

Our Value

Annual Financial Report 2015



MEMBERSHIP GROWTH RATE

12.46% OF BENEFICIARIES OLDER THAN 65 YEARS

LOOK OUT FOR INFANT CARE PROGRAMME 2016



1.11



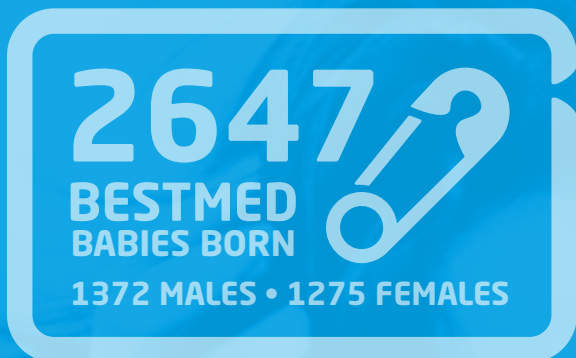
DEPENDANTS PER MEMBER



741

TWITTER FOLLOWERS

BE FIN-FIT



INCREASE IN FACEBOOK LIKES

466%

THE TOTAL FLU VACCINES CLAIMED FOR 2015 = 18 906 UNITS



AVERAGE CALL CENTRE RESPONSE TIME

17.5 HOURS

25.58% SOLVENCY RATIO

9.86%

NON-HEALTHCARE EXPENDITURE OF RISK CONTRIBUTIONS



3 097 302 236 CLAIMS PAID

bestMed



Annual Financial Report 2015

The Value of Bestmed.

Much has changed during the 52 years Bestmed has been in operation. But we're proud to say that one thing has remained constant: Our values.

Four of which we live, eat and breathe.

Mutual. We believe in a shared experience that includes our members. The spirit of partnership is inherent in everything we do. We invest in the community, put people before profit and we're always accountable for our actions.

Seamless. We close the gaps, we never play the blame game, and we equip our staff with a comprehensive knowledge and understanding of all our products, so that they in turn can provide a seamless service to our members.

Principled. Family values are at the heart of everything we do. Warmth, care, openness and loyalty are enshrined in our modus operandi. When we make a promise, we honour it. Above all, we always act in the best interests of our 100 000 members and their families!

Passionate. We are driven by a love of what we do. It gives us the energy to stay proactive, innovative, inspired and committed to exceeding our members' expectations. We're not just about making our members better, we're about making their lives better.

As you page through this report, you'll see how the values we live by have a direct impact on the value of our business. At the end of the day, people will only entrust their medical aid to a company they can rely on, especially during times of economic uncertainty. And we believe it's because we're seen as a company of strong values that we find ourselves in such a sound financial position.

"Your beliefs become your thoughts.
Your thoughts become your words.
Your words become your actions.
Your actions become your habits.
Your habits become your values.
Your values become your destiny."

Mahatma Gandhi





fin-fit

Annual Financial Statements for the year ended 31 December 2015

Contents

| | |
|---|----|
| Statement of Responsibility by the Board of Trustees..... | 08 |
| Statement of Corporate Governance by the Board of Trustees..... | 09 |
| Report of the Board of Trustees..... | 10 |
| Independent Auditor's Report..... | 22 |
| Statement of Financial Position..... | 23 |
| Statement of Comprehensive Income..... | 24 |
| Statement of Changes in Members' Funds and Reserves..... | 25 |
| Cash Flow Statement..... | 26 |
| Notes to the Annual Financial Statements..... | 27 |



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

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 23 to 92 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 pages 22.

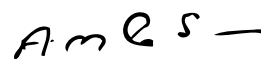
The annual financial statements were approved by the Board of Trustees on 21 April 2016 and are signed on its behalf:



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

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 evaluated by internal auditors and, as and when required, experts are consulted for professional advice.

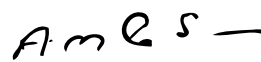
The Scheme maintains internal controls and accounting systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain adequate accountability for its assets. Such controls are based on established policies and procedures 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.



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 2015.

1. DESCRIPTION OF THE MEDICAL SCHEME

1.1 Terms of Registration

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

1.2 Benefit Options

The Scheme offered thirteen benefit options for the year under review, ten original options and three Efficiency Discounted Options (EDO's) registered during June 2015. The EDO's are included in the original ten options for reporting purposes.

Beat1

Beat1 Network - newly registered EDO

Beat2

Beat2 Network - newly registered EDO

Beat3

Beat3 Network - newly registered EDO

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 |
| Beat1 Network | None |
| Beat2 | 18% |
| Beat2 Network | 18% |
| Beat3 | 17% |
| Beat3 Network | 17% |
| Beat4 | 20% |
| Pace1 | 21% |
| 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 enrol 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 money and is 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. Due to the incompatibility of the information required by the Guardian Fund and that supplied by the Scheme, no payments were made to the Guardian Fund in 2015. All payments made in 2014 and prior periods were paid back to the Scheme by the Guardian Fund in 2014. The Council for Medical Schemes ("CMS") is investigating the matter.

1.4 Risk Transfer Arrangements

The Scheme had the following risk transfer arrangements in 2015:

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 net income on the risk transfer arrangement was R6 080 649 (2014: net income of 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.

OneCare provided out-of-hospital healthcare services to members on the Pulse2 option. Claims incurred and recoveries received were calculated based on utilisation figures obtained from OneCare. The net expense on the risk transfer arrangement was R1 502 767 (2014: net income of R904 379).

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 R4 429 692 (2014: net income of R1 961 190).

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 income on the risk transfer arrangement was R7 051 244 (2014: net expense of R1 734 118).

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

2. MANAGEMENT

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

2.1.1 Elected by the members Term of Office

Appointed 19 November 2014*

[Dr WJ Botes](#) 2014 - 2018
Term ended June 2015

Elected by the members June 2015*

[RF Camphor \(Chairperson\)](#) 2015 - 2020

Term extended due to re-election

[Prof PA Delpont \(Vice-Chairperson\)](#) 2015 - 2020

Term extended due to re-election

[Dr J Moncrieff](#) 2014 - 2018

[WJ Myburgh](#) 2012 - 2016

[EL Steenkamp](#) 2014 - 2018

[Rev JH Windell](#) 2015 - 2018

2.1.2 Appointed Term of Office

Appointed 19 November 2014*

[WJ du Plessis](#) 2014 - 2016

Resigned March 2015

[H Kruger](#) 2014 - 2016

Resigned March 2015

[Dr M Serfontein](#) 2014 - 2018

Resigned February 2015

Appointed June 2015*

[LB Dlamini](#) 2015 - 2020

[GS du Plessis](#) 2015 - 2020

[PM Kennedy](#) 2015 - 2018

Term extended due to re-appointment

[CM Mowatt](#) 2015 - 2020

Term extended due to re-appointment

[Dr LH Petersen](#) 2015 - 2018

[S Stevens](#) 2015 - 2018

* Refer to paragraph 10 of the Board of Trustees Report for more details on the removal of trustees in November 2014 and the appointment and election of new trustees.

MANAGEMENT (continued)**2.2 Principal Officer**

AM la Grange

2.3 Registered office address and postal address

Bestmed Medical Scheme

| | |
|-----------------------|-------------|
| Block A | PO Box 2297 |
| Glenfield Office Park | PRETORIA |
| 361 Oberon Avenue | 0001 |
| Faerie Glen | |
| Pretoria | |
| 0081 | |

2.4 Investment Advisors

Willis Towers Watson (Pty) Ltd

(Previously known as 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 |
| Cape Town | 8000 |
| 8001 | |
| FSP number: 587 | |

Momentum Asset Management (Pty) Ltd

(Appointment date: June 2015)

| | |
|------------------|------------------|
| Tower 2 | Private Bag 9959 |
| 102 Rivonia Road | Sandton |
| Sandton | 2146 |
| 2196 | |
| FSP number: 623 | |

2.6 Actuaries

Insight Actuaries & Consultants

| | |
|------------------|-----------------|
| Ground Floor | Private Bag X17 |
| Block Central 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 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 Willis 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:

| | 2015 R'000 | 2014 R'000 |
|--|-----------------------------|-----------------------------|
| Total members' funds per statement of financial position | 1 150 631 | 1 135 894 |
| 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 | (1 497) | (1 997) |
| Available-for-sale fair value reserve | (66 172) | (89 538) |
| Accumulated funds as per Regulation 29 | 1 083 562 | 1 044 959 |
| Gross contributions | 4 236 652 | 3 874 698 |
| Solvency ratio | 25.58% | 26,97% |

4.2 Results of Operations

The results of the operation 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 39 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 39 to the annual financial statements 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. NON-COMPLIANCE WITH MEDICAL SCHEMES ACT 131 OF 1998, AS AMENDED

6.1 Non-compliance with Section 26(1)(c) of the Medical Schemes Act - Deposits of contributions into a bank account controlled by the Scheme.

The Scheme had members located in Mozambique. The contributions of these members were paid over to an intermediary, who in turn paid the contributions to the Scheme. This practice is prohibited, as contributions must be paid directly into the bank account of the Scheme, and not through an intermediary account.

No alternative, which would comply with the Medical Schemes act, could be found and this business was terminated on 31 December 2015. Upon termination all contributions due by members have been paid into the bank account of the Scheme.

6.2 Non-compliance with Section 26(7) of the Medical Schemes Act - Contributions not received within three days of becoming due

There were instances where the Scheme, in absence of any agreement or understanding, received contributions more than three days after due date. Contribution receivables are amounts receivable from individuals or employer groups and are collected by debit orders or cash payments. If not received within three days of due date, benefits of individuals are suspended and terminated if not received within 60 days. Employer group discrepancies are actively monitored and rectified on a monthly basis.

6.3 Non-compliance with Regulation 28(1) of the Medical Schemes Act - Compensation of brokers without written agreements

A broker house was remunerated since February 2015 for broker services rendered, without the existence of a formal agreement. This was an administrative oversight, which was immediately corrected when the problem was identified in November 2015. The control process was updated to prevent a future recurrence. Also refer paragraph 10 below.

6.4 Non-compliance with Regulation 28(2) of the Medical Schemes Act - Remuneration paid to brokers more than the prescribed statutory limit.

The Scheme entered into contracts with independent contractors to render marketing and branding services

to the Scheme. The contracts specifically prohibited any party to the contracts to be registered as brokers with the CMS. Upon investigation of the contracts during 2015, it was revealed that, without the knowledge of the Scheme, some parties to the contracts registered as brokers with the CMS, resulting in these subsequently registered brokers indirectly receiving remuneration in excess of the prescribed statutory limit. Upon discovery of the transgression, these contracts were immediately terminated. Also refer paragraph 10 below.

The Scheme also concluded a fixed broker-fee agreement with a brokerage representing an employer group. At the time of contracting, the fixed fee was less than the prescribed maximum broker fee due to the benefit options the employees of the employer group had subscribed to. During the year under review some new employees joined benefit options with lower subscription rates, resulting in the fixed contracted fee exceeding the maximum prescribed fee per member. This resulted in an overpayment to the broker of R15 352. The brokerage agreed to refund the overpayment to the Scheme.

6.5 Non-compliance with Regulation 29(2) of the Medical Schemes Act - Maintaining a solvency ratio of 25% throughout the accounting period under review.

The accumulated funds expressed as a percentage of gross annual contributions was below the statutory requirement of 25% during two consecutive months of the year, due to seasonality of the claims submitted. At 31 December 2015 the solvency level exceeded the minimum statutory solvency limit of 25%.

6.6 Non-compliance with Section 33(2)(b) of the Medical Schemes Act - Option self-sufficiency in terms of membership and financial performance be financially sound.

The Medical Schemes Act stipulates that a benefit option shall be self-supporting in terms of membership and financial performance. During the year under review seven benefit options of the Scheme, namely Beat2, Beat4, Pace2, Pace3, Pace4, Pulse1 and Pulse2 made a net healthcare deficit. After accounting for other income only the Beat2, Beat4, Pace2, Pace3 and Pulse2 options showed a net deficit.

The scheme monitors the results of all options and evaluates different strategies to improve the financial outcomes of all options. The different financial results

reflect the different disease burdens in each option, among many factors.

The strategy on sustainability of options has to balance short- and long-term financial considerations, with fairness to both healthy and sick members and with continued affordability of cover for members on different levels of income and needs.

The Scheme remains committed to comply with the applicable legislation, as far as possible, but also focuses on the overall stability and financial position of the Scheme as a whole and not only on individual options.

6.7 Non-compliance with Section 35(8)(a) of the Medical Schemes Act - Investments in employers, administrators or any arrangement associated with the medical scheme.

Due to some of the Scheme's employer groups being listed on the JSE, investments were made in certain of its employer groups listed on the JSE through the portfolios of the investment products the Scheme utilises. This is also applicable to JSE listed administrators. The Council for Medical Schemes has granted the Scheme an exemption from this section of the Medical Schemes Act.

6.8 Non-compliance with Section 65(1) of the Medical Schemes Act - Remuneration to non-brokers for broker related services.

Section 65(1) of the Medical Schemes Act state, that "No person may act or offer to act as a broker unless the Council has granted accreditation to such a person on payment of such fees as may be prescribed".

The Scheme entered into contracts with independent contractors to render marketing, branding and certain ad-hoc ancillary services to the Scheme.

Upon investigation of the contracts during 2015, inclusive of the ad-hoc ancillary services as defined, it was indicated that the services defined as "assisting members in resolving their respective queries which will provide secure member satisfaction", is defined as broker services as described in clause 3(a) of the Code of Conduct for Brokers.

The contracts were immediately terminated on discovery of the transgression. Also refer to paragraph 10 below.

7. RELATED PARTY TRANSACTIONS

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

8. 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. The Board is also committed to the principles defined in the Code of Corporate Practices and Conduct as set out in the King Report on Governance (King III).

During 2015 the Board utilised the Committees identified below to oversee the Scheme's operations. The Committees identified below 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.

AUDIT COMMITTEE

The Scheme has an Audit Committee in accordance with the provisions of the Medical Schemes Act.

In accordance with the provisions of the Medical Schemes Act, the primary responsibility of the Committee is to assist the Board of Trustees in carrying out its duties relating to the 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 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. Except for the two "In committee" meetings, the Principal Officer and the internal and external auditors attend all Audit Committee meetings and have unrestricted access to the Chairperson of the Committee.

AUDIT COMMITTEE (continued)

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

Dr WJ Botes Trustee member

Effective from 28 November 2014 to May 2015

GS du Plessis - CA(SA) Trustee member

J Lachmann - CA(SA) Independent member

Effective from 28 July 2015

CM Mowatt - CA(SA) Trustee member

JFJ Scheepers - CA(SA) Independent member -
Chairperson

Prof Q Vorster - CA(SA) Independent member

Resigned 29 May 2015

H Wolmarans - CA(SA) Independent member

Effective from 28 July 2015

RISK MANAGEMENT COMMITTEE

The role of the Committee is to ensure that the Scheme has implemented an effective policy and plan for risk management that will enhance the Scheme's ability to achieve its strategic objectives and that disclosure regarding risk is comprehensive, timely and relevant. The Committee, which previously formed part of the Audit and Risk Committee, was constituted at a Board of Trustees meeting on 13 February 2015. 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, Chairperson of the Audit committee and senior management attend meetings of the committee.

