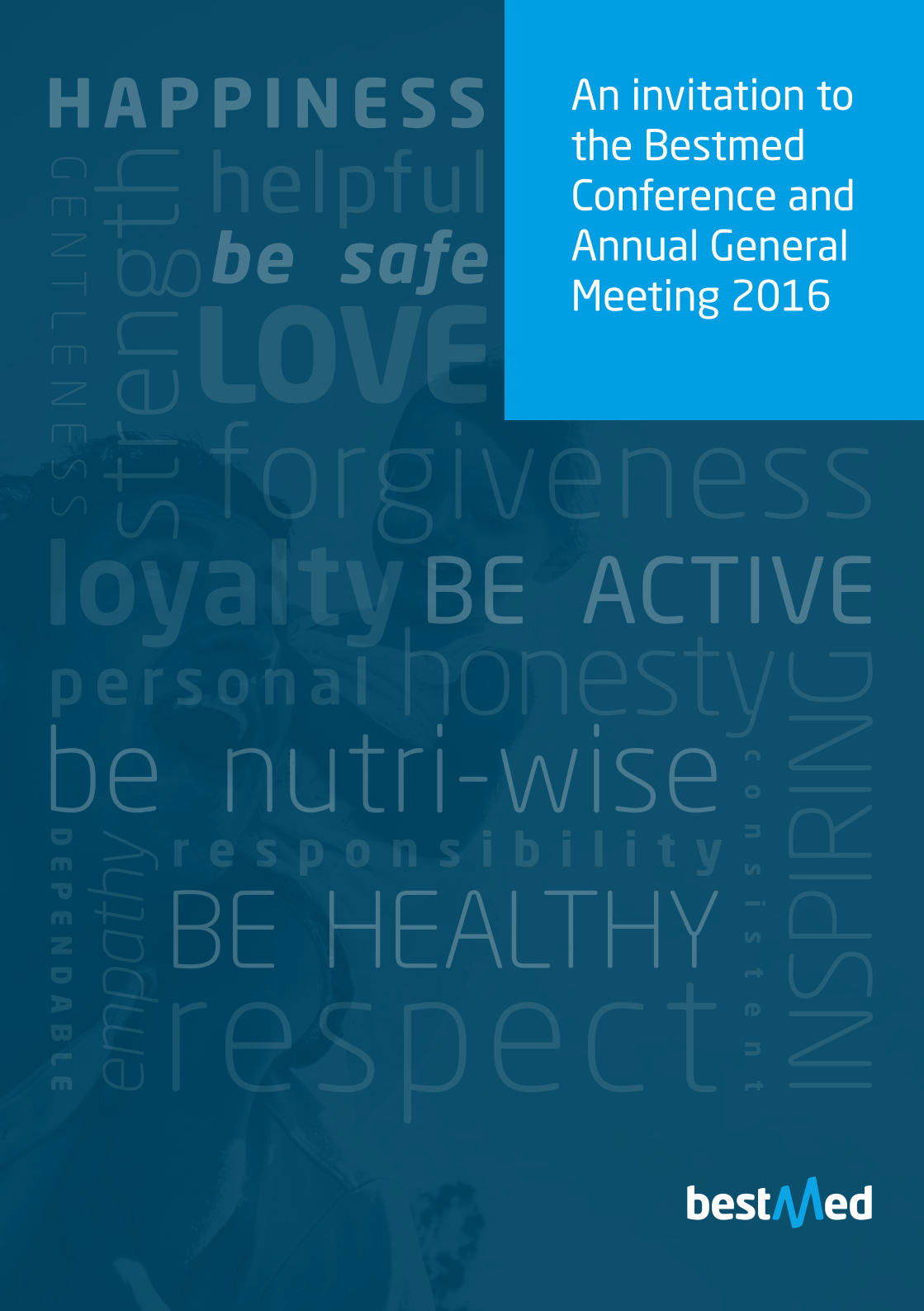
An invitation to the Bestmed Conference and Annual General Meeting 2016



bestMed

Invitation

You are cordially invited to attend Bestmed's 52nd Annual General Meeting

Date Friday 3 June 2016
Time Conference: 08:00 (Registration)
08:30 - 11:40
AGM: 12:00-13:00
Lunch is served at 13:00
Venue CSIR International Convention Centre
Meiring Naude Road, Brummeria,
Pretoria
RSVP Ilana Smith on or before 20 May 2016
e-mail bestmed-agm@bestmed.co.za

The Values 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.

