the annual financial statements. The basis of calculation of the outstanding claims provision is discussed in

Note 40 and this is consistent with prior years. There have been no unusual movements that the Board of Trustees believe should be brought to the attention of the members of the Scheme.

#### 5. ACTUARIAL SERVICES

The Scheme's actuaries have been consulted in the determination of the contribution and benefit levels, the outstanding claims provision as well as the IAS 19 retirement benefit obligations.

#### 6. SANLAM HEALTHCARE DISTRIBUTION SERVICES (PTY) LTD

Sanlam Healthcare Distribution Services (Pty) Ltd was appointed by Bestmed Medical Scheme to render marketing and distribution services to the Scheme with effect from 1 January 2009. The contract was terminated on 31 December 2011, refer to Note 34 for balances due at the previous year-end.

## **7. NON-COMPLIANCE WITH MEDICAL SCHEMES ACT 131 OF 1998, AS AMENDED**

### **7.1 Profitability of benefit options - Non-compliance with Section 33(2)(b) of the Act**

The Act stipulates that a benefit option shall be self-supporting in terms of membership and financial performance. During the year under review five benefit options of the Scheme, namely Beat2, Beat4, Pace1, Pace2, and Pulse2 made a net healthcare deficit. After accounting for other income only the Beat2, Beat4 and Pulse2 options showed a net deficit.

Although every effort is made to adhere to the Act some unpredictable factors occur that lead to benefit options not being profitable, such as adverse selection by members in the beginning of the year. The approach is always to endeavour that the Scheme as a whole maintains a sound reserve level and that there will be an ongoing effort to limit the loss per option or even eliminating it completely.

### **7.2 Contribution payments not received within three days of becoming due - Non-compliance with Section 26(7) of the Act**

In terms of Section 26(7) of the Medical Schemes Act 131 of 1998, as amended, not all contributions were received within three days after payment thereof becoming due. The Scheme has policies and procedures in place to suspend membership if payment is not received within three days of the due date.

### **7.3 Financial arrangements - Non-compliance with Section 35(8) of the Act**

The Scheme indirectly holds assets in medical scheme administrators and participating employers through its investment portfolio, which is prohibited by Section 35(8) of the Act. This situation occurs industry-wide and subsequently, the Scheme obtained exemption during 2012 from this requirement from the Council for Medical Schemes.

### **7.4 Compensation to brokers - Non-compliance with Section 65(2) of the Act**

Section 65(2) of the Act states that a medical scheme may only compensate brokers as prescribed by the Minister in respect of the amount of the compensation which, the category of persons to whom, the conditions upon which, and any other circumstances

under which, a medical scheme may compensate any person. Distribution fees amounting to R3 000 per month were paid to the brokerage Mozmed SA (Pty) Ltd over and above standard broker commission. These payments were an administrative error which occurred due to a change of ownership and status of the brokerage which was previously a tied agent dedicated to the Scheme. Immediate action to recover these fees from the brokerage was initiated.

## **8. RELATED PARTY TRANSACTIONS**

Refer to related parties disclosure in Note 34, and trustee remuneration disclosure in Note 33 to the annual financial statements.

## **9. CORPORATE GOVERNANCE**

The Scheme is committed to the principles and practice of fairness, independence, openness, integrity and accountability in all dealings with its stakeholders. The Scheme adheres fully to all aspects of governance as required by the Medical Schemes Act 131 of 1998. The Board is also committed to the principles of the Code of Corporate Practices and Conduct as set out in the King Report on Governance (King III).

A Governance Task Group consisting of the members of the Board's Strategic and Rules and Contracts Committee as well as a representative from the Audit and Risk Committee have been spearheading an initiative to improve the governance responsibility of the Board since 2010. As a result the Board has already adopted a board charter and a code of ethics, revised the delegation of authority, approved a new remuneration policy as well as policies on the ICT governance, retention of records, risk management and disaster management, nepotism and, most recently, a marketing expenditure policy.

As part of the responsibility to continuously review the effectiveness and relevance of the governance structures of the Board the Governance Task Group also conducted an evaluation of the current governance structure. As a result of this initiative the Board resolved to dissolve the committee structure at the end of 2013 and as from 2014, apart from the Statutory Committees, only a Strategic Committee advised the Board. The Governance Task Group, The Managed Healthcare Committee, the



Rules and Contracts Committee and the Disciplinary Committee were dissolved in 2013 and the functions have been incorporated in the Strategic Committee.

During 2014 the Board utilised the under-mentioned Committees to oversee the Scheme's operations. The Committees do not assume the functions of management, which remain the responsibility of the Principal Officer and other members of senior management. Comments on these Committees are reflected below.

### STRATEGIC COMMITTEE

The role of the Strategic Committee (previously the Executive Committee) is to support the Board by acting as the custodian of the annual report, strategic planning and implementation processes, as well as dealing with urgent governance and fiduciary matters in between Board meetings, providing guidance regarding corporate governance and ensuring the effective functioning of the Board. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties. The Principal Officer and senior management attend meetings of the Committee.

The Committee met seven times during the year and comprised the following members:

[Adv GW Alberts](#)

*Trustee member - Chairperson ending 13 November 2014*

*Removed as from 13 November 2014\**

[RF Camphor \(Chairperson\)](#)

*Trustee member - Chairperson effective from 28 November 2014*

*Effective from 28 November 2014*

[Prof PA Delpport \(Vice-Chairperson\)](#)

*Trustee member - Vice-Chairperson effective from*

*28 November 2014*

*Effective from 28 November 2014*

[S Harmse](#)

*Trustee member - Removed as from 13 November 2014\**

[Dr BR Slabbert](#)

*Trustee member - Vice-Chairperson ending 13 November 2014*

*Removed as from 13 November 2014\**

[Prof MJ van der Merwe](#)

*Trustee member - Removed as from 13 November 2014\**

The election of new members of the Strategic Committee was held in abeyance and would be dealt with at a future meeting of the Board of Trustees.

### AUDIT AND RISK COMMITTEE

The Scheme has an Audit Committee in accordance with the provisions of the Medical Schemes Act 131 of 1998, as amended. In accordance with the provisions of the Medical Schemes Act 131 of 1998, as amended, the primary responsibility of the Committee is to assist the Board of Trustees in carrying out its duties relating to the Medical Scheme's accounting policies, internal control systems and financial reporting practices. The internal and external auditors formally report to the Committee on critical findings arising from the audit activities.

The Committee also oversees the implementation by the Scheme of an effective policy and plan for risk management that will enhance the Scheme's ability to achieve its strategic objectives and ensure that disclosure regarding risk is comprehensive, timely and relevant.

The Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Committee consist of five members of which two are members of the Board of Trustees. The majority of the members, including the Chairperson, are not officers of the Scheme. The Principal Officer and the internal and external auditors attend all Audit and Risk Committee meetings and have unrestricted access to the Chairperson of the Committee.

The Committee met three times during the year and comprised the following members:

[Dr WJ Botes](#)

*Trustee member - Effective from 28 November 2014*

[S du Plessis - CA\(SA\)](#)

*Independent member - Effective 30 May 2014*

[DJ Fredericks - CA\(SA\)](#)

*Trustee member - Removed as from 13 November 2014\**

[CM Mowatt - CA\(SA\)](#)

*Trustee member - Effective from 28 November 2014*

[KT Rapoo](#)

*Independent member - End of term 30 May 2014*

## 9. CORPORATE GOVERNANCE (continued)

[JFJ Scheepers - CA\(SA\)](#)

*Independent member - Chairperson*

[Prof MJ van der Merwe - CA\(SA\)](#)

*Trustee member - Removed as from 13 November 2014\**

[Prof Q Vorster - CA\(SA\)](#)

*Independent member*

### INVESTMENT COMMITTEE

The Investment Committee is tasked with the active management, within the Board's investment policy as set out in its Statement of Investment Principles, of the Scheme's investments within the mandate of the Medical Schemes Act 131 of 1998, as amended, and the Regulations. The role of the Committee is to advise the Board of Trustees and Management on the best possible investment of the Scheme's resources available for that purpose, amendments to or the re-investment of existing investments and possible steps that may be considered in respect of the investment of available funds. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties. The Principal Officer and senior management attend meetings of the Committee.

The Committee met three times during the year and comprised the following members:

[DJ Fredericks](#)

*Trustee member - Chairperson ending 30 May 2014*

*Removed as from 13 November 2014\**

[S Harmse](#)

*Trustee member*

*Removed as from 13 November 2014\**

[WJ Myburgh](#)

*Trustee member - Chairperson effective from 30 May 2014*

[EL Steenkamp](#)

*Trustee member - Effective from July 2014*

Election of new members of the Investment Committee was held in abeyance and would be dealt with at a future meeting of the Board of Trustees.

### REMUNERATION COMMITTEE

The role of the Committee is to ensure that the remuneration policy and practices are regularly reviewed, that the Scheme remunerates the Board of Trustees and senior management

fairly and responsibly and that disclosure of trustee and senior management remuneration is accurate, complete and transparent. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties.

The Committee met twice during the year and comprised the following members:

[B Albrecht](#)

*Trustee member - Removed as from 13 November 2014\**

[P de V Swart](#)

*Trustee member - Removed as from 13 November 2014\**

[AI Minnaar](#)

*Trustee member - Chairperson*

*Removed as from 13 November 2014\**

Election of new members of the Remuneration Committee was held in abeyance and would be dealt with at a future meeting of the Board of Trustees.

### DISPUTE COMMITTEE

The Scheme has a Dispute Committee which adjudicates disputes that may arise between a member, prospective member, former member or person claiming against the Scheme. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties.

It was not necessary for the Committee to meet during the year.

The Chairperson is to be elected as and when the need arises.

The Committee comprised:

[Dr D Kapp](#)

*Independent member*

[Adv JJ Labuschagne](#)

*Independent member*

[F Vorster](#)

*Independent member*

Election of a new member of the Dispute Committee was held in abeyance and would be dealt with at a future meeting of the Board of Trustees.

\* Refer to note 13 of the Board of Trustees Report for details on the nine trustees that have been removed by the Council for Medical Schemes in terms of Section 46 of the Medical Schemes Act with effect from 13 November 2014.

#### **10. AMALGAMATION WITH SAPPI MEDICAL AID SCHEME**

Sappi Medical Aid Scheme amalgamated with Bestmed Medical Scheme with effect from 1 April 2013 and the name of the amalgamated schemes is Bestmed Medical Scheme. The amalgamation was approved by the Council for Medical Schemes on 23 January 2013, as required by Section 63 of the Medical Schemes Act 131 of 1998, as amended, and the Competition Commission approved the amalgamation on 29 January 2013.

The amalgamation had no material effect on the operations of the Scheme and EL Steenkamp, the Principal Officer of Sappi Medical Aid Scheme, joined the Bestmed Board of Trustees on 1 April 2013. The membership of the Scheme increased by 3 529 members due to the amalgamation and these members had to join one of the existing options of the Scheme, while the Sappi Medical Aid Scheme Options were closed.

Note 37 to the annual financial statements provides additional information on the transaction.

#### **11. AMALGAMATION WITH MINEMED MEDICAL SCHEME**

Minemed Medical Scheme amalgamated with Bestmed Medical Scheme with effect from 1 September 2013 and the name of the amalgamated schemes is Bestmed Medical Scheme. The amalgamation was approved by the Council for Medical Schemes on 19 August 2013, as required by Section 63 of the Medical Schemes Act 131 of 1998, as amended, and the Competition Commission approved the amalgamation on 19 June 2013.

The amalgamation had a material effect on the operations of Bestmed Medical Scheme, as the Scheme received ownership of the three Medical Centres from Minemed Medical Scheme. The Medical Centres - situated in Welkom, Virginia and Randfontein - provide healthcare services by Dentists and General Practitioners to Minemed members and third parties. All nursing and administrative personnel at these Medical Centres became permanent employees of Bestmed Medical Scheme and the current Board of Trustees of Bestmed Medical Scheme has control over the amalgamated scheme.

The membership of the Scheme increased by 5 642 members due

to the amalgamation and a new option with similar benefits to an ex-Minemed option was developed for the majority of members namely Beat4. Minemed members had the option to join one of the existing options of the Scheme, and all Minemed Medical Scheme Options were closed.

Note 38 to the annual financial statements provides additional information on the transaction.

#### **12. EVENTS SUBSEQUENT TO THE STATEMENT OF FINANCIAL POSITION DATE**

No events other than disclosed on the Board of Trustee Report Note 13, took place between the Statement of Financial Position date and the date of this report that should be noted.

#### **13. GOVERNANCE IN TERMS OF THE MEDICAL SCHEMES ACT 131 OF 1998, AS AMENDED**

The Council for Medical Schemes (CMS) performed a routine inspection on the Scheme during 2011 and a final report and directive emanating from the review was received in July 2013.

The Board agreed that in some instances the interests of members could be served more effectively by implementing revised control measures as was suggested by the report as issued by the CMS. The Board did not agree with a number of conclusions reached by the CMS and the subsequent directive issued as a result thereof and as a last resort legal action was sought.

The Medical Schemes Act stipulates that a medical scheme may not approach the High Court to resolve a dispute between itself and the CMS until it has exhausted all the prescribed internal processes for dealing with such a dispute. Accordingly, the Scheme lodged an appeal with the CMS against the findings in the CMS report and directive in 2013. It was subsequently confirmed that the findings and directives would be suspended until the appeal was heard.

On 13 November 2014, before the appeal was heard by the CMS, the CMS served notices on nine of the twelve Trustees in terms of Section 46 of the Medical Schemes Act 131 of 1998, as amended, removing them from office. The remaining three elected Trustees immediately filled the three vacancies of

### **13. GOVERNANCE IN TERMS OF THE MEDICAL SCHEMES ACT 131 OF 1998, AS AMENDED (continued)**

elected members in terms of the Rules of the Scheme and then six Trustees were appointed to fill the balance of the vacancies.

The newly constituted Board of Trustees decided to challenge the Section 46 removal decision by the CMS in the High Court based on the fact that it was done on facts and findings that were subject to an appeal to be heard by the very same body. The CMS lodged a counter application for curatorship stating that the newly constituted Board was invalid. The case was heard in December 2014 and judgment received on 13 February 2015.

The judgment was as follows:

- The newly constituted Board is valid
- There is no reason to appoint a curator
- The removal of nine Trustees is valid and the Scheme does not have the right to appeal against the report and findings any more.

Both the Scheme and the CMS lodged an application to appeal against the judgement during March 2015. The Scheme was of the opinion that the Court erred in its finding that the Scheme abandoned its appeal in terms of Section 49 of the Medical Schemes Act against the findings and directives of the routine inspection, whilst the CMS was of the opinion that the Court erred in its finding that the newly constituted Board is valid. Both of these applications were heard in April 2015 and both were turned down. The Board has subsequently decided to lodge a petition to appeal in the Supreme Court of Appeal. The outcome of the petition was not yet available on the date of this report.

During April 2015 the Scheme received communication from the General Manager: Compliance and Investigations Unit of the Council for Medical Schemes (CMS) indicating that the CMS received information on possible irregularities and contravention of the Medical Schemes Act by the Scheme. The Board views the allegations in a very serious light and has commissioned a forensic investigation into the allegations. The outcome of the investigation was not yet known on the date of this report.

## 14. TRUSTEE MEETING ATTENDANCE AND REMUNERATION

The following schedule sets out Board of Trustees meeting attendances and attendances by members of Board subcommittees.

Trustee remuneration is disclosed in Note 33 to the annual financial statements.

**A - Total possible number of meetings that could have been attended.**

**B - Actual number of meetings attended.**

Trustee Member	Board Meetings		Strategic Committee Meetings		Other Task Groups (including BOT & Strategic & Other)		Audit & Risk Committee		Investment Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
Adv JJ Labuschagne (Retired 30 May 2014)	3	3										
AF Marais (End of term 30 May 2014)	3	3										
Dr J Moncrieff (Elected 30 May 2014)	8	8			2	2						
WJ Myburgh	11	11			2	2			3	3		
EL Steenkamp (Elected 30 May 2014)	11	10			3	3			2	2		
Adv GW Alberts (Removed 13 November 2014)	6	6	7	6	3	3						
B Albrecht (Removed 13 November 2014)	6	5			3	3					2	2
P de V Swart (Removed 13 November 2014)	6	6			3	3					2	2
DJ Fredericks (Removed 13 November 2014)	6	3			2	1	3	2	3	2		
S Harmse (Removed 13 November 2014)	6	5	7	7	4	4			3	3		
AI Minnaar (Removed 13 November 2014)	6	5			2	2					2	2
Dr BR Slabbert (Removed 13 November 2014)	6	6	7	6	4	4						
Prof MJ van der Merwe (Removed 13 November 2014)	6	5	7	7	3	3	3	3				
Prof S Vil-Nkomo (Removed 13 November 2014)	6	3			2	1						
Dr WJ Botes (Appointed 19 November 2014)	3	2										
RF Camphor (Appointed 19 November 2014)	3	3										
Prof PA Delport (Appointed 19 November 2014)	3	1										
WJ du Plessis (Appointed 19 November 2014)	3	1										
PM Kennedy (Appointed 19 November 2014)	3	2										
H Kruger (Appointed 19 November 2014)	3	1										
CM Mowatt (Appointed 19 November 2014)	3	2										
Dr M Serfontein (Appointed 19 November 2014)	3	1										

Refer to Note 13 of the Board of Trustees Report for details on the nine trustees that have been removed by the Council for Medical Schemes in terms of Section 46 of the Medical Schemes Act with effect from 13 November 2014.

## 15. OPERATIONAL STATISTICS PER BENEFIT OPTION

2014	Beat1	Beat2	Beat3	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
Members at 31 December	4 854	19 038	7 134	5 272	26 222	11 327	6 739	4 036	5 138	1 182	90 942
Average number of members for the accounting period	4 560	17 732	7 128	5 339	26 490	11 440	6 797	4 108	5 466	1 209	90 269
Dependants at 31 December	4 912	20 051	7 539	6 117	37 004	10 553	7 500	2 974	3 893	417	100 960
Average number of dependants for the accounting period	4 576	18 639	7 408	6 218	37 053	10 749	7 631	3 071	4 217	437	99 999
Average beneficiaries for the accounting period	9 136	36 372	14 535	11 557	63 543	22 189	14 428	7 178	9 682	1 646	190 266
Ratio of average dependants at 31 December	1.00	1.05	1.04	1.16	1.40	0.94	1.12	0.75	0.77	0.36	1.11
Average age of beneficiaries for the accounting period	35.03	29.50	35.89	41.56	34.02	49.13	47.61	55.55	37.82	72.03	37.75
Ratio of beneficiaries older than 65 years	6.97%	2.85%	10.62%	14.09%	6.78%	28.35%	25.63%	36.02%	13.00%	79.11%	12.54%
Risk contribution per average member per month	1 582	1 512	2 313	3 408	2 930	4 342	4 756	6 585	1 915	4 304	3 002
Risk contribution per average beneficiary per month	790	737	1 134	1 574	1 221	2 239	2 240	3 769	1 081	3 161	1 424
Healthcare expenditure per average member per month	1 037	1 281	1 835	3 514	2 573	4 082	4 224	6 144	1 457	5 197	2 685
Healthcare expenditure per average beneficiary per month	518	625	900	1 623	1 073	2 104	1 990	3 516	823	3 817	1 274
Relevant healthcare expenditure as a percentage of risk contributions	65.6%	84.8%	79.3%	103.1%	87.8%	94.0%	88.8%	93.3%	76.1%	120.8%	89.4%
Non-healthcare expenditure per average member per month	340	344	350	307	366	324	333	322	331	290	342
Non-healthcare expenditure per average beneficiary per month	170	168	172	142	152	167	157	184	187	213	162
Non-healthcare expenditure as a percentage of risk contributions	21.47%	22.73%	15.14%	9.00%	12.48%	7.46%	6.99%	4.89%	17.26%	6.74%	11.41%
2013	Beat1	Beat2	Beat3	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
Members at 31 December	4 242	16 036	7 052	4 409	25 461	11 681	7 043	4 467	6 452	1 341	88 184
Average number of members for the accounting period	3 837	14 716	6 926	1 481	24 708	11 732	7 080	4 457	5 941	1 370	82 248
Dependants at 31 December	4 057	16 698	7 339	5 148	35 507	11 189	8 168	3 481	5 449	530	97 566
Average number of dependants for the accounting period	3 711	15 126	7 129	1 730	34 465	11 322	8 263	3 499	4 937	555	90 737
Average beneficiaries for the accounting period	7 548	29 842	14 055	3 210	59 174	23 054	15 342	7 956	10 878	1 925	172 984
Ratio of average dependants at 31 December	0.97	1.03	1.03	1.17	1.39	0.97	1.17	0.79	0.83	0.41	1.10
Average age of beneficiaries for the accounting period	34.54	29.13	35.87	40.61	34.30	48.34	46.26	53.78	35.63	70.62	37.84
Ratio of beneficiaries older than 65 years	6.39%	2.64%	10.78%	12.12%	6.82%	26.90%	23.25%	32.57%	10.25%	76.59%	12.49%
Risk contribution per average member per month	1 426	1 377	2 109	3 114	2 667	3 983	4 381	6 199	1 705	4 289	2 824
Risk contribution per average beneficiary per month	725	679	1 039	1 437	1 114	2 027	2 022	3 473	931	3 052	1 343
Healthcare expenditure per average member per month	1 046	1 086	1 731	2 756	2 390	3 698	3 678	5 528	1 701	5 055	2 507
Healthcare expenditure per average beneficiary per month	532	536	853	1 271	998	1 882	1 697	3 097	929	3 598	1 192
Relevant healthcare expenditure as a percentage of risk contributions	73.4%	78.9%	82.1%	88.5%	89.6%	92.8%	84.0%	89.2%	99.7%	117.9%	88.8%
Non-healthcare expenditure per average member per month	316	318	339	301	370	348	357	371	311	311	345
Non-healthcare expenditure per average beneficiary per month	161	157	167	139	154	177	165	208	170	221	164
Non-healthcare expenditure as a percentage of risk contributions	22.16%	23.11%	16.06%	9.66%	13.87%	8.73%	8.15%	5.98%	18.22%	7.25%	12.21%

## OPERATIONAL STATISTICS FOR THE SCHEME

	2014	2013
Average accumulated funds per average member at 31 December	11 569	11 659
Average accumulated funds per average beneficiary at 31 December	5 489	5 543
Return on investments as a percentage of investments	7.70%	6.10%
Managed care expenses as a percentage of gross contributions	1.35%	1.59%
Administration expenses as a percentage of gross contributions	6.51%	7.35%

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BESTMED  
MEDICAL SCHEME

## Report on the Financial Statements

We have audited the financial statements of Bestmed Medical Scheme, as set out on pages 25 to 99 which comprise the statement of financial position at 31 December 2014, and the statements of comprehensive income, changes in funds and reserves and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

## Trustees' Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

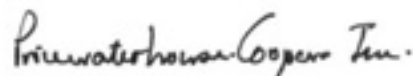
In our opinion, these financial statements present fairly, in all material respects, the financial position of Bestmed Medical Scheme at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

## Report on Other Legal and Regulatory Requirements

### *Non-compliance with the Medical Schemes Act of South Africa*

As required by the Council for Medical Schemes, we report the following material instance of non-compliance with the requirements of the Medical Schemes Act of South Africa as amended that have come to our attention during the course of our audit:

1. Section 33(2)(b) of the Medical Schemes Act: Certain benefit options were not self-supporting in terms of financial performance, as disclosed in note 39 of the financial statements.