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

RF Camphor Trustee member

Effective from 13 February 2015 to 25 June 2015

Prof PA Delport Trustee member

Effective from 13 February 2015 to 25 June 2015

GS du Plessis Trustee member

Effective from 13 February 2015 to 25 June 2015

PM Kennedy Trustee member -
Chairperson

Effective from 28 July 2015

CM Mowatt Trustee member

Effective from 28 July 2015

S Stevens Trustee member

Effective from 28 July 2015

INVESTMENT COMMITTEE

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:

GS du Plessis Trustee member

Effective from 28 July 2015

CM Mowatt Trustee member

Effective from 13 February 2015

WJ Myburgh Trustee member - Chairperson

EL Steenkamp Trustee member

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, senior management and its employees 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 four times during the year and comprised the following members:

Prof PA Delport Trustee member - Chairperson

Effective from 13 February 2015

RF Camphor Trustee member

Effective from 13 February 2015

WJ du Plessis Trustee member

Effective from 13 February 2015 to 31 March 2015

LB Dlamini Trustee member

Effective from 28 July 2015

DISPUTE COMMITTEE

The role of the Dispute Committee is to adjudicate 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 |

AD HOC IT ADVISORY COMMITTEE

This Committee was constituted at the Board of Trustees meeting of 9 December 2015 to assist with the project of acquiring a new member administration IT system. The Committee only acts in an advisory capacity for a temporary period until the project of acquiring a new member administration IT system has been finalised.

The Committee did not meet during the year and comprised the following members:

| | |
|---------------------------------------|---------------------------------|
| Prof PA Delpont | Trustee member |
| <i>Effective from 9 December 2015</i> | |
| GS du Plessis | Trustee member |
| <i>Effective from 9 December 2015</i> | |
| PM Kennedy | Trustee member - Chairperson |
| <i>Effective from 9 December 2015</i> | |

9. EVENTS SUBSEQUENT TO THE STATEMENT OF FINANCIAL POSITION DATE

No events other than disclosed on the Board of Trustee Report Paragraph 10, took place between the Statement of Financial Position date and the date of this report that should be noted.

10. GOVERNANCE IN TERMS OF THE MEDICAL SCHEMES ACT 131 OF 1998, AS AMENDED

The CMS performed a routine inspection on the Scheme during 2011 and a final report and directives emanating from the review were received in July 2013.

The Board of Trustees, as it existed at that time, was of the view 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 of Trustees, as it existed at that stage, however, did not agree with a number of conclusions reached by the CMS and the subsequent directives issued

as a result thereof, and as a last resort legal action was commenced.

The Medical Schemes Act stipulates that a medical scheme may not take legal action 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 and directives in the CMS report 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, removing them from office. In terms of the Rules of the Scheme the remaining three elected Trustees immediately filled the three vacancies for elected members, and thereafter another six Trustees were appointed to fill the balance of the vacancies.

This Board of Trustees, as then newly constituted in November 2014, decided to challenge the removal of the former trustees by the CMS in terms of section 46 of the Medical Schemes Act 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 handed down on 13 February 2015.

The judgment was as follows:

- * *The new Board was validly constituted;*
- * *There are no grounds to appoint a curator;*
- * *The removal of nine Trustees is valid; and*
- * *There are no further grounds for an appeal by the Scheme against the CMS report and findings.*

Both the Scheme and the CMS lodged applications during March 2015 to appeal against the judgement. 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 following from the routine inspection, whilst the

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

CMS was of the opinion that the Court erred in its finding that the newly constituted Board was valid. Both of these applications were heard in April 2015 and both were turned down. The Board of Trustees then lodged a petition to appeal in the Supreme Court of Appeal, which was unsuccessful.

The Board of Trustees thereafter had discussions with the CMS in an attempt to finalise compliance with the directives, but did not receive any formal written response from the CMS by end of business for the year under review.

During April 2015 the Scheme received communication from the General Manager: Compliance and Investigations Unit of the CMS, indicating that the CMS had received information on possible irregularities and contravention of the Medical Schemes Act by the Scheme. The Board of Trustees viewed the allegations as serious and commissioned a forensic audit into the allegations.

The forensic audit indicated a number of non-material housekeeping matters which were rectified by the Board of Trustees and management.

The forensic audit revealed possible instances of non-compliance with the Medical Schemes Act. These were broker related services possibly being provided by some of the independent contractors. As a result, a portion of the payments to these independent contractors, which may have been in respect of broker related services as defined, may thus have been in contravention with Section 65(1) of the Medical Schemes Act.

It was further found that some of the independent contractors had been remunerated otherwise than in terms of their contracts with the Scheme, in that remuneration was not calculated as provided for in the contracts.

In addition it was also found that brokers may in some instances have been related to some of the independent contractors that could possibly have resulted in a contravention of Regulation 28(1) of the Medical Schemes Act as these brokers may have been indirectly remunerated in excess of the statutory limit in respect of broker services.

It was also found that subsequent to the initial conclusion of the contracts for non-broker services, some of the contracted parties may have registered as brokers with the CMS without disclosing this to the Scheme, which resulted in at least some of the payments to these parties possibly being in contravention with Regulation 28(1) of the Medical Schemes Act.

On discovery of these transgressions of the Medical Schemes Act all the contracts were immediately terminated in May 2015. Only a limited number of service level, marketing and lead management agreements were subsequently concluded with defined service providers.

The Scheme deliberately sought legal advice on the matters highlighted by the forensic audit as identified above. The advice obtained indicated that the Scheme has a right of recovery against these independent contractors insofar it can prove that the independent contractors have been unjustifiably enriched.

Management, under the guidance of the Audit Committee of the Board of Trustees, is in the process to determine whether there are grounds for the Scheme to institute a recovery process against any of the independent contractors. It may, however, be extremely difficult to now afterwards attempt to “unscramble the egg” in this matter.

The legal advice obtained, confirmed that the limited number of new agreements entered into post May 2015 were indeed legal and valid in terms of the Medical Schemes Act.

11. 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 32 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 | | Other Task Groups (including BOT & EXCO & Other) | | Audit Committee | | Risk Committee | | Investment Committee | | Remuneration Committee | |
|---|----------------|----|--|----|-----------------|---|----------------|---|-------------------------|---|---------------------------|---|
| | A | B | A | B | A | B | A | B | A | B | A | B |
| Dr WJ Botes <i>(End of term June 2015)</i> | 5 | 3 | 3 | 3 | 3 | 3 | | | | | | |
| RF Camphor | 11 | 11 | 11 | 10 | | | | | | | 4 | 4 |
| Prof PA Delport | 11 | 10 | 11 | 9 | | | | | | | 4 | 4 |
| LB Dlamini <i>(Appointed June 2015)</i> | 6 | 5 | 5 | 4 | | | | | | | 2 | 2 |
| GS du Plessis <i>(Appointed June 2015)</i> | 6 | 5 | 5 | 3 | 3 | 3 | | | 2 | 2 | | |
| WJ du Plessis <i>(Resigned March 2015)</i> | 4 | 4 | 1 | 1 | | | | | | | 2 | 2 |
| PM Kennedy | 11 | 9 | 7 | 4 | | | 1 | 1 | | | | |
| H Kruger <i>(Resigned March 2015)</i> | 4 | 3 | 1 | 1 | | | | | | | | |
| Dr J Moncrieff | 11 | 11 | 11 | 10 | | | | | | | | |
| CM Mowatt | 11 | 9 | 8 | 6 | 6 | 6 | 1 | 1 | 3 | 3 | | |
| WJ Myburgh | 11 | 9 | 10 | 7 | | | | | 3 | 3 | | |
| Dr LH Petersen <i>(Appointed June 2015)</i> | 6 | 4 | 5 | 4 | | | | | | | | |
| Dr M Serfontein <i>(Resigned February 2015)</i> | 2 | 2 | | | | | | | | | | |
| EL Steenkamp | 11 | 9 | 11 | 9 | | | | | 3 | 3 | | |
| S Stevens <i>(Appointed June 2015)</i> | 6 | 5 | 4 | 2 | | | 1 | 0 | | | | |
| Rev JH Windell <i>(Elected June 2015)</i> | 6 | 4 | 7 | 6 | | | | | | | | |

* Refer to paragraph 10 of the Board of Trustees Report for more details on the appointment and election of the new trustees.

12. OPERATIONAL STATISTICS PER BENEFIT OPTION

| 2015 | Beat1 | Beat2 | Beat3 | Beat4 | Pace1 | Pace2 | Pace3 | Pace4 | Pulse1 | Pulse2 | Total Scheme |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------------|
| Members at 31 December | 5 572 | 22 252 | 7 165 | 5 578 | 27 385 | 10 876 | 6 552 | 3 614 | 4 263 | 1 009 | 94 266 |
| Average number of members for the accounting period | 5 157 | 20 961 | 7 156 | 5 700 | 27 324 | 11 009 | 6 589 | 3 686 | 4 439 | 1 045 | 93 066 |
| Dependants at 31 December | 5 773 | 23 472 | 7 546 | 6 344 | 38 922 | 9 805 | 6 997 | 2 457 | 3 019 | 304 | 104 639 |
| Average number of dependants for the accounting period | 5 349 | 22 183 | 7 477 | 6 484 | 38 697 | 10 007 | 7 137 | 2 565 | 3 181 | 320 | 103 400 |
| Average beneficiaries for the accounting period | 10 506 | 43 144 | 14 633 | 12 183 | 66 022 | 21 015 | 13 726 | 6 251 | 7 620 | 1 366 | 196 466 |
| Ratio of average dependants at 31 December | 1,04 | 1,06 | 1,04 | 1,14 | 1,42 | 0,91 | 1,08 | 0,70 | 0,72 | 0,31 | 1,11 |
| Average age of beneficiaries for the accounting period | 34,57 | 29,35 | 37,81 | 42,25 | 33,68 | 49,64 | 48,62 | 57,00 | 39,05 | 73,47 | 37,57 |
| Ratio of beneficiaries older than 65 years | 6,31% | 3,22% | 13,15% | 15,09% | 6,71% | 29,25% | 27,45% | 39,07% | 14,79% | 81,93% | 12,46% |
| Risk contribution per average member per month | 1 750 | 1 673 | 2 541 | 3 765 | 3 157 | 4 698 | 5 170 | 7 162 | 2 054 | 4 566 | 3 181 |
| Risk contribution per average beneficiary per month | 859 | 813 | 1 243 | 1 762 | 1 307 | 2 461 | 2 482 | 4 223 | 1 197 | 3 493 | 1 507 |
| Healthcare expenditure per average member per month | 1 374 | 1 399 | 2 122 | 4 001 | 2 700 | 4 493 | 4 991 | 7 008 | 1 772 | 5 698 | 2 903 |
| Healthcare expenditure per average beneficiary per month | 674 | 680 | 1 038 | 1 872 | 1 118 | 2 354 | 2 396 | 4 132 | 1 032 | 4 359 | 1 375 |
| Relevant healthcare expenditure as a percentage of risk contributions | 78,5% | 83,7% | 83,5% | 106,3% | 85,5% | 95,6% | 96,5% | 97,8% | 86,3% | 124,8% | 91,3% |
| Non-healthcare expenditure per average member per month | 304 | 310 | 317 | 288 | 330 | 305 | 323 | 298 | 300 | 264 | 314 |
| Non-healthcare expenditure per average beneficiary per month | 149 | 151 | 155 | 135 | 137 | 160 | 155 | 176 | 175 | 202 | 149 |
| Non-healthcare expenditure as a percentage of risk contributions | 17,37% | 18,53% | 12,49% | 7,64% | 10,46% | 6,50% | 6,25% | 4,17% | 14,62% | 5,79% | 9,86% |

| 2014 Reclassified | 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 | 1 083 | 1 327 | 1 881 | 3 560 | 2 619 | 4 127 | 4 270 | 6 189 | 1 503 | 5 243 | 2 730 |
| Healthcare expenditure per average beneficiary per month | 540 | 647 | 922 | 1 645 | 1 092 | 2 128 | 2 011 | 3 542 | 848 | 3 851 | 1 295 |
| Relevant healthcare expenditure as a percentage of risk contributions | 68,5% | 87,8% | 81,3% | 104,5% | 89,4% | 95,1% | 89,8% | 94,0% | 78,5% | 121,8% | 90,9% |
| Non-healthcare expenditure per average member per month | 294 | 298 | 305 | 261 | 320 | 278 | 287 | 276 | 285 | 244 | 297 |
| Non-healthcare expenditure per average beneficiary per month | 147 | 145 | 149 | 121 | 133 | 143 | 135 | 158 | 161 | 179 | 141 |
| Non-healthcare expenditure as a percentage of risk contributions | 18,58% | 19,71% | 13,17% | 7,66% | 10,93% | 6,41% | 6,03% | 4,20% | 14,87% | 5,67% | 9,88% |

OPERATIONAL STATISTICS FOR THE SCHEME

| | 2015 | 2014 |
|--|--------|--------|
| Average accumulated funds per average member at 31 December | 11 636 | 11 569 |
| Average accumulated funds per average beneficiary at 31 December | 5 512 | 5 489 |
| Return on investments as a percentage of investments | 6,31% | 7,70% |
| Administration and other operative expenses as a percentage of gross contributions | 6,53% | 6,58% |

Refer to Note 38 of the annual financial statements for the reclassification of 2014 expenses due to the implementation of the Council for Medical Schemes Circular 56 of 2015

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 23 to 92 which comprise the statement of financial position at 31 December 2015, 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

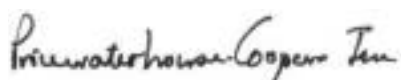
In our opinion, the financial statements present fairly, in all material respects, the financial position of Bestmed Medical Scheme at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements 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 noncompliance 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 36 of the financial statements.



PricewaterhouseCoopers Inc.