Index

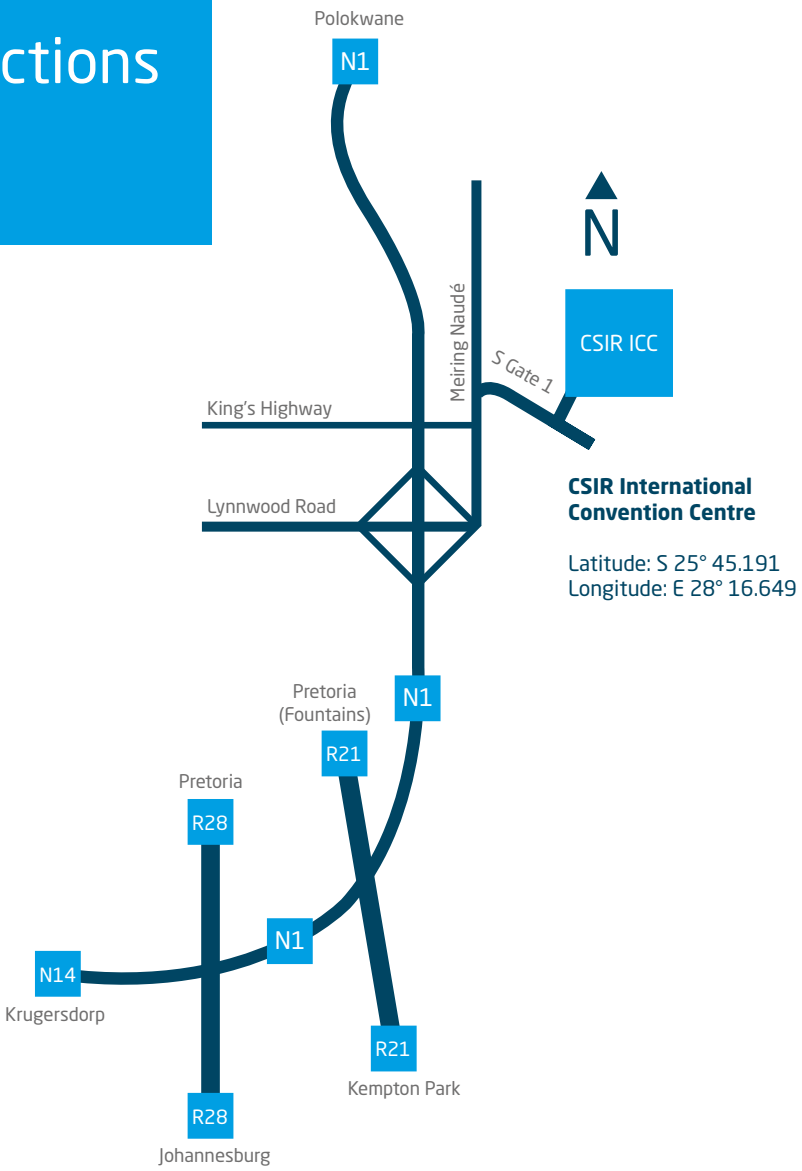

forgiving

Programme

52nd Conference & Annual General Meeting

08:00 - 08:30	Registration
08:30 - 08:45	Welcome and Conference Opening
08:45 - 09:30	Conference Speaker 1
	Dr Darren Green
09:30 - 10:15	Conference Speaker 2
	Ludwick Marishane
10:15 - 10:40	Refreshment Break
10:40 - 11:40	Overview of 2014 and 2015
11:40 - 12:00	Comfort Break
12:00 - 13:00	**Annual General Meeting**
13:00	Lunch

Directions


Polokwane
N1
N
Meiring Naudé
S Gate 1
CSIR ICC
King's Highway
Lynnwood Road
CSIR International Convention Centre
Latitude: S 25° 45.191
Longitude: E 28° 16.649
Pretoria (Fountains)
N1
R21
Pretoria
R28
N1
N14
Krugersdorp
R21
Kempton Park
R28
Johannesburg

Agenda

52nd Conference & Annual General Meeting

Notice is hereby given that the 52nd Annual General Meeting of the members of Bestmed Medical Scheme will be held at 12:00 on Friday, 3 June 2016 at the CSIR international Convention Centre, Meiring Naude Road, Brummeria, Pretoria.