PricewaterhouseCoopers Inc.

Director: JJ Grové

Registered Auditor

29 April 2015

2 Eglin Road

Sunninghill

2157



# STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

	Notes	2014 R	2013 R
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>1 047 206 185</b>	<b>899 903 053</b>
Property and equipment	2	17 950 367	21 971 186
Investment property	3	1 500 000	1 500 000
Intangible assets	4	8 879 323	-
Available-for-sale investments	5	1 018 854 938	876 063 989
Loans and receivables	6	21 557	367 878
<b>Current assets</b>		<b>844 360 134</b>	<b>818 881 710</b>
Available-for-sale investments		561 297 835	587 963 303
Scheme	5	233 999 802	278 648 275
Personal medical savings account trust monies invested	5	327 298 033	309 315 028
Loans and receivables	6	97 815	242 907
Trade and other receivables	7	61 543 942	61 976 764
Assets held for sale	9	3 700 000	4 000 000
Cash and cash equivalents		217 720 542	164 698 736
Scheme	10	56 503 386	92 905 238
Personal medical savings account trust monies invested	10	161 217 156	71 793 498
<b>Total assets</b>		<b>1 891 566 319</b>	<b>1 718 784 763</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Members' Funds</b>		<b>1 135 894 357</b>	<b>1 069 065 309</b>
Accumulated funds		1 044 359 110	958 899 949
Revaluation reserves		1 997 295	2 297 295
Available-for-sale fair value reserve		89 537 952	107 868 065
<b>Non-current liabilities</b>		<b>13 758 374</b>	<b>15 289 876</b>
Retirement benefit obligations	11	13 733 176	14 132 359
Finance lease liability	12	25 198	1 157 517
<b>Current liabilities</b>		<b>741 913 588</b>	<b>634 429 578</b>
Personal medical savings account trust liability	13	505 350 174	389 792 054
Outstanding claims provision	14	93 152 215	96 651 335
Trade and other payables	15	143 411 199	147 986 189
<b>Total funds and liabilities</b>		<b>1 891 566 319</b>	<b>1 718 784 763</b>

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED  
31 DECEMBER 2014

	Notes	2014 R	2013 R
<b>Risk contribution income</b>	16	<b>3 252 291 798</b>	<b>2 786 908 768</b>
<b>Relevant healthcare expenditure</b>		<b>(2 908 206 940)</b>	<b>(2 474 663 281)</b>
Net claims incurred	17	(2 913 833 546)	(2 471 537 326)
Risk claims incurred	17	(2 919 864 063)	(2 477 604 333)
Third party claims recoveries	17	6 030 517	6 067 007
Net income/(expense) on risk transfer arrangements		5 626 606	(3 125 955)
Risk transfer arrangement premiums paid	18	(117 381 549)	(117 901 231)
Recoveries from risk transfer arrangements	18	123 008 155	114 775 276
<b>Gross healthcare result</b>		<b>344 084 858</b>	<b>312 245 487</b>
Managed care management services	19	(52 365 003)	(52 102 564)
Broker service fees and other distribution fees	20	(62 249 860)	(43 002 510)
Administration expenses	21	(252 226 599)	(241 249 934)
Net impairment losses on healthcare receivables	22	(4 108 383)	(3 898 178)
<b>Net healthcare result</b>		<b>(26 864 987)</b>	<b>(28 007 699)</b>
<b>Other income</b>		<b>146 676 971</b>	<b>104 415 747</b>
Investment income		138 347 957	99 295 444
Scheme	23	115 169 496	84 860 239
Personal medical savings account trust monies invested	23	23 178 461	14 435 205
Other operating income	24	8 329 014	5 120 303
<b>Other expenditure</b>		<b>(34 352 823)</b>	<b>(22 271 548)</b>
Interest paid on personal medical savings trust accounts	25	(23 178 461)	(14 435 205)
Interest paid	26	(180 061)	(340 304)
Asset management fees	27	(6 999 451)	(5 501 022)
Own facility expenditure	28	(3 946 590)	(1 765 819)
Other losses	29	(48 260)	(229 198)
<b>NET SURPLUS FOR THE YEAR</b>		<b>85 459 161</b>	<b>54 136 500</b>
<b>Other comprehensive income</b>		<b>(18 630 113)</b>	<b>9 055 582</b>
Fair value adjustment on available-for-sale investments		37 144 917	42 626 743
Reclassification adjustment on realised gains	23	(55 475 030)	(33 571 161)
Impairment recognised against revaluation reserve	9	(300 000)	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>66 829 048</b>	<b>63 192 082</b>

# STATEMENT OF CHANGES IN MEMBERS' FUNDS AND RESERVES

FOR THE YEAR ENDED  
31 DECEMBER 2014

	Notes	Accumulated funds	Revaluation reserve	Available-for- sale fair value reserve	Total members' funds
		R	R	R	R
<b>Balance as at 31 December 2012</b>		<b>781 336 281</b>	<b>2 297 295</b>	<b>98 812 483</b>	<b>882 446 059</b>
Net surplus for the year		54 136 500	-	-	54 136 500
Additional amounts recognised from business combinations during the year		123 427 168	-	-	123 427 168
Other comprehensive income		-	-	9 055 582	9 055 582
Fair value adjustment on available-for-sale investments		-	-	42 626 743	42 626 743
Realised gains on available-for-sale investments	5;23	-	-	(33 571 161)	(33 571 161)
<b>Balance as at 31 December 2013</b>		<b>958 899 949</b>	<b>2 297 295</b>	<b>107 868 065</b>	<b>1 069 065 309</b>
Net surplus for the year		85 459 161	-	-	85 459 161
Impairment recognised against revaluation reserve	9	-	(300 000)	-	(300 000)
Other comprehensive income		-	-	(18 330 113)	(18 330 113)
Fair value adjustment on available-for-sale investments		-	-	37 144 917	37 144 917
Realised gains on available-for-sale investments	5;23	-	-	(55 475 030)	(55 475 030)
<b>Balance as at 31 December 2014</b>		<b>1 044 359 110</b>	<b>1 997 295</b>	<b>89 537 952</b>	<b>1 135 894 357</b>

# CASH FLOW STATEMENT

FOR THE YEAR ENDED  
31 DECEMBER 2014

	Notes	2014 R	2013 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	32	86 061 008	83 602 298
Interest income		69 646 882	57 369 049
Scheme	23	46 468 421	42 933 844
Interest received on personal medical savings account trust monies invested	23	23 178 461	14 435 205
Dividend income	23	13 226 045	8 355 234
Interest paid		(23 358 522)	(14 775 509)
Scheme	26	(180 061)	(340 304)
Interest paid on members' personal medical savings account trust monies	25	(23 178 461)	(14 435 205)
<b>Net cash flows from operating activities</b>		<b>145 575 413</b>	<b>134 551 072</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Increase in available-for-sale investments	5	(60 997 559)	(25 671 662)
Increase in personal medical savings trust available-for-sale investments	5	(17 983 005)	(308 075 028)
Purchase of property and equipment	2	(4 262 386)	(7 108 616)
Proceeds from disposal of property and equipment	2;24;29	209 572	806 526
Increase in intangible assets	4	(8 879 323)	-
Decrease in loans and receivables	6	491 413	272 919
<b>Net cash flows from investing activities</b>		<b>(91 421 288)</b>	<b>(339 775 861)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Decrease in finance leases	12	(1 132 319)	(1 558 804)
<b>Net cash flows from financing activities</b>		<b>(1 132 319)</b>	<b>(1 558 804)</b>
Net increase/(decrease) in cash and cash equivalents		53 021 806	(206 783 593)
Cash and cash equivalents at beginning of year	10	164 698 736	272 795 210
Cash and cash equivalents from business combinations during the year	37;38	-	98 687 119
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	10	<b>217 720 542</b>	<b>164 698 736</b>
<b>CASH AND CASH EQUIVALENTS</b>			
Scheme		56 503 386	92 905 238
Personal medical savings account trust monies invested		161 217 156	71 793 498

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

AT 31 DECEMBER 2014

## 1. ACCOUNTING POLICIES

Bestmed Medical Scheme is an open medical scheme registered under the Medical Schemes Act 131 of 1998, as amended.

The Scheme is self-administered and offers the insurance of hospital, chronic illness and day-to-day cover benefits. These annual financial statements were authorised for issue by the Board of Trustees on 28 April 2015.

### 1.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as defined by IAS 1 and the interpretations issued by the IFRS Interpretations Committees, as applicable in South Africa, and in the manner required by the Medical Schemes Act 131 of 1998, as amended.

The principal accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

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 Scheme's accounting policies. The areas involving a higher degree of judgement, or areas where estimates are significant to the annual financial statements, are disclosed in Note 35.

The financial statements are prepared on a going concern basis

using the historical cost convention, except for certain financial assets and liabilities which include:

- Available-for-sale financial assets at fair value;
- Financial instruments classified as originated loans carried at amortised cost; and
- Investment property.

All monetary information and figures presented in these financial statements are stated in Rand, unless otherwise indicated.

### The following standards are expected to be applicable to the Scheme in the current and/or future periods:

- IFRS 9 Financial Instruments (2009) - This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. (Effective on or after 1 January 2018.)
- IFRS 9 Financial Instruments (2010) - The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss. (Effective on or after 1 January 2018.)
- Amendments to IFRS 9 Financial Instruments (2011) - The IASB has published an amendment to IFRS 9, 'Financial instruments' that delays the effective date to annual periods beginning on or after 1 January 2018. The original effective date was for annual periods beginning on or after 1 January 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the

## 1. ACCOUNTING POLICIES (continued)

requirements of all the phases of the project to replace IAS 39 at the same time. The requirement to restate comparatives and the disclosures required on transition have also been modified. (Effective on or after 1 January 2018.)

- Amendments to IAS 32 Financial Instruments: Presentation - The IASB has issued amendments to the application guidance that clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP. (Effective on or after 1 January 2014.)
- IFRS 7 Financial Instruments & Disclosures - Servicing contracts - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. (Effective on or after 1 January 2016.)
- Amendments to IFRS 10, consolidated financial statements, IFRS 12 and IAS 27 for investment entities - The amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made in IFRS 12 to introduce disclosures that an investment entity needs to make. (Effective on or after 1 January 2014.)
- Amendment to IFRS 13 Fair value measurement - When IFRS 13 was published, paragraphs B5.4.12 of IFRS 9 and AG79 of IAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases. (Effective on or after 1 July 2014.)
- IFRS 13 Fair value measurement - The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9. (Effective on or after 1 July 2014.)
- IAS 16 Property, plant and equipment, and IAS 38 Intangible assets - Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to the revalued amount. The split between gross carrying amount and accumulated depreciation is treated in one of the following ways: either the gross carrying amount is restated in a manner consistent with the revaluation of the carrying amount, and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses; or the accumulated depreciation is eliminated against the gross. (Effective on or after 1 July 2014.)
- Amendments to IAS 36 Impairment of assets - These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. (Effective on or after 1 January 2014.)
- Amendment to IAS 19 Defined benefit plan - These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. (Effective on or after 1 July 2014.)

- IAS 19 Employee Benefits - Discount rate: regional market issue - The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. (Effective on or after 1 January 2016.)
  - IFRS 15 Revenue from contracts with customers - The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or service transfers to a customer. (Effective on or after 1 January 2017.)
  - IAS 24 Related party disclosures - The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'). (Effective on or after 1 July 2014.)
  - Amendment to IFRS 3 Business combinations - The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation'. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Consequential changes are also made to IFRS 9, IAS 37 and IAS 39. (Effective on or after 1 July 2014.)
  - IFRS 3 Business combinations - The standard is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. (Effective on or after 1 July 2014.)
  - IAS 40 Investment property - The standard is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. (Effective on or after 1 July 2014.)
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - This is an amendment to the changes in methods of disposal - Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. (Effective on or after 1 January 2016.)
- The following standards and interpretations are not expected to be applicable to the Scheme:**
- IFRS 1 First-time adoption of International Financial Reporting Standards - The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. (Effective on or after 1 July 2014.)
  - IFRS 7 Financial Instruments & Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements. The amendment removes the phrase 'and interim periods within those annual periods' from paragraph 44R, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report.

## 1. ACCOUNTING POLICIES (continued)

However, the Board noted that IAS 34 requires an entity to disclose '[...] an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period'. Therefore, if the IFRS 7 disclosures provide a significant update to the information reported in the most recent annual report, the Board would expect the disclosures to be included in the entity's condensed interim financial report. (Effective on or after 1 January 2016.)

- Amendment to IFRS 11 Joint arrangements on acquisition of an interest in a joint operation - This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. (Effective on or after 1 January 2016.)
- Amendment to IAS 16 Property, plant and equipment and IAS 38 Intangible assets on depreciation and amortisation - In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. (Effective on or after 1 January 2016.)
- IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'. The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. (Effective on or after 1 January 2016.)
- Amendments to IAS 39, novation of derivatives - The IASB has amended IAS 39 to provide relief from discontinuing hedge accounting when novation of a hedging instrument to a CCP meets specified criteria. Similar relief will be included in IFRS 9, 'Financial Instruments'. (Effective on or after 1 January 2014.)
- IFRIC 21 Accounting for levies - Sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses diversity in practice around when the liability to pay a levy is recognised. (Effective on or after 1 January 2014.)
- IFRS 14 Regulatory deferral accounts - The IASB has issued IFRS 14, an interim standard on the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). Rate regulation is a framework where the price that an entity charges to its customers for goods and services is subject to oversight and/or approval by an authorised body. (Effective on or after 1 January 2016.)
- Amendment to IFRS 2 Share based payment - The amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'. (Effective on or after 1 July 2014.)
- Amendment to IFRS 8 Operating segments - The standard is amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. (Effective on or after 1 July 2014.)



## 1.2 PROPERTY AND EQUIPMENT

Property and equipment are reflected at cost less accumulated depreciation and accumulated impairments. Subsequent costs are included in the asset's 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 Scheme and the cost of the item can be measured reliably. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets after taking into account the assets' residual values. The estimated maximum useful lives are:

Furniture	10 years
Leasehold Improvements	Between 5 and 7 years
Computer equipment	Between 3 and 6 years
Office equipment	Between 3 and 5 years
Medical equipment	10 years
Motor vehicles	5 years
Security equipment	5 years
Telephone system	3 years

The useful lives and residual values are assessed annually and adjusted appropriately. Maintenance and repairs, which neither materially add to the value of assets nor appreciably prolong their useful lives, are recognised in the statement of comprehensive income.

Surpluses and deficits on the disposal of property and equipment are recognised in the statement of comprehensive income.

Carrying amounts of all items of property and equipment are reduced to their recoverable amount, where this is lower than the carrying amount. Where components of an item of property and equipment have different useful lives, they are accounted for as separate items.

## 1.3 INVESTMENT PROPERTY

Property held for long-term rental yields that is not occupied by the Scheme is classified as investment property. Investment property is held to appreciate capital value or to earn rental income.

The Investment property comprises freehold land and is

accounted for by means of the fair value model and is carried at market value. This is determined annually at the statement of financial position date by external independent professional valuers. Fair value adjustments are included in the net surplus or deficit for the period.

Investment properties carried at fair value are not subject to depreciation.

## 1.4 INTANGIBLE ASSETS

### Computer software internally developed

Costs associated with researching or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Scheme are recognised as intangible assets when the following criteria are met as per IAS38:

- 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.
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as expenses as and when incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

Intangible assets are reflected at cost less accumulated depreciation and accumulated impairments. Depreciation is

## 1. ACCOUNTING POLICIES (continued)

charged once the assets are ready for use or to sell on the straight-line basis over the estimated useful lives of the assets after taking into account the assets' residual values.

### 1.5 GOODWILL

Goodwill arises on the acquisition of business combinations and represents the excess of the consideration transferred over the interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### 1.6 CLASSIFICATION, RECOGNITION, PRESENTATION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised on the Scheme's statement of financial position when it becomes a party to the contractual provisions of the instrument. The Scheme classifies its financial instruments into the following categories: available-for-sale financial assets, loans and receivables and financial liabilities measured at amortised cost. The Scheme has grouped its financial instruments into the following classes:

- Available-for-sale financial assets;
- Loans and receivables;
- Trade and other receivables;
- Cash and cash equivalents;
- Trade and other payables; and
- Members' personal medical savings accounts.

The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of financial instruments at initial recognition. All purchases and sales of financial instruments are recognised on the trade date, which is the date on which the Scheme commits to purchase the financial asset or assume the liability.

#### Offsetting financial instruments

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously or to settle on a net basis, all related financial effects are offset.

#### Derecognition of financial assets and liabilities

The Scheme derecognises an asset when the contractual rights to the asset expire, where there is a transfer of the contractual rights that comprise the asset, or the Scheme retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

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

If a transfer does not result in derecognition because the Scheme has retained substantially all the risks and rewards of ownership of the transferred asset, the Scheme continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the Scheme recognises any income on the transferred asset and any expense incurred on the financial liability.

Where the Scheme neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Scheme determines whether it has retained control of the financial asset. In this case:

- (i) if the Scheme has not retained control, it derecognises the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- (ii) if the Scheme has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The Scheme derecognises a financial liability when the contractual obligations are discharged or expire.

## 1.7 FINANCIAL ASSETS: INITIAL AND SUBSEQUENT MEASUREMENT

### Loans and receivables

Loans and receivables are initially measured at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Scheme intends to sell in the short term or that it has designated as at fair value through profit and loss or available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

### Available-for-sale

Unrealised gains and losses arising from changes in the fair value of the available-for-sale assets are included in the available-for-sale fair value reserve and are not taken to the statement of comprehensive income. When assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as net realised gains/losses on financial assets.

Available-for-sale financial assets are measured at fair value and recognised through the available-for-sale fair value reserve in equity. Available-for-sale financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Scheme has also transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are non-derivative financial assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the financial position date.

For financial assets carried at fair value the allocation of fair value measurements into the fair value hierarchy is reflective of the significant inputs used in making the measurements. The fair value hierarchy is based on the following levels:

Level 1 - Quoted prices (unadjusted) in an active market for identical assets and liabilities.

Level 2 - Where inputs other than quoted price included within Level 1 that are observable for assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices) are used.

Level 3 - Where the fair values are determined using a valuation technique based on assumptions that are not supported by observable market data. Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Scheme has determined that all of its investments in other funds ('Investee Funds') are investments in unconsolidated structured entities. The Scheme invests in Investee Funds whose objectives range from achieving medium- to long-term capital growth and whose investment strategy does not include the use of leverage. The Investee Funds are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives. The Investee Funds finance their operations by issuing redeemable shares which are puttable at the holder's option and entitle the holder to a proportional stake in the respective fund's net assets.

The Scheme has units in each of its Investee Funds. The change in fair value of each Investee Fund is included in the statement of comprehensive income in net gains on available-for-sale financial assets.

## 1. ACCOUNTING POLICIES (continued)

### 1.8 TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-derivative financial assets that arise from transactions with members and providers and have fixed or determinable amounts that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of the receivables. Receivables arising from healthcare insurance contracts with members are also classified in this category and are reviewed for impairment as part of the impairment review as reflected in Note 7.

### 1.9 CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less cost to sell.

### 1.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an

investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition.

### 1.11 IMPAIRMENT OF FINANCIAL ASSETS

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of fair value less the cost to sell, and the value in use.

#### Financial assets carried at amortised cost

The Scheme assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred 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 the 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.

The Scheme first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Scheme determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate

determined under contract. As a practical expedient, the Scheme may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

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 allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

#### **Financial assets carried at fair value**

The Scheme assesses at each statement of financial position date whether there is objective evidence that an available-for-sale financial asset is impaired. For debt securities, the Scheme uses the criteria referred to above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not subsequently reversed. The impairment loss is reversed through the statement of comprehensive income, if in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

#### **Impairment losses**

The carrying amounts of the Scheme's assets, other than

investment property, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **1.12 IMPAIRMENT OF NON-FINANCIAL ASSETS**

Assets that have an indefinite useful life - for example, goodwill or intangible assets not ready to use - are not subject to amortisation and are tested annually for impairment. 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.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **1.13 LEASES**

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

## 1. ACCOUNTING POLICIES (continued)

The Scheme leases certain office equipment. Leases of office equipment where the Scheme substantially has all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

### 1.14 FINANCIAL LIABILITIES - INITIAL AND SUBSEQUENT

#### MEASUREMENT

Financial liabilities are initially recognised at fair value net of transaction costs incurred. After initial recognition, financial liabilities are measured at fair value, with gains and losses through income. The fair value is determined as the present value of cash flows required to settle the liabilities. However, due to their short-term maturities, their fair value approximates cost. In addition, the Scheme is not permitted to borrow in terms of Section 35 of the Medical Schemes Act 131 of 1998, as amended. Therefore the Scheme has no long-term financial liabilities. As a result, no fair value adjustments arise.