Director: JJ Grové

Registered Auditor

26 April 2016

Johannesburg

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2015

| | Notes | 2015 R | 2014 R |
|--|-------|----------------------|----------------------|
| ASSETS | | | |
| Non-current assets | | 1 012 055 100 | 1 047 206 185 |
| Property and equipment | 2 | 19 829 900 | 17 950 367 |
| Investment property | 3 | 1 500 000 | 1 500 000 |
| Intangible assets | 4 | - | 8 879 323 |
| Available-for-sale investments | 5 | 990 725 200 | 1 018 854 938 |
| Loans and receivables | 6 | - | 21 557 |
| Current assets | | 895 758 555 | 844 360 134 |
| Available-for-sale investments | | 626 144 474 | 561 297 835 |
| Scheme | 5 | 275 862 767 | 233 999 802 |
| Personal medical savings account trust monies invested | 5 | 350 281 707 | 327 298 033 |
| Loans and receivables | 6 | 21 558 | 97 815 |
| Trade and other receivables | 7 | 70 345 157 | 61 543 942 |
| Assets held for sale | 9 | 3 200 000 | 3 700 000 |
| Cash and cash equivalents | | 196 047 366 | 217 720 542 |
| Scheme | 10 | 19 450 154 | 56 503 386 |
| Personal medical savings account trust monies invested | 10 | 176 597 212 | 161 217 156 |
| Total assets | | 1 907 813 655 | 1 891 566 319 |
| FUNDS AND LIABILITIES | | | |
| Members' Funds | | 1 150 631 151 | 1 135 894 357 |
| Accumulated funds | | 1 082 961 815 | 1 044 359 110 |
| Revaluation reserves | | 1 497 295 | 1 997 295 |
| Available-for-sale fair value reserve | | 66 172 041 | 89 537 952 |
| Non-current liabilities | | 13 264 418 | 13 758 374 |
| Retirement benefit obligations | 11 | 13 264 418 | 13 733 176 |
| Finance lease liability | 12 | - | 25 198 |
| Current liabilities | | 743 918 086 | 741 913 588 |
| Personal medical savings account trust liability | 13 | 538 756 605 | 505 350 174 |
| Outstanding claims provision | 14 | 89 116 318 | 93 152 215 |
| Trade and other payables | 15 | 116 045 163 | 143 411 199 |
| Total funds and liabilities | | 1 907 813 655 | 1 891 566 319 |

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED
31 DECEMBER 2015

| | Notes | 2015 R | 2014 Reclassified R |
|--|-------|------------------------|------------------------|
| Risk contribution income | 16 | 3 552 873 295 | 3 252 291 798 |
| Relevant healthcare expenditure | | (3 242 230 477) | (2 957 675 327) |
| Net claims incurred | 17 | (3 258 289 295) | (2 963 301 933) |
| Risk claims incurred | 17 | (3 175 860 316) | (2 886 722 081) |
| Third party claims recoveries | 17 | 4 690 573 | 6 030 517 |
| Accredited managed healthcare services | 17 | (87 119 552) | (82 610 369) |
| Net income/(expense) on risk transfer arrangements | | 16 058 818 | 5 626 606 |
| Risk transfer arrangement premiums paid | 18 | (113 525 748) | (117 381 549) |
| Recoveries from risk transfer arrangements | 18 | 129 584 566 | 123 008 155 |
| Gross healthcare result | | 310 642 818 | 294 616 471 |
| Broker service fees and other distribution fees | 19 | (70 010 411) | (62 249 860) |
| Administration and other operative expenses | 20 | (276 554 432) | (255 123 215) |
| Net impairment losses on healthcare receivables | 21 | (3 768 995) | (4 108 383) |
| Net healthcare result | | (39 691 020) | (26 864 987) |
| Other income | | 117 457 940 | 146 676 971 |
| Investment income | | 114 380 091 | 138 347 957 |
| Scheme | 22 | 87 934 702 | 115 169 496 |
| Personal medical savings account trust monies invested | 22 | 26 445 389 | 23 178 461 |
| Other operating income | 23 | 3 077 849 | 8 329 014 |
| Other expenditure | | (39 164 215) | (34 352 823) |
| Interest paid on personal medical savings trust accounts | 24 | (26 445 389) | (23 178 461) |
| Interest paid | 25 | (42 790) | (180 061) |
| Asset management fees | 26 | (7 083 070) | (6 999 451) |
| Own facility net expenditure | 27 | (5 567 193) | (3 946 590) |
| Other losses | 28 | (25 773) | (48 260) |
| NET SURPLUS FOR THE YEAR | | 38 602 705 | 85 459 161 |
| Other comprehensive income | | (23 865 911) | (18 630 113) |
| Fair value adjustment on available-for-sale investments | | (5 658 240) | 37 144 917 |
| Reclassification adjustment on realised gains | 22 | (17 707 671) | (55 475 030) |
| Impairment recognised against revaluation reserve | 9 | (500 000) | (300 000) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 14 736 794 | 66 829 048 |

STATEMENT OF CHANGES IN MEMBERS' FUNDS AND RESERVES

FOR THE YEAR ENDED
31 DECEMBER 2015

| | Notes | Accumulated funds | Revaluation reserve | Available-for- sale fair value reserve | Total members' funds |
|---|-------|----------------------|------------------------|--|-------------------------|
| | | R | R | R | R |
| Balance as at 31 December 2013 | | 958 899 949 | 2 297 295 | 107 868 065 | 1 069 065 309 |
| 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;22 | - | - | (55 475 030) | (55 475 030) |
| Balance as at 31 December 2014 | | 1 044 359 110 | 1 997 295 | 89 537 952 | 1 135 894 357 |
| Net surplus for the year | | 38 602 705 | - | - | 38 602 705 |
| Impairment recognised against revaluation reserve | 9 | - | (500 000) | - | (500 000) |
| Other comprehensive income | | - | - | (23 365 911) | (23 365 911) |
| Fair value adjustment on available-for-sale investments | | - | - | (5 658 240) | (5 658 240) |
| Realised gains on available-for-sale investments | 5;22 | - | - | (17 707 671) | (17 707 671) |
| Balance as at 31 December 2015 | | 1 082 961 815 | 1 497 295 | 66 172 041 | 1 150 631 151 |

CASH FLOW STATEMENT

FOR THE YEAR ENDED
31 DECEMBER 2015

| | Notes | 2015 R | 2014 Reclassified R |
|---|---------|---------------------|------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Cash (utilised by) / generated from operations | 31 | (39 196 535) | 86 061 008 |
| Interest paid | | (26 488 179) | (23 358 522) |
| Scheme | 25 | (42 790) | (180 061) |
| Interest paid on members' personal medical savings account trust monies | 24 | (26 445 389) | (23 178 461) |
| Net cash flows from operating activities | | (65 684 714) | 62 702 486 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Increase in available-for-sale investments | 5 | (19 391 467) | (60 997 559) |
| Increase in personal medical savings trust available-for-sale investments | 5 | (22 983 675) | (17 983 005) |
| Purchase of property and equipment | 2 | (10 402 280) | (4 262 386) |
| Proceeds from disposal of property and equipment | 2;23;28 | 43 925 | 209 572 |
| Increase in intangible assets | 4 | - | (8 879 323) |
| Interest income | | 79 540 665 | 69 646 882 |
| Scheme | 22 | 53 095 276 | 46 468 421 |
| Interest received on personal medical savings account trust monies invested | 22 | 26 445 389 | 23 178 461 |
| Dividend income | 22 | 17 131 755 | 13 226 045 |
| Decrease in loans and receivables | 6 | 97 814 | 491 413 |
| Net cash flows from investing activities | | 44 036 737 | (8 548 361) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Decrease in finance leases | 12 | (25 198) | (1 132 319) |
| Net cash flows from financing activities | | (25 198) | (1 132 319) |
| Net increase/(decrease) in cash and cash equivalents | | (21 673 175) | 53 021 806 |
| Cash and cash equivalents at beginning of year | 10 | 217 720 542 | 164 698 736 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 10 | 196 047 366 | 217 720 542 |
| CASH AND CASH EQUIVALENTS | | | |
| Scheme | | 19 450 154 | 56 503 386 |
| Personal medical savings account trust monies invested | | 176 597 212 | 161 217 156 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

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 21 April 2016.

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 34.

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:

The Scheme has not early adopted these standards and it is not expected that they will have any material impact to the Scheme's results but may result in additional disclosure in the financial statements.

- * 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.)
- * IFRS 9 Financial Instruments (2009 & 2010) - 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. 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.)

1. ACCOUNTING POLICIES (continued)

- * "Amendments to IFRS 9 Financial Instruments on general hedge accounting - The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39.

Early adoption of the above requirements has specific transitional rules that need to be followed. Entities can elect to apply IFRS 9 for any of the following:

- Their own credit risk requirements for financial liabilities.
- Classification and measurement (C&M) requirements for financial assets.
- C&M requirements for financial assets and financial liabilities.
- The full current version of IFRS 9 (that is, C&M requirements for financial assets and financial liabilities and hedge accounting).

The transitional provisions described above are likely to change once the IASB completes all phases of IFRS 9. (Effective on or after 1 January 2018.)"

- * 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.)

- * Amendments to IAS 1, 'Presentation of financial statements' disclosure initiative - In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. (Effective on or after 1 July 2016.)
- * 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 2018).
- * 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.)
- * 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.)
- * 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.)

- * 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. 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.)
- * Amendments to IFRS 10, consolidated financial statements, and IAS 28, Investments in associates and joint ventures on sale or contribution of assets - The IASB has issued this amendment to eliminate the inconsistency between IFRS 10 and IAS 28. If the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business', then the full gain or loss will be recognised by the investor. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. (Effective on or after 1 January 2016.)
- * Amendments to IFRS 10, consolidated financial statements, and IAS 28, Investments in associates and joint ventures on applying the consolidation exemption - The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. (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.

1. ACCOUNTING POLICIES (continued)

The amendments specify the appropriate accounting treatment for such acquisitions. (Effective on or after 1 January 2016.)

- * 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.)
- * 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.)
- * Amendment to IAS 16 Property, plant and equipment and IAS 41 'Agriculture' on bearer plants - In this amendment to IAS 16 the IASB has scoped in bearer plants, but not the produce on bearer plants and explained that a bearer plant not yet in the location and condition necessary to bear produce is treated as a self-constructed asset. In this amendment to IAS 41, the IASB has adjusted the definition of a bearer plant to include examples of non-bearer plants and remove current examples of bearer plants from IAS 41. (Effective on or after 1 January 2016.)
- * Amendments to IAS 27, 'Separate financial statements' on equity accounting - In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. (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.)
- * IFRS 14 Regulatory deferral accounts - The IASB has issued IFRS 14, 'Regulatory deferral accounts' specific to first time adopters, 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 that have an indefinite useful life or that are not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever

1. ACCOUNTING POLICIES (continued)

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 costs of disposal and value in use.

Intangible assets are reflected at cost less accumulated amortisation and accumulated impairments. Amortisation begins 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

1. ACCOUNTING POLICIES (continued)

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.

1.8 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 evident 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

1. ACCOUNTING POLICIES (continued)

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.

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 under provisions 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;

1. ACCOUNTING POLICIES (continued)

- Recoveries from third parties; and
- Discount received from service providers.
- Claims paid to accredited managed healthcare services

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.

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 BROKER SERVICE FEES AND OTHER DISTRIBUTION FEES

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

1.21 ADMINISTRATION AND OTHER OPERATIVE EXPENSES

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

1.22 INVESTMENT INCOME

Investment income comprises of: dividends; interest on cash and cash equivalents; fixed interest securities; realised and unrealised gains and losses.

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.

1.23 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.

1.24 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.

1.25 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.

1.26 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.

1.27 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.

1.28 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.

1. ACCOUNTING POLICIES (continued)

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

- Managed care management services;
- Administration and other operative 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.

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 |
| Year ended 31 Dec 2015 | | | | | | | |
| Cost | | | | | | | |
| At the beginning of the year | 8 497 283 | 8 656 893 | 11 801 936 | 832 285 | 5 114 346 | 991 058 | 35 893 801 |
| Additions | 575 569 | 6 397 781 | 3 190 897 | - | - | 238 033 | 10 402 281 |
| Disposals | (41 126) | - | (118 215) | - | - | - | (159 341) |
| At the end of the year | 9 031 726 | 15 054 674 | 14 874 618 | 832 285 | 5 114 346 | 1 229 091 | 46 136 741 |
| Accumulated depreciation | | | | | | | |
| At the beginning of the year | 2 039 057 | 4 951 359 | 5 956 512 | 280 399 | 4 222 903 | 493 204 | 17 943 434 |
| Disposals | (13 366) | - | (104 821) | - | - | - | (118 187) |
| Depreciation charges | 792 147 | 2 664 879 | 3 706 831 | 166 457 | 891 443 | 259 838 | 8 481 595 |
| At the end of the year | 2 817 838 | 7 616 238 | 9 558 522 | 446 856 | 5 114 346 | 753 042 | 26 306 842 |
| Carrying amount at the end of the year | 6 213 888 | 7 438 436 | 5 316 096 | 385 429 | - | 476 049 | 19 829 900 |
| Year ended 31 Dec 2014 | | | | | | | |
| Cost | | | | | | | |
| 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) |
| At the end of the year | 8 497 283 | 8 656 893 | 11 801 936 | 832 285 | 5 114 346 | 991 058 | 35 893 801 |
| Accumulated depreciation | | | | | | | |
| 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 |
| At the end of the year | 2 039 057 | 4 951 359 | 5 956 512 | 280 399 | 4 222 903 | 493 204 | 17 943 434 |
| Carrying amount at the end of the year | 6 458 226 | 3 705 534 | 5 845 424 | 551 886 | 891 443 | 497 854 | 17 950 367 |

Depreciation expenditure to the value of R296 920 (2014: R19 740) 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 27).

3. INVESTMENT PROPERTY

| | 2015 | 2014 |
|--|------------------|------------------|
| | R | R |
| Carrying value at the beginning of the year | 1 500 000 | 1 500 000 |
| Revaluation adjustment | - | - |
| Carrying value at the end of the year | 1 500 000 | 1 500 000 |

Investment property comprises the following: Stand 1190, Oubaii 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 R92 391 (2014: R83 185).

4. INTANGIBLE ASSETS

| | 2015 | 2014 |
|--|------------------|------------------|
| | R | R |
| Year ended 31 December 2015 | | |
| Cost | | |
| At the beginning of the year | 8 879 323 | - |
| Additions | - | 8 879 323 |
| At the end of the year | 8 879 323 | 8 879 323 |
| Accumulated amortisation | | |
| At the beginning of the year | - | - |
| Amortisation for the year | - | - |
| Impairment Recognised in the statement of comprehensive income | (8 879 323) | - |
| At the end of the year | (8 879 323) | - |
| Carrying value at the end of the year | - | 8 879 323 |

The intangible asset consists of the phase-one development cost for a new in-house tailor-made member administration system which would have been developed over a period of 24 months.

The development of a tailor-made in-house administration system which commenced in 2014 and the Scheme's strategic direction regarding IT infrastructure was re-evaluated in 2015 after completion of the initial phase of the development. The outcome of the evaluation, based on the recommendation of an external IT Industry Specialist, was to do a proof of concept of an existing administration system with the aim of implementing it.

This action finally ended any prospects of continuing the tailor-made in-house project and the intangible asset is fully impaired.

5. AVAILABLE-FOR-SALE INVESTMENTS

| | 2015 R | 2014 R |
|---|----------------------|----------------------|
| Scheme | | |
| Fair value at the beginning of the year | 1 252 854 740 | 1 154 712 264 |
| Additions | 2 538 566 337 | 2 650 169 253 |
| Disposals | (2 581 000 000) | (2 641 145 773) |
| Interest received | 50 472 973 | 45 136 708 |
| Accrued income | 1 493 016 | 637 658 |
| Dividends received | 17 131 755 | 13 226 045 |
| Transaction fees | (189 544) | (26 881) |
| Management fees | (7 083 070) | (6 999 451) |
| Realised gain on disposal of available-for-sale investments | 17 707 671 | 55 475 030 |
| Unrealised (loss)/gain on revaluation of available-for-sale investments | (23 365 911) | (18 330 113) |
| | 1 266 587 967 | 1 252 854 740 |
| | 990 725 200 | 1 018 854 938 |
| Non-current | 275 862 767 | 233 999 802 |
| Current | 1 266 587 967 | 1 252 854 740 |
| Personal medical savings account trust monies invested | | |
| Fair value at the beginning of the year | 327 298 033 | 309 315 028 |
| Additions | 134 000 000 | - |
| Disposals | (134 000 000) | - |
| Interest received | 23 348 683 | 19 687 522 |
| Transaction fees | (2 748) | (813) |
| Management fees | (361 429) | (326 022) |
| Realised loss on disposal of available-for-sale investments | (604 777) | (542) |
| Unrealised (loss)/gain on revaluation of available-for-sale investments | 603 946 | (1 377 140) |
| | 350 281 707 | 327 298 033 |
| | 350 281 707 | 327 298 033 |
| Current | 350 281 707 | 327 298 033 |

The fair value of all the investments above are based on the open market value. The total realised and unrealised fair value loss recognised in equity relating to the available-for-sale investments amounted to R5 658 240 (2014: gain of R37 144 917) during the current year. A register of investments is available for inspection at the registered office of the Scheme.

| | 2015 R | 2014 R |
|--|----------------------|----------------------|
| The Scheme investments included above represent investments in: | | |
| Segregated portfolio | 670 960 388 | 709 832 920 |
| - Equity | 204 322 860 | 232 345 894 |
| - Money Market funds | 179 119 409 | 205 719 399 |
| - Bonds | 185 524 412 | 176 176 167 |
| - SA Listed Properties | 63 991 881 | 68 655 149 |
| - Commodities - Gold and Platinum | 5 408 169 | 7 667 832 |
| - International Fixed Interest Instruments | 32 593 658 | 19 268 479 |
| Linked Insurance Fund policies | 319 764 812 | 309 022 017 |
| - Equity | 82 179 557 | 60 568 315 |
| - Money Market funds | 179 388 060 | 184 795 166 |
| - Bonds | 28 778 833 | 34 919 488 |
| - SA Listed Properties | 11 191 768 | 12 669 903 |
| - Commodities - Gold and Platinum | 18 226 594 | 16 069 145 |
| Money Market funds | 275 862 767 | 233 999 802 |
| | 1 266 587 967 | 1 252 854 740 |

The personal medical savings investments included above represent investments in:

| | | |
|----------------------|--------------------|--------------------|
| Segregated portfolio | 139 632 399 | - |
| - Money Market funds | 139 632 399 | - |
| Money Market funds | 210 649 308 | 327 298 033 |
| | 350 281 707 | 327 298 033 |

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 7.7% (2014: 6.5%) and the investments had an average maturity of 281 (2014: 174) days.