- Opening by Chairperson
- Finalisation of Agenda
- Report of the Chairperson
- Minutes of the previous Annual General Meeting held on 26 June 2015
- Matters arising from previous Annual General Meeting
- Financial Statements and Auditor's Report
- Appointment of Auditors 2016/2017
- Motions received in terms of Rule 26.1.5
- Approval of Amended Trustee Remuneration
- Progress with the Directives issued by the CMS against the Scheme after the routine inspection during 2011
- Progress with Complaints lodged against the Scheme at the CMS
- Closure

Documents are printed in the language in which they were presented and submitted to the Registrar of Medical Schemes.

Minutes

Minutes of the 51st Annual General Meeting of representatives of employers, employees and members held at 12:22 on Friday, 26 June 2015 at the CSIR International Conference Centre, Pretoria, Gauteng.

1. Opening by Chairperson

1.1 Present

1.1.1 145 active voting members other attendees total 246

1.1.2 7 members of the Board of Trustees

1.1.3 1 special guest from the Council for Medical Schemes (CMS)

1.1.4 101 non-members and guests

Apologies

No apologies had been received.

1.2 Opening by Chairperson

Mr Fred Camphor, Chairperson of the Board of Trustees, declared the meeting properly constituted, members and employers having been given adequate notice of the meeting in terms of Rule 26.1.2 and more than 25 members being present to constitute a quorum.

He welcomed, in addition to the Scheme's members, members of the Board of Trustees, as well as management and staff of Bestmed. A warm welcome was also extended to Adv Lappies Labuschagne and Adv George Alberts, former Chairpersons of the Board of Trustees and Mrs Annelize Hartzenberg, former Board member of Bestmed. The Chairperson also welcomed an esteemed guest, Mr Steven Mmatli, General Manager: Compliance and Investigations of the Council for Medical Schemes (CMS), and expressed his appreciation towards Mr Mmatli for attending Bestmed's Annual General Meeting (AGM).

2. Finalisation of agenda

The following two items were added to the agenda:

- The passing away of Prof SA Strauss, a former Board member of Bestmed

- Bestmed's benefits for spectacles

The Chairperson confirmed that Prof Strauss, a former Board member of Bestmed for many years, had passed away approximately two months ago. He expressed his sincere condolences to the family of Prof Strauss for their loss.

After finalising the agenda, the Chairperson informed the meeting that only members had received ballot papers and were allowed to vote on matters discussed at the AGM, which would be done at a later stage. He indicated that non-members who preferred not to attend the AGM would be excused from the meeting and would be most welcome to enjoy refreshments in the foyer while this business was being finalised.

3. Report of the Chairperson

A copy of the Report of the Chairperson was included in the abridged version of the Annual Report. The following matters in the report were highlighted:

1. In response to the Competition Commission's Inquiry into Private Healthcare which had started in 2014, Bestmed had made submissions with the objective to minimise the negative impact of Prescribed Minimum Benefits (PMB) on medical schemes and to create a more even playing field between administrators and self-administered schemes. The submission also addressed the matter of tariff negotiations with the private hospital groups, which was regarded as being a flawed process contributing to the excessive annual cost increases. This was an important opportunity for stakeholders in the private healthcare industry to address critical matters and to steer the industry on a new course. The Inquiry had advised that the findings would be available at the end of 2015 or early in 2016. It was anticipated that any changes flowing from the Inquiry's recommendations would only be implemented in 2018/2019.

2. The CMS had conducted a routine inspection of the Scheme in November 2011, which had led to a set of directives issued to Bestmed and the eventual removal of 10 of the Board members in November 2014. The CMS had now addressed

a set of complaints to the Bestmed Board. The Board had appointed KPMG to conduct a forensic audit on these matters. After receiving a final report from KPMG, the report would be reviewed and any matters that may be identified would be dealt with as deemed appropriate by the Board. The Board would also communicate on the matters as appropriate at the time received.

3. In view of the CMS investigation in 2011 and the consequent differences, the term of office of a number of former Board members, including the Chairperson, had been terminated in November 2014. As a result, the Board had been reconstituted at a special election called early in February 2015. The newly constituted Board had elected Mr Fred Camphor and Prof Piet Delport as Chairperson and Vice-Chairperson respectively of the Board of Trustees at the Board meeting preceding the AGM. Since the term of office of the former Chairperson of the Board had been terminated, the newly constituted Chairperson was leading the meeting, and not the outgoing Chairperson, as was normally the procedure at the AGM.