#### Personal medical savings accounts: trust monies managed by the Scheme on behalf of its members

The personal medical savings account, which is managed by the Scheme on behalf of its members, represents savings plan contributions which are a deposit component of the insurance contracts, and accrued interest thereon, net of any savings claims paid on behalf of members in terms of the Scheme's Registered Rules.

The deposit component of the insurance contracts has been unbundled, since the Scheme can measure the deposit component separately. The deposit component is recognised in accordance with IAS 39 and is initially measured at fair value and subsequently

at amortised cost using the effective interest rate method. The insurance component is recognised in accordance with IFRS 4.

Members' personal medical savings accounts represent a financial liability of funds due to members by the Scheme. The savings account facility assists members in managing cash flows for costs to be borne by them during the year and meeting provider service expenses not covered by the Scheme's approved benefits. Advances on personal medical savings contributions are funded from the Scheme's funds and the risk of impairment is carried by the Scheme.

Unspent personal medical savings accounts at year-end are carried forward to meet future expenses for which the members are responsible. In terms of the Medical Schemes Act 131 of 1998, as amended, balances standing to the credit of members are refundable only in terms of Regulation 10 of the Act.

The personal medical savings accounts are invested on behalf of members in a current bank account and money market funds with banks. The cash and cash equivalents are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. The money market funds included in the available-for-sale investments are measured at fair value.

#### Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 1.15 LIABILITIES AND PROVISIONS

Liabilities and provisions are recognised when the Scheme has a present legal or contractual obligation as a result of past events for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

#### Outstanding claims provision

Claims outstanding comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported at the statement of financial position date

and related internal and external claims handling expenses. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claim patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle and variations in the nature and average cost incurred per claim.

Estimated co-payments and payments from personal medical savings accounts are deducted in calculating the outstanding claims provision. The Scheme does not discount its provision for outstanding claims on the basis that claims must be submitted within four months of the medical event, and the effect of the time value of money is not considered material.

#### **1.16 MEMBER INSURANCE CONTRACTS**

Contracts under which the Scheme accepts significant insurance risk from another party (the member) by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary are classified as insurance contracts. The contracts issued compensate the Scheme's members for healthcare expenses incurred and are detailed in Note 17 and 18.

#### **1.17 CONTRIBUTION INCOME**

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably certain. Risk contributions represent the gross contributions per the Registered Rules of the Scheme after the unbundling of savings contributions. The earned portion of risk contributions received is recognised as revenue. Risk contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis. Risk contributions are shown before the deduction of broker service fees and other acquisition costs.

#### **1.18 RELEVANT HEALTHCARE EXPENDITURE**

Relevant healthcare expenditure consists of net claims incurred and net income or expense from risk transfer arrangements.

##### **Claims incurred**

Gross claims incurred comprise the total estimated cost of all

claims arising from healthcare events that have occurred in the year and for which the Scheme is responsible, whether or not reported by the end of the year.

Net risk claims incurred comprise:

- Claims submitted and accrued for services rendered during the year in terms of the Rules of the Scheme;
- Payments under provider contracts for services rendered to members;
- Over or underprovisions relating to prior year claims accruals;
- Claims incurred but not yet reported; and
- Claims settled in terms of risk transfer arrangements.

Net of:

- Claims from members' personal medical savings accounts;
- Recoveries from members for co-payments;
- Recoveries from risk transfer agreements;
- Recoveries from third parties; and
- Discount received from service providers.

Anticipated recoveries under risk transfer arrangements are disclosed separately as assets and are assessed in a manner similar to the assessment of the outstanding claims provision and claims reported not yet paid.

##### **Risk transfer arrangements**

Contracts entered into by the Scheme with third party service providers under which the Scheme is compensated for losses/claims (through the provision of services to members) on one or more contracts issued by the Scheme and that meet the classification requirements of insurance contracts are classified as risk transfer arrangements. Only contracts that give rise to a significant transfer of insurance risk are accounted for as risk transfer arrangements. Risk transfer fees are recognised as an expense over the indemnity period on a straight-line basis. Where applicable, a portion of risk transfer fees is treated as pre-payments.

Risk transfer claims and benefits reimbursed are presented in the statement of comprehensive income and statement of financial position on a gross basis.

## 1. ACCOUNTING POLICIES (continued)

Assets relating to risk transfer arrangements include balances due under risk transfer arrangements for outstanding risk claims provisions and claims reported not yet paid. Amounts recoverable under risk transfer arrangements are estimated in a manner consistent with the risk claims provisions, claims reported not yet paid and settled claims associated with the risk transfer arrangement taking into account the terms of the contract. The amounts recoverable under such contracts are recognised in the same year as the related claim.

Amounts recoverable under risk transfer arrangements are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Scheme may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Scheme will receive under the risk transfer arrangement.

### 1.19 LIABILITY ADEQUACY TEST

At the statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the member insurance contract liabilities.

The liability for insurance contracts is tested for adequacy by discounting current best estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of any related assets. Where a shortfall is identified, an additional provision is made and charged to the statement of comprehensive income.

### 1.20 MANAGED CARE MANAGEMENT SERVICES

Expenses for managed care services are expensed as incurred.

### 1.21 BROKER SERVICE FEES AND OTHER DISTRIBUTION FEES

Broker service fees and other distribution fees are expensed as incurred.

### 1.22 ADMINISTRATION EXPENSES

Expenses for administration and other operating expenses are expensed as incurred.

### 1.23 INVESTMENT INCOME

Investment income comprises dividends, interest on cash and cash equivalents and fixed interest securities.

Interest income is recognised on a yield to maturity basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme.

Dividend income from investments is recognised when the right to receive payment is established - this is the ex-dividend date for equity securities.

### 1.24 OWN FACILITIES - MEDICAL CENTRES

The revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business to third parties, net of discounts. The surplus or deficit on own facilities represents this income less the cost incurred in operating these facilities for third parties. Benefits relating to services rendered by the own facility for the Scheme's members are reflected as part of claims incurred.

### 1.25 REIMBURSEMENTS FROM THE ROAD ACCIDENT FUND (RAF)

The Scheme grants assistance to its members in defraying expenditure incurred in connection with rendering of any relevant health service. Such expenditure may be in connection with a claim that is also made to the RAF, administered in terms of the Road Accident Fund Act 56 of 1996 (the RAF). If the member is reimbursed by the RAF, the member is obliged contractually to cede that payment to the Scheme to the extent that he or she has already been compensated.

A reimbursement from the RAF is a possible asset that arises from a claim submitted to the RAF and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Scheme. The contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the changes occurs. Amounts received from



members in respect of reimbursements from the RAF are recognised as a reduction of net claims incurred.

### 1.26 UNALLOCATED FUNDS

Unallocated funds that have legally prescribed, i.e. funds older than three years, are written back and are included under other income in the statement of comprehensive income.

### 1.27 EMPLOYEE BENEFITS

#### Pension obligations

All the employees of the Scheme contribute towards a defined contribution fund. A defined contribution plan is a pension plan under which the Scheme pays fixed contributions into a separate entity. The Scheme has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to the defined contribution fund are recognised in the statement of comprehensive income for the year in which they are incurred.

#### Other post-employment obligations

The Scheme provides for medical scheme benefits upon retirement of employees who qualify. The provision comprises annual funding upon actuarial advice to provide for the future liability of medical benefits after retirement.

#### Leave pay accrual

The Scheme recognises in full employees' rights to annual leave entitlement in respect of past service.

#### Bonuses

Management and staff bonuses are recognised as an expense in staff costs as incurred.

### 1.28 INCOME TAX

In terms of Section 10(1)(d) of the Income Tax Act 58 of 1962, as amended, receipts and accruals of a benefit fund are exempt from normal tax. A medical scheme is included in the definition of a benefit fund and consequently the Scheme is exempt from income tax.

### 1.29 ALLOCATION OF INCOME AND EXPENDITURE TO BENEFIT OPTIONS

The following items are directly allocated to benefit options:

- Contribution income;
- Claims incurred;
- Risk transfer arrangement fees;
- Broker service fees and other distribution fees;
- Interest paid on personal medical savings account balances.

The following items are apportioned based on the average number of members per option:

- Managed care management services;
- Administration expenses.

The following items are apportioned based on a percentage of gross contribution income per option:

- Other income;
- Expenses for asset management services rendered;
- Finance costs excluding interest paid on personal medical savings account balances;
- Other expenditure.

### 1.30 BUSINESS COMBINATIONS

The Scheme uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

## 2. PROPERTY AND EQUIPMENT

	Furniture	Leasehold improvements	Computer, office and medical equipment	Motor vehicles	Finance lease	Security and telephone system	Total
	R	R	R	R	R	R	R
<b>Year ended 31 December 2014</b>							
<b>Cost</b>							
At the beginning of the year	8 398 023	8 277 500	8 920 619	446 813	5 124 492	722 841	31 890 288
Additions	126 338	379 393	3 072 000	416 438	-	268 217	4 262 386
Disposals	(27 078)	-	(190 683)	(30 966)	(10 146)	-	(258 873)
<b>At the end of the year</b>	<b>8 497 283</b>	<b>8 656 893</b>	<b>11 801 936</b>	<b>832 285</b>	<b>5 114 346</b>	<b>991 058</b>	<b>35 893 801</b>
<b>Accumulated depreciation</b>							
At the beginning of the year	1 277 141	2 791 204	2 939 275	157 935	2 523 083	230 464	9 919 102
Disposals	(11 019)	-	(106 588)	(11 565)	(7 609)	-	(136 781)
Depreciation charges	772 935	2 160 155	3 123 825	134 029	1 707 429	262 740	8 161 113
<b>At the end of the year</b>	<b>2 039 057</b>	<b>4 951 359</b>	<b>5 956 512</b>	<b>280 399</b>	<b>4 222 903</b>	<b>493 204</b>	<b>17 943 434</b>
<b>Carrying amount at the end of the year</b>	<b>6 458 226</b>	<b>3 705 534</b>	<b>5 845 424</b>	<b>551 886</b>	<b>891 443</b>	<b>497 854</b>	<b>17 950 367</b>
<b>Year ended 31 December 2013</b>							
<b>Cost</b>							
At the beginning of the year	6 905 957	7 663 911	4 484 459	1 120 867	5 130 834	425 111	25 731 139
Additional amounts recognised from business combinations during the year	15 153	-	232 697	-	-	-	247 850
Additions	1 580 232	613 589	4 569 732	47 333	-	297 730	7 108 616
Disposals	(103 319)	-	(366 269)	(721 387)	(6 342)	-	(1 197 317)
<b>At the end of the year</b>	<b>8 398 023</b>	<b>8 277 500</b>	<b>8 920 619</b>	<b>446 813</b>	<b>5 124 492</b>	<b>722 841</b>	<b>31 890 288</b>
<b>Accumulated depreciation</b>							
At the beginning of the year	611 883	786 788	1 133 456	146 233	814 033	69 475	3 561 868
Disposals	(11 394)	-	(158 154)	(120 231)	-	-	(289 779)
Depreciation charges	676 652	2 004 416	1 963 973	131 933	1 709 050	160 989	6 647 013
<b>At the end of the year</b>	<b>1 277 141</b>	<b>2 791 204</b>	<b>2 939 275</b>	<b>157 935</b>	<b>2 523 083</b>	<b>230 464</b>	<b>9 919 102</b>
<b>Carrying amount at the end of the year</b>	<b>7 120 882</b>	<b>5 486 296</b>	<b>5 981 344</b>	<b>288 878</b>	<b>2 601 409</b>	<b>492 377</b>	<b>21 971 186</b>

Depreciation expenditure to the value of R19 740 (2013: R4 653) has been allocated to own facility expenses due to it being expenditure at

the Medical Facilities used for services rendered to members and third parties (Note 28).

### 3. INVESTMENT PROPERTY

	2014	2013
	R	R
Carrying value at the beginning of the year	1 500 000	1 500 000
<b>Carrying value at the end of the year</b>	<b>1 500 000</b>	<b>1 500 000</b>

Investment property comprises the following:  
Stand 1190, Oubaai Golf Estate, Herolds Bay.

The investment property was carried at cost in the year of purchase and is valued annually by an independent professional qualified valuer, not connected with the Scheme. The valuer is a member of the Institute of Valuers, has appropriate qualifications and recent experience in the

valuation of properties in the relevant location. The valuation method used was on the basis of recent and comparable sales with properties of a similar utility in an open market.

Direct operating expenses arising from this investment property amounted to R83 185 (2013: R90 475).

### 4. INTANGIBLE ASSETS

#### Year ended 31 December 2014

##### Cost

At the beginning of the year	-
Additions	8 879 323
<b>At the end of the year</b>	<b>8 879 323</b>

##### Accumulated amortisation

At the beginning of the year	-
Amortisation for the year	-
<b>At the end of the year</b>	<b>-</b>
<b>Carrying value at the end of the year</b>	<b>8 879 323</b>

The intangible asset consists of development costs for a new in-house tailor-made member administration IT system that is being developed by the Scheme over a two-year period. An impairment assessment

was performed at the financial position date and the Scheme is of the opinion that the project will continue and the system will be used in the future, therefore no impairment noted.

## 5. AVAILABLE-FOR-SALE INVESTMENTS

	2014	2013
	R	R
<b>Scheme</b>		
Fair value at the beginning of the year	1 154 712 264	1 053 411 915
Additions	2 650 169 253	1 324 483 867
Disposals	(2 641 145 773)	(1 307 256 346)
Interest received	45 136 708	38 628 963
Dividends received	13 226 045	8 355 234
Transaction fees	(26 881)	(37 090)
Management fees	(6 999 451)	(5 501 022)
Accrued income	637 658	-
Realised gain on disposal of available-for-sale investments	55 475 030	33 571 161
Unrealised (loss)/gain on revaluation of available-for-sale investments	(18 330 113)	9 055 582
<b>Fair value at the end of the year</b>	<b>1 252 854 740</b>	<b>1 154 712 264</b>
Non-current	1 018 854 938	876 063 989
Current	233 999 802	278 648 275
	<b>1 252 854 740</b>	<b>1 154 712 264</b>
<b>Personal medical savings account trust monies invested</b>		
Fair value at the beginning of the year	309 315 028	-
Additions	-	296 000 000
Interest received	19 687 522	13 496 202
Transaction fees	(813)	(892)
Management fees	(326 022)	(202 304)
Realised loss on disposal of available-for-sale investments	(542)	-
Unrealised (loss)/gain on revaluation of available-for-sale investments	(1 377 140)	22 022
<b>Fair value at the end of the year</b>	<b>327 298 033</b>	<b>309 315 028</b>
<b>Current</b>	<b>327 298 033</b>	<b>309 315 028</b>

The fair value of all the investments above are based on the open market value. The total realised and unrealised fair value gain recognised in equity relating to the available-for-sale investments amounted to

R37 144 917 (2013: R42 626 743) during the current year. A register of investments is available for inspection at the registered office of the Scheme.

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
<b>The Scheme investments included above represent investments in:</b>		
Segregated portfolio	709 832 920	471 264 675
- Equity	232 345 894	179 551 841
- Money Market funds	205 719 399	160 229 989
- Bonds	176 176 167	87 655 230
- SA Listed Properties	68 655 149	40 057 497
- Commodities - Gold, Platinum and Palladium	7 667 832	3 770 117
- International Fixed Interest Instruments	19 268 479	-
Linked Insurance Fund policies	309 022 017	283 369 981
- Equity	60 568 315	57 524 106
- Money Market funds	184 795 166	184 473 858
- Bonds	34 919 488	19 269 159
- SA Listed Properties	12 669 903	5 384 030
- Commodities - Gold, Platinum and Palladium	16 069 145	16 718 829
Money Market funds	233 999 802	278 648 275
Bonds	-	40 649 614
Collective Investment Schemes	-	80 779 719
	<b>1 252 854 740</b>	<b>1 154 712 264</b>
<b>The personal medical savings investments included above represent investments in:</b>		
Money Market funds	327 298 033	309 315 028
	<b>327 298 033</b>	<b>309 315 028</b>

The personal medical savings accounts were invested on behalf of members in the Money Market fund. The effective interest rate on the Money Market investments was 6.5% (2013: 4.5%) and the investments had an average maturity of 174 (2013: 212) days.

Refer to Note 41 for the Risk Management disclosures. The carrying amount of the investments approximates the fair values due to the short-term nature of the investments.

#### **Non-compliance with Medical Schemes Act: Financial arrangements - Section 35(8) of the Act.**

The Scheme indirectly hold assets in medical scheme administrators and participating employers through its investment portfolio, which is prohibited by Section 35(8) of the Act. This situation occurs industry wide and subsequently, the Scheme obtained exemption during 2012 from this requirement from the Council for Medical Schemes.

## 6. LOANS AND RECEIVABLES

	2014	2013
	R	R
At the beginning of the year	610 785	883 704
Redeemed	(290 327)	-
Monthly payments received	(226 134)	(317 751)
Finance charges	25 048	44 832
<b>At the end of the year</b>	<b>119 372</b>	<b>610 785</b>
Non-current	21 557	367 878
Current	97 815	242 907
	<b>119 372</b>	<b>610 785</b>

The Scheme granted loan amounts to employees and management over a maximum period of 60 months at the interest rate of 6.5% and 6.75%

2014 (2013: 6%), as published by SARS. The carrying amount of Loans and Receivables approximate their fair value.

## 7. TRADE AND OTHER RECEIVABLES

### Insurance receivables

Contributions outstanding	48 337 651	50 252 454
Recoveries from providers	316 166	201 615
Recoveries from members for co-payments	1 680 816	1 559 793
Personal medical savings account advances (Note 1.3)	1 555 264	3 513 494
	51 889 897	55 527 356
Less: Provision for impairment	(1 883 636)	(4 045 369)
Total receivables arising from insurance contracts	50 006 261	51 481 987

### Other loans and receivables

Prepaid expenses and deposits	4 821 262	3 770 590
Accrued interest	130 565	786 439
Sundry accounts receivable	1 633 639	2 215 411
	6 585 466	6 772 440
Recovery under risk transfer arrangements outstanding claims provisions	4 952 215	3 722 337
<b>Total trade and other receivables</b>	<b>61 543 942</b>	<b>61 976 764</b>

The carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets. Estimated

cash flow receipts have not been discounted as the effect would be immaterial. Refer to Note 41 for impairment disclosures.

## 8. CONTINGENT ASSET

### Road Accident Fund

Claims for third party debtors (the Road Accident Fund) for benefits paid on behalf of the Scheme's members are disclosed as a contingent asset as the inflow of economic benefits is probable, but not virtually certain.

### Minemed Medical Scheme

The Minemed Medical Scheme which amalgamated with Bestmed Medical Scheme with effect from 1 September 2013 (refer Note 38) paid an amount of R7 352 616 in respect of a single admission for a beneficiary. Minemed Medical Scheme has obtained an independent

expert opinion on the cause of the admission and the treatment provided and has been advised that there was probable negligence on the part of the service providers.

Minemed Medical Scheme has initiated legal action to recover the amounts paid as a consequence of the probable negligence and Bestmed Medical Scheme, after conducting its own investigation of the salient factors of the above case, decided to pursue with the legal action already initiated. Pleadings have closed and the Scheme is awaiting a trial date.

## 9. CURRENT ASSETS HELD FOR SALE

A decision was taken by the Board of Trustees of the Scheme to dispose of all the office buildings. The property was previously rented out to the Administrator of the Scheme, namely Sanlam Healthcare Management

(Pty) Ltd, and the rental agreement was terminated with effect from 31 December 2010. An active search is currently underway for a buyer as the building is available for immediate sale in its present condition.

The assets to be disposed are as follows:

	2014 R	2013 R
Opening Balance	4 000 000	4 000 000
Land	195 000	195 000
Building	3 805 000	3 805 000
Impairment Recognised against Revaluation Reserve	(300 000)	-
<b>Net assets classified as held for sale</b>	<b>3 700 000</b>	<b>4 000 000</b>

The Revaluation Reserve of R1 997 295 on the Statement of changes in members' funds and reserves relates to this asset held for sale.

This property is valued annually by an independent professional qualified valuer, not connected with the Scheme. The valuer is a member of the Institute of Valuers, has appropriate qualifications and recent experience in the valuation of properties in the relevant

location. The valuation calculation was made on the basis of the income capitalisation method whereby the projected annual income based on market related rentals for improvements offered is determined. Other market related variables (expenditure and vacancies) are established and subtracted from the gross income. The net income for the first year is then capitalised into perpetuity at a market related rate.

## 10. CASH AND CASH EQUIVALENTS

<b>Scheme</b>	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
Call accounts	42 869 731	35 923 562
Current accounts	13 633 655	56 981 676
	<b>56 503 386</b>	<b>92 905 238</b>

The weighted average effective interest rate on short-term cash deposits was 5.22% (2013: 4.51%) and had an average maturity of 25.21 days (2013: 23.38 days). The carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

### Investment of personal medical savings account trust monies managed by the Scheme on behalf of its members

Current accounts	161 217 156	71 793 498
	<b>161 217 156</b>	<b>71 793 498</b>

The weighted average effective interest rate on the short-term cash was 1.57% (2013: 1%) and the carrying amounts of cash and cash

Refer to Note 23 for the total interest earned on the bank accounts and fixed deposits which are included in investment income in the statement of comprehensive income.

equivalents approximate their fair values due to the short-term nature of these assets.

## 11. RETIREMENT BENEFIT OBLIGATIONS

### Pension Fund

All the employees of the Scheme contribute towards a defined contribution plan. A defined contribution plan is a pension plan under which the Scheme and employees pay fixed percentage contributions into a separate entity. The Scheme has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

### Post-retirement medical obligation

The Scheme did make provision for contributions towards medical benefits after normal retirement. Provision is made for the estimated benefits of the existing 22 (2013: 26) pensioners. The total present value of the liability based on a projected-unit-credit basis as at 31 December 2014 is R13 733 176 (2013: R14 132 359). The liability of all active employees was settled.