Refer to Note 40 for the Risk Management disclosures. The carrying amount of the investments approximates the fair values due to the short-term nature of the investments.

6. LOANS AND RECEIVABLES

| | 2015 R | 2014 R |
|-------------------------------|---------------|----------------|
| At the beginning of the year | 119 372 | 610 785 |
| Redeemed | - | (290 327) |
| Monthly payments received | (102 580) | (226 134) |
| Finance charges | 4 766 | 25 048 |
| At the end of the year | 21 558 | 119 372 |
| Non-current | - | 21 557 |
| Current | 21 558 | 97 815 |
| | 21 558 | 119 372 |

The Scheme granted loan amounts to employees and management over a maximum period of 60 months at the interest rate of 7% and 7.25% (2014: 6.5% and 6.75%), as published by SARS. The carrying amount of Loans and Receivables approximate their fair value.

7. TRADE AND OTHER RECEIVABLES

| | 2015 R | 2014 R |
|---|--------------------------|--------------------------|
| Insurance receivables | | |
| Contributions outstanding | 51 668 624 | 48 337 651 |
| Recoveries from providers | 341 718 | 316 166 |
| Recoveries from members for co-payments | 2 610 869 | 1 680 816 |
| Personal medical savings account advances (Note 13) | 2 459 556 | 1 555 264 |
| | <u>57 080 767</u> | <u>51 889 897</u> |
| Less: Provision for impairment | (1 257 349) | (1 883 636) |
| Total receivables arising from insurance contracts | <u>55 823 418</u> | <u>50 006 261</u> |
| Other loans and receivables | | |
| Prepaid expenses and deposits | 8 134 706 | 4 821 262 |
| Accrued interest | 564 292 | 130 565 |
| Sundry accounts receivable | 2 706 423 | 1 633 639 |
| | <u>11 405 421</u> | <u>6 585 466</u> |
| Recovery under risk transfer arrangements outstanding claims provisions | 3 116 318 | 4 952 215 |
| Total trade and other receivables | <u>70 345 157</u> | <u>61 543 942</u> |

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 39 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 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.

Bestmed on behalf of Minemed Medical Scheme is investigating the possibility of instituting legal action to recover the amounts paid as a consequence of the probable negligence. Although litigation proceedings had previously commenced, the passing of the member brought these to a halt as he was key in Bestmed's ability to prove its case. Owing to this unfortunate incident, Bestmed has had to re-assess its prospects of success and work is currently under way to consult with the remaining relatives of the late and other experts with a view to collect further information and assess the merits and the possibility of a successful court action. Progress will be provided as and when the need arises.

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 offer to purchase for the value of R3 200 000 has been received and accepted by the Scheme during 2015, the purchasers' financing are approved and the registration process will be finalised after the date of this report.

| | 2015 | 2014 |
|---|------------------|------------------|
| | R | R |
| The assets to be disposed are as follows: | | |
| Opening Balance | 3 700 000 | 4 000 000 |
| Land | 195 000 | 195 000 |
| Building | 3 505 000 | 3 805 000 |
| Impairment Recognised against Revaluation Reserve | (500 000) | (300 000) |
| Net assets classified as held for sale | 3 200 000 | 3 700 000 |

The Revaluation Reserve of R1 497 295 on the Statement of changes in members' funds and reserves relates to this asset held for sale.

This property was valued at the end of 2014 by an independent professional qualified valuer, not connected with the Scheme for the value of R3 700 000. Subsequently the value of the property has been adjusted to the indicative fair value of the offer to purchase. 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

Scheme

| | | |
|------------------|-------------------|-------------------|
| Call accounts | 5 860 367 | 42 869 731 |
| Current accounts | 13 589 787 | 13 633 655 |
| | 19 450 154 | 56 503 386 |

The weighted average effective interest rate on short-term cash deposits was 5.67% (2014: 5.22%) and had an average maturity of 29.33 days (2014: 25.21 days). The carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

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.

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

| | | |
|------------------|--------------------|--------------------|
| Current accounts | 176 597 212 | 161 217 156 |
| | 176 597 212 | 161 217 156 |

The weighted average effective interest rate on the short-term cash was 1.89% (2014: 1.57%) and the carrying amounts of cash and cash 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.

11. RETIREMENT BENEFIT OBLIGATIONS (continued)

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 (2014: 22) pensioners. The total present value of the liability based on a projected-unit-credit basis as at 31 December 2015 is R13 264 418 (2014: R13 733 176). The liability of all active employees was settled.

| | 2015 | 2014 |
|--|------------|-----------|
| The independent actuarial assumptions and valuation at year-end were: | | |
| Number of pensioner members | 22 | 22 |
| Future long-term medical inflation | 10.7% p.a. | 9.2% p.a. |
| Expected yield on assets | 10.1% | 8.2% |

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 | 16,69 | 17,64 |
| Female | 21,90 | 23,42 |

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 2016 used in the valuation of the contributions liability are as follows:

| | Income Band | Principal Member | Adult Dependant | Child Dependant |
|---------------|----------------------|------------------|-----------------|-----------------|
| | | R | R | R |
| Beat1 | All | 1 144 | 888 | 481 |
| Beat2 | All | 1 414 | 1 099 | 596 |
| Beat3 | All | 2 147 | 1 525 | 829 |
| Beat4 | All | 3 239 | 2 675 | 801 |
| Pace1 | All | 2 761 | 1 938 | 697 |
| Pace2 | All | 3 860 | 3 784 | 851 |
| Pace3 | < R98 500 p.a. | 3 810 | 3 048 | 707 |
| Pace3 | > R98 500 p.a. | 4 577 | 3 651 | 766 |
| Pace4 | All | 5 426 | 5 426 | 1 271 |
| Pulse1 | R0 - R5 500 p.m. | 1 131 | 1 075 | 679 |
| Pulse1 | R5 501 - R8 500 p.m. | 1 357 | 1 290 | 814 |
| Pulse1 | > R8 501 p.m. | 1 630 | 1 466 | 814 |
| Pulse2 | All | 3 902 | 3 902 | 927 |

| | 2015 | 2014 |
|---|-------------------|-------------------|
| | R | R |
| The value recognised in the statement of financial position are: | | |
| Liability at 1 January | 13 733 176 | 14 132 359 |
| Settlements | (833 676) | (795 199) |
| Interest cost | 1 091 940 | 1 167 454 |
| Actuarial (gain)/loss | (727 022) | (771 438) |
| Liability at year-end in the statement of financial position | 13 264 418 | 13 733 176 |

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 8.2% per annum was used for the year ended 31 December 2015 (2014: 8.5%).

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 R727 022 (2014: R771 438) is reported over the past year in the statement of comprehensive income. This gain is due to the following factors:

| | 2015 R | 2014 R |
|--|----------------|----------------|
| * Demographic experience (including option changes) and that assumed in the previous valuation gave rise to an actuarial gain. | 344 545 | 1 758 038 |
| * Changes made to assumptions, the increase in the discount rate from 8.2% to 10.1% and an increase in the medical cost inflation assumption from 9.2% to 10.7%. | 747 017 | (887 894) |
| * Actual contribution increases on 1 January 2015 were 9.8% as opposed to the assumption of 6.7% used (2014: 8.8% and 7.4%). | (364 540) | (98 706) |
| | 727 022 | 771 438 |

| History on year-end balances | Balance on statement of financial position R | Actuarial (loss)/gain in statement of comprehensive income R |
|------------------------------|--|--|
| At 31 December | | |
| 2015 | 13 264 418 | 727 022 |
| 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) |

11. RETIREMENT BENEFIT OBLIGATIONS (continued)

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:

| 2015 | Base | Inflation plus 1% | Inflation plus 0.5% | Inflation minus 1% | Inflation minus 0.5% |
|---|-------------------|-------------------|---------------------|--------------------|----------------------|
| | R | R | R | R | R |
| Liability at 1 January 2015 | 13 733 176 | 13 733 176 | 13 733 176 | 13 733 176 | 13 733 176 |
| Settlements | (833 676) | (833 676) | (833 676) | (833 676) | (833 676) |
| Interest cost | 1 091 940 | 1 091 940 | 1 091 940 | 1 091 940 | 1 091 940 |
| Actuarial (gain)/loss | (727 022) | 641 168 | (67 827) | (1 912 159) | (1 340 549) |
| Liability as at 31 December 2015 | 13 264 418 | 14 632 608 | 13 923 613 | 12 079 281 | 12 650 891 |

| 2016 | Base | Inflation plus 1% | Inflation plus 0.5% | Inflation minus 1% | Inflation minus 0.5% |
|---|-------------------|-------------------|---------------------|--------------------|----------------------|
| | R | R | R | R | R |
| Liability at 1 January 2016 | 13 264 418 | 14 632 608 | 13 923 613 | 12 079 281 | 12 650 891 |
| Settlements | (875 179) | (875 179) | (875 179) | (875 179) | (875 179) |
| Interest cost | 1 295 510 | 1 433 697 | 1 362 088 | 1 175 811 | 1 233 544 |
| Liability as at 31 December 2016 | 13 684 749 | 15 191 126 | 14 410 522 | 12 379 913 | 13 009 256 |

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

| | 2015 R | 2014 R |
|---|---------------|------------------|
| Interest-bearing leases | | |
| Finance lease at the beginning of the year | 1 155 273 | 2 710 666 |
| Settlements | - | - |
| Monthly instalments | (1 172 865) | (1 735 454) |
| Finance charges | 42 790 | 180 061 |
| Finance leases at the end of the year | 25 198 | 1 155 273 |
| Non-current finance leases at the end of the year | - | 25 198 |
| Current portion included in current liabilities (Note 15) | 25 198 | 1 130 075 |
| | 25 198 | 1 155 273 |

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 16.1% (2014: 16.7%) 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% (2014: 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 | More than 1 not later than 5 years | More than 5 years | Total |
|------------------------|------------------|---------------------------------------|----------------------|------------------|
| | R | R | R | R |
| 2015 | | | | |
| Minimum lease payments | 25 684 | - | - | 25 684 |
| Finance cost | (486) | - | - | (486) |
| | 25 198 | - | - | 25 198 |
| 2014 | | | | |
| Minimum lease payments | 1 172 471 | 25 684 | - | 1 198 155 |
| Finance cost | (42 396) | (486) | - | (42 882) |
| | 1 130 075 | 25 198 | - | 1 155 273 |

13. PERSONAL MEDICAL SAVINGS ACCOUNT TRUST LIABILITY

| | 2015 | 2014 |
|--|--------------------|--------------------|
| | R | R |
| Monies managed by the Scheme on behalf of its members | | |
| Balance on personal medical savings account liability at the beginning of the year | 505 350 174 | 389 792 054 |
| Less | | |
| Advances on personal medical savings accounts (Note 7) | (1 555 264) | (3 513 494) |
| Balance on personal medical savings account liability at the beginning of the year | 503 794 910 | 386 278 560 |
| Add | | |
| Personal medical savings account contributions received or receivable (Note 16) | 683 778 373 | 622 406 159 |
| Personal medical savings account balances received from other Schemes | 568 613 | 1 883 124 |
| Interest on personal medical savings account trust funds invested paid to members (Note 24) | 26 445 389 | 23 178 461 |
| Advances on personal medical savings accounts written off or in debt recovery process | 7 831 234 | 3 908 698 |
| Personal medical savings transferred from the Guardians Fund | - | 15 271 519 |
| Less | | |
| Personal medical savings claims paid on behalf of members (Note 17) | (653 705 026) | (528 374 106) |
| Refunds on death or resignations | (30 650 702) | (18 756 850) |
| Bank charges and investment management fees incurred | (365 215) | (600 959) |
| Unrealised loss on revaluation of savings trust investment | (1 400 527) | (1 399 696) |
| Add | | |
| Advances on personal medical savings accounts (Note 7) | 2 459 556 | 1 555 264 |
| Balances due to members on personal medical savings accounts held in trust at end of year | 538 756 605 | 505 350 174 |

13. PERSONAL MEDICAL SAVINGS ACCOUNT TRUST LIABILITY (continued)

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.

Due to the incompatibility of the information required by the Guardian Fund and that supplied by the Scheme, no payments were made to the Guardian Fund in 2015. All payments made in 2014 and prior periods were paid back to the Scheme by the Guardian Fund in 2014. Council of Medical Schemes is investigating the matter.

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 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 |
| 2015 | | | |
| Provision for outstanding claims incurred but not reported | 3 116 318 | 86 000 000 | 89 116 318 |
| Analysis of movements in outstanding claims | | | |
| Balance at the beginning of the year | 4 952 215 | 88 200 000 | 93 152 215 |
| Payments in respect of the prior year | (5 562 038) | (87 489 414) | (93 051 452) |
| (Under)/over provision in the prior year | (609 823) | 710 586 | 100 763 |
| Adjustment for the current year | 3 726 141 | 85 289 414 | 89 015 555 |
| Balance at end of the year | 3 116 318 | 86 000 000 | 89 116 318 |
| 2014 | | | |
| Provision for outstanding claims incurred but not reported | 4 952 215 | 88 200 000 | 93 152 215 |
| Analysis of movements in outstanding claims | | | |
| 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 |
| Balance at end of the year | 4 952 215 | 88 200 000 | 93 152 215 |

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.

14. OUTSTANDING CLAIMS PROVISION (continued)

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 2015 and 2014 benefit years.

Sensitivity analysis

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

| 2015 | Base | Inflation + 1% | % Change | Inflation -1% | % Change |
|----------------------------------|------------|----------------|----------|---------------|----------|
| | R | R | % | R | % |
| Liability as at 31 December 2015 | 89 116 318 | 90 007 481 | 1,00% | 88 225 155 | (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.