4. Minutes of previous Annual General Meeting held on 30 May 2014

The minutes of the 50th Annual General Meeting were unanimously accepted as a fair and accurate record of the proceedings and signed by the Chairperson.
Proposed: Adv L Labuschagne: seconded: Adv G Alberts

5. Matters arising from the previous Annual General Meeting

Following a request made by Mrs Annelize Hartzenberg, membership number 0337536, at the AGM in 2014, the Principal Officer provided more detailed information on the total legal costs incurred over a period of two years in the case between Bestmed and the CMS. In 2013, when the directives had been issued by the CMS, the legal costs incurred had totalled R784,370.19, while the legal costs in 2014 had amounted to R3,798,642.18, totalling R4,583,012.37 for the two-year period. This amount constituted a total cost of R18.63 per member or R8.82 per beneficiary.

In response to an enquiry from Mr Johannes

Schutte, membership number 6140845, regarding the reasons for the legal costs incurred, the Principal Officer briefly explained that directives dealing with marketing and distribution costs, among other things, and a report had been issued by the CMS in 2011. These had been issued following a routine investigation in 2010. The Scheme's legal team had advised that a specific strategy be followed to defend the case and solve the matter. An appeal had been lodged with the CMS, since, in terms of the Medical Schemes Act, 1998, this was the first avenue that had to be followed in such circumstances. A review application had also been lodged with the Gauteng North High Court.

6. Motions received in terms of Rule 26.1.5

Three motions, seconded by two registered members, had been received in terms of Rule 26.1.5.

The Principal Officer informed the meeting that PricewaterhouseCoopers (PwC) had been tasked with the distribution, collection, safeguarding and formal counting of the ballots and he requested a delegate from PwC to explain the process to the meeting. After the explanation of the voting process by PwC, the Principal Officer proceeded with the discussion of the three motions dealing with rule amendments.

Motion 1:

The purpose of Motion 1 was to amend the current Sub-rule 26.2.2 of the Scheme Rules. Sub-rule 26.2.2 as formulated in the Scheme Rules was read aloud, as follows:

"26.2.2 **Meeting called by Members**

On receipt of a written request signed by at least 10% (ten percent) of the Members of the Scheme the Principal Officer shall call a special general meeting to be held within 30 (thirty) days after receipt of such request. Only matters specified in the request shall be discussed at such a meeting."

In terms of the current Sub-rule 26.2.2, the CEO would call a Special Annual General Meeting within 30 days of receipt of a written request signed by 10% of members, and only the matters specified in the request would be discussed at the meeting. It was regarded not feasible to have a request for a Special Annual General Meeting signed by 10% of members, as this stipulation would require 9 000 or more signatures with the Scheme's

current membership base. As a result, it was proposed to amend Sub-rule 26.2.2, stipulating that only 25 signatures of members should be required in view of the requirement that 25 members should be present at the AGM to constitute a quorum. It was proposed to amend Sub-rule 26.2.2 to read as follows:

Proposed rule

"26.2.2 **Meeting called by Members**
On receipt of a written request signed by at least 25 (twenty five) Members of the Scheme the Principal Officer shall call a special general meeting to be held within 30 (thirty) days after the receipt of such request. Only matters specified in the request shall be considered at such a meeting."

A request was made by Mrs Hartzenberg, membership number 0337536, that the proposed rule amendments be reflected on the ballot paper in future to facilitate voting. It was confirmed that from next year onwards, the current rule and the proposed rule amendment would be printed on the ballot paper. No further questions were asked and members were requested to vote on Motion 1.

Motion 2:

The purpose of Motion 2 was to amend Sub-rule 20.4, dealing with the powers of the Board, specifically the powers to appoint an administrator. Sub-rule 20.4 as formulated in the Scheme Rules was read aloud, as follows:

"20.4 To appoint a duly accredited administrator on such terms and conditions as it may determine, for the proper execution of the business of the Scheme; the terms and conditions of such appointment shall be contained in a written contract, which shall comply with the requirements of the Act;"

"20.4 To appoint a duly accredited administrator on such terms and conditions as it may determine, for the proper execution of the business of the Scheme, subject to:

20.4.1 the terms and conditions of such appointment being contained in a written contract which shall comply with the requirements of the Act; and

20.4.2 the Board having pre-arranged

for all existing members to decide by ballot whether any proposed appointment of an administrator on the proposed terms and conditions should be proceeded with or not; and

20.4.3 at least 66% (sixty six percent) of the return ballots of the Members being in favour of the proposed appointment and the proposed terms and conditions referred to in 20.4.1 and 20.4.2 above."