	2014	2013
<b>The independent actuarial assumptions and valuation at year-end were:</b>		
Number of pensioner members	22	26
Future long-term medical inflation	9.2% p.a.	7.36% p.a.
Expected yield on assets	8.2%	8.5%

#### Mortality assumptions

Post-retirement Male	Rated down by 1 year	PA 90	PA 90
Post-retirement Female	Rated down by 2 years	PA 90	PA 90

#### Life expectancy - present age 62

Male	17,64	15,13
Female	23,42	19,28

#### Other assumptions

No significant changes would occur in the structure of the medical arrangements. Current contribution scales for members have been used as a basis for the calculations and have assumed that the scales will remain unchanged, with the exception of annual adjustments for medical inflation.

#### Contribution tables

The monthly medical scheme contributions for 2015 used in the valuation of the contributions liability are as follows:

	Income Band R	Principal Member R	Adult Dependant R	Child Dependant R
Beat1	All	1 046	812	440
Beat2	All	1 287	1 000	542
Beat3	All	1 963	1 394	758
Beat4	All	2 934	2 423	726
Pace1	All	2 524	1 772	637
Pace2	All	3 529	3 459	778
Pace3	<R98 500 p.a.	3 467	2 774	643
Pace3	>R98 500 p.a.	4 165	3 322	697
Pace4	All	4 849	4 849	1 136
Pulse1	R0 - R5 500 p.m.	1 029	978	618
Pulse1	R5 501 - R8 500 p.m.	1 235	1 174	741
Pulse1	>R8 501 p.m.	1 483	1 334	741
Pulse2	All	3 551	3 551	844

## 11. RETIREMENT BENEFIT OBLIGATIONS (continued)

	2014	2013
	R	R
<b>The value recognised in the statement of financial position are:</b>		
Liability at 1 January	14 132 359	14 724 759
Settlements	(795 199)	(847 755)
Interest cost	1 167 454	1 144 071
Actuarial (gain)/loss	(771 438)	(888 716)
<b>Liability at year-end in the statement of financial position</b>	<b>13 733 176</b>	<b>14 132 359</b>

### Settlements

Settlements are the amounts paid with respect to the monthly subsidies of pensioners' medical scheme contributions.

### Interest cost

The interest cost is the assumed investment return on the unfunded liability. A rate of 8.5% per annum was used for the year ended 31 December 2014 (2013: 8%).

### Actuarial gain

The liabilities are based on projections of future experience. Any difference between the actual experience since the date of previous valuation and that assumed in the previous projections will emerge as actuarial gains or losses. In addition, any changes to the assumptions will manifest as an actuarial gain or loss.

**An actuarial gain of R771 438 (2013: R888 716) is reported over the past year in the statement of comprehensive income. This gain is due to the following factors:**

• Demographic experience (specifically mortality) and that assumed in the previous valuation gave rise to an actuarial gain.	1 758 038	1 992 076
• Changes made to assumptions, the decrease in the discount rate from 8.5% to 8.2% and an increase in the medical cost inflation assumption from 8.31% to 9.2%.	(887 894)	(733 030)
• Actual contribution increases on 1 January 2014 were 8.8% as opposed to the assumption of 7.4% used (2013: 10% and 6.93%).	(98 706)	(370 330)
	<b>771 438</b>	<b>888 716</b>

## History on year-end balances

	Balance on statement of financial position	Actuarial (loss)/gain in statement of comprehensive income
	R	R
<b>At 31 December</b>		
2014	13 733 176	771 438
2013	14 132 359	888 716
2012	14 724 759	(705 065)
2011	13 694 425	955
2010	13 453 040	(870 403)
2009	12 294 256	(1 589 370)
2008	14 617 517	(2 550 926)
2007	11 126 271	(641 801)
2006	9 717 282	(528 519)

## Sensitivity analysis

The following table illustrates the impact of a 1% and 0.5% increase and decrease in the assumed future rate of medical inflation:

	Base	Inflation plus 1%	Inflation plus 0.5%	Inflation minus 1%	Inflation minus 0.5%
	R	R	%	R	%
<b>2014</b>					
Liability at 1 January 2014	14 132 359	14 132 359	14 132 359	14 132 359	14 132 359
Settlements	(795 199)	(795 199)	(795 199)	(795 199)	(795 199)
Interest cost	1 167 455	1 167 455	1 167 455	1 167 455	1 167 455
Actuarial (gain)/loss	(771 438)	761 723	(34 577)	(2 087 174)	(1 454 068)
<b>Liability as at 31 December 2014</b>	<b>13 733 177</b>	<b>15 266 338</b>	<b>14 470 038</b>	<b>12 417 441</b>	<b>13 050 547</b>
<b>2015</b>					
Liability at 1 January 2015	13 733 177	15 266 338	14 470 038	12 417 441	13 050 547
Settlements	(820 524)	(820 524)	(820 524)	(820 524)	(820 524)
Interest cost	1 092 479	1 218 198	1 152 902	984 589	1 036 503
<b>Liability as at 31 December 2015</b>	<b>14 005 132</b>	<b>15 664 012</b>	<b>14 802 416</b>	<b>12 581 506</b>	<b>13 266 526</b>

For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.

## 12. FINANCE LEASE LIABILITY

	2014 R	2013 R
<b>Interest-bearing leases</b>		
Finance lease at the beginning of the year	2 710 666	4 364 869
Settlements	-	(6 342)
Monthly installments	(1 735 454)	(1 988 165)
Finance charges	180 061	340 304
<b>Finance leases at the end of the year</b>	<b>1 155 273</b>	<b>2 710 666</b>
Non-current finance leases at the end of the year	25 198	1 157 517
Current portion included in current liabilities (Note 15)	1 130 075	1 553 149
	<b>1 155 273</b>	<b>2 710 666</b>

The finance lease liabilities are secured by computer and office equipment (Note 2). Bestmed Medical Scheme leased the equipment from Centrafin (Pty) Ltd and Dell Financial Services on 1 July 2012.

### Centrafin (Pty) Ltd

These finance leases are repayable over an average period of three years and the average interest paid is 16.7% (2013: 16.5%) per annum. The lease agreements provide for monthly payments in arrears with no residual values. The lease agreements do not provide for contingent rent payments, ownership remains with Centrafin (Pty) Ltd and the lease is renewable at the expiry of the initial lease term.

### Dell Financial Services

This finance lease is repayable over three years and interest is paid at 20.5% (2013: 20.5%) per annum. The lease agreement provide for 13 quarterly payments of R236 685 each and no residual value. The agreement does not provide for contingent rent payments, ownership remains with Dell Financial Services and the lease is renewable at the expiry of the initial lease term.

### Finance lease liabilities are payable as follows:

	Up to 1 year R	More than 1 not later than 5 years R	More than 5 years R	Total R
<b>2014</b>				
Minimum lease payments	1 172 471	25 684	-	1 198 155
Finance cost	(42 396)	(486)	-	(42 882)
	<b>1 130 075</b>	<b>25 198</b>	-	<b>1 155 273</b>
<b>2013</b>				
Minimum lease payments	1 733 695	1 199 351	-	2 933 046
Finance cost	(180 546)	(41 834)	-	(222 380)
	<b>1 553 149</b>	<b>1 157 517</b>	-	<b>2 710 666</b>

### 13. PERSONAL MEDICAL SAVINGS ACCOUNT TRUST LIABILITY

	2014	2013
	R	R
<b>Monies managed by the Scheme on behalf of its members</b>		
Balance on personal medical savings account liability at the beginning of the year	389 792 054	306 418 246
<b>Less</b>		
Advances on personal medical savings accounts (Note 7)	(3 513 494)	(3 268 015)
Balance on personal medical savings account liability at the beginning of the year	386 278 560	303 150 231
Additional personal medical savings accounts from Minemed amalgamation (Note 38)	-	1 240 000
<b>Add</b>		
Personal medical savings account contributions received or receivable (Note 16)	622 406 159	495 437 003
Personal medical savings account balances received from other Schemes	1 883 124	1 229 323
Interest on personal medical savings account trust funds invested paid to members (Note 25)	23 178 461	14 435 205
Advances on personal medical savings accounts written off or in debt recovery process	3 908 698	-
Personal medical savings transferred from the Guardians Fund	15 271 519	-
<b>Less</b>		
Personal medical savings claims paid on behalf of members (Note 17)	(528 374 106)	(409 189 480)
Refunds on death or resignations	(18 756 850)	(16 423 031)
Personal medical savings payable to the Guardians Fund	-	(3 418 750)
Bank charges and investment management fees incurred	(600 959)	(181 941)
Unrealised loss on revaluation of savings trust investment	(1 399 696)	-
<b>Add</b>		
Advances on personal medical savings accounts (Note 7)	1 555 264	3 513 494
<b>Balances due to members on personal medical savings accounts held in trust at end of year</b>	<b>505 350 174</b>	<b>389 792 054</b>

In accordance with the Rules of the Scheme, the personal medical savings accounts are underwritten by the Scheme.

The personal medical savings account trust liability contains a demand feature in terms of Regulation 10 of the Medical Schemes Act that any credit balance on a member's personal medical savings account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option, and then enrolls in another benefit option or medical scheme without a personal medical savings account or does not enroll in another medical scheme.

Interest earned on all personal medical savings account funds invested as cash and cash equivalents and available-for-sale investments are

allocated to members' personal medical saving account balances, and are not recognised as income for the Scheme. The Scheme does not charge interest on debit personal medical savings plan balances and advances on personal medical savings accounts are funded by the Scheme and are included and disclosed in trade and other receivables.

#### **Unclaimed personal medical savings payable to the Guardians Fund**

The Scheme started with daily payments of unclaimed personal medical savings monies older than five years into the Guardians Fund bank account after advertising in the Government Gazette of January 2014. The Scheme successfully executed these daily payments as per their

### 13. PERSONAL MEDICAL SAVINGS ACCOUNT TRUST LIABILITY

(continued)

maximum daily limits for five weeks - transferring more than R6 million into their bank account.

The Guardians Fund then notified the Scheme that payments cannot continue due to the fact that ex-member's second and third names are not disclosed in full from our administration system, even though

the surname, initials and ID numbers are complete. Subsequently the Guardians Fund refunded all monies already paid back to the Scheme, and the Scheme is awaiting guidance from the Council for Medical Schemes as the majority of ex member's full names are not available, nor have these members responded on various communications regarding the personal medical savings monies payable to them.

### 14. OUTSTANDING CLAIMS PROVISION

	Covered by risk transfer arrangements	Not covered by risk transfer arrangements	Total
	R	R	R
<b>2014</b>			
<b>Provision for outstanding claims incurred but not reported</b>	<b>4 952 215</b>	<b>88 200 000</b>	<b>93 152 215</b>
<b>Analysis of movements in outstanding claims</b>			
Balance at the beginning of the year	3 722 337	92 928 998	96 651 335
Payments in respect of the prior year	(4 307 828)	(95 499 660)	(99 807 488)
(Under)/over provision in the prior year	(585 491)	(2 570 662)	(3 156 153)
Adjustment for the current year	5 537 706	90 770 662	96 308 368
<b>Balance at end of the year</b>	<b>4 952 215</b>	<b>88 200 000</b>	<b>93 152 215</b>
<b>2013</b>			
<b>Provision for outstanding claims incurred but not reported</b>	<b>3 722 337</b>	<b>92 928 998</b>	<b>96 651 335</b>
<b>Analysis of movements in outstanding claims</b>			
Balance at the beginning of the year	3 475 503	86 000 000	89 475 503
Payments in respect of the prior year	(4 251 714)	(88 720 348)	(92 972 062)
(Under)/over provision in the prior year	(776 211)	(2 720 348)	(3 496 559)
Adjustment for the current year	4 498 548	95 649 346	100 147 894
<b>Balance at end of the year</b>	<b>3 722 337</b>	<b>92 928 998</b>	<b>96 651 335</b>

#### Process used to determine the assumptions

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, best estimates are used.

Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available

from Managed Care: Management Services and historical evidence of the size of similar claims. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by category of claims (i.e. in-hospital, chronic and above threshold benefits) due to differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a claim and reporting lags.

The cost of outstanding claims at year-end is estimated using the chain ladder model. This model extrapolates the development of paid and incurred claims, average cost per claims and ultimate claim numbers for each benefit year based upon observed development of earlier years and expected loss ratio. Run-off triangles are used in situations where it takes time after the treatment date for the full extent of the claims to become known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in the known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

The actual method or blend of method used varies according to the particular benefit year being considered, categories of claims and observed historical claims development. To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- Changes in processes that affect the development/recording of claims paid and incurred (such as changes in claim reserving procedures);
- Economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum medical benefits to be provided);
- Changes in medical composition of members and their dependants; and
- Random fluctuations, including the impact of large losses.

### Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected claims ratios for the most recent benefit years for the in-hospital, chronic and day-to-day benefits. These are used for assessing the outstanding claims provisions for the 2014 and 2013 benefit years.

### Sensitivity analysis

The following table illustrates the impact of a 1% increase and decrease in the outstanding claims provision:

2014	Base R	Inflation +1% R	% Change	Inflation -1% R	% Change
Liability as at 31 December 2014	93 152 215	94 083 737	1.00%	92 220 693	(1.00%)

### Changes in assumptions and sensitivities to changes in key variables

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables.

Where variables are considered to be immaterial, no impact has been assessed for significant changes to these variables. Variables have not been considered to be material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable may be required.

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the Scheme's estimation process. The Scheme believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

#### 14. OUTSTANDING CLAIMS PROVISION (continued)

##### Impact on surplus reported caused by reasonable possible changes in key variables

2014 Scenario	Claims for 2014 services paid from Jan 2015 to Feb 2015 R	2014 Claims estimated at that time to be paid after Feb 2015 R	Outstanding claims provision R	% Change in outstanding claims provision %
Base scenario	76 215 258	11 950 787	88 166 045	
10% increase	76 215 258	13 145 866	89 361 124	1.36%
10% decrease	76 215 258	10 755 708	86 970 966	(1.36%)

2013 Scenario	Claims for 2013 services paid from Jan 2014 to Mar 2014 R	2013 Claims estimated at that time to be paid after Mar 2014 R	Outstanding claims provision R	% Change in outstanding claims provision %
Base scenario	90 446 156	2 482 842	92 928 998	
10% increase	90 446 156	2 731 126	93 177 282	0.27%
10% decrease	90 446 156	2 234 558	92 680 714	(0.27%)

This analysis is prepared for a change in a specified variable with other assumptions remaining constant. The change in liability also represents the absolute change in surplus for the period. It should be noted that

increases in liabilities will result in decreases in surplus and vice versa. These reasonable possible changes in key variables do not result in any direct changes directly in reserves.



## 15. TRADE AND OTHER PAYABLES

	2014	2013
	R	R
<b>Insurance liabilities</b>		
Contributions received in advance	35 260 944	36 964 255
Unclaimed payments	17 196 131	6 605 485
Outstanding cheques	-	15 403 647
Outstanding electronic claims payment	65 455 415	31 348 342
	<u>117 912 490</u>	<u>90 321 729</u>
<b>Financial liabilities</b>		
Other payables and accrued expenses	10 806 156	41 491 283
Trade creditors payable	7 476 968	8 549 282
Current portion of finance lease (Note 12)	1 130 075	1 553 149
<b>Total trade and other payables</b>	<u>19 413 199</u>	<u>51 593 714</u>
<b>Provisions</b>		
Leave provision at the beginning of the year	6 070 746	5 501 517
Movement for the year	14 764	569 229
Leave provision at the end of the year	6 085 510	6 070 746
	<u><b>143 411 199</b></u>	<u><b>147 986 189</b></u>
<b>Reported claims not yet paid</b>		
Balance at beginning of year	31 348 342	19 972 302
Movement for the year	34 107 073	11 376 040
<b>Balance at end of year</b>	<u><b>65 455 415</b></u>	<u><b>31 348 342</b></u>

The carrying amounts of trade and other payables approximate their fair values due to the short-term maturities of these liabilities.

## 16. RISK CONTRIBUTION INCOME

Gross contributions	3 874 697 957	3 282 345 771
Less: Personal medical savings account contributions (Note 13)	(622 406 159)	(495 437 003)
	<u><b>3 252 291 798</b></u>	<u><b>2 786 908 768</b></u>

The personal medical savings account contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's Registered Rules and it is held in trust on behalf of the members of the Scheme

## 16. RISK CONTRIBUTION INCOME (continued)

### Non-compliance with Medical Schemes Act: Contribution payments not received within three days of becoming due - Section 26(7)

In terms of Section 26(7) of the Medical Schemes Act 131 of 1998, as amended, not all contributions were received within three days

after payment thereof becoming due. The Scheme has policies and procedures in place to suspend membership if a payment is not received within three days of the due date.

## 17. NET CLAIMS INCURRED

	2014 R	2013 R
<b>Claims incurred excluding claims incurred in respect of risk transfer arrangements</b>		
Current-year claims as per Registered Rules	3 241 439 970	2 682 483 146
Income from services provided to members in own facilities (Note 28)*	-	(806 347)
Cost incurred in providing services to members in own facility (Note 28)*	-	1 128 966
Movement in outstanding claims provision	90 770 662	95 649 346
Under/(over) provision in prior year	2 570 662	2 720 348
Adjustment for current year	88 200 000	92 928 998
Claims paid from personal medical savings accounts	(528 374 106)	(409 189 480)
	<u>2 803 836 526</u>	<u>2 369 265 631</u>
<b>Claims incurred in respect of risk transfer arrangements</b>		
Current-year claims incurred in respect of risk transfer arrangements (Note 18)	123 008 155	114 775 276
Recovery under risk transfer arrangements	(5 537 706)	(4 498 548)
Movement in outstanding claims provision	5 537 706	4 498 548
Underprovision in prior year	585 491	776 211
Adjustment for current year	4 952 215	3 722 337
	<u>123 008 155</u>	<u>114 775 276</u>
Hospital discount received	(6 980 618)	(6 436 574)
Third party claims recoveries	(6 030 517)	(6 067 007)
<b>Net claims incurred per the statement of comprehensive income</b>	<u><u>2 913 833 546</u></u>	<u><u>2 471 537 326</u></u>

\* The 2014 own facility expenditure is disclosed as per the 2014 SAICA guide whereby all own facility income and expenditure are disclosed only in Note 28.

## 18. RISK TRANSFER ARRANGEMENTS

2014	CareCross Health	Prime Cure	OneCare Health	ER24	Preferred Provider Negotiators	Total
	R	R	R	R	R	R
Capitation fees paid	22 486 381	105 279	26 120 424	20 018 989	48 650 476	117 381 549
Recoveries received	(27 086 815)	-	(27 024 803)	(21 980 179)	(46 916 358)	(123 008 155)
<b>Net (income)/expense on risk transfer arrangement</b>	<b>(4 600 434)</b>	<b>105 279</b>	<b>(904 379)</b>	<b>(1 961 190)</b>	<b>1 734 118</b>	<b>(5 626 606)</b>

2013	Prime Cure	OneCare Health	ER24	Preferred Provider Negotiators	Total
	R	R	R	R	R
Capitation fees paid	25 705 856	30 866 832	17 126 196	44 202 347	117 901 231
Recoveries received	(26 920 433)	(27 042 356)	(16 452 346)	(44 360 141)	(114 775 276)
<b>Net (income)/expense on risk transfer arrangement</b>	<b>(1 214 577)</b>	<b>3 824 476</b>	<b>673 850</b>	<b>(157 794)</b>	<b>3 125 955</b>

A risk transfer arrangement is defined by IFRS 4 as an insurance contract issued by one insurer (the reinsurer) to compensate another insurer (the cedant) for losses on one or more contracts issued by the cedant. The cost the Medical Scheme would have incurred to deliver the specified benefits had it not entered into the capitation agreement, primarily represents the Scheme's exposure to its members, as the capitation agreement cannot absolve the Medical Scheme from its responsibility towards its members. This "cost" is disclosed as claims incurred from insurance contracts (Note 17).

The Scheme would have incurred this "cost" (had it not entered into the capitation agreement) to deliver the specified benefits and as such it represents the Scheme's recovery in kind from the managed healthcare provider. This recovery in kind, of cost incurred, is disclosed as recoveries from risk transfer arrangements.

The Scheme entered into the above risk transfer arrangements (capitation contracts) whereby the parties agreed that the above service providers will render services to beneficiaries on certain options of the Scheme. A fixed fee was paid monthly to OneCare Health, CareCross Health, Prime Cure, ER24 and the Preferred Provider Negotiators per beneficiary. The following services were rendered to beneficiaries:

- General Practitioner consultations;
- Acute Medicine;
- Chronic Medicine;
- Pathology as required;

- Radiology as required;
- Conservative Dentistry;
- Optical services.

The methodologies used to determine the claims covered by these arrangements are set out below:

### CareCross Health

CareCross Health provided out-of-hospital healthcare services to members on the Pulse1 option. CareCross used three year's historic claims patterns across all schemes to establish a seasonality trend per day per month. The Scheme's daily historic claim patterns per discipline type per life per month are then calculated and used to determine the cost per life per day of the week.

### Assumptions

- Calculations are based on NRPL plus inflation and are VAT inclusive.
- The Radiology, Pathology, Out of Area and GP costs are based on actual visits by members at NRPL plus inflation.
- The GP medicine is the cost of medicine dispensed at NRPL plus inflation.
- The medicines from pharmacy costs are based on actual dispensing to members at NRPL plus inflation
- Capitated GPs costs are based on the allocated patient visits at NRPL plus inflation.

## 18. RISK TRANSFER ARRANGEMENTS (continued)

### Prime Cure

Prime Cure has indicated the transaction cost of each service by replacing the actual value that Prime Cure has negotiated and paid its Designated Service Providers (DSPs) with the latest National Health Reference Price Listing (NHRPL) adjusted with an inflation fee in respect of the same service, the latter of which is typically the agreed fee paid by the medical scheme or the patient in a fee-for-service environment.

Where Prime Cure pays a fixed fee for a combination of services in accordance with its agreements with DSPs (e.g. a single fee which includes a consultation as well as acute medicines dispensed at the time of the consultation by a dispensing practitioner), the transaction is split into its component parts, e.g. the consultation fee at the latest NHRPL plus inflation and the medicine at Single Exit Price (SEP) plus a mark-up typically charged by a retail pharmacy.