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

| | Claims for 2015 services paid from Jan 2016 to Mar 2016 | 2015 Claims estimated at that time to be paid after Mar 2016 | Outstanding claims provision | % Change in outstanding claims provision |
|----------------------|--|---|---------------------------------|--|
| | R | R | R | % |
| 2015 Scenario | | | | |
| Base scenario | 78 788 138 | 7 215 294 | 86 003 432 | |
| 10% increase | 78 788 138 | 7 936 823 | 86 724 961 | 0.84% |
| 10% decrease | 78 788 138 | 6 493 765 | 85 281 903 | (0.84%) |
| | Claims for 2014 services paid from Jan 2015 to Mar 2015 | 2014 Claims estimated at that time to be paid after Mar 2015 | Outstanding claims provision | % Change in outstanding claims provision |
| | R | R | R | % |
| 2014 Scenario | | | | |
| Base scenario | 82 113 679 | 5 121 906 | 87 235 585 | |
| 10% increase | 82 113 679 | 5 634 097 | 87 747 776 | 0.59% |
| 10% decrease | 82 113 679 | 4 609 715 | 86 723 394 | (0.59%) |

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

| | 2015 | 2014 |
|--|---------------------------|---------------------------|
| | R | R |
| Insurance liabilities | | |
| Contributions received in advance | 40 808 453 | 35 260 944 |
| Unclaimed payments | 16 415 013 | 17 196 131 |
| Outstanding electronic claims payment | 36 948 902 | 65 455 415 |
| | <u>94 172 368</u> | <u>117 912 490</u> |
| Financial liabilities | | |
| Other payables and accrued expenses | 7 260 199 | 10 806 156 |
| Trade creditors payable | 9 131 648 | 7 476 968 |
| Current portion of finance lease (Note 12) | 25 198 | 1 130 075 |
| | <u>16 417 045</u> | <u>19 413 199</u> |
| Provisions | | |
| Leave provision at the beginning of the year | 6 085 510 | 6 070 746 |
| Movement for the year | (629 760) | 14 764 |
| Leave provision at the end of the year | <u>5 455 750</u> | <u>6 085 510</u> |
| Total trade and other payables | <u>116 045 163</u> | <u>143 411 199</u> |
| Reported claims not yet paid | | |
| Balance at beginning of year | 65 455 415 | 31 348 342 |
| Movement for the year | (28 506 513) | 34 107 073 |
| Balance at end of year | <u>36 948 902</u> | <u>65 455 415</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 | 4 236 651 668 | 3 874 697 957 |
| Less: Personal medical savings account contributions (Note 13) | (683 778 373) | (622 406 159) |
| | 3 552 873 295 | 3 252 291 798 |

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.

17. NET CLAIMS INCURRED

| | 2015 | 2014 Reclassified |
|---|----------------------|----------------------|
| | R | R |
| Claims incurred excluding claims incurred in respect of risk transfer arrangements | | |
| Current-year claims as per Registered Rules | 3 623 403 892 | 3 208 297 988 |
| Movement in outstanding claims provision | 85 289 414 | 90 770 662 |
| (Over)/under provision in prior year | (710 586) | 2 570 662 |
| Adjustment for current year | 86 000 000 | 88 200 000 |
| Claims paid from personal medical savings accounts | (653 705 026) | (528 374 106) |
| | 3 054 988 280 | 2 770 694 544 |
| Claims incurred in respect of risk transfer arrangements | | |
| Current-year claims incurred in respect of risk transfer arrangements (Note 18) | 129 584 566 | 123 008 155 |
| Recovery under risk transfer arrangements | (3 726 141) | (5 537 706) |
| Movement in outstanding claims provision | 3 726 141 | 5 537 706 |
| Underprovision in prior year | 609 823 | 585 491 |
| Adjustment for current year | 3 116 318 | 4 952 215 |
| | 129 584 566 | 123 008 155 |
| Hospital discount received | (8 712 530) | (6 980 618) |
| Third party claims recoveries | (4 690 573) | (6 030 517) |
| Accredited managed healthcare services | 87 119 552 | 82 610 369 |
| Hospital benefit management services | 21 494 579 | 23 144 276 |
| Pharmacy benefit management services | 53 231 223 | 48 740 195 |
| Managed Care Network Management Services & Risk | 6 406 401 | 5 667 438 |
| Active disease risk management | 5 987 349 | 5 058 460 |
| Net claims incurred per the statement of comprehensive income | 3 258 289 295 | 2 963 301 933 |

Refer to Note 38 for the reclassification of 2014 expenses due to the implementation of the Council for Medical Schemes Circular 56 of 2015.

18. RISK TRANSFER ARRANGEMENTS

| 2015 | CareCross Health | OneCare Health | ER24 | Preferred Provider Negotiators | Total |
|--|--------------------|------------------|--------------------|--------------------------------|---------------------|
| | R | R | R | R | R |
| Capitation fees paid | 20 281 449 | 23 490 186 | 20 211 331 | 49 542 782 | 113 525 748 |
| Recoveries received | (26 362 098) | (21 987 419) | (24 641 023) | (56 594 026) | (129 584 566) |
| Net (income)/expense on risk transfer arrangement | (6 080 649) | 1 502 767 | (4 429 692) | (7 051 244) | (16 058 818) |

| 2014 | Prime Cure | CareCross Health | OneCare Health | ER24 | Preferred Provider Negotiators | Total |
|--|----------------|--------------------|------------------|--------------------|--------------------------------|--------------------|
| | R | R | R | R | R | R |
| Capitation fees paid | 105 279 | 22 486 381 | 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) |
| Net (income)/expense on risk transfer arrangement | 105 279 | (4 600 434) | (904 379) | (1 961 190) | 1 734 118 | (5 626 606) |

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, 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

18. RISK TRANSFER ARRANGEMENTS (continued)

determine the cost per life per day of the week, and these figures are then compared to historic trends for reasonability to the outstanding claims provision.

Assumptions

- Calculations are based on NHRPL 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.

Prime Cure

CareCross replaced Prime Cure to provide primary healthcare services to members on the Pulse1 option during 2014.

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. OneCare 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, and these figures are then compared to historic trends for reasonability to the outstanding claims provision.

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 (2014: R3.26) per member with ER24. The total travel insurance paid to ER24 for 2015 was R3.6 M (2014: R3.5 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. BROKER SERVICE FEES AND OTHER DISTRIBUTION FEES

| | 2015 | 2014 |
|-------------------------|-------------------|-------------------|
| | R | R |
| Brokers' fees | 60 071 899 | 52 448 063 |
| Other Distribution fees | 9 938 512 | 9 801 797 |
| | <u>70 010 411</u> | <u>62 249 860</u> |

20. ADMINISTRATION EXPENSES

| | NOTES | 2015 R | 2014 Reclassified R |
|--|-------|--------------------|------------------------|
| Managed care management services | | 3 185 688 | 2 896 616 |
| Wellness and preventative care | | 2 108 468 | 2 179 786 |
| Maternity programme | | 1 077 220 | 716 830 |
| Actuarial fees | | 1 598 458 | 1 626 484 |
| Audit fees | | 1 306 628 | 1 889 181 |
| External audit services for previous year's audit | | 594 773 | 1 090 638 |
| External audit services for current year audit | | 711 855 | 682 446 |
| Other | | - | 116 097 |
| Bank charges | | 3 139 379 | 2 637 605 |
| Consultation fees | | 6 037 288 | 3 137 041 |
| Debt collection fees | | 766 068 | 522 387 |
| Depreciation | 2 | 8 184 675 | 8 141 373 |
| Employee benefit expenses | 29 | 93 193 770 | 90 125 680 |
| Employee recruitment, training and development | | 5 840 120 | 4 536 416 |
| Insurance premiums | | 938 460 | 930 037 |
| Internal audit fees | | 335 844 | 703 127 |
| Information Technology | | 60 023 825 | 47 818 920 |
| IT maintenance | | 2 841 963 | 2 449 876 |
| License fees | | 3 760 728 | 2 267 908 |
| Legal fees | | 1 615 441 | 5 247 742 |
| Marketing and advertising expenses | | 33 332 410 | 34 634 798 |
| Office rent | | 21 607 560 | 17 512 218 |
| Other expenses | | 4 794 759 | 5 102 530 |
| Principal Officers' fees | 29 | 3 751 645 | 4 152 310 |
| Printing and stationery expenses | | 5 049 997 | 4 390 868 |
| Registrar's levies and other fees | | 2 909 169 | 2 499 446 |
| Telephone and postage fees | | 5 745 443 | 5 810 701 |
| Total trustee remuneration and travel and accommodation expenses | 32 | 2 529 332 | 2 348 728 |
| Travel, accommodation and conferences | | 4 065 782 | 3 741 223 |
| | | 276 554 432 | 255 123 215 |

Refer to Note 38 for the reclassification of 2014 expenses due to the implementation of the Council for Medical Schemes Circular 56 of 2015.

21. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES

| | 2015 R | 2014 R |
|---|--------------------|--------------------|
| Trade and other receivables | | |
| Members' and service providers' portions that are not recoverable | | |
| Movement in provision | (2 228 710) | 433 794 |
| Bad debts recovered | 672 245 | 468 106 |
| Bad debts written off | (2 212 530) | (5 010 283) |
| | (3 768 995) | (4 108 383) |

22. INVESTMENT INCOME

| | NOTES | 2015 R | 2014 R |
|---|-------|-------------------|--------------------|
| Income from Scheme investments | | | |
| Available-for-sale financial assets - interest income | 5 | 51 965 989 | 45 136 708 |
| Available-for-sale financial assets - dividend income | | 17 131 755 | 13 226 045 |
| Cash and cash equivalents - interest income | | 1 129 287 | 1 331 713 |
| Net realised gains on available-for-sale financial assets | 5 | 17 707 671 | 55 475 030 |
| | | 87 934 702 | 115 169 496 |
| Net realised gains on Scheme available-for-sale financial assets | | | |
| Realised gains on financial assets - available-for-sale: | | | |
| - Equity | 5 | 17 707 671 | 55 475 030 |
| | | 17 707 671 | 55 475 030 |
| Personal medical savings account trust monies invested | | | |
| Available-for-sale financial assets - interest income | 5 | 23 348 683 | 21 202 418 |
| Cash and cash equivalents - interest income | 10 | 3 096 706 | 1 976 043 |
| | | 26 445 389 | 23 178 461 |

23. OTHER OPERATING INCOME

| | | | |
|--|--|------------------|------------------|
| Sundry income | | 3 049 305 | 8 193 274 |
| Net profit on disposal of fixed assets | | 28 544 | 135 740 |
| | | 3 077 849 | 8 329 014 |

24. INTEREST PAID ON PERSONAL MEDICAL SAVINGS TRUST ACCOUNTS

| | | | |
|--|----|-------------------|-------------------|
| Interest paid on members' personal medical saving account balances | 13 | 26 445 389 | 23 178 461 |
| | | 26 445 389 | 23 178 461 |

25. INTEREST PAID

| | | | |
|---------------------------------|----|---------------|----------------|
| Interest paid on Finance leases | 12 | 42 790 | 180 061 |
| | | 42 790 | 180 061 |

26. ASSET MANAGEMENT FEES

| | NOTES | 2015 | 2014 |
|---|-------|------------------|------------------|
| | | R | R |
| Scheme | | | |
| Expenses for asset management services rendered | 5 | 7 083 070 | 6 999 451 |
| | | <u>7 083 070</u> | <u>6 999 451</u> |
| Personal medical savings account trust monies invested | | | |
| Expenses for asset management services rendered | 5 | 361 429 | 326 022 |
| | | <u>361 429</u> | <u>326 022</u> |

27. OWN FACILITY EXPENDITURE

| | | | |
|---|--|------------------|------------------|
| Income | | | |
| Income from medical services rendered in own facilities | | 2 705 707 | 4 316 174 |
| | | <u>2 705 707</u> | <u>4 316 174</u> |
| Expenditure in operating own facility | | | |
| Total healthcare provider costs | | 5 717 145 | 5 689 246 |
| Changes in inventories | | 433 867 | 877 128 |
| Administration expenses | | 537 154 | 491 880 |
| Information Technology | | 97 236 | 521 909 |
| Facilities expenditure | | 1 487 498 | 682 601 |
| | | <u>8 272 900</u> | <u>8 262 764</u> |
| Deficit on Own Facility | | <u>5 567 193</u> | <u>3 946 590</u> |

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.

28. OTHER LOSSES

| | NOTES | 2015 | 2014 |
|--------------------------------------|-------|---------------|---------------|
| | | R | R |
| Net loss on disposal of fixed assets | 2 | 25 773 | 48 260 |
| | | <u>25 773</u> | <u>48 260</u> |

29. EMPLOYEE BENEFIT EXPENSES

| | NOTES | 2015 | 2014 |
|--|-------|--------------------------|--------------------------|
| | | R | R |
| Salaries and Bonuses | | 76 467 668 | 74 893 673 |
| Retirement benefits | | 8 668 960 | 7 801 873 |
| Medical and other benefits | | 9 359 858 | 8 553 994 |
| Increase in leave pay accrual | | 2 084 012 | 2 632 434 |
| Retirement benefit obligations | | 364 918 | 396 016 |
| | | <u>96 945 415</u> | <u>94 277 990</u> |
| Less: Principal Officer's compensation | 33 | (3 751 645) | (4 152 310) |
| - Salary | | (2 878 231) | (2 880 867) |
| - Bonuses paid and provided for | | - | (399 326) |
| - Retirement benefits | | (511 957) | (511 956) |
| - Medical and other benefits | | (361 457) | (360 161) |
| | | <u><u>93 193 770</u></u> | <u><u>90 125 680</u></u> |

30. 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 20.