#### Assumptions

- Dentistry expenses calculated at Department of Health 2009 rates plus annual inflation.
- General Practitioner expenses calculated at Department of Health 2009 rates plus annual inflation. All acute medication is currently included in the capitation fee paid - a proxy value has been added to the Department of Health 2008 value to adjust for acute medication. The value has been calculated at the average value paid per acute script per visit (as for non-dispensing providers).
- Medicine expenses calculated at the industry 26% / R26 plus Single Exit Price (SEP).
- Specialist expenses calculated at Department of Health 2009 rates plus annual inflation. This category includes Radiology, Pathology, Auxiliary Services and all other Specialists.
- Radiology and Pathology calculated at Department of Health 2009 rates plus annual inflation.
- Optometry tariffs referenced from suggested tariffs by Healthman and Optical Assistant.
- Hospital expenses calculated at Department of Health 2009 rates plus 23%. This includes casualty visits.

### OneCare Health

OneCare Health provided out-of-hospital healthcare services to members on the Pulse2 option.

#### Assumptions

- Calculations are based on NRPL plus inflation and are VAT inclusive.
- GPs are reflected at the national average of 3.6 visits at NRPL plus inflation
- The other disciplines' costs are based on actual visits by members at NRPL plus inflation
- The medicines from pharmacy costs are based on actual dispensing to members at NRPL plus inflation

### ER24

The cost that the Scheme would have incurred for ambulance services are disclosed by ER24. Detailed records are kept of all services to every member of a medical scheme with a contracted capitation agreement. The fixed cost per member per month paid to ER24 includes administration costs, which consist of marketing cost, the pre-authorisation system and administration fees.

The Scheme took out insurance for International Travel at a rate of R3.26 (2013: R3.26) per member with ER24. The total travel insurance paid to ER24 for 2014 was R3.5 M (2013: R3.2 M).

### Preferred Provider Negotiators

Preferred Provider Negotiators are to provide Optometric Services by the participating providers to Bestmed members, which include consultations, frames, lenses and contact lenses. Claims incurred and recoveries received were calculated based on utilisation figures obtained from Preferred Provider Negotiators.

## 19. MANAGED CARE MANAGEMENT SERVICES

	2014	2013
	R	R
Hospital and Specialist pre-authorisations	20 636 554	21 423 534
Pharmacy Benefit management	7 952 695	7 373 264
Chronic medication management services	4 726 388	5 360 875
HIV management	3 394 349	3 176 776
Disease and Prescribed Minimum Benefit management	2 919 130	2 914 726
Development of clinical protocols and policies for new and existing medicines, treatments and technologies	2 507 722	2 760 340
Provider network management services	2 227 848	2 289 842
Oncology utilisation management	1 664 111	1 731 584
Wellness and preventative care	2 179 786	1 582 632
Contracted network primary health care and specialist services	1 146 530	1 162 997
Development, implementation and management of professional risk expenditure with provider networks	1 146 530	1 162 997
Service provider negotiations and management	1 146 530	1 162 997
Maternity programme	716 830	-
	<b>52 365 003</b>	<b>52 102 564</b>

## 20. BROKER SERVICE FEES AND OTHER DISTRIBUTION FEES

Brokers' fees	52 448 063	43 002 510
Other Distribution fees*	9 801 797	-
	<b>62 249 860</b>	<b>43 002 510</b>

### Compensation to brokers - Non-compliance with Section 65(2) of the Act

Section 65(2) of the Act states that a medical scheme may only compensate brokers as prescribed by the Minister in respect of the amount of the compensation which, the category of persons to whom, the conditions upon which, and any other circumstances under which, a medical scheme may compensate any person.

Distribution fees amounting to R3 000 per month were paid to the brokerage Mozmed SA (Pty) Ltd over and above standard broker commission. These payments were an administrative error which occurred due to a change of ownership and status of the brokerage which was previously a tied agent dedicated to the Scheme. Immediate action to recover these fees from the brokerage was initiated.

\* The 2014 distribution fees is disclosed in Note 20 as per the 2014 SAICA guide, whereas the 2013 distribution fees are disclosed in Note 21.

## 21. ADMINISTRATION EXPENSES

	Notes	2014 R	2013 R
Actuarial fees		1 626 484	1 572 060
Audit fees		1 889 181	766 914
External audit services for previous year's audit		1 090 638	641 877
External audit services for current year audit		682 446	121 182
Other		116 097	3 855
Bank charges		2 637 605	2 374 089
Consultation fees		3 137 041	2 786 360
Debt collection fees		522 387	757 814
Depreciation	2	8 141 373	6 642 360
Distribution fees*		-	12 656 011
Employee benefit expenses	30	90 125 680	86 412 736
Employee recruitment, training and development		4 536 416	2 167 613
Insurance premiums		930 037	1 069 232
Internal audit fees		703 127	775 186
Information Technology		47 818 920	43 988 828
IT maintenance		2 449 876	2 030 047
License fees		2 267 908	1 425 577
Legal fees		5 247 742	1 398 427
Marketing and advertising expenses		34 634 798	27 692 881
Office rent		17 512 218	18 113 140
Other expenses		5 102 530	4 640 736
Principal Officers' fees	30	4 152 310	5 684 447
Printing and stationery expenses		4 390 868	3 791 660
Registrar's levies and other fees		2 499 446	1 941 901
Telephone and postage fees		5 810 701	6 613 199
Total trustee remuneration and travel and accommodation expenses	33	2 348 728	2 170 203
Travel, accommodation and conferences		3 741 223	3 778 513
		<b>252 226 599</b>	<b>241 249 934</b>

\* The 2014 distribution fees is disclosed in Note 20 as per the 2014 SAICA guide, whereas the 2013 distribution fees are disclosed in Note 21.

## 22. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES

	Notes	2014 R	2013 R
<b>Trade and other receivables</b>			
Members' and service providers' portions that are not recoverable			
Movement in provision		433 794	(1 502 266)
Bad debts recovered		468 106	357 280
Bad debts written off		(5 010 283)	(2 753 192)
		<b>(4 108 383)</b>	<b>(3 898 178)</b>

## 23. INVESTMENT INCOME

### Income from Scheme investments

Available-for-sale financial assets - interest income	5	45 136 708	38 628 963
Available-for-sale financial assets - dividend income		13 226 045	8 355 234
Cash and cash equivalents - interest income		1 331 713	4 304 881
Net realised gains on available-for-sale financial assets	5	55 475 030	33 571 161
		<b>115 169 496</b>	<b>84 860 239</b>

### Net realised gains/(losses) on Scheme available-for-sale financial assets

Realised gains on financial assets - available-for-sale:			
- Equity	5	55 475 030	33 633 529
- Money Market		-	(62 368)
		<b>55 475 030</b>	<b>33 571 161</b>

### Personal medical savings account trust monies invested

Available-for-sale financial assets - interest income	5	21 202 418	13 496 202
Cash and cash equivalents - interest income	10	1 976 043	939 003
		<b>23 178 461</b>	<b>14 435 205</b>

## 24. OTHER OPERATING INCOME

Sundry income		8 193 274	4 476 583
Net profit on disposal of fixed assets		135 740	128 186
Income from services rendered to third parties in own facilities (Note 28)**		-	515 534
		<b>8 329 014</b>	<b>5 120 303</b>

\*\* The 2014 own facility income and expenditure of Scheme members are disclosed as per the 2014 SAICA guide.

## 25. INTEREST PAID ON PERSONAL MEDICAL SAVINGS TRUST ACCOUNTS

	Notes	2014 R	2013 R
Interest paid on members' personal medical saving account balances	13	23 178 461	14 435 205
		<u>23 178 461</u>	<u>14 435 205</u>

## 26. INTEREST PAID

Interest paid on Finance leases	12	180 061	340 304
		<u>180 061</u>	<u>340 304</u>

## 27. ASSET MANAGEMENT FEES

### Scheme

Expenses for asset management services rendered	5	6 999 451	5 501 022
		<u>6 999 451</u>	<u>5 501 022</u>

### Personal medical savings account trust monies invested

Expenses for asset management services rendered	5	326 022	202 305
		<u>326 022</u>	<u>202 305</u>



## 28. OWN FACILITY EXPENDITURE

	Notes	2014 R	2013 R
<b>Income</b>			
Income from medical services rendered in own facilities		4 316 174	1 321 881
Less: Income from services rendered to third parties included in Other income*	24	-	(515 534)
Less: Income from services rendered to Scheme members included in Claims*	17	-	(806 347)
		<u>4 316 174</u>	<u>-</u>
<b>Expenditure in operating own facility</b>			
Total costs incurred in operating own facility		8 262 764	2 894 785
Total healthcare provider costs		5 689 246	1 802 548
Changes in inventories		877 128	144 872
Administration expenses		491 880	159 554
Information Technology		521 909	617 659
Facilities expenditure		682 601	170 152
Less: Costs relating to members included in Claims*	17	-	(1 128 966)
		<u>8 262 764</u>	<u>1 765 819</u>
<b>Deficit on Own Facility</b>		<b><u>3 946 590</u></b>	<b><u>1 765 819</u></b>

Bestmed Medical Scheme received ownership of the Medical Centres from Minemed Medical Scheme during the amalgamation of the schemes on 1 September 2013 (refer Note 38). The Medical Centres provide healthcare services to members and third parties in these facilities, which generate its own revenue for the services rendered. Cost incurred by the Medical Centres represent functional medical

equipment, medical supplies, facility expenditure and nursing and administration services.

\* The 2014 own facility income and expenditure of Scheme members are disclosed as per the 2014 SAICA guide.

## 29. OTHER LOSSES

Net loss on disposal of fixed assets	2	48 260	229 198
		<u>48 260</u>	<u>229 198</u>

### 30. EMPLOYEE BENEFIT EXPENSES

	Notes	2014 R	2013 R
Salaries and Bonuses		74 893 673	74 778 784
Retirement benefits		7 801 873	7 476 111
Medical and other benefits		8 553 994	7 534 216
Increase in leave pay accrual		2 632 434	2 052 717
Retirement benefit obligations		396 016	255 355
		<u>94 277 990</u>	<u>92 097 183</u>
Less: Principal Officer's compensation	34	(4 152 310)	(5 684 447)
- Salary		(2 880 867)	(2 700 990)
- Bonuses paid and provided for		(399 326)	(2 179 174)
- Retirement benefits		(511 956)	(467 947)
- Medical and other benefits		(360 161)	(336 336)
		<u><b>90 125 680</b></u>	<u><b>86 412 736</b></u>

### 31. COMMITMENTS

#### Operating lease commitments

The Scheme leases various properties and equipment under non-cancellable operating lease agreements with escalation clauses and renewal rights. The payments will escalate between 5% and 10% per annum and the periods vary from 36 to 97 months. The lease

expenditure charged to the Statement of Comprehensive Income during the financial year is disclosed in Note 21.

The future aggregate minimum lease payments under non-cancellable agreements are as follows:

No later than 1 year	14 722 299	13 881 522
Later than 1 year and no later than 5 years	13 990 279	25 519 333
More than 5 years	-	-
	<u><b>28 712 578</b></u>	<u><b>39 400 855</b></u>

### 32. CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	2014 R	2013 R
<b>Net surplus for the year</b>		<b>85 459 161</b>	<b>54 136 500</b>
Adjusted for:			
Depreciation	2	8 161 113	6 647 013
Net (profit)/loss on disposal of fixed assets	24; 29	(87 480)	101 012
Decrease in provision for retirement benefit obligations	11	(399 183)	(592 400)
Net realised gains on available-for-sale financial assets	5	(55 475 030)	(33 571 161)
Investment income		(69 646 882)	(57 369 049)
Scheme	23	(46 468 421)	(42 933 844)
Return on personal medical savings account trust monies invested	23	(23 178 461)	(14 435 205)
Interest paid		23 358 522	14 775 509
Scheme	26	180 061	340 304
Interest paid on personal medical savings account trust monies invested	25	23 178 461	14 435 205
Dividends received	23	(13 226 045)	(8 355 234)
<b>Operating loss before changes to working capital</b>		<b>(21 855 824)</b>	<b>(24 227 810)</b>
Changes to working capital		107 916 832	107 830 108
Decrease in trade and other receivables	7	432 822	10 133 484
(Decrease)/increase in accounts payable	15	(4 574 990)	31 469 824
Decrease in provision for outstanding claims	14	(3 499 120)	(15 907 008)
Increase in personal medical savings account liabilities	13	115 558 120	82 133 808
<b>Cash generated from operations</b>		<b>86 061 008</b>	<b>83 602 298</b>

### 33. TOTAL TRUSTEE REMUNERATION AND CONSIDERATION EXPENSES

	Fees for attending Board meetings	Monthly fees for Strategic Committee	Fees for attending sub-committee meetings	Total remuneration	Travel and accommodation	Training	Conference fees	Total considerations
	R	R	R	R	R	R	R	R
<b>2014</b>								
Adv JJ Labuschagne <i>(Retired 30 May 2014)</i>	54 932	-	-	54 932	-	-	-	54 932
AF Marais <i>(End of term 30 May 2014)</i>	54 215	-	-	54 215	21 337	-	-	75 552
Dr J Moncrieff <i>(Elected 30 May 2014)</i>	101 864	-	-	101 864	-	912	-	102 776
WJ Myburgh	130 580	-	30 261	160 841	-	-	-	160 841
EL Steenkamp <i>(Elected 30 May 2014)</i>	192 362	-	22 695	215 057	-	-	-	215 057
Adv GW Alberts <i>(Removed 13 November 2014)</i>	137 884	34 672	90 784	263 340	-	-	-	263 340
B Albrecht <i>(Removed 13 November 2014)</i>	81 148	-	22 695	103 843	-	-	-	103 843
P de V Swart <i>(Removed 13 November 2014)</i>	106 366	-	22 695	129 061	72 201	-	-	201 262
DJ Fredericks <i>(Removed 13 November 2014)</i>	63 040	-	34 043	97 083	-	-	-	97 083
S Harmse <i>(Removed 13 November 2014)</i>	81 148	20 801	94 563	196 512	-	-	-	196 512
Al Minnaar <i>(Removed 13 November 2014)</i>	81 148	-	22 696	103 844	-	-	-	103 844
Dr BR Slabbert <i>(Removed 13 November 2014)</i>	129 064	24 970	71 338	225 372	104 305	-	-	329 677
Prof MJ van der Merwe <i>(Removed 13 November 2014)</i>	81 148	20 801	83 215	185 164	-	-	-	185 164
Prof S Vil-Nkomo <i>(Removed 13 November 2014)</i>	63 040	-	-	63 040	-	-	-	63 040
Dr WJ Botes <i>(Appointed 19 November 2014)</i>	27 738	-	-	27 738	-	-	-	27 738
RF Camphor <i>(Appointed 19 November 2014)</i>	50 432	3 152	-	53 584	-	-	-	53 584
Prof PA Delpport <i>(Appointed 19 November 2014)</i>	15 130	2 270	-	17 400	-	-	-	17 400
WJ du Plessis <i>(Appointed 19 November 2014)</i>	13 869	-	-	13 869	-	-	-	13 869
PM Kennedy <i>(Appointed 19 November 2014)</i>	27 738	-	-	27 738	-	-	-	27 738
H Kruger <i>(Appointed 19 November 2014)</i>	13 869	-	-	13 869	-	-	-	13 869
CM Mowatt <i>(Appointed 19 November 2014)</i>	27 738	-	-	27 738	-	-	-	27 738
Dr M Serfontein <i>(Appointed 19 November 2014)</i>	13 869	-	-	13 869	-	-	-	13 869
	<b>1 548 322</b>	<b>106 666</b>	<b>494 985</b>	<b>2 149 973</b>	<b>197 843</b>	<b>912</b>	<b>-</b>	<b>2 348 728</b>

	Fees for attending Board meetings	Monthly fees for Strategic Committee	Fees for attending sub-committee meetings	Total remuneration	Travel and accommodation	Training	Conference fees	Total considerations
	R	R	R	R	R	R	R	R
<b>2013</b>								
Adv GW Alberts	134 884	37 824	135 393	308 101	-	-	-	308 101
B Albrecht	90 756	-	56 738	147 494	-	-	-	147 494
P de V Swart	78 148	-	49 174	127 322	69 445	-	-	196 767
DJ Fredericks	37 824	-	26 478	64 302	-	-	-	64 302
S Harmse	88 256	22 692	114 476	225 424	-	-	-	225 424
Adv JJ Labuschagne	90 756	-	11 348	102 104	-	-	-	102 104
AF Marais	89 256	-	32 523	121 779	52 229	-	-	174 008
Al Minnaar	90 756	-	50 174	140 930	-	-	-	140 930
WJ Myburgh	90 756	-	22 695	113 451	-	-	-	113 451
Dr BR Slabbert	108 410	27 240	126 573	262 223	98 474	-	-	360 697
EL Steenkamp (appointed 1 April 2013)	78 148	-	6 305	84 453	-	855	-	85 308
Prof MJ van der Merwe	90 756	22 692	100 345	213 793	-	-	-	213 793
Prof S Vil-Nkomo	37 824	-	-	37 824	-	-	-	37 824
	<b>1 106 530</b>	<b>110 448</b>	<b>732 222</b>	<b>1 949 200</b>	<b>220 148</b>	<b>855</b>	<b>-</b>	<b>2 170 203</b>

The 2013 and 2014 amounts are disclosed as per the 2013 SAICA guide categories.

Travel & Accommodation expenses are paid in order for members to attend Board/Subcommittee meetings/other meetings in Pretoria, or if needed at another location in South Africa.

Travelling from Cape Town:

P de V Swart, AF Marais, Dr BR Slabbert

### 34. RELATED PARTY TRANSACTIONS

The Scheme is governed by the Board of Trustees, which is elected by the members and appointed by the Board of Trustees and employers.

Parties with significant influence over the Scheme:

- Key management personnel of the Scheme and their close family members.

Key management personnel being those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees, the Principal Officer and executive and general managers of the Scheme. The disclosure deals with full-time personnel who

are compensated on a salary basis (Principal Officer and managers) and part-time personnel who are compensated on a fee basis (Board of Trustees).

- Close family members include family members of the Board of Trustees, Principal Officer and executive and general managers of the Scheme.

The terms and conditions of the related party transactions were as follows:

#### Contributions received

This constitutes the contributions paid by the related party, in his or her individual capacity as a member of the Scheme. All contributions were on the same terms applicable to other members.

### 34. RELATED PARTY TRANSACTIONS (continued)

#### Claims incurred

This constitutes amounts claimed by the related parties, in their individual capacity as members of the Scheme. All claims were paid out in terms of the Rules of the Scheme, as applicable to other members

#### Claims reported not yet paid

These are claims that have been reported, but not yet paid due to the fact that the Scheme's year-end fell between the claims payment runs. All claims are settled within 30 days of being received, as applicable to other members.

#### Personal medical savings account balances

The amounts owing to the related parties relate to personal medical savings account balances to which the parties have a right. In line with the terms applied to other members, the balances earn monthly interest

on the savings funds invested, on an accrual basis. The amounts are all current, and would need to be payable on demand should an appropriate claim be issued, or should the member resign from the Scheme, as applicable to other members.

#### Healthcare provider fees paid/payable

These constitute fees paid to a healthcare provider (medical practitioner). Fees are paid on the same basis as applicable to third parties.

#### Principal Officer's compensation

This total includes salary cost, retirement benefits, medical benefits, leave encashment, other benefits, a thirteenth cheque and a performance bonus.

#### The following related party transactions occurred during the financial year:

	2014	2013
	R	R
<b>Board of Trustees</b>		
Gross medical scheme contributions received	559 555	549 948
Medical scheme contributions received - risk portion	461 450	456 912
Medical scheme contributions received - personal medical savings portion	98 105	93 036
Gross benefits paid out	287 726	386 281
Benefits paid from risk pool	184 532	303 656
Benefits paid from personal medical savings available	103 194	82 625
Saving available at year-end	65 442	56 129
Trustee remuneration and travel and accommodation expenses (Note 33)	2 348 728	2 170 203
Trustee other expenses	531 682	526 138

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
<b>Principal Officer</b>		
Gross medical scheme contributions received	82 056	74 940
Medical scheme contributions received - risk portion	67 284	61 440
Medical scheme contributions received - personal medical savings portion	14 772	13 500
Gross benefits paid out	59 948	72 963
Benefits paid from risk pool	44 971	57 846
Benefits paid from personal medical savings available	14 977	15 117
Saving available at year-end	219	213
Principal Officer's compensation (Note 30)	4 152 310	5 684 447
Leave provision at end of year	200 395	153 207
<b>Close family members of Principal Officer</b>		
Gross medical scheme contributions received	64 692	44 568
Medical scheme contributions received - risk portion	52 272	37 872
Medical scheme contributions received - personal medical savings portion	12 420	6 696
Gross benefits paid out	53 781	16 526
Benefits paid from risk pool	42 233	9 830
Benefits paid from personal medical savings available	11 548	6 696
Saving available at year-end	891	-
Compensation to close family members of Principal Officer	1 534 818	1 577 135
Leave provision at end of year	100 276	68 036
<b>Key management</b>		
Gross medical scheme contributions received	331 735	330 773
Medical scheme contributions received - risk portion	272 512	269 957
Medical scheme contributions received - personal medical savings portion	59 223	60 816
Gross benefits paid out	212 166	400 771
Benefits paid from risk pool	170 579	354 140
Benefits paid from personal medical savings available	41 587	46 631
Saving available at year-end	169 598	145 805
Compensation to key management personnel	13 989 578	17 276 407
Leave provision at end of year	809 549	945 818
<b>Service providers connected to key management and Board of Trustees</b>		
Gross benefits paid to related party service providers	449 198	306 291

### 34. RELATED PARTY TRANSACTIONS (continued)

	2014	2013
	R	R
<b>Employees and management</b>		
The Scheme grants loans to employees and management, repayable over a maximum period of 60 months (Note 6).		
Finance charges	25 048	44 832
Balance due from employees at year-end	119 372	610 785

#### **Sanlam Healthcare Distribution Services (Pty) Ltd**

Sanlam Healthcare Distribution Services (Pty) Ltd was appointed by Bestmed Medical Scheme to render marketing and distribution services to the Scheme with effect from 1 January 2009.

The contract was terminated on 31 December 2011.