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

| | 2015 | 2014 |
|---|--------------------------|--------------------------|
| | R | R |
| No later than 1 year | 16 557 093 | 14 722 299 |
| Later than 1 year and no later than 5 years | 64 448 336 | 13 990 279 |
| More than 5 years | - | - |
| | <u><u>81 005 429</u></u> | <u><u>28 712 578</u></u> |

31. CASH FLOWS FROM OPERATING ACTIVITIES

| | | 2015 | 2014 |
|---|--------|---------------------|-------------------|
| | | R | R |
| Net surplus for the year | | 38 602 705 | 85 459 161 |
| Adjusted for: | | | |
| Depreciation | 2 | 8 481 595 | 8 161 113 |
| Net (profit)/loss on disposal of fixed assets | 23; 28 | (2 771) | (87 480) |
| Decrease in provision for retirement benefit obligations | 11 | (468 758) | (399 183) |
| Impairment of intangible assets | 4 | 8 879 323 | - |
| Net realised gains on available-for-sale financial assets | 5 | (17 707 671) | (55 475 030) |
| Investment income | | (79 540 665) | (69 646 882) |
| Scheme | 22 | (53 095 276) | (46 468 421) |
| Return on personal medical savings account trust monies invested | 22 | (26 445 389) | (23 178 461) |
| Interest paid | | 26 488 179 | 23 358 522 |
| Scheme | 25 | 42 790 | 180 061 |
| Interest paid on personal medical savings account trust monies invested | 24 | 26 445 389 | 23 178 461 |
| Dividends received | 22 | (17 131 755) | (13 226 045) |
| Operating loss before changes to working capital | | (32 399 818) | (21 855 824) |
| Changes to working capital | | (6 796 717) | 107 916 832 |
| Decrease in trade and other receivables | 7 | (8 801 215) | 432 822 |
| (Decrease)/increase in accounts payable | 15 | (27 366 036) | (4 574 990) |
| Decrease in provision for outstanding claims | 14 | (4 035 897) | (3 499 120) |
| Increase in personal medical savings account liabilities | 13 | 33 406 431 | 115 558 120 |
| Cash (utilised by)/generated from operations | | (39 196 535) | 86 061 008 |

32. TOTAL TRUSTEE REMUNERATION AND CONSIDERATION EXPENSES

| | Fees for attending Board meetings | Monthly fees for Executive Committee | Fees for attending subcommittee meetings | Total remuneration | Travel & Accommodation | Training | Total considerations |
|--------------------------------------|---|--|---|-----------------------|---------------------------|---------------|-------------------------|
| | R | R | R | R | R | R | R |
| 2015 | | | | | | | |
| Dr WJ Botes (End of term June 2015) | 37 824 | - | 30 738 | 68 562 | 7 566 | - | 76 128 |
| RF Camphor | 200 370 | 39 564 | 140 997 | 380 931 | - | 2 273 | 383 204 |
| Prof PA Delport | 160 300 | 28 390 | 123 195 | 311 885 | - | 2 273 | 314 158 |
| LB Dlamini (Appointed June 2015) | 40 324 | - | 56 695 | 97 019 | 12 610 | 2 273 | 111 902 |
| GS du Plessis (Appointed June 2015) | 40 324 | - | 79 390 | 119 714 | - | 2 273 | 121 987 |
| WJ du Plessis (Resigned March 2015) | 50 432 | - | 16 630 | 67 062 | 8 827 | - | 75 889 |
| PM Kennedy | 113 472 | - | 34 521 | 147 993 | 16 393 | 2 273 | 166 659 |
| H Kruger (Resigned March 2015) | 37 824 | - | 1 500 | 39 324 | 5 044 | - | 44 368 |
| Dr J Moncrieff | 128 580 | - | 74 781 | 203 361 | - | 2 273 | 205 634 |
| CM Mowatt | 103 364 | - | 118 366 | 221 730 | 29 003 | 2 273 | 253 006 |
| WJ Myburgh | 131 080 | - | 110 476 | 241 556 | - | - | 241 556 |
| Dr LH Petersen (Appointed June 2015) | 27 716 | - | 41 565 | 69 281 | - | 2 273 | 71 554 |
| Dr M Serfontein (Resigned Feb 2015) | 25 216 | - | - | 25 216 | 2 522 | - | 27 738 |
| EL Steenkamp | 113 472 | - | 95 976 | 209 448 | 25 220 | 2 273 | 236 941 |
| S Stevens (Appointed June 2015) | 50 432 | - | 36 565 | 86 997 | 8 827 | 2 273 | 98 097 |
| Rev JH Windell (Elected June 2015) | 40 324 | - | 46 565 | 86 889 | 11 349 | 2 273 | 100 511 |
| | 1 301 054 | 67 954 | 1 007 960 | 2 376 968 | 127 361 | 25 003 | 2 529 332 |

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

The 2014 and 2015 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.

33. 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.

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.

Service 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. Invoices paid for non-healthcare providers are also included.

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:

| | 2015 | 2014 |
|---|-------------|-------------|
| | R | R |
| Board of Trustees | | |
| Gross medical scheme contributions received | 508 764 | 559 555 |
| Medical scheme contributions received - risk portion | 432 483 | 461 450 |
| Medical scheme contributions received - personal medical savings portion | 76 281 | 98 105 |
| Gross benefits paid out | 619 405 | 287 726 |
| Benefits paid from risk pool | 501 783 | 184 532 |
| Benefits paid from personal medical savings available | 117 622 | 103 194 |
| Saving available at year-end | 90 132 | 65 442 |
| Trustee remuneration and travel and accommodation expenses (Note 32) | 2 529 332 | 2 348 728 |
| Trustee other expenses | 1 768 572 | 531 682 |
| Principal Officer | | |
| Gross medical scheme contributions received | 89 844 | 82 056 |
| Medical scheme contributions received - risk portion | 73 668 | 67 284 |
| Medical scheme contributions received - personal medical savings portion | 16 176 | 14 772 |
| Gross benefits paid out | 46 991 | 59 948 |
| Benefits paid from risk pool | 31 852 | 44 971 |
| Benefits paid from personal medical savings available | 15 139 | 14 977 |
| Saving available at year-end | 1 118 | 219 |
| Principal Officer's compensation (Note 29) | 3 751 645 | 4 152 310 |
| Leave provision at end of year | 305 302 | 200 395 |
| Close family members of Principal Officer | | |
| Gross medical scheme contributions received | 145 632 | 64 692 |
| Medical scheme contributions received - risk portion | 118 500 | 52 272 |
| Medical scheme contributions received - personal medical savings portion | 27 132 | 12 420 |
| Gross benefits paid out | 88 018 | 53 781 |
| Benefits paid from risk pool | 59 994 | 42 233 |
| Benefits paid from personal medical savings available | 28 024 | 11 548 |
| Saving available at year-end | - | 891 |
| Compensation to close family members of Principal Officer | 1 535 388 | 1 534 818 |
| Leave provision at end of year | 70 276 | 100 276 |
| Key management | | |
| Gross medical scheme contributions received | 362 621 | 331 735 |
| Medical scheme contributions received - risk portion | 305 671 | 272 512 |
| Medical scheme contributions received - personal medical savings portion | 56 950 | 59 223 |
| Gross benefits paid out | 248 914 | 212 166 |
| Benefits paid from risk pool | 190 480 | 170 579 |
| Benefits paid from personal medical savings available | 58 434 | 41 587 |
| Saving available at year-end | 176 983 | 169 598 |
| Compensation to key management personnel | 13 500 821 | 13 989 578 |
| Leave provision at end of year | 654 111 | 809 549 |
| Service providers connected to key management and Board of Trustees | | |
| Gross benefits paid to related party service providers | 869 756 | 605 403 |
| Employees and management | | |
| The Scheme grants loans to employees and management, repayable over a maximum period of 60 months (Note 6). | | |
| Finance charges | 4 766 | 25 048 |
| Balance due from employees at year-end | 21 558 | 119 372 |

34. 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 39.

(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.

35. EVENTS AFTER REPORTING PERIOD

No events other than disclosed on the Board of Trustee Report Note 10, took place between the Statement of Financial Position date and the date of this report that should be noted.

36. MATTERS OF NON-COMPLIANCE

Non-compliance with Section 26(1)(c) of the Medical Schemes Act - Deposits of contributions into a bank account controlled by the Scheme.

The Scheme had members located in Mozambique. The contributions of these members were paid over to an intermediary, who in turn paid the contributions to the Scheme. This practice is prohibited, as contributions must be paid directly into the bank account of the Scheme, and not through an intermediary account.

No alternative, which would comply with the Medical Schemes Act, could be found and this business was terminated on 31 December 2015. Upon termination all contributions due by members have been paid into the bank account of the Scheme.

Non-compliance with Section 26(7) of the Medical Schemes Act - Contributions not received within three days of becoming due

There were instances where the Scheme, in absence of any agreement or understanding, received contributions more than three days after due date. Contribution receivables are amounts receivable from individuals or employer groups and are collected by debit orders or cash payments. If not received within three days of due date, benefits of individuals are suspended and terminated if not received within 60 days. Employer group discrepancies are actively monitored and rectified on a monthly basis.

Non-compliance with Regulation 28(1) of the Medical Schemes Act - Compensation of brokers without written agreements

A broker house was remunerated since February 2015 for broker services rendered, without the existence of a formal agreement. This was an administrative oversight which was immediately corrected when the problem was identified in November 2015. The control process was updated to prevent future recurrence.

Non-compliance with Regulation 28(2) of the Medical Schemes Act - Remuneration paid to brokers more than the prescribed statutory limit.

The Scheme entered into contracts with independent contractors to render marketing and branding services to the Scheme. The contracts specifically prohibited any party to the contracts to be registered as brokers with the CMS. Upon investigation of the contracts during 2015, it was revealed that, without the knowledge of the Scheme, some parties to the contracts registered as brokers with the CMS, resulting in these subsequently registered brokers indirectly receiving remuneration in excess of the prescribed statutory limit. Upon discovery of the transgression, these contracts were immediately terminated.

The Scheme also concluded a fixed broker-fee agreement with a brokerage representing an employer group. At the time of contracting, the fixed fee was less than the prescribed maximum broker fee due to the benefit options the employees of the employer group had subscribed to. During the year under review some new employees joined benefit options with lower subscription rates, resulting in the fixed contracted fee exceeding the maximum prescribed fee per member. This resulted in an overpayment to the broker of R15 352. The brokerage agreed to refund the overpayment to the Scheme.

Non-compliance with Regulation 29(2) of the Medical Schemes Act - Maintaining a Solvency Ratio of 25% throughout the accounting period under review.

The accumulated funds expressed as a percentage of gross annual contributions was below the statutory requirement of 25% during two consecutive months of the year due to seasonality of the claims submitted. At 31 December 2015 the solvency level exceeded the minimum statutory solvency limit of 25%.

Non-compliance with Section 33(2) of the Medical Schemes Act - Option self-sufficiency in terms of membership and financial performance be financially sound

The Act stipulates that a benefit option shall be self-supporting in terms of membership and financial performance. During the year under review seven benefit options of the Scheme, namely Beat2, Beat4, Pace2, Pace3, Pace4, Pulse1 and Pulse2 made a net healthcare deficit. After accounting for other income only the Beat2, Beat4, Pace2, Pace3 and Pulse2 options showed a net deficit.

The Scheme monitors the results of all options and evaluates different strategies to improve the financial outcomes of all options. The different financial results reflect the different disease burdens in each option, among many other factors.

The strategy on sustainability of options has to balance short- and long-term financial considerations, with fairness to both healthy and sick members and with continued affordability of cover for members on different levels of income and needs.

The Scheme stays committed to comply with the applicable legislation as far as possible but also focus on the overall stability and financial position of Bestmed as a whole and not only on individual options.

Non-compliance with Section 35(8)(a) of the Medical Schemes Act - Investments in employers, administrators or any arrangement associated with the medical scheme.

Due to some of the Scheme's employer groups being listed on the JSE, investments were made in certain of its employer groups listed on the JSE through the portfolios of the investment products the Scheme utilises. This is also applicable to JSE listed administrators. The Council for Medical Schemes has granted the Scheme an exemption from this section of the Act.

Non-compliance with Section 65(1) of the Medical Schemes Act - Remuneration to non-brokers for broker related services

Section 65(1) of the Medical Schemes Act states that "No person may act or offer to act as a broker unless the Council has granted accreditation to such a person on payment of such fees as may be prescribed".

The Scheme entered into contracts with independent contractors to render marketing, branding and certain ad-hoc ancillary services to the Scheme.

Upon investigation of the contracts during 2015, inclusive of the ad-hoc ancillary services as defined, it was indicated that the services defined as "assisting members in resolving their respective queries which will provide secure member satisfaction", is defined as broker services as described in clause 3(a) of the Code of Conduct for Brokers.

The contracts were immediately terminated on discovery of the transgression.

37. SURPLUS/ (DEFICIT) PER BENEFIT OPTION

| 2015 | Beat1* | Beat2* | Beat3* | Beat4 |
|--|---------------------|----------------------|----------------------|----------------------|
| | R | R | R | R |
| Average members for the financial year | 5 157 | 20 961 | 7 156 | 5 700 |
| Risk contribution income | 108 280 250 | 420 704 857 | 218 213 071 | 257 544 379 |
| Relevant healthcare expenditure | (85 020 739) | (351 920 694) | (182 218 339) | (273 695 620) |
| Net claims incurred | (85 266 204) | (352 918 403) | (183 422 444) | (274 676 953) |
| Risk claims incurred | (81 672 959) | (337 446 058) | (177 589 420) | (269 191 059) |
| Third party claims recoveries | 104 036 | 199 846 | 301 117 | 408 257 |
| Accredited managed healthcare services | (3 697 281) | (15 672 191) | (6 134 141) | (5 894 151) |
| Net income/(expenses) on risk transfer arrangements | 245 465 | 997 709 | 1 204 105 | 981 333 |
| Risk transfer arrangement premiums paid | (1 119 980) | (4 552 240) | (7 322 366) | (5 831 493) |
| Recoveries from risk transfer arrangements | 1 365 445 | 5 549 949 | 8 526 471 | 6 812 826 |
| Gross healthcare result | 23 259 511 | 68 784 163 | 35 994 732 | (16 151 241) |
| Broker service fees and other distribution fees | (3 387 325) | (15 219 525) | (5 750 112) | (2 458 214) |
| Administration and other operative expenses | (15 324 843) | (62 288 935) | (21 265 188) | (16 935 482) |
| Net impairment losses on healthcare receivables | (96 323) | (455 659) | (233 584) | (286 473) |
| Net healthcare result | 4 451 020 | (9 179 956) | 8 745 848 | (35 831 410) |
| Other income | 2 361 227 | 12 589 594 | 7 159 687 | 8 016 529 |
| Investment income | 2 282 567 | 12 217 492 | 6 968 937 | 7 782 589 |
| Scheme | 2 247 325 | 10 631 023 | 5 449 770 | 6 683 716 |
| Personal medical savings account trust monies invested | 35 242 | 1 586 469 | 1 519 167 | 1 098 873 |
| Other operating income | 78 660 | 372 102 | 190 750 | 233 940 |
| Other expenditure | (360 294) | (3 124 134) | (2 307 419) | (2 065 602) |
| Interest paid on personal medical savings trust accounts | (35 242) | (1 586 469) | (1 519 167) | (1 098 873) |
| Interest paid | (1 094) | (5 173) | (2 652) | (3 252) |
| Asset management fees | (181 020) | (856 320) | (438 975) | (538 368) |
| Own facility expenditure | (142 279) | (673 056) | (345 028) | (423 150) |
| Other losses | (659) | (3 116) | (1 597) | (1 959) |
| NET SURPLUS/(DEFICIT) FOR THE YEAR | 6 451 953 | 285 504 | 13 598 116 | (29 880 483) |

* The Scheme offered thirteen benefit options for the year under review, ten original options and three Efficiency Discounted Options (EDO's) registered during June 2015. The EDO's namely Beat1 Network, Beat2 Network and Beat3 Network are included in the original ten options for reporting purposes.

| Pace1 | Pace2 | Pace3 | Pace4 | Pulse1 | Pulse2 | Total Scheme |
|----------------------|----------------------|----------------------|----------------------|---------------------|---------------------|------------------------|
| R | R | R | R | R | R | R |
| 27 324 | 11 009 | 6 589 | 3 686 | 4 439 | 1 045 | 93 066 |
| 1 035 280 895 | 620 610 064 | 408 773 578 | 316 803 330 | 109 408 470 | 57 254 401 | 3 552 873 295 |
| (885 379 464) | (593 579 889) | (394 593 915) | (309 981 942) | (94 382 105) | (71 457 771) | (3 242 230 477) |
| (889 758 253) | (595 335 747) | (395 668 643) | (310 563 862) | (100 674 043) | (70 004 743) | (3 258 289 295) |
| (865 469 751) | (583 733 301) | (387 736 414) | (306 435 187) | (97 646 189) | (68 939 978) | (3 175 860 316) |
| 1 883 550 | 745 712 | 8 832 | 739 726 | 299 497 | - | 4 690 573 |
| (26 172 052) | (12 348 158) | (7 941 061) | (4 868 401) | (3 327 351) | (1 064 765) | (87 119 552) |
| 4 378 789 | 1 755 858 | 1 074 728 | 581 920 | 6 291 938 | (1 453 028) | 16 058 818 |
| (27 959 240) | (11 263 919) | (6 742 184) | (3 771 694) | (21 245 496) | (23 717 136) | (113 525 748) |
| 32 338 029 | 13 019 777 | 7 816 912 | 4 353 614 | 27 537 434 | 22 264 109 | 129 584 566 |
| 149 901 431 | 27 030 175 | 14 179 663 | 6 821 388 | 15 026 365 | (14 203 370) | 310 642 818 |
| (25 912 252) | (6 950 568) | (5 505 905) | (1 955 566) | (2 711 317) | (159 627) | (70 010 411) |
| (81 197 598) | (32 712 017) | (19 580 258) | (10 953 533) | (13 191 192) | (3 105 386) | (276 554 432) |
| (1 165 667) | (649 235) | (443 354) | (290 434) | (97 332) | (50 934) | (3 768 995) |
| 41 625 914 | (13 281 645) | (11 349 854) | (6 378 145) | (973 476) | (17 519 316) | (39 691 020) |
| 41 085 304 | 19 953 968 | 15 269 153 | 7 427 052 | 2 363 112 | 1 232 314 | 117 457 940 |
| 40 133 394 | 19 423 788 | 14 907 100 | 7 189 877 | 2 283 629 | 1 190 718 | 114 380 091 |
| 27 196 260 | 15 147 340 | 10 343 920 | 6 776 139 | 2 270 852 | 1 188 357 | 87 934 702 |
| 12 937 134 | 4 276 448 | 4 563 180 | 413 738 | 12 777 | 2 361 | 26 445 389 |
| 951 910 | 530 180 | 362 053 | 237 175 | 79 483 | 41 596 | 3 077 849 |
| (16 870 786) | (6 467 351) | (6 059 318) | (1 393 835) | (341 232) | (174 244) | (39 164 215) |
| (12 937 134) | (4 276 448) | (4 563 180) | (413 738) | (12 777) | (2 361) | (26 445 389) |
| (13 234) | (7 371) | (5 033) | (3 297) | (1 105) | (579) | (42 790) |
| (2 190 637) | (1 220 106) | (833 194) | (545 813) | (182 915) | (95 722) | (7 083 070) |
| (1 721 810) | (958 986) | (654 879) | (429 001) | (143 769) | (75 235) | (5 567 193) |
| (7 971) | (4 440) | (3 032) | (1 986) | (666) | (347) | (25 773) |
| 65 840 432 | 204 972 | (2 140 019) | (344 928) | 1 048 404 | (16 461 246) | 38 602 705 |

37. SURPLUS/ (DEFICIT) PER BENEFIT OPTION (continued)

| 2014 Reclassified | Beat1 R | Beat2 R | Beat3 R | Beat4 R |
|--|---------------------|----------------------|----------------------|----------------------|
| Average members for the financial year | 4 560 | 17 732 | 7 128 | 5 339 |
| Risk contribution income | 86 556 800 | 321 681 208 | 197 868 330 | 218 320 747 |
| Relevant healthcare expenditure | (59 252 904) | (282 399 215) | (160 899 024) | (228 074 694) |
| Net claims incurred | (59 351 975) | (282 784 462) | (160 852 249) | (228 039 659) |
| Risk claims incurred | (55 178 856) | (266 767 333) | (155 239 290) | (223 529 068) |
| Third party claims recoveries | - | 210 447 | 910 285 | 375 436 |
| Accredited managed healthcare services | (4 173 119) | (16 227 576) | (6 523 244) | (4 886 027) |
| 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 |
| Gross healthcare result | 27 303 896 | 39 281 993 | 36 969 306 | (9 753 947) |
| Broker service fees and other distribution fees | (3 105 202) | (12 873 514) | (5 660 740) | (1 347 156) |
| Administration and other operative expenses | (12 887 723) | (50 115 154) | (20 145 546) | (15 089 376) |
| Net impairment losses on healthcare receivables | (91 768) | (410 231) | (252 518) | (289 745) |
| Net healthcare result | 11 219 203 | (24 116 906) | 10 910 502 | (26 480 223) |
| Other income | 2 786 945 | 13 427 273 | 8 891 723 | 9 208 678 |
| 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 |
| Other expenditure | (277 977) | (2 211 457) | (1 987 811) | (1 286 987) |
| 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) |
| NET SURPLUS/(DEFICIT) FOR THE YEAR | 13 728 171 | (12 901 090) | 17 814 414 | (18 558 532) |

Refer to Note 38 for the reclassification of 2014 expenses due to the implementation of the Council for Medical Schemes Circular 56 of 2015.

| 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 |
| 931 263 286 | 596 045 131 | 387 907 107 | 324 607 877 | 125 604 468 | 62 436 844 | 3 252 291 798 |
| (832 429 263) | (566 617 810) | (348 245 349) | (305 112 549) | (98 579 081) | (76 065 439) | (2 957 675 328) |
| (832 255 435) | (566 542 740) | (348 200 747) | (305 085 593) | (103 192 990) | (76 996 084) | (2 963 301 934) |
| (809 917 038) | (557 827 685) | (342 194 187) | (301 818 486) | (98 360 480) | (75 889 658) | (2 886 722 082) |
| 1 904 130 | 1 754 349 | 213 767 | 492 361 | 169 742 | - | 6 030 517 |
| (24 242 527) | (10 469 404) | (6 220 327) | (3 759 468) | (5 002 252) | (1 106 426) | (82 610 369) |
| (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 |
| 98 834 023 | 29 427 321 | 39 661 758 | 19 495 328 | 27 025 387 | (13 628 595) | 294 616 470 |
| (25 618 325) | (5 128 923) | (3 693 117) | (1 661 166) | (3 102 181) | (59 536) | (62 249 860) |
| (74 867 495) | (32 332 357) | (19 210 055) | (11 610 256) | (15 448 310) | (3 416 943) | (255 123 215) |
| (1 265 399) | (743 300) | (501 313) | (354 735) | (133 171) | (66 203) | (4 108 383) |
| (2 917 197) | (8 777 259) | 16 257 272 | 5 869 172 | 8 341 725 | (17 171 277) | (26 864 987) |
| 49 729 752 | 26 178 494 | 19 580 565 | 10 860 945 | 4 021 139 | 1 991 457 | 146 676 971 |
| 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 |
| (15 133 461) | (5 856 509) | (5 874 548) | (1 162 400) | (380 205) | (181 468) | (34 352 823) |
| (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) |
| 31 679 094 | 11 544 726 | 29 963 289 | 15 567 717 | 11 982 659 | (15 361 288) | 85 459 161 |

38. RECLASSIFICATION OF EXPENDITURE

The Council for Medical Schemes (the Council) Circular 56 of 2015 now requires that the costs incurred for managed healthcare services provided for by accredited managed care organisations where there is no or insignificant transfer of risk be included in 'relevant healthcare expenditure' as 'accredited managed healthcare services'.

In previous years these costs were included in the Statement of Comprehensive Income as 'Managed care management services'. This change resulted in the increase on the financial statement line 'Net claims incurred' by R49 805 597 (2014: R49 468 387) and an increase in 'Administration expenditure' as per the Statement of Comprehensive Income by R3 185 688 (2014: R2 896 616)

The following comparative figures in the Statement of Comprehensive Income were reclassified:

| | 2015 R | 2014 R |
|--|---------------------|---------------------|
| Net claims incurred increased by (Note 17) | (49 805 597) | (49 468 387) |
| Accredited managed healthcare services: | | |
| Hospital benefit management services | (21 494 579) | (23 144 276) |
| Pharmacy benefit management services | (15 917 268) | (15 598 213) |
| Managed care network management services & risk | (6 406 401) | (5 667 438) |
| Active disease risk management | (5 987 349) | (5 058 460) |
| Gross healthcare results decreased | (49 805 597) | (49 468 387) |
| Managed care management services line decreased by | 52 991 285 | 52 365 003 |
| Administration & other operative expenses line increased by | (3 185 688) | (2 896 616) |
| Wellness and preventative care | (2 108 468) | (2 179 786) |
| Maternity programme | (1 077 220) | (716 830) |
| Impact on total comprehensive income | - | - |

The following comparative figures in the Report of the Board of Trustees were reclassified:

| | 2014 Reclassified | | 2014 | |
|---|-------------------|---------------|-------------------|---------------|
| | Members | Beneficiaries | Members | Beneficiaries |
| Relevant healthcare expenditure | 2 730 | 1 295 | 2 685 | 1 274 |
| Non-healthcare expenditure | 297 | 141 | 342 | 162 |
| | | | 2014 Reclassified | |
| Relevant healthcare expenditure as % of contributions | | | 90,94% | 89,42% |
| Non-healthcare expenditure as % of contributions | | | 9,88% | 11,41% |

39. 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

39. INSURANCE RISK MANAGEMENT REPORT (continued)

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.

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

2015

| Age group | General Practitioners | Specialists | Pathology | Medicines | Hospitals | Other | Total |
|--------------|-----------------------|----------------|----------------|----------------|------------------|----------------|------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| <30 | 23 019 | 79 717 | 26 572 | 43 289 | 288 019 | 90 557 | 551 173 |
| 30-39 | 12 015 | 50 647 | 18 175 | 32 847 | 149 600 | 50 852 | 314 136 |
| 40-49 | 13 888 | 58 525 | 22 998 | 54 440 | 161 515 | 75 557 | 386 923 |
| 50-59 | 18 801 | 89 662 | 32 431 | 87 809 | 250 959 | 111 409 | 591 071 |
| 60-69 | 15 744 | 113 474 | 36 205 | 88 614 | 317 882 | 127 016 | 698 935 |
| 70 + | 15 334 | 107 496 | 37 303 | 71 215 | 325 695 | 118 893 | 675 936 |
| Total | 98 801 | 499 521 | 173 684 | 378 214 | 1 493 670 | 574 284 | 3 218 174 |

2014

| Age group | General Practitioners | Specialists | Pathology | Medicines | Hospitals | Other | Total |
|--------------|-----------------------|----------------|----------------|----------------|------------------|----------------|------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | 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 |
| Total | 116 498 | 466 028 | 172 961 | 344 055 | 1 372 772 | 447 550 | 2 919 864 |

- 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:

| 2015 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% |

39. INSURANCE RISK MANAGEMENT REPORT (continued)

Risk transfer arrangements (continued)

| 2015 Options | Medical Apparatus | Supplementary Services | Medicines | | | | | |
|--------------|-------------------|------------------------|-------------|-----------------|-------|------------------|------------|------|
| | | | CDL Chronic | Non-CDL Chronic | Acute | Over the counter | Biological | |
| Beat1 | - | - | - | - | - | - | - | - |
| Beat2 | - | - | - | - | - | - | - | - |
| Beat3 | - | - | - | - | - | - | - | - |
| Beat4 | - | - | - | - | - | - | - | - |
| Pace1 | - | - | - | - | - | - | - | - |
| Pace2 | - | - | - | - | - | - | - | - |
| Pace3 | - | - | - | - | - | - | - | - |
| Pace4 | - | - | - | - | - | - | - | - |
| Pulse1 | 100% | - | 100% | - | 100% | 100% | 100% | - |
| Pulse2 | 100% | 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.

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 seven 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 2015.

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 2016 and March 2016 for 2015 services. A significant portion of the claims incurred in 2015 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 2015 that have already been paid, the claims for 2015 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.

| 2015 Scenario | Claims for 2015 services paid from Jan 2016 to Mar 2016 | 2015 Claims estimated at that time to be paid after Mar 2016 | Outstanding claims provision | % Change in outstanding claims provision |
|---------------|--|---|-------------------------------------|---|
| | R | R | R | % |
| Base scenario | 78 788 138 | 7 215 294 | 86 003 432 | |
| 10% increase | 78 788 138 | 7 936 823 | 86 724 961 | 0.84% |
| 10% decrease | 78 788 138 | 6 493 765 | 85 281 903 | (0.84%) |

40. 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 Willis 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

40. FINANCIAL RISK MANAGEMENT REPORT (continued)

Investment risk (continued)

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.

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.

| Scheme | 2015 R | 2014 R |
|--|----------------------|----------------------|
| Segregated portfolio | 670 960 388 | 709 832 920 |
| - Equity | 204 322 860 | 232 345 894 |
| - Money Market funds | 179 119 409 | 205 719 399 |
| - Bonds | 185 524 412 | 176 176 167 |
| - SA Listed Properties | 63 991 881 | 68 655 149 |
| - Commodities - Gold and Platinum | 5 408 169 | 7 667 832 |
| - International Fixed Interest Instruments | 32 593 658 | 19 268 479 |
| Linked Insurance Fund policies | 319 764 812 | 309 022 017 |
| - Equity | 82 179 557 | 60 568 315 |
| - Money Market funds | 179 388 060 | 184 795 166 |
| - Bonds | 28 778 833 | 34 919 488 |
| - SA Listed Properties | 11 191 768 | 12 669 903 |
| - Commodities - Gold and Platinum | 18 226 594 | 16 069 145 |
| Money Market funds | 275 862 767 | 233 999 802 |
| Total | 1 266 587 967 | 1 252 854 740 |

Personal medical savings account trust monies invested

| | | |
|----------------------|--------------------|--------------------|
| Segregated portfolio | | |
| - Money Market funds | 139 632 399 | - |
| Money Market funds | 210 649 308 | 327 298 033 |
| Total | 350 281 707 | 327 298 033 |

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.

| Risks identified per investment and cash instrument | Currency Risk | Price Risk | Interest Rate Risk |
|---|---------------|------------|--------------------|
| Segregated portfolio | | | |
| - Equity | - | Yes | - |
| - Money Market funds | - | - | Yes |
| - Bonds | - | - | Yes |
| - SA Listed Properties | - | Yes | - |
| - Commodities - Gold and Platinum | - | Yes | - |
| - International Fixed Interest Instruments | Yes | - | Yes |
| Linked Insurance Fund policies | | | |
| - Equity | - | Yes | - |
| - Money Market funds | - | - | Yes |
| - Bonds | - | - | Yes |
| - SA Listed Properties | - | Yes | - |
| - Commodities - Gold and Platinum | - | Yes | - |
| Money Market funds | - | - | Yes |
| Bonds | - | - | Yes |
| Cash and cash equivalents. | - | - | Yes |

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

40. FINANCIAL RISK MANAGEMENT REPORT (continued)

Price risk (continued)

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 - Willis Towers Watson.