Balance due to Sanlam Healthcare Distribution Services (Pty) Ltd	-	17 717
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### 35. CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Scheme's accounting policies, the Board of Trustees has made a number of judgements that had the most significant effect on the amounts recognised in the financial statements.

Certain critical accounting judgements in applying the Scheme's accounting policies and key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date are discussed below:

#### **(a) The ultimate liability arising from claims made under insurance contracts**

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for such claims. Initial estimates are made by staff relating to the best calculations on reported claims and derived as the claims process develops. All estimates are revised and adjusted at year-end by management. Refer to Note 17 for assumptions made.

#### **(b) Impairment provision on debtors**

Detailed disclosure of the annual impairment review of the Scheme is disclosed under Notes 7 and 41.

#### **(c) Risk transfer arrangement assumptions**

Detailed disclosure of the risk transfer arrangement assumptions is made under Note 18.

#### **(d) Post-retirement medical benefits**

The Scheme provides post-retirement healthcare benefits to retired employees. An independent qualified actuary carries out valuations of the obligations on an annual basis. Details are disclosed under Note 11.

#### **(e) Outstanding claims provision**

Detailed disclosure of the outstanding claims provision assumptions is made under Note 14.

The carrying amounts of the Scheme's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

### 36. EVENTS AFTER REPORTING PERIOD

No events other than disclosed on the Board of Trustee Report Note 13, took place between the Statement of Financial Position date and the date of this report that should be noted.

### 37. AMALGAMATION WITH SAPPI MEDICAL AID SCHEME

#### **Impact of amalgamation with Sappi Medical Aid Scheme**

Sappi Medical Aid Scheme amalgamated with Bestmed Medical Scheme with effect from 1 April 2013 and the name of the amalgamated schemes is Bestmed Medical Scheme. The amalgamation was approved by the Council for Medical Schemes on 23 January 2013, as required by Section 63 of the Medical Schemes Act 131 of 1998, as amended, and the Competition Commission approved the amalgamation on 29 January 2013.



The amalgamation had no material effect on the operations of the Scheme and EL Steenkamp, the Principal Officer of Sappi Medical Aid Scheme, joined the Bestmed Board of Trustees on 1 April 2013. The membership of the Scheme increased by 3 529 members due to the amalgamation and these members had to join one of the existing options of the Scheme, while the Sappi Medical Aid Scheme Options were closed.

Bestmed Medical Scheme assumed full responsibility for all assets and liabilities including future commitments of Sappi Medical Aid Scheme at

1 April 2013 at which date the operations of Sappi Medical Aid Scheme were terminated. No purchase consideration was paid, but Bestmed Medical Scheme received a cash inflow from Sappi Medical Aid Scheme which was incorporated into the Scheme at the effective date.

The following assets and liabilities were incorporated into Bestmed Medical Scheme at 1 April 2013:

	<b>2013</b>
	<b>R</b>
<b>Non-current assets</b>	
Available-for-sale investments	18 000 000
<b>Current assets</b>	
Available-for-sale investments	15 005 904
Trade and other receivables	12 508 217
Cash and cash equivalents	23 321 797
	<u>50 835 918</u>
<b>Total net asset value</b>	<b><u>68 835 918</u></b>
<b>Members' Funds</b>	
Accumulated funds	52 025 265
Available-for-sale fair value reserve	3 960
	<u>52 029 225</u>
<b>Current liabilities</b>	
Outstanding claims provision	9 082 840
Trade and other payables	7 723 853
	<u>16 806 693</u>
<b>Total funds and liabilities</b>	<b><u>68 835 918</u></b>
<b>Net increase in cash and cash equivalents</b>	<b><u>23 321 797</u></b>
<b>Financial assets transferred into Bestmed</b>	
Cash	23 321 797
Available-for-sale investments	33 005 904
Trade and other receivables	12 508 217
	<u>68 835 918</u>
<b>Goodwill</b>	
No goodwill was acquired during the amalgamation with Sappi Medical Aid Scheme.	
<b>Net cash inflow on amalgamation</b>	
Consideration paid in cash	-
Net increase in cash and cash equivalents	23 321 797
	<u>23 321 797</u>
<b>Reserve fund</b>	
Sappi Medical Aid Scheme had a reserve fund of R52 025 265 at the end of March 2013.	

### **38. AMALGAMATION WITH MINEMED MEDICAL SCHEME**

#### **Impact of amalgamation with Minemed Medical Scheme**

Minemed Medical Scheme amalgamated with Bestmed Medical Scheme with effect from 1 September 2013 and the name of the amalgamated schemes is Bestmed Medical Scheme. The amalgamation was approved by the Council for Medical Schemes on 19 August 2013, as required by Section 63 of the Medical Schemes Act 131 of 1998, as amended, and the Competition Commission approved the amalgamation on 19 June 2013.

The amalgamation had a material effect on the operations of Bestmed Medical Scheme, as the Scheme received ownership of the three Medical Centres from Minemed Medical Scheme. The Medical Centres - situated in Welkom, Virginia and Randfontein - provide healthcare services by Dentists and General Practitioners to Minemed members and third parties. All nursing and administrative personnel at these Medical Centres became permanent employees of Bestmed Medical Scheme and the current Board of Trustees of Bestmed Medical Scheme has control over the amalgamated scheme.

The membership of the Scheme increased by 5 642 members due to the amalgamation and a new option with similar benefits to an ex-Minemed option was developed for the majority of members namely Beat4. Minemed members had the option to join one of the existing options of the Scheme, and all Minemed Medical Scheme Options were closed.

Bestmed Medical Scheme assumed full responsibility for all assets and liabilities including future commitments of Minemed Medical Scheme at 1 September 2013 at which date the operations of Minemed Medical Scheme were terminated. No purchase consideration was paid, but Bestmed Medical Scheme received a cash inflow from Minemed Medical Scheme which was incorporated into the Scheme at the effective date.

The following assets and liabilities were incorporated into Bestmed Medical Scheme at 1 September 2013:

	<b>2013</b>
	<b>R</b>
<b>Non-current assets</b>	
Property and equipment	247 850
<b>Current assets</b>	
Investments: Loans and Receivables	15 000 000
Trade and other receivables	1 781 859
Cash and cash equivalents	75 365 322
Personal medical savings account trust assets	1 240 000
	<u>93 387 181</u>
<b>Total net asset value</b>	<b><u>93 635 031</u></b>
<b>Members' Funds</b>	
Accumulated funds	71 401 903
<b>Current liabilities</b>	
Personal medical savings account liability managed by Scheme on behalf of its members	1 240 000
Outstanding risk claims provision	14 000 000
Trade and other payables	6 993 128
	<u>22 233 128</u>
<b>Total funds and liabilities</b>	<b><u>93 635 031</u></b>
<b>Net increase in cash and cash equivalents</b>	<b><u>75 365 322</u></b>
<b>Financial assets transferred into Bestmed</b>	
Cash	75 365 322
Transfer of property and equipment at fair value on date of acquisition	247 850
Investments	15 000 000
Trade and other receivables	1 781 859
Personal medical savings account trust assets	1 240 000
	<u>93 635 031</u>
<b>Goodwill</b>	
No goodwill was acquired during the amalgamation with Minemed Medical Scheme.	
<b>Net cash inflow on amalgamation</b>	
Consideration paid in cash	-
Net increase in cash and cash equivalents	75 365 322
	<u>75 365 322</u>
<b>Reserve fund</b>	
Minemed Medical Scheme had a reserve fund of R71 401 903 at the end of August 2013.	

### 39. SURPLUS/ (DEFICIT) PER BENEFIT OPTION

	Beat1	Beat2	Beat3	Beat4
2014	R	R	R	R
<b>Average members for the financial year</b>	<b>4 560</b>	<b>17 732</b>	<b>7 128</b>	<b>5 339</b>
<b>Risk contribution income</b>	<b>86 556 800</b>	<b>321 681 208</b>	<b>197 868 330</b>	<b>218 320 747</b>
<b>Relevant healthcare expenditure</b>	<b>(56 753 976)</b>	<b>(272 681 888)</b>	<b>(156 992 804)</b>	<b>(225 148 864)</b>
Net claims incurred	(56 853 047)	(273 067 135)	(156 946 029)	(225 113 829)
Risk claims incurred	(56 853 047)	(273 277 582)	(157 856 314)	(225 489 265)
Third party claims recoveries	-	210 447	910 285	375 436
Net income/(expenses) on risk transfer arrangements	99 071	385 247	(46 775)	(35 035)
Risk transfer arrangement premiums paid	(1 011 273)	(3 932 432)	(7 237 701)	(5 421 168)
Recoveries from risk transfer arrangements	1 110 344	4 317 679	7 190 926	5 386 133
<b>Gross healthcare result</b>	<b>29 802 824</b>	<b>48 999 320</b>	<b>40 875 526</b>	<b>(6 828 117)</b>
Managed care management services	(2 645 254)	(10 286 325)	(4 134 949)	(3 097 151)
Broker service fees and other distribution fees	(3 105 202)	(12 873 514)	(5 660 740)	(1 347 156)
Administration expenses	(12 741 398)	(49 546 157)	(19 916 817)	(14 918 054)
Net impairment losses on healthcare receivables	(91 768)	(410 231)	(252 518)	(289 745)
<b>Net healthcare result</b>	<b>11 219 202</b>	<b>(24 116 907)</b>	<b>10 910 502</b>	<b>(26 480 223)</b>
<b>Other income</b>	<b>2 786 945</b>	<b>13 427 273</b>	<b>8 891 723</b>	<b>9 208 678</b>
Investment income	2 600 901	12 595 602	8 379 787	8 621 272
Scheme	2 572 524	11 499 930	7 078 798	8 122 360
Personal medical savings account trust monies invested	28 377	1 095 672	1 300 989	498 912
Other operating income	186 044	831 671	511 936	587 406
<b>Other expenditure</b>	<b>(277 977)</b>	<b>(2 211 457)</b>	<b>(1 987 811)</b>	<b>(1 286 987)</b>
Interest paid on personal medical savings trust accounts	(28 377)	(1 095 672)	(1 300 989)	(498 912)
Interest paid	(4 022)	(17 979)	(11 067)	(12 699)
Asset management fees	(156 346)	(698 911)	(430 215)	(493 638)
Own facility expenditure	(88 154)	(394 076)	(242 574)	(278 334)
Other losses	(1 078)	(4 819)	(2 966)	(3 404)
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b>13 728 170</b>	<b>(12 901 091)</b>	<b>17 814 414</b>	<b>(18 558 532)</b>

#### Non-compliance with Medical Schemes Act: Profitability of benefit options - Section 33(2)(b)

The Act stipulates that a benefit option shall be self-supporting in terms of membership and financial performance. During the year under

review five benefit options of the Scheme, namely Beat2, Beat4, Pace1, Pace2, and Pulse2 made a net healthcare deficit. After accounting for other income only the Beat2, Beat4, and Pulse2 options showed a net deficit.

Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
R	R	R	R	R	R	R
26 490	11 440	6 797	4 108	5 466	1 209	90 269
<b>931 263 286</b>	<b>596 045 131</b>	<b>387 907 107</b>	<b>324 607 877</b>	<b>125 604 468</b>	<b>62 436 844</b>	<b>3 252 291 798</b>
<b>(817 912 456)</b>	<b>(560 348 564)</b>	<b>(344 520 522)</b>	<b>(302 861 321)</b>	<b>(95 583 652)</b>	<b>(75 402 893)</b>	<b>(2 908 206 940)</b>
(817 738 628)	(560 273 494)	(344 475 920)	(302 834 365)	(100 197 561)	(76 333 538)	(2 913 833 546)
(819 642 758)	(562 027 843)	(344 689 687)	(303 326 726)	(100 367 303)	(76 333 538)	(2 919 864 063)
1 904 130	1 754 349	213 767	492 361	169 742	-	6 030 517
(173 828)	(75 070)	(44 602)	(26 956)	4 613 909	930 645	5 626 606
(26 897 683)	(11 616 063)	(6 901 606)	(4 171 222)	(23 803 857)	(26 388 544)	(117 381 549)
26 723 855	11 540 993	6 857 004	4 144 266	28 417 766	27 319 189	123 008 155
<b>113 350 830</b>	<b>35 696 567</b>	<b>43 386 585</b>	<b>21 746 556</b>	<b>30 020 816</b>	<b>(12 966 049)</b>	<b>344 084 858</b>
(15 366 837)	(6 636 338)	(3 942 936)	(2 383 049)	(3 170 824)	(701 340)	(52 365 003)
(25 618 325)	(5 128 923)	(3 693 117)	(1 661 166)	(3 102 181)	(59 536)	(62 249 860)
(74 017 465)	(31 965 263)	(18 991 948)	(11 478 435)	(15 272 913)	(3 378 149)	(252 226 599)
(1 265 399)	(743 300)	(501 313)	(354 735)	(133 171)	(66 203)	(4 108 383)
<b>(2 917 196)</b>	<b>(8 777 257)</b>	<b>16 257 271</b>	<b>5 869 171</b>	<b>8 341 727</b>	<b>(17 171 277)</b>	<b>(26 864 987)</b>
<b>49 729 752</b>	<b>26 178 494</b>	<b>19 580 565</b>	<b>10 860 945</b>	<b>4 021 139</b>	<b>1 991 457</b>	<b>146 676 971</b>
47 164 382	24 671 587	18 564 242	10 141 783	3 751 158	1 857 243	138 347 957
35 472 670	20 836 773	14 053 212	9 944 224	3 733 165	1 855 840	115 169 496
11 691 712	3 834 814	4 511 030	197 559	17 993	1 403	23 178 461
2 565 370	1 506 907	1 016 323	719 162	269 981	134 214	8 329 014
<b>(15 133 461)</b>	<b>(5 856 509)</b>	<b>(5 874 548)</b>	<b>(1 162 400)</b>	<b>(380 205)</b>	<b>(181 468)</b>	<b>(34 352 823)</b>
(11 691 712)	(3 834 814)	(4 511 030)	(197 559)	(17 993)	(1 403)	(23 178 461)
(55 460)	(32 577)	(21 971)	(15 547)	(5 837)	(2 902)	(180 061)
(2 155 859)	(1 266 359)	(854 087)	(604 362)	(226 884)	(112 790)	(6 999 451)
(1 215 565)	(714 027)	(481 571)	(340 765)	(127 927)	(63 597)	(3 946 590)
(14 865)	(8 732)	(5 889)	(4 167)	(1 564)	(776)	(48 260)
<b>31 679 095</b>	<b>11 544 728</b>	<b>29 963 288</b>	<b>15 567 716</b>	<b>11 982 661</b>	<b>(15 361 288)</b>	<b>85 459 161</b>

Although every effort is made to adhere to the Act some unpredictable factors occur that lead to benefit options not being profitable, such as adverse selection by members in the beginning of the year. The approach is always to endeavour that the Scheme as a whole maintains

a sound reserve level and that there will be an ongoing effort to limit the loss per option or even to eliminate it completely.

### 39. SURPLUS/ (DEFICIT) PER BENEFIT OPTION (continued)

	Beat1	Beat2	Beat3	Beat4
	R	R	R	R
<b>2013</b>				
<b>Average members for the financial year</b>	<b>3 837</b>	<b>14 716</b>	<b>6 926</b>	<b>1 481</b>
<b>Risk contribution income</b>	<b>65 655 515</b>	<b>243 141 795</b>	<b>175 266 658</b>	<b>55 345 629</b>
<b>Relevant healthcare expenditure</b>	<b>(48 162 500)</b>	<b>(191 785 528)</b>	<b>(143 840 366)</b>	<b>(48 974 106)</b>
Net claims incurred	(48 131 064)	(191 664 961)	(143 803 005)	(48 966 117)
Risk claims incurred	(48 131 064)	(192 473 498)	(144 626 518)	(48 966 117)
Third party claims recoveries	-	808 537	823 513	-
Net expenses on risk transfer arrangements	(31 436)	(120 567)	(37 361)	(7 989)
Risk transfer arrangement premiums paid	(798 964)	(3 064 258)	(6 871 826)	(1 469 416)
Recoveries from risk transfer arrangements	767 528	2 943 691	6 834 465	1 461 427
<b>Gross healthcare result</b>	<b>17 493 015</b>	<b>51 356 267</b>	<b>31 426 292</b>	<b>6 371 523</b>
Managed care management services	(1 042 188)	(4 530 614)	(3 349 150)	(1 097 607)
Broker service fees	(1 812 128)	(7 566 282)	(4 227 949)	(10 562)
Administration expenses	(11 614 527)	(43 750 955)	(20 321 284)	(4 154 982)
Net impairment losses on healthcare receivables	(77 974)	(338 969)	(250 575)	(82 120)
<b>Net healthcare result</b>	<b>2 946 198</b>	<b>(4 830 553)</b>	<b>3 277 334</b>	<b>1 026 252</b>
<b>Other income</b>	<b>1 809 222</b>	<b>8 419 577</b>	<b>6 699 614</b>	<b>1 911 861</b>
Investment income	1 706 803	7 974 338	6 370 481	1 803 995
Scheme	1 697 427	7 379 081	5 454 811	1 787 690
Personal medical savings account trust monies invested	9 376	595 257	915 670	16 305
Other operating income	102 419	445 239	329 133	107 866
<b>Other expenditure</b>	<b>(166 124)</b>	<b>(1 276 671)</b>	<b>(1 419 390)</b>	<b>(181 387)</b>
Interest paid on personal medical savings trust accounts	(9 376)	(595 257)	(915 670)	(16 305)
Interest paid	(6 807)	(29 591)	(21 875)	(7 169)
Asset management fees	(110 035)	(478 345)	(353 605)	(115 886)
Own facility expenditure	(35 321)	(153 548)	(113 507)	(37 199)
Other losses	(4 585)	(19 930)	(14 733)	(4 828)
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b>4 589 296</b>	<b>2 312 353</b>	<b>8 557 558</b>	<b>2 756 726</b>

Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
R	R	R	R	R	R	R
24 708	11 732	7 080	4 457	5 941	1 370	82 248
<b>790 886 778</b>	<b>560 733 155</b>	<b>372 227 459</b>	<b>331 564 329</b>	<b>121 582 543</b>	<b>70 504 907</b>	<b>2 786 908 768</b>
<b>(708 738 447)</b>	<b>(520 628 397)</b>	<b>(312 498 710)</b>	<b>(295 648 769)</b>	<b>(121 277 921)</b>	<b>(83 108 537)</b>	<b>(2 474 663 281)</b>
(708 605 164)	(520 565 111)	(312 460 518)	(295 624 727)	(122 443 824)	(79 272 835)	(2 471 537 326)
(711 310 417)	(521 133 161)	(313 128 710)	(295 756 801)	(122 805 212)	(79 272 835)	(2 477 604 333)
2 705 253	568 050	668 192	132 074	361 388	-	6 067 007
(133 283)	(63 286)	(38 192)	(24 042)	1 165 903	(3 835 702)	(3 125 955)
(24 514 740)	(11 640 235)	(7 024 622)	(4 422 138)	(26 942 928)	(31 152 104)	(117 901 231)
24 381 457	11 576 949	6 986 430	4 398 096	28 108 831	27 316 402	114 775 276
<b>82 148 331</b>	<b>40 104 758</b>	<b>59 728 749</b>	<b>35 915 560</b>	<b>304 622</b>	<b>(12 603 630)</b>	<b>312 245 487</b>
(16 091 647)	(10 470 233)	(7 208 898)	(5 263 111)	(1 929 950)	(1 119 166)	(52 102 564)
(18 353 809)	(4 164 662)	(2 376 829)	(1 622 455)	(2 802 880)	(64 954)	(43 002 510)
(74 009 971)	(33 510 230)	(20 220 943)	(12 549 991)	(17 272 129)	(3 844 922)	(241 249 934)
(1 203 935)	(783 356)	(539 351)	(393 772)	(144 394)	(83 732)	(3 898 178)
<b>(27 511 031)</b>	<b>(8 823 723)</b>	<b>29 382 728</b>	<b>16 086 231</b>	<b>(21 844 731)</b>	<b>(17 716 404)</b>	<b>(28 007 699)</b>
<b>34 898 488</b>	<b>20 327 387</b>	<b>15 972 936</b>	<b>9 094 343</b>	<b>3 347 950</b>	<b>1 934 369</b>	<b>104 415 747</b>
33 317 105	19 298 440	15 264 492	8 577 118	3 158 287	1 824 385	99 295 444
26 208 711	17 053 028	11 741 242	8 572 110	3 143 338	1 822 801	84 860 239
7 108 394	2 245 412	3 523 250	5 008	14 949	1 584	14 435 205
1 581 383	1 028 947	708 444	517 225	189 663	109 984	5 120 303
<b>(9 528 613)</b>	<b>(3 820 159)</b>	<b>(4 607 484)</b>	<b>(796 592)</b>	<b>(305 217)</b>	<b>(169 911)</b>	<b>(22 271 548)</b>
(7 108 394)	(2 245 412)	(3 523 250)	(5 008)	(14 949)	(1 584)	(14 435 205)
(105 101)	(68 386)	(47 084)	(34 376)	(12 605)	(7 310)	(340 304)
(1 698 966)	(1 105 454)	(761 120)	(555 683)	(203 765)	(118 163)	(5 501 022)
(545 365)	(354 849)	(244 318)	(178 373)	(65 408)	(37 931)	(1 765 819)
(70 787)	(46 058)	(31 712)	(23 152)	(8 490)	(4 923)	(229 198)
<b>(2 141 156)</b>	<b>7 683 505</b>	<b>40 748 180</b>	<b>24 383 982</b>	<b>(18 801 998)</b>	<b>(15 951 946)</b>	<b>54 136 500</b>

#### 40. INSURANCE RISK MANAGEMENT REPORT

##### Nature and extent of risks arising from insurance contracts

The primary insurance activity of the Scheme is to indemnify covered members and their dependants against the risk of loss arising as the result of the occurrence of a health related event. The Scheme is exposed to the uncertainty surrounding the timing and severity of claims. Insurance events are by nature random and the actual number and size of events during one year may vary from those estimated using established techniques.

##### Insurance risk - description of benefit options

The types of benefits offered by the Scheme in return for monthly contributions are:

##### Hospital benefits

The hospital benefit covers medical expenses for admission to hospital, provided that the Scheme has authorised the treatment, except in the case of a medical emergency where all admissions are covered.

##### Chronic illness benefit

Approved medication for 45 listed conditions of which 27 conditions on the Chronic Disease List (CDL) are covered by this benefit. These include conditions such as asthma, cholesterol and hypertension.

##### Day-to-day benefits

The day-to-day benefits include both the Joint Benefit Account and an insurance risk element - Protocol Treatment and Above Threshold Benefits (ATB). These benefits cover healthcare services where the cost occurs outside the hospital, such as visits to general practitioners and dentists. It also covers the cost of prescribed non-chronic medicine.

The primary insurance activity carried out by the Scheme assumes risks related to the health of the Scheme members and their registered dependants. As such, the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

All the contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contract at renewal.

##### Risk management objectives and policies for mitigating insurance risk

When assessing and managing insurance risk the Scheme takes the following main factors into account:

#### 1. The size and composition of the risk pool for each type of contract

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome is likely to 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 Scheme has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and the demographics of members covered.

#### 2. Frequency and severity of claims

Insurance events are by their nature random and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. The principal risk is that the frequency and severity of claims are greater than expected.

For insurance contracts issued, climatic and seasonal changes, as well as the spread of pandemics give rise to more frequent and severe claims. However, the data shows that the frequency and severity of claims stay relatively stable year-on-year. The quality and availability of effective private healthcare services further reduces the risk of sudden severe claim patterns.

#### 3. Benefit utilisation

The Scheme manages this risk through pre-authorisation and case management for hospitalisation, approval of registration for chronic medicine benefits, applying medicine formularies as well as various disease management programmes for high-risk/high-cost diseases such as cancer.

Various data sets are used to monitor utilisation. These include:

##### Hospitalisation

Hospitalisation accounts for more than 50% of the risk benefits paid by the Scheme. When the cost of service providers caring for patients in hospital is added the percentage of risk benefits



covered increases to 70%. This risk is managed through pre- authorisation of procedures and case management, the objective being to provide appropriate and cost-effective care for members of the Scheme.

In managing this risk the average cost per admission, number of admissions per 1 000 lives, average cost per 1 000 lives and average number of bed days per admission are monitored on a monthly basis.

### **Medicine**

Medicine for chronic diseases accounts for 10% of the risk benefits paid. This risk is managed through pre-authorisation of utilisation and the use of a medicine formulary. Members are also required to re-apply for medicine after a prescribed period thus ensuring that the clinical necessity of continuing with the treatment is frequently assessed.

Average cost per beneficiary, average number of items per prescription and average cost per item are monitored on a monthly basis.

### **Claims ratio**

Claims paid expressed as a percentage of contributions received, is an important indicator of the stability of the risk pool and the ability of the Scheme to fulfil its obligation under the insurance contract it sells.

## **4. Impact of legislation and regulation**

The medical scheme industry is governed by the Medical Schemes Act. The governance under the Act is fulfilled by a statutory body, the Council for Medical Schemes. Various legislative measures restrict the Scheme to fully manage its insurance risk, the main factor being the fact that the Scheme is not allowed to risk rate its members at all. This severely increases the risk in a risk pool with a too high load of above average claimers.

Managed care initiatives such as disease management programmes and preventative programmes such as a training programme for potential cardiovascular patients are implemented to reduce risk.

### **Sensitivity to insurance risk**

The Scheme's profitability, reserves and, consequently, its solvency are sensitive to variables that arise from contribution increases relative to medical inflation and changes in the level of insurance events as well as the composition of the risk pool, all of which could have a material impact on the business of the Scheme.

Over and above daily and monthly management information on claims ratios and composition of the risk pool, the Scheme also makes use of the monitoring of the relative insurance events by the Scheme's actuaries. The actuaries provide estimates based on statistical models, on the probability of the occurrence of future events, thus predicting the profitability to year-end.

The accumulation of claims to the next claims payment run is monitored on a daily basis, both by volume and value. This ensures that any unexpected increase in utilisation is reported timeously. Furthermore, all severe cases of hospital admissions are monitored daily to ensure that treatment is done as effectively as possible. This also ensures that the Scheme is informed of possible high-value hospital claims in time.

The Scheme also has an independent monthly analysis of claims which is done by its actuaries. The actuaries also provide the Scheme with a monthly prediction of the outcome for the remainder of the financial year. This analysis is done based on the available data for the year together with the data for the past three years. The combined data set is run through a stochastic calculation which takes into account the expected behaviour of each beneficiary of the Scheme. The assumptions in the stochastic calculation are based on the past behaviour patterns of beneficiaries from different Schemes that participated in the same program, thus ensuring the reliability of the outcome.

#### 40. INSURANCE RISK MANAGEMENT REPORT (continued)

The table below summarises the concentration of insurance risk, with reference to net claims incurred, by age group and type of benefits provided.

2014 Age group	General Practitioners R'000	Specialists R'000	Pathology R'000	Medicines R'000	Hospitals R'000	Other R'000	Total R'000
<30	26 325	69 726	25 434	37 458	254 148	70 193	483 284
30-39	12 862	45 928	18 761	27 969	142 562	41 429	289 511
40-49	16 220	56 642	24 418	49 885	156 684	62 815	366 664
50-59	22 167	87 188	33 952	79 627	234 585	88 158	545 677
60-69	17 618	94 983	30 752	75 309	248 519	85 392	552 573
70 +	21 306	111 561	39 644	73 807	336 274	99 563	682 155
<b>Total</b>	<b>116 498</b>	<b>466 028</b>	<b>172 961</b>	<b>344 055</b>	<b>1 372 772</b>	<b>447 550</b>	<b>2 919 864</b>
2013 Age group							
<30	22 001	76 053	20 248	37 058	207 393	65 557	428 310
30-39	10 383	42 313	14 584	23 268	113 313	38 598	242 459
40-49	13 884	55 745	20 060	43 798	127 177	53 858	314 522
50-59	19 236	81 690	26 687	72 588	182 258	73 845	456 304
60-69	14 572	86 182	24 254	65 315	204 992	70 206	465 521
70 +	16 622	96 204	30 716	65 086	261 931	99 929	570 488
<b>Total</b>	<b>96 698</b>	<b>438 187</b>	<b>136 549</b>	<b>307 113</b>	<b>1 097 064</b>	<b>401 993</b>	<b>2 477 604</b>

General Practitioners benefits cover the cost of all visits by members to and of the procedures performed by them, both in and out-of-hospital.

Specialists benefits cover the cost of all visits by members to specialists and of the procedures performed by them, both in and out-of-hospital.

Pathology benefits cover the cost of pathology tests performed, mainly in hospital but also out-of-hospital where a specific option covers such benefits from the risk pool.

Medicine benefits cover the costs of chronic medicine benefits as well as acute medicine where a specific option covers such benefits from the risk pool.

Hospital benefits cover all costs incurred by members, while they are in hospital to receive pre-authorised treatment for certain medical conditions.

#### Risk transfer arrangements

The Scheme entered into various capitation agreements with medical service providers (refer Note 18). These risk transfer arrangements spread the risk and minimise the effect of losses and are on annually

renewable terms. The amount of each risk retained depends on the Scheme's evaluation of the specific risk, subject in certain circumstances to maximum limits on the basis of characteristics of coverage.

According to the terms of the risk transfer arrangements, the third party agrees to reimburse the ceded amount in the event the claim is paid. According to the terms of the capitation agreements, the suppliers provide certain minimum benefits to the Scheme members, as and when required by the members.

The Scheme does, however, remain liable to its members if any supplier fails to meet the obligations it assumes. When selecting suppliers, the Scheme considers their relative security and their ability to provide the relevant service. The security of the supplier is assessed from public rating information and from internal investigations such as considering capital adequacy, solvency, capacity and appropriate resources.

The following tables summarises the concentration of insurance risk transferred, with reference to the amount of the insurance claims incurred by option and in relation to the type of risk covered/benefits provided:

2014 Options	General Practitioners	Specialists	Optometry	Dentistry		Basic Radiology	Emergency evacuation
				Basic	Specialised		
Beat1	-	-	-	-	-	-	100%
Beat2	-	-	-	-	-	-	100%
Beat3	-	-	100%	-	-	-	100%
Beat4	-	-	100%	-	-	-	100%
Pace1	-	-	100%	-	-	-	100%
Pace2	-	-	100%	-	-	-	100%
Pace3	-	-	100%	-	-	-	100%
Pace4	-	-	100%	-	-	-	100%
Pulse1	100%	Limited	100%	100%	-	100%	100%
Pulse2	100%	Limited	100%	100%	100%	100%	100%
	Medical Apparatus	Supplementary Services	CDL Chronic	Non-CDL Chronic	Medicines		
					Acute	Over the counter	Biological
Beat1	-	-	-	-	-	-	-
Beat2	-	-	-	-	-	-	-
Beat3	-	-	-	-	-	-	-
Beat4	-	-	-	-	-	-	-
Pace1	-	-	-	-	-	-	-
Pace2	-	-	-	-	-	-	-
Pace3	-	-	-	-	-	-	-
Pace4	-	-	-	-	-	-	-
Pulse1	100%	-	100%	-	100%	100%	-
Pulse2	100%	100%	100%	100%	100%	100%	100%

### Claims development

Claims development tables are not presented as the uncertainty regarding the amount and timing of claim payments is typically resolved within one year and in the majority of cases within four months. At year-end, a provision is made for those claims outstanding that are not yet reported at that date.

### Underwriting risk

Underwriting risk is the risk that the actual exposure of the Scheme in respect of outstanding claims will exceed best estimates of the amounts provided for the cash flows required to settle them. External actuaries have been consulted in setting these estimates at year-end, including the estimate for those claims outstanding at year-end, which had not yet been reported.

#### 40. INSURANCE RISK MANAGEMENT REPORT (continued)

The Scheme participates in Insight Actuaries & Consultants risk management model. The model was developed by the Scheme's external actuaries and is a stochastic risk management model that was specifically designed and developed for medical schemes. Insight Actuaries & Consultants runs on detailed beneficiary-level demographic data and claims data on claim-line level. The database is updated on a monthly basis and reconciled to the Scheme's financial statements. Actual claims experience is compared to Insight Actuaries & Consultants' projected claims experience every month to ensure that the model provides a reliable basis from which to project expected claims experience. Allowance is made within the setup of Insight Actuaries & Consultants for inflation (both the severity and utilisation of claims) and seasonal variation of claim patterns. The impact that demographic changes are expected to have on claims incurred is automatically incorporated in all projected results.

Insight Actuaries & Consultants estimates claims incurred by service date based on the Scheme's actual demographic structure and past claims. It has been used by the Scheme for more than six years, and has proven to be a reliable predictor of claims incurred. Results from Insight Actuaries & Consultants are reconciled with the actual claims paid on a monthly basis and adjustments are made where necessary to ensure that the results remain accurate. By comparing the claims predicted by Insight Actuaries & Consultants to actual claims paid by the Scheme, the actuaries are able to calculate an appropriate provision for outstanding claims. The outstanding claims provision is calculated using traditional "chain ladder" methods based on claims development patterns derived from 2008 to 2014.

The outstanding claims provision is calculated after considering the results of both Insight Actuaries & Consultants' model and the chain ladder techniques. In general terms, chain ladder methods tend to be reliable when claims administration processes are stable, whether or not this is the case for beneficiaries' claims propensities. Conversely, using methodology based on Insight Actuaries & Consultants' projections (which bear some similarity to traditional Loss Ratio methods) tend to be more reliable when beneficiaries' claims propensities are stable, whether or not this is the case for administrative processes. Insight Actuaries & Consultants' model also adjusts for demographic and benefit changes, whereas these are not automatically reflected by traditional chain ladder methods.

Finally, consideration was given to claims already paid after the reporting date, specifically claims processed between January 2015 and March 2015 for 2014 services. A significant portion of the claims incurred in 2014 are therefore expected to have been paid. The chain ladder method has therefore been used to estimate claims for future payment months.

As opposed to claims for 2014 that have already been paid, the claims for 2014 estimated to be paid in future payment months are still subject to uncertainty. The table below illustrates the effect of a 10% increase and decrease in this amount.

2014 Scenario	Claims for 2014 services paid from Jan 2015 to Feb 2015 R	2014 Claims estimated at that time to be paid after Feb 2015 R	Outstanding claims provision R	% Change in outstanding claims provision %
Base scenario	76 215 258	11 950 787	88 166 045	
10% increase	76 215 258	13 145 866	89 361 124	1.36%
10% decrease	76 215 258	10 755 708	86 970 966	(1.36%)

## 41. FINANCIAL RISK MANAGEMENT REPORT

### Financial risk factors

The Scheme's activities expose it to a variety of financial risks as its financial assets include the effects of changes in equity market prices, creditworthiness and interest rates. 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 credit risk, interest rate risk, market risk and liquidity risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments that the Scheme holds to meet its obligations to its members.

The Board of Trustees has overall responsibility for the establishment and oversight of the risk management framework of the Scheme. The carrying amounts of the financial assets and financial liabilities per category are disclosed in the statement of financial position.

Risk management and investment decisions are made under the guidance and policies approved by the Investment Committee and Board of Trustees. The Investment Committee identifies, evaluates and economically hedges (where appropriate) financial risks associated with the Scheme's investment portfolio. The Investment Committee provides a statement of investment principles for approval by the Board of Trustees.

### Investment risk

Investment risk is the risk that the investment returns on accumulated assets will not be sufficient to cover future liabilities. Continuous monitoring takes place to ensure that appropriate assets are held where the Scheme's liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities.

The Scheme's Investment Committee invests funds in line with the Medical Schemes Act 131 of 1998, as amended. Expert advice is obtained from Towers Watson to assist in developing an appropriate investment strategy and portfolio.

Given that the central purpose of the Scheme is to provide medical benefits to members rather than to maximise investment returns, a moderate risk appetite is adopted. The Committee believes that

the primary objective that the Scheme needs to manage is to earn a sufficient investment return in excess of inflation over a five-year period, without losing focus on downside protection over a one-year period. The Committee believes that risk should be managed in part by holding a diversified portfolio, with a significant proportion of the assets providing returns that offer protection against inflation over the longer term.

In appointing active managers, the Committee believes that the better investment strategy is to select fundamental research orientated managers with a long term focus, where the focus is on assessing the intrinsic value of an asset, or buying shares that have strong "value" characteristics (i.e. low price/earnings ratio, high dividend yield, low price to book ratio).

To achieve this goal, the Board has identified that an amount not exceeding the reserves of the Scheme as defined by Regulation 29, will be allocated to a strategic investment portfolio which will be managed by an Investment Committee in conjunction with the Scheme's appointed investment advisors. The balance of the available cash is held in cash and short-term investments to meet the daily operational needs of the Scheme.

The Investment Committee monitors the performance of the Scheme's investments in conjunction with the Scheme's investment advisors to ensure that maximum returns are achieved.

Personal medical savings trust investment risk is the risk that the investment balances and returns on the trust monies will not be sufficient to cover the trust liability. The trust monies are not a direct scheme risk as these monies belong to the members and are held through trust accounts. However, the Scheme still has an obligation to oversee the investment performance of these trust assets to ensure that the personal medical savings liabilities towards members are sufficiently covered. The Scheme has adopted a conservative investment approach in this regard by investing in low risk bank accounts and money market funds.

## 41. FINANCIAL RISK MANAGEMENT REPORT (continued)

### Breakdown of investments

The investments managed by the Investment Committee are split between the following categories in the annual financial statements:

- Investment property;
- Available-for-sale investments; and
- Cash and cash equivalents.

### Available-for-sale investments

The Scheme invests in equity through units in a linked insurance fund policy with a registered long-term insurer with underlying assets in

domestic equity and through segregated portfolios with financial institutions. The performance of the investments are measured against the Consumer Price Index (CPI) with the objective to outperform CPI as follows over any rolling five-year period:

- Domestic only portfolios - CPI + 3%
- Domestic with global components portfolios - CPI + 4

To better understand the risks associated with these investments, the following disclosure is presented under each category.

	2014 R	2013 R
<b>Scheme</b>		
Segregated portfolio	709 832 920	471 264 675
- Equity	232 345 894	179 551 841
- Money Market funds	205 719 399	160 229 989
- Bonds	176 176 167	87 655 230
- SA Listed Properties	68 655 149	40 057 497
- Commodities - Gold, Platinum and Palladium	7 667 832	3 770 117
- International Fixed Interest Instruments	19 268 479	-
Linked Insurance Fund policies	309 022 017	283 369 981
- Equity	60 568 315	57 524 106
- Money Market funds	184 795 166	184 473 858
- Bonds	34 919 488	19 269 159
- SA Listed Properties	12 669 903	5 384 030
- Commodities - Gold, Platinum and Palladium	16 069 145	16 718 829
Money Market funds	233 999 802	278 648 275
Bonds	-	40 649 614
Collective Investment Schemes	-	80 779 719
	<b>1 252 854 740</b>	<b>1 154 712 264</b>
<b>Personal medical savings account trust monies invested</b>		
Money Market funds	327 298 033	309 315 028
<b>Total</b>	<b>327 298 033</b>	<b>309 315 028</b>

### MARKET RISK

Market risk refers to the risk that changes in market prices such as interest rates, equity prices and foreign exchange rates will affect the value of the Scheme's holdings in financial instruments or its income. The objective of the management of market risk is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk. The insurance liabilities of the Scheme

are settled within one year. No insurance liabilities are discounted and therefore changes in market interest rates would not affect the Scheme's surplus or deficit.

<b>Risk identified per investment and cash instrument</b>	<b>Currency Risk</b>	<b>Price Risk</b>	<b>Interest Rate Risk</b>
<b>Segregated portfolio</b>			
- Equity	-	Yes	-
- Money Market funds	-	-	Yes
- Bonds	-	-	Yes
- SA Listed Properties	-	Yes	-
- Commodities - Gold, Platinum and Palladium	-	Yes	-
- International Fixed Interest Instruments	Yes	-	Yes
<b>Linked Insurance Fund Policies</b>			
- Equity	-	Yes	-
- Money Market funds	-	-	Yes
- Bonds	-	-	Yes
- SA Listed Properties	-	Yes	-
- Commodities - Gold, Platinum and Palladium	-	Yes	-
<b>Money Market funds</b>	-	-	<b>Yes</b>
<b>Bonds</b>	-	-	<b>Yes</b>
<b>Cash and cash equivalents</b>	-	-	<b>Yes</b>

### Currency risk

The benefits of the Scheme are Rand-denominated and therefore the Scheme does not have any significant net currency risk on its benefits. The Scheme is exposed to net currency risk through its foreign investment in bonds and international fixed interest funds of which the impact is insignificant.

### Price risk

The Scheme is indirectly exposed to equity securities price risk, SA properties and commodities because of investments via linked insurance fund policies. To manage the risk arising from investments in equity securities, the Scheme invests in equities via a Linked Insurance Fund Policy with a long-term insurer with approval to enter into Linked Insurance Fund Policies as defined in Section 1 and Schedule 2 of the Long-term Insurance Act 52 of 1998.

Equity securities, SA properties and commodities are classified as available-for-sale investments and market gains/losses would increase/decrease the available-for-sale fair value reserve of the Scheme.

This risk is managed by the mandates issued to the investment managers which are utilised by the Scheme. Investment managers are required to invest within the restrictions of Regulation 30 of the Act. Furthermore, investment risks and exposure are reviewed and assessed on a regular basis by the Investment Committee of the Scheme, management as well as by the Scheme's Investment Advisors - Towers Watson.

#### 41. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### Sensitivity analysis table

##### Effect on equity if the listed equity index strengthens/weakens by 10%

2014	Carrying value at year-end	Effect on equity if the listed equity index strengthens/(weakens) by 10%
	R	R
Equities and investments	292 914 209	29 291 421
SA Listed Properties	81 325 052	8 132 505
Commodities - Gold, Platinum and Palladium	23 736 977	2 373 698

##### Sensitivity analysis

The Scheme acquired units in a linked insurance fund with exposure to assets in domestic equity. The value of each unit is calculated as the aggregate market value of all underlying assets at the end of the day, with due allowances being made where applicable for accrued interest

and dividend income. From the aggregate market value is deducted any direct costs the manager may incur in the management of the portfolio. The resultant net aggregate market value is then divided by the number of units to derive the Unit Price. The table below shows the effect of changes in the market on the Unit Price.

	Percentage effect on amount of Accumulated Funds					
	% Decrease in market			% Increase in market		
	30%	15%	5%	5%	15%	30%
31 December 2014	(8.88)	(4.44)	(1.48)	1.48	4.44	8.88
31 December 2013	(8.87)	(4.43)	(1.48)	1.48	4.43	8.87

##### Interest rate risk

The Scheme is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate combination of fixed and floating rate investments as well as fixed deposit investments. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

This risk is managed by regular reviews by the Investment Committee of the Scheme, management as well as by the Scheme's Investment Advisors - Towers Watson. The performance of the investments are measured against the Consumer Price Index (CPI) with the objective to outperform CPI over any rolling five-year period.

##### Sensitivity analysis table

##### Effect on statement of comprehensive income if interest rate increases/decreases by 1%

The following table summarises the Scheme's cash and cash equivalents and available-for-sale investments that are exposed to interest rate risks, disclosed at carrying amounts and categorised by the earlier of contractual repricing or maturity dates.