Sensitivity analysis table

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

| 2015 | Carrying value at year-end | Effect on equity if the listed equity index strengthens/(weakens) by 10% |
|---------------------------------|----------------------------|--|
| Equities and investments | 286 502 416 | 28 650 242 |
| SA Listed Properties | 75 183 649 | 7 518 365 |
| Commodities - Gold and Platinum | 23 634 763 | 2 363 476 |

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 2015 | (8.86) | (4.43) | (1.48) | 1.48 | 4.43 | 8.86 |
| 31 December 2014 | (8.88) | (4.44) | (1.48) | 1.48 | 4.44 | 8.88 |

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 - Willis 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.

| As at 31 December 2015 | 1 - 3 months | 4 - 12 months | 1 - 5 years | Carrying value at year-end | Effect if interest rate increase/ (decrease) by 1% |
|---|--------------------|---------------|--------------------|-------------------------------|--|
| | R | R | R | Total R | R |
| Money Market funds in available-for-sale | - | - | 358 507 468 | 358 507 468 | 3 585 075 |
| Money Market | | | | | |
| Scheme | 275 862 767 | - | - | 275 862 767 | 2 758 628 |
| Personal medical savings account trust monies invested | 210 649 308 | - | - | 210 649 308 | 2 106 493 |
| Bonds in available-for-sale | - | - | 214 303 245 | 214 303 245 | 2 143 032 |
| International Fixed Interest in available-for-sale | - | - | 32 593 658 | 32 593 658 | 325 937 |
| Cash and cash equivalents | | | | | |
| Scheme | 19 450 154 | - | - | 19 450 154 | 194 502 |
| Personal medical savings account trust monies invested | 176 597 212 | - | - | 176 597 212 | 1 765 972 |
| Total | 682 559 441 | - | 605 404 371 | 1 287 963 812 | 12 879 638 |

| As at 31 December 2014 | 1 - 3 months | 4 - 12 months | 1 - 5 years | Carrying value at year-end | Effect if interest rate increase/ (decrease) by 1% |
|---|--------------------|---------------|--------------------|-------------------------------|--|
| | R | R | R | Total R | R |
| 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 |
| Total | 779 018 377 | - | 620 878 699 | 1 399 897 076 | 13 998 971 |

40. FINANCIAL RISK MANAGEMENT REPORT (continued)

Interest rate risk (continued)

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

| | 2015 | 2014 |
|--|------|------|
| | % | % |
| Available-for-sale investments | | |
| Scheme | 6,1% | 5,9% |
| Personal medical savings account trust monies invested | 7,7% | 5,3% |
| Cash and cash equivalents | | |
| Scheme | 5,7% | 5,2% |
| Personal medical savings account trust monies invested | 1,9% | 1,6% |
| Outstanding debtors | 0% | 0% |
| Loans to members | 0% | 0% |
| Loans to management | 7,3% | 6,5% |

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.

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 39; 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.

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:

| | 2015 | 2014 |
|---|----------------------|----------------------|
| | R | R |
| Available-for-sale investments | 1 616 869 675 | 1 580 152 773 |
| Scheme | 1 266 587 967 | 1 252 854 740 |
| Personal medical savings account trust monies invested | 350 281 708 | 327 298 033 |
| Loans and receivables | 21 558 | 119 372 |
| Trade and other receivables | 70 345 157 | 61 543 942 |
| Insurance receivables | 55 823 418 | 50 006 261 |
| Other loans and receivables | 11 405 421 | 6 585 466 |
| Recovery under risk transfer arrangements outstanding claims provisions | 3 116 318 | 4 952 215 |
| Cash and cash equivalents | 196 047 366 | 217 720 542 |
| Scheme | 19 450 154 | 56 503 386 |
| Personal medical savings account trust monies invested | 176 597 212 | 161 217 156 |
| | 1 883 283 756 | 1 859 536 629 |

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

| | | |
|------------------------------------|------------------|------------------|
| Member claim receivables | 2 610 869 | 1 680 816 |
| Service provider claim receivables | 341 718 | 316 166 |
| | 2 952 587 | 1 996 982 |

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 | 14 521 739 | 11 537 681 |
| Financial assets that are past due but not yet impaired | 55 823 418 | 50 006 261 |
| Financial assets that are impaired | 1 257 349 | 1 883 636 |
| Provision for impairment | (1 257 349) | (1 883 636) |
| Total credit exposure | 70 345 157 | 61 543 942 |

40. FINANCIAL RISK MANAGEMENT REPORT (continued)

Exposure to credit risk (continued)

Impairment losses

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

| | Trade and other receivables | | | |
|---|-----------------------------|-------------------------------------|---|------------------|
| | Insurance receivables | | | |
| | Contribution debtors | Member and service provider debtors | Personal medical savings account advances | Total |
| | R | R | R | R |
| Balance at 1 January 2014 | 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) |
| Balance at 31 December 2014 | 941 392 | 520 575 | 421 669 | 1 883 636 |
| Balance at 1 January 2015 | 941 392 | 520 575 | 421 669 | 1 883 636 |
| Increase/(decrease) in provision for impairment | (565 796) | 229 665 | (290 156) | (626 287) |
| Balance at 31 December 2015 | 375 596 | 750 240 | 131 513 | 1 257 349 |

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.

| Counterparty | 2015 | | 2014 | |
|---------------|--------------|-------------|--------------|-------------|
| | Credit limit | Balance | Credit limit | Balance |
| | R | R | R | R |
| Nedbank | 667 734 779 | 132 818 598 | 662 048 212 | 176 259 393 |
| ABSA | 667 734 779 | 128 098 310 | 662 048 212 | 75 302 395 |
| Standard Bank | 667 734 779 | 124 369 777 | 662 048 212 | 122 024 177 |
| FNB | 667 734 779 | 67 887 053 | 662 048 212 | 90 625 954 |
| Investec | 667 734 779 | 28 092 002 | 662 048 212 | 19 098 023 |

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.

| | 2015 | 2014 |
|---|------------|------------|
| | R | R |
| Insurance receivables | | |
| Counterparties without external credit rating | | |
| Contribution debtors | 51 668 624 | 48 337 651 |
| Member claims debtors | 2 610 869 | 1 680 816 |
| Provider claims debtors | 341 718 | 316 166 |

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.

| | 2015 | 2014 |
|---|--------------------|--------------------|
| | R | R |
| Cash and cash equivalents | | |
| Counterparties with external credit ratings | | |
| zaA-1 | 196 047 366 | 217 720 542 |
| | 196 047 366 | 217 720 542 |

The Scheme applies the National Scale Short -Term Issue Credit Ratings for its short-term obligations. The rating relates to the capacity of the Scheme to meet its financial obligations.

zaA-1 means highest short-term credit quality on the S&P national scale. It indicates the strongest intrinsic capacity for the 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, Willis Towers Watson, which ensures mandate compliance.

Fair values of financial assets by hierarchy level

Assets measured at fair value: 2015

| | Level 1 | Level 2 | Level 3 | Reclassification |
|--|--------------------|----------------------|------------------|------------------|
| | R | R | R | R |
| Available-for-sale investments | | | | |
| Scheme | | | | |
| Segregated portfolio | 313 918 934 | 357 041 454 | - | - |
| Linked Insurance Fund policies | - | 319 764 812 | - | - |
| Money Market funds | - | 275 862 767 | - | - |
| Collective Investment Schemes | - | - | - | - |
| Personal medical savings account trust monies invested | | | | |
| Segregated portfolio | - | 139 632 399 | - | - |
| Money Market funds | - | 210 649 308 | - | - |
| Investment Property | - | - | 1 500 000 | 1 500 000 |
| Current Assets Held for Sale | - | - | 3 200 000 | 3 200 000 |
| | 313 918 934 | 1 302 950 740 | 4 700 000 | 4 700 000 |

40. FINANCIAL RISK MANAGEMENT REPORT (continued)

Available-for-sale investments (continued)

| Assets measured at fair value: 2014 | Level 1 | Level 2 | Level 3 | Reclassification |
|--|--------------------|----------------------|------------------|-------------------------|
| | R | R | R | R |
| Available-for-sale investments | | | | |
| Scheme | | | | |
| 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 | - | - |
| Investment Property | - | - | 1 500 000 | 1 500 000 |
| Current Assets Held for Sale | - | - | 3 700 000 | 3 700 000 |
| | 314 644 229 | 1 265 508 543 | 5 200 000 | 5 200 000 |

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. Refer to Note 9 for information on the disposal process of this property.

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

| | Fair value at 31/12/2015 | Valuation method | Observable input |
|--|-----------------------------|---------------------|--|
| Description | R | | |
| Segregated portfolio | | | |
| - Equity | 204 322 860 | JSE prices | Publicly available quoted price |
| - Money Market funds | 179 119 409 | 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 | 185 524 412 | BESA prices | Bond Exchange of South Africa (BESA) publicly available quoted price |
| - SA Listed Properties | 63 991 881 | JSE prices | Publicly available quoted price |
| - Commodities - Gold and Platinum | 5 408 169 | ETF prices | Exchange-Traded Funds (ETF) are exchange traded and priced on publicly available prices |
| - International Fixed Interest Instruments | 32 593 658 | 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 |
| Linked Insurance Fund policies | | | |
| - Equity | 82 179 557 | JSE prices | Publicly available quoted price |
| - Money Market funds | 179 388 060 | 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 | 28 778 833 | BESA prices | Bond Exchange of South Africa (BESA) publicly available quoted price |
| - SA Listed Properties | 11 191 768 | JSE prices | Publicly available quoted price |
| - Commodities - Gold and Platinum | 18 226 594 | ETF prices | Exchange-Traded Funds (ETF) are exchange traded and priced on publicly available prices |
| Money Market funds | 275 862 767 | 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 |
| | <u>1 266 587 968</u> | | |

Current assets held for sale (continued)

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.

| 2015 | Cash and cash equivalents | Loans and receivables | Available-for- sale financial assets | Insurance receivables and payables | Total carrying amount |
|--|------------------------------|--------------------------|--|--|--------------------------|
| | R | R | R | R | RR |
| Investments | | | | | |
| - Segregated portfolio | - | - | 670 960 388 | - | 670 960 388 |
| - Linked Insurance Fund policies | - | - | 319 764 812 | - | 319 764 812 |
| - Money Market funds | - | - | 275 862 767 | - | 275 862 767 |
| Cash and cash equivalents | | | | | |
| - Scheme | 19 450 154 | - | - | - | 19 450 154 |
| - Personal medical savings account trust investment | 176 597 212 | - | - | - | 176 597 212 |
| Personal medical savings account trust investment | - | - | 350 281 708 | - | 350 281 708 |
| Trade and other receivables | - | 70 345 157 | - | - | 70 345 157 |
| Loans and receivables | - | 21 558 | - | - | 21 558 |
| Personal medical savings account trust liability | - | - | - | (538 756 605) | (538 756 605) |
| Outstanding claims provision | - | - | - | (94 116 318) | (94 116 318) |
| Trade and other payables | - | - | - | (116 045 163) | (116 045 163) |
| Borrowings | - | - | - | - | - |
| | 196 047 366 | 70 366 715 | 1 616 869 675 | (748 918 086) | 1 134 365 670 |

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.

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 2015 | Fair value of asset investment at 31/12/2015* | % of net assets attributable to holders of units ** |
|--|---------------------------------|--|--|--|
| | R | R | R | R |
| Investec Money Market Funds F Class | | | | |
| Conservative maturity profile investing in money market instruments | 1 | 137 120 121 | 224 047 006 | 0,92% |
| Investec Stable Money Market | | | | |
| Stable returns over the medium term, with a focus on conservative money market instruments | 1 | 56 808 568 | 51 815 761 | 4,53% |
| | | 193 928 689 | 275 862 767 | |

*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.

40. FINANCIAL RISK MANAGEMENT REPORT (continued)

Money market portfolio (continued)

| | 2015 | 2014 |
|--|---------------------------|---------------------------|
| | R | R |
| Money Market funds | | |
| Scheme | 275 862 767 | 233 999 802 |
| Personal medical savings account trust monies invested | 210 649 308 | 327 298 033 |
| | <u>486 512 075</u> | <u>561 297 835</u> |

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.

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:

The table below summarises the Scheme's exposure to liquidity risk.

| As at 31 December 2015 | 1 - 3 months | 4 - 12 months | 1 - 5 years | Total |
|--|---------------------------|-----------------------------|---------------------------|-----------------------------|
| | R | R | R | R |
| FINANCIAL ASSETS | | | | |
| Available-for-sale investments | | | | |
| Scheme | 275 862 767 | - | 990 725 200 | 1 266 587 967 |
| Personal medical savings account trust monies invested | 350 281 708 | - | - | 350 281 708 |
| Loans and receivables | - | 21 558 | - | 21 558 |
| Trade and other receivables | - | 70 345 157 | - | 70 345 157 |
| Cash and cash equivalents | | | | |
| Scheme | 19 450 154 | - | - | 19 450 154 |
| Personal medical savings account trust monies invested | 176 597 212 | - | - | 176 597 212 |
| Total financial assets | <u>822 191 841</u> | <u>70 366 715</u> | <u>990 725 200</u> | <u>1 883 283 756</u> |
| FINANCIAL LIABILITIES | | | | |
| Personal medical savings account liability | - | 538 756 605 | - | 538 756 605 |
| Outstanding claims provision | 94 116 318 | - | - | 94 116 318 |
| Trade and other payables | 116 045 163 | - | - | 116 045 163 |
| Total financial liabilities | <u>210 161 481</u> | <u>538 756 605</u> | <u>-</u> | <u>748 918 086</u> |
| Net liquidity gap | <u>612 030 360</u> | <u>(468 389 890)</u> | <u>990 725 200</u> | <u>1 134 365 670</u> |

| As at 31 December 2014 | 1 - 3 months | 4 - 12 months | 1 - 5 years | Total |
|--|--------------------|----------------------|----------------------|----------------------|
| FINANCIAL ASSETS | R | R | R | R |
| 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 |
| Total financial assets | 779 018 377 | 61 641 757 | 1 018 876 495 | 1 859 536 629 |
| FINANCIAL LIABILITIES | | | | |
| 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 |
| Total financial liabilities | 236 563 414 | 505 350 174 | - | 741 913 588 |
| Net liquidity gap | 542 454 963 | (443 708 417) | 1 018 876 495 | 1 117 623 041 |

| Cash and cash equivalents | 2015 | 2014 |
|--|--------------------|--------------------|
| | R | R |
| Cash and cash equivalents consist of the following: | | |
| Current accounts | 190 186 999 | 174 850 811 |
| Scheme | 13 589 787 | 13 633 655 |
| Personal medical savings account trust monies invested | 176 597 212 | 161 217 156 |
| Deposits on call account | 5 860 367 | 42 869 731 |
| Scheme | 5 860 367 | 42 869 731 |
| Personal medical savings account trust monies invested | - | - |
| Total | 196 047 366 | 217 720 542 |

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 2015 the Scheme did not consider there to be any significant concentration of legal risk that had not been provided for.

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.

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 25.58% of gross contributions at 31 December 2015 and 26.97% at 31 December 2014.

40. FINANCIAL RISK MANAGEMENT REPORT (continued)

Capital adequacy risk (continued)

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

| | 2015 | 2014 |
|--|-----------------------------|-----------------------------|
| | R | R |
| Total members' funds per statement of financial position | 1 150 631 151 | 1 135 894 357 |
| Unrealised loss on revaluation of investment property in the statement of comprehensive income | 600 000 | 600 000 |
| Revaluation reserves | (1 497 295) | (1 997 295) |
| Available-for-sale fair value reserve | (66 172 041) | (89 537 952) |
| Accumulated funds per Regulation 29 | <u>1 083 561 815</u> | <u>1 044 959 110</u> |
| Gross contributions | 4 236 651 668 | 3 874 697 957 |
| Solvency margin (accumulated funds/gross contributions x 100) | 25,58% | 26,97% |

Disclaimer:
Whilst Bestmed has taken all reasonable care in compiling the Highlights of Bestmed's Financial Statements, we cannot accept liability for any errors or omissions contained herein. Please note that should a dispute arise, the audited Financial Statements in Bestmed's Annual Report 2015 which will be available on our website shall prevail. Please visit www.bestmed.co.za for the complete liability and responsibility disclaimer for the Bestmed Medical Scheme Annual Report as well as our terms and conditions.

© Bestmed Medical Scheme 2016
Bestmed is a registered medical scheme (Reg. no. 1252) and an Authorised Financial Services Provider (FSP no. 44058).
www.bestmed.co.za