	1 - 3 months	4 - 12 months	1 - 5 years	Carrying value at year-end Total	Effect if interest rate increase/ (decrease) by 1%
	R	R	R	R	R
<b>As at 31 December 2014</b>					
Money Market funds in available-for-sale	-	-	390 514 565	390 514 565	3 905 146
Money Market					
Scheme	233 999 802	-	-	233 999 802	2 339 998
Personal medical savings account trust monies invested	327 298 033	-	-	327 298 033	3 272 980
Bonds in available-for-sale	-	-	211 095 655	211 095 655	2 110 957
International Fixed Interest in available-for-sale	-	-	19 268 479	19 268 479	192 685
Cash and cash equivalents					
Scheme	56 503 386	-	-	56 503 386	565 034
Personal medical savings account trust monies invested	161 217 156	-	-	161 217 156	1 612 172
<b>Total</b>	<b>779 018 377</b>	<b>-</b>	<b>620 878 699</b>	<b>1 399 897 076</b>	<b>13 998 971</b>

#### As at 31 December 2013

Money Market funds in available-for-sale	-	-	344 703 847	344 703 847	3 447 038
Money Market					
Scheme	278 648 275	-	-	278 648 275	2 786 483
Personal medical savings account trust monies invested	309 315 028	-	-	309 315 028	3 093 150
Bonds in available-for-sale	-	-	147 574 002	147 574 002	1 475 740
Cash and cash equivalents					
Scheme	92 905 238	-	-	92 905 238	929 052
Personal medical savings account trust monies invested	71 793 498	-	-	71 793 498	717 935
<b>Total</b>	<b>752 662 039</b>	<b>-</b>	<b>492 277 849</b>	<b>1 244 939 888</b>	<b>12 449 399</b>

The table below summarises the effective interest rate at year-end by major currencies across applicable Scheme financial assets.

	2014 %	2013 %
Available-for-sale investments		
Scheme	5,9%	5,1%
Personal medical savings account trust monies invested	5,3%	4,5%
Cash and cash equivalents		
Scheme	5,2%	4,5%
Personal medical savings account trust monies invested	1,6%	1,0%
Outstanding debtors	0%	0%
Loans to members	0%	0%
Loans to management	6.5%	6.0%

#### 41. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Scheme's principal financial assets are cash and cash equivalents, trade and other receivables and investments. The Scheme's credit risk is primarily attributable to accounts receivables by members and service providers.

##### Trade and other receivables

Trade and other receivables consist of insurance receivables and loans and receivables.

The main components of insurance receivables are:

- Receivables for contributions due from members; and
- Receivables for amounts recoverable from service providers and members in respect of claims debt.

##### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
Available-for-sale investments	1 580 152 773	1 464 027 292
Scheme	1 252 854 740	1 154 712 264
Personal medical savings account trust monies invested	327 298 033	309 315 028
Loans and receivables	119 372	610 785
Trade and other receivables	61 543 942	61 976 764
Insurance receivables	50 006 261	51 481 987
Other loans and receivables	6 585 466	6 772 440
Recovery under risk transfer arrangements outstanding claims provisions	4 952 215	3 722 337
Cash and cash equivalents	217 720 542	164 698 736
Scheme	56 503 386	92 905 238
Personal medical savings account trust monies invested	161 217 156	71 793 498
	<b>1 859 536 629</b>	<b>1 691 313 577</b>

The main components of insurance receivables are contribution receivables and member and service provider claims receivable. Contribution receivables are collected by means of debit orders or cash payments.

The Scheme manages credit risk by:

- Suspending benefits on all member accounts when contributions have not been received for 30 days;
- Terminating benefits on all member accounts when contributions have not been received for 60 days;
- Ageing and pursuing unpaid accounts on a monthly basis;
- Details of the process to estimate impairment provisions are included elsewhere in Note 41; and
- Actively pursuing all contributions not received after three days of becoming due, as required by Section 26(7) of the Medical Schemes Act 131 of 1998, as amended.

**The maximum credit exposure to member and service provider claims receivables was:**

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
Member claim receivables	1 680 816	1 559 793
Service provider claim receivables	316 166	201 615
	<b>1 996 982</b>	<b>1 761 408</b>

**Trade and other receivables disclosed by a quantitative analysis and maximum credit exposure at the end of the year:**

Financial assets that are neither past due nor impaired	11 537 681	10 494 777
Financial assets that are past due but not yet impaired	50 006 261	51 481 987
Financial assets that are impaired	1 883 636	4 045 369
Provision for impairment	(1 883 636)	(4 045 369)
<b>Total credit exposure</b>	<b>61 543 942</b>	<b>61 976 764</b>

**Impairment losses**

The movement in the provision for impairment, for each class of financial asset, during the year was as follows:

	<b>Trade and other receivables</b>			
	<b>Insurance receivables</b>			<b>Total</b>
	<b>Contribution debtors</b>	<b>Member and service provider debtors</b>	<b>Personal medical savings account advance</b>	
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>Balance at 1 January 2013</b>	129 403	1 138 535	2 536 932	3 804 870
Increase/(decrease) in provision for impairment	513 523	(483 662)	210 638	240 499
<b>Balance at 31 December 2013</b>	<b>642 926</b>	<b>654 873</b>	<b>2 747 570</b>	<b>4 045 369</b>
<b>Balance at 1 January 2014</b>	642 926	654 873	2 747 570	4 045 369
Increase/(decrease) in provision for impairment	298 466	(134 298)	(2 325 901)	(2 161 733)
<b>Balance at 31 December 2014</b>	<b>941 392</b>	<b>520 575</b>	<b>421 669</b>	<b>1 883 636</b>

**Investments**

Transactions are limited to high-quality financial institutions and the amount of exposure to any one financial institution is limited.

The Scheme limits its exposure to credit risk by investing in liquid securities and only with counterparties that have a credit rating of no less than F1 as rated by Fitch Ratings. Owing to these high credit ratings the Board of Trustees does not expect any counterparty to fail to meet its obligations. Credit limits per institution are prescribed by

Annexure B of the Regulations to the Medical Schemes Act 131 of 1998, as amended, which reduces the risk per individual institution. The utilisation of these credit limits are regularly monitored.

The table below shows the credit limit and balance of cash and cash equivalents as well as Money Market funds held at five major counterparties at year-end. No credit limits as per Regulation 30 were exceeded during the reporting period and the Board of Trustees does not expect any losses from non-performance of these counterparties.

#### 41. FINANCIAL RISK MANAGEMENT REPORT (continued)

Counterparty	2014		2013	
	Credit limit R	Balance R	Credit limit R	Balance R
Nedbank	662 048 212	176 259 393	601 574 667	152 664 189
Standard Bank	662 048 212	122 024 177	601 574 667	149 017 759
FNB	662 048 212	90 625 954	601 574 667	72 751 905
ABSA	662 048 212	75 302 395	601 574 667	126 527 138
Investec	662 048 212	19 098 023	601 574 667	27 927 668

#### Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (where available) or to historical information about counterparty default rates.

#### Insurance receivables

	2014 R	2013 R
Counterparties without external credit rating		
Contribution debtors	48 337 651	50 252 454
Member claims debtors	1 680 816	1 559 793
Provider claims debtors	316 166	201 615

Contribution debtors are normally collected in the following month by way of a double debit order whilst member and provider claim debtors are collected from any future benefits that are due.

#### Cash and cash equivalents

Counterparties with external credit ratings (Fitch Ratings)	2014	2013
F1+	217 720 542	164 698 736
F1	-	-
Government	-	-
	<b>217 720 542</b>	<b>164 698 736</b>

The Scheme applies the Fitch Ratings for its short-term obligations. The rating relates to the capacity of the Scheme to meet its financial obligations.

F1 means highest short-term credit quality. It indicates the strongest intrinsic capacity for timely payment of financial commitments.

F1+ means highest short-term credit quality. It indicates exceptionally strong intrinsic capacity for timely payment of financial commitments.

### Available-for-sale investments

The credit ratings of the available-for-sale investments are linked to the underlying investment instruments within the segregated portfolios, linked insurance policy and the money market funds. The Scheme's investment portfolios managed by Investec, Allan Gray, Coronation and Prudential are all managed in compliance with Annexure B of Regulation 30 of the Medical Schemes Act. As such the per issuer limits

per Annexure B applies to all the mandates. In addition, the Investec Money Market portfolio investment guidelines require the portfolio to have a minimum national short term credit rating of F2 or higher by Fitch Ratings, or equivalent. The credit rating exposures are monitored by the Scheme's Investment Advisor, Towers Watson, which ensures mandate compliance.

### Fair values of financial assets by hierarchy level

#### Assets measured at fair value: 2014

##### Available-for-sale investments

Scheme

Segregated portfolio  
Linked Insurance Fund policies  
Money Market funds  
Collective Investment Schemes

Personal medical savings account trust monies invested

Money Market funds

**Investment Property**

**Current Assets Held for Sale**

	Level 1 R	Level 2 R	Level 3 R	Reclassification R
Segregated portfolio	314 644 229	395 188 691	-	-
Linked Insurance Fund policies	-	309 022 017	-	-
Money Market funds	-	233 999 802	-	-
Collective Investment Schemes	-	-	-	-
Personal medical savings account trust monies invested				
Money Market funds	-	327 298 033	-	-
<b>Investment Property</b>	-	-	1 500 000	1 500 000
<b>Current Assets Held for Sale</b>	-	-	3 700 000	3 700 000
	<b>314 644 229</b>	<b>1 265 508 544</b>	<b>5 200 000</b>	<b>5 200 000</b>

#### Assets measured at fair value: 2013

##### Available-for-sale investments

Scheme

Segregated portfolio  
Linked Insurance Fund policies  
Money Market funds  
Bonds  
Collective Investment Schemes

Personal medical savings account trust monies invested

Money Market funds

**Investment Property**

**Current Assets Held for Sale**

Segregated portfolio	303 348 970	167 915 704	-	-
Linked Insurance Fund policies	-	283 369 982	-	-
Money Market funds	-	278 648 275	-	-
Bonds	40 649 614	-	-	-
Collective Investment Schemes	-	80 779 719	-	-
Personal medical savings account trust monies invested				
Money Market funds	-	309 315 028	-	-
<b>Investment Property</b>	-	1 500 000	-	-
<b>Current Assets Held for Sale</b>	-	4 000 000	-	-
	<b>343 998 584</b>	<b>1 125 528 708</b>	-	-

#### 41. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### Investment Property

Investment property comprises the following: Stand 1190, Oubaai Golf Estate, Herolds Bay. The property has been reclassified as a Level 3 asset due to the valuation technique and assumptions used to determine the market value due to the fact that limited comparative stands have been sold in recent years.

The investment property was carried at cost in the year of purchase and is valued annually by an independent professional qualified valuer, not connected with the Scheme. The valuer is a member of the Institute of Valuers, has appropriate qualifications and recent experience in the valuation of properties in the relevant location.

##### Current Assets Held for Sale

This property comprises the following: Stand 66, Marlands, Germiston,

Gauteng Province. The business offices have been reclassified as a Level 3 asset due to the valuation technique and assumptions used that are not supported by observable market data.

This property is valued annually by an independent professional qualified valuer, not connected with the Scheme. The valuer is a member of the Institute of Valuers, has appropriate qualifications and recent experience in the valuation of properties in the relevant location. The valuation calculation was made on the basis of the income capitalisation method whereby the projected annual income based on market related rentals for improvements offered is determined. Other market related variables (expenditure and vacancies) are established and subtracted from the gross income. The net income for the first year is then capitalised into perpetuity at a market related rate.

##### Valuation techniques and observable inputs for Level 1 and Level 2 fair value measurements

Description	Fair value at 31/12/2014 R	Valuation method	Observable input
<b>Segregated portfolio</b>			
- Equity	232 345 894	JSE prices	Publicity available quoted price
- Money Market funds	205 719 399	Respective Banks	Recorded at cost, include amortised interest and any fair value gain or loss calculated based on yields provided by publicly available quoted prices
- Bonds	176 176 167	BESA prices	Bond Exchange of South Africa (BESA) publicly available quoted price
- SA Listed Properties	68 655 149	JSE prices	Publicity available quoted price
- Commodities - Gold, Platinum and Palladium	7 667 832	ETF prices	Exchange-Traded Funds (ETF) are exchange traded and priced on publicly available prices
- International Fixed Interest Instruments	19 268 479	Respective Banks	Recorded at cost, include amortised interest and any fair value gain or loss calculated based on yields provided by publicly available quoted prices
<b>Linked Insurance Fund policies</b>			
- Equity	60 568 315	JSE prices	Publicity available quoted price
- Money Market funds	184 795 166	Respective Banks	Recorded at cost, include amortised interest and any fair value gain or loss calculated based on yields provided by publicly available quoted prices
- Bonds	34 919 488	BESA prices	Bond Exchange of South Africa (BESA) publicly available quoted price
- SA Listed Properties	12 669 903	JSE prices	Publicity available quoted price
- Commodities - Gold, Platinum and Palladium	16 069 145	ETF prices	Exchange-Traded Funds (ETF) are exchange traded and priced on publicly available prices
<b>Money Market funds</b>	233 999 802	Respective Banks	Recorded at cost, include amortised interest and any fair value gain or loss calculated based on yields provided by publicly available quoted prices
	<b>1 252 854 740</b>		

### Analysis of carrying amounts of financial assets and financial liabilities per category

The Scheme invests in funds whose objectives range from achieving medium- to long-term capital growth and whose investment strategy does not include the use of leverage. The funds are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives.

	Cash and cash equivalents	Loans and receivables	Available-for-sale financial assets	Insurance receivables and payables	Total carrying amount
	R	R	R	R	R
<b>2014</b>					
Investments					
- Segregated portfolio	-	-	709 832 920	-	709 832 920
- Linked Insurance Fund policies	-	-	309 022 017	-	309 022 017
- Money Market funds	-	-	233 999 802	-	233 999 802
Cash and cash equivalents					
Scheme	56 503 386	-	-	-	56 503 386
Personal medical savings account trust investment	161 217 156	-	-	-	161 217 156
Personal medical savings account trust investment	-	-	327 298 033	-	327 298 033
Trade and other receivables	-	61 543 942	-	-	61 543 942
Loans and receivables	-	119 372	-	-	119 372
Personal medical savings account trust liability	-	-	-	(505 350 174)	(505 350 174)
Outstanding claims provision	-	-	-	(93 152 215)	(93 152 215)
Trade and other payables	-	-	-	(143 411 199)	(143 411 199)
Borrowings	-	-	-	(25 198)	(25 198)
	<b>217 720 542</b>	<b>61 663 314</b>	<b>1 580 152 773</b>	<b>(741 938 786)</b>	<b>1 117 597 843</b>

Insurance receivables and payables included amounts due from/to:

- Contribution debtors
- Brokers
- MVA recoveries
- Recoveries from members for co-payments
- Provider balances
- Member balances excluding balances arising from personal medical savings accounts
- Reported claims not yet paid

The Scheme's maximum exposure to loss from its interests in funds is equal to the total fair value of its investments in the funds. Once the Scheme has disposed of its shares in a fund, it ceases to be exposed to any risk from that fund.

#### 41. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### Pooled Investment Funds

The Scheme's investments are subject to the terms and conditions of the respective fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of the funds. The investment manager makes investment decisions after extensive due diligence of the underlying funds, its strategy and the overall quality of the underlying fund's manager. All of the Scheme's funds in the investment portfolio are managed by portfolio managers who are compensated by the Scheme for their services.

Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of the Scheme's investments in each of the funds.

The right of the Scheme to request redemption of its investments in funds ranges in frequency from weekly to annually. The exposure to investments in funds at fair value, by strategy employed, is disclosed in the following table:

Strategy	Number of investee funds	Weighted average of net asset value of investee funds during 2014	Fair value of asset investment at 31/12/2014*	% of net assets attributable to holders of units **
		R	R	%
<b>Investec Global Defensive Income Fund</b> To outperform money market returns in the world's major currencies	1	69 726 560	-	0,00%
<b>Investec Money Market Funds F Class</b> Conservative maturity profile investing in money market instruments	1	142 496 053	176 016 985	0,78%
<b>Investec Stable Money Market</b> Stable returns over the medium term, with a focus on conservative money market instruments	1	108 902 592	57 982 817	4,21%
		<b>321 125 205</b>	<b>233 999 802</b>	

\*The fair value of financial assets is included in available-for-sale assets in the statement of financial position.

\*\*This represents the entity's percentage interest in the total net assets of the investee funds.

##### Fair value estimation

The fair value of publicly traded financial instruments held as available-for-sale securities is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Scheme is the current bid price.

Owing to the short-term nature thereof the carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The personal medical savings accounts of members contain a demand feature. Regulation 10 to the Medical Schemes Act 131 of 1998, as amended, determines that any credit balance on a member's personal medical savings account must be taken in cash on termination of

membership except when the member enrolls in another medical scheme with a similar feature. The carrying value of the personal medical savings accounts of members are therefore deemed to equal their fair value. The amounts were not discounted due to the demand features.



### Money Market Portfolio

The mandate of the investment manager is for a managed South African Money Market portfolio that aims to provide moderate out-performance of the benchmark, whilst at the same time providing a high degree of capital security.

The performance of the portfolio is measured against the STEFI Composite Index with the objective of out-performing the benchmark

by 0,25% per annum after deducting all fees and costs related to managing the portfolio.

The permitted assets of the portfolio are limited to:

SA "Money Market Instruments" as set out in Chapter 111 (12) of GN 2071 issued on 1 August 2003 in terms of the Collective Investment Control Act 45 of 2002 and investments in grade SA bonds, with a duration of shorter than two years.

### Money Market funds

Scheme

Personal medical savings account trust monies invested

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
	233 999 802	278 648 275
	327 298 033	309 315 028
	<b>561 297 835</b>	<b>587 963 303</b>

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to ensure that the Scheme has the ability to fund its day-to-day operations. The Scheme manages liquidity risk by monitoring forecast cash flows and ensuring that adequate free cash is available.

The Scheme has complied in all material respects with the requirements regarding the nature and categories of assets as prescribed by Section 35 and Regulation 30 of the Medical Schemes Act 131 of 1998, as amended.

The next table on the following page summarises the Scheme's exposure to liquidity risk.

### Maturity analysis of financial assets and liabilities

The table analyses the financial assets and liabilities of the Scheme into relevant maturity groupings based on the remaining period at financial position date to the contractual maturity date:

#### 41. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### As at 31 December 2014

	1-3 months R	4-12 months R	1-5 years R	Total R
<b>FINANCIAL ASSETS</b>				
Available-for-sale investments				
Scheme	233 999 802	-	1 018 854 938	1 252 854 740
Personal medical savings account trust monies invested	327 298 033	-	-	327 298 033
Loans and receivables	-	97 815	21 557	119 372
Trade and other receivables	-	61 543 942	-	61 543 942
Cash and cash equivalents				
Scheme	56 503 386	-	-	56 503 386
Personal medical savings account trust monies invested	161 217 156	-	-	161 217 156
<b>Total financial assets</b>	<b>779 018 377</b>	<b>61 641 757</b>	<b>1 018 876 495</b>	<b>1 859 536 629</b>
<b>FINANCIAL LIABILITIES</b>				
Personal medical savings account liability	-	505 350 174	-	505 350 174
Outstanding claims provision	93 152 215	-	-	93 152 215
Trade and other payables	143 411 199	-	-	143 411 199
<b>Total financial liabilities</b>	<b>236 563 414</b>	<b>505 350 174</b>	<b>-</b>	<b>741 913 588</b>
<b>Net liquidity gap</b>	<b>542 454 963</b>	<b>(443 708 417)</b>	<b>1 018 876 495</b>	<b>1 117 623 041</b>

##### As at 31 December 2013

<b>FINANCIAL ASSETS</b>				
Available-for-sale investments				
Scheme	278 648 275	-	876 063 989	1 154 712 264
Personal medical savings account trust monies invested	309 315 028	-	-	309 315 028
Loans and receivables	-	242 907	367 878	610 785
Trade and other receivables	-	61 976 764	-	61 976 764
Cash and cash equivalents				
Scheme	92 905 238	-	-	92 905 238
Personal medical savings account trust monies invested	71 793 498	-	-	71 793 498
<b>Total financial assets</b>	<b>752 662 039</b>	<b>62 219 671</b>	<b>876 431 867</b>	<b>1 691 313 577</b>
<b>FINANCIAL LIABILITIES</b>				
Personal medical savings account liability	-	389 792 054	-	389 792 054
Outstanding claims provision	96 651 335	-	-	96 651 335
Trade and other payables	147 986 189	-	-	147 986 189
<b>Total financial liabilities</b>	<b>244 637 524</b>	<b>389 792 054</b>	<b>-</b>	<b>634 429 578</b>
<b>Net liquidity gap</b>	<b>508 024 515</b>	<b>(327 572 383)</b>	<b>876 431 867</b>	<b>1 056 883 999</b>

<b>Cash and cash equivalents</b>	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
Cash and cash equivalents consist of the following:		
Current accounts	174 850 811	128 775 174
Scheme	13 633 655	56 981 676
Personal medical savings account trust monies invested	161 217 156	71 793 498
Deposits on call account	42 869 731	35 923 562
Scheme	42 869 731	35 923 562
Personal medical savings account trust monies invested	-	-
<b>Total</b>	<b>217 720 542</b>	<b>164 698 736</b>

### Legal risk

Legal risk is the risk that the Scheme will be exposed to contractual obligations which have not been provided for. At 31 December 2014 the Scheme did not consider there to be any significant concentration of legal risk that had not been provided for.

Regulation 29(2) of the Medical Schemes Act 131 of 1998, as amended, requires a minimum solvency ratio of accumulated funds expressed as a percentage of gross contributions of 25%.

The solvency ratio was 26.97% of gross contributions at 31 December 2014 and 29.23% at 31 December 2013.

### Capital adequacy risk

The Scheme's objectives for managing capital are to maintain the capital requirements as prescribed by the Medical Schemes Act 131 of 1998, as amended, and to safeguard the ability of the Scheme to continue as a going concern for the benefit of its stakeholders.

### The calculation of the regulatory capital requirement is set out below.

Total members' funds per statement of financial position	1 135 894 357	1 069 065 309
Unrealised loss on revaluation of investment property in the statement of comprehensive income	600 000	600 000
Revaluation reserves	(1 997 295)	(2 297 295)
Available-for-sale fair value reserve	(89 537 952)	(107 868 065)
<b>Accumulated funds per Regulation 29</b>	<b>1 044 959 110</b>	<b>959 499 949</b>
<b>Gross contributions</b>	<b>3 874 697 957</b>	<b>3 282 345 771</b>
<b>Solvency margin (accumulated funds/gross contributions x 100)</b>	<b>26,97%</b>	<b>29,23%</b>



**Onica Mgwevu**  
Financial Assistant  
Finance

Member of the Bestmed family for 19 years.

I'm a people-orientated, social person who thrives in a busy home environment. Number-crunching is my speciality and I'm passionate about finance. Often I just spend time reflecting on my life and that's why I sing so much - I'm generally just very happy.





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