It was explained that in terms of the current Sub-rule 20.4, the appointment of an administrator was vested in the Board of Trustees and, as such, disregarded members the right of having any say regarding the appointment of an administrator. As a result, it was proposed to change Sub-rule 20.4 to read as follows:

Proposed rule:

"20.4 To appoint a duly accredited administrator for the proper execution of the business of the Scheme, subject to:

20.4.1 the terms and conditions of such appointment being contained in a written contract which shall comply with the requirements of the Act; and

20.4.2 the Board having pre-arranged for all existing members to decide by ballot whether any proposed appointment of an administrator on the proposed terms and conditions should be proceeded with or not; and

20.4.3 at least 66% (sixty six percent) of the return ballots of the Members being in favour of the proposed appointment and the proposed terms and conditions referred to in 20.4.1 and 20.4.2 above."

No questions were asked and members were requested to Vote on Motion 2.

Motion 3:

The purpose of Motion 3 was to expand the existing rule to ensure only persons who had been properly evaluated as fit and proper to occupy the office of a trustee would serve or would be eligible to serve on the Board of Trustees. The proposed additions to the current Sub-rule 18.1 were highlighted and read aloud, as follows:

Proposed additions to the current rules (printed in italics):

"18.1 **Constitution of the Board**

[...]

18.1.1 Member representatives

[...]

18.1.4 **Vetting of candidates**

No person shall serve on the Board unless such person has participated in a vetting process prescribed by the Scheme and has in consequence thereof been declared fit and proper to be a Trustee.

Any existing Trustee who has not complied with these requirements shall be afforded a period of 30 (thirty) days from the date upon which this rule comes into effect to subject himself or herself to the vetting process, and in the event of failing or neglecting to do so the term of office of such Trustee shall automatically be deemed to have terminated on the last day of the aforesaid period."

18.2 **Eligibility of candidates for election**

[...]

18.2.1 **The following persons are not eligible to serve as members of the Board**

[...]

"18.2.1.6 **A person who fails to satisfy the requirements of Rule 18.1.4"**

18.6 **Filling of vacancies of the Board**

[...]

"18.6.5 *All Trustees, whether elected or appointed in terms of this Rule 18.6, shall be required to participate in a vetting process prescribed by the Scheme and shall not serve, or be eligible to serve, on the Board unless they have, in consequence of such vetting process, been declared fit and proper to be Trustees of the Scheme."*

18.7 **Disqualification and resignation from the Board**

[...]

18.7.2 A member of the Board ceases to hold office if:

[...]

"18.7.2.10 *he has failed and/or refused and or neglected to participate in a vetting process prescribed by the Scheme or he is found to be not fit and proper to occupy the office of Trustee of Bestmed in consequence of such a vetting process."*

19. **Duties of the Board of Trustees**

[...]

"19.21 *The Board shall determine through a proper evaluation and vetting process that all Trustees who serve on the Board have passed the vetting process prescribed by the Scheme."*

The stipulations of the Medical Schemes Act, 1998 and the Scheme Rules required all Trustees to be fit and proper persons to occupy office. The proposed amendments were aimed at providing a mechanism to ensure compliance with this legal requirement.

In response to an enquiry from Mr AS Talma, membership number 0349110, regarding a definition of the terms "fit and proper", it was explained that "fit" referred to the fact that Board members were required not to have any criminal record, while "proper" referred to the requirement that Board members should have the necessary skills and knowledge to serve on the Board. The Chairperson requested Prof Piet Delport, a lecturer in company law at the University of Pretoria and Vice-Chairperson of the Board of Trustees to clarify the meaning of the terms "fit and proper". He indicated that the CMS had issued a consultation paper reflecting its views on the meaning of the terms "fit and proper". He explained that in addition to the required skills and knowledge, these terms referred to whether a Board member was eligible to serve in the position of trust for which they had made themselves available.

Mr Leaga Lesufi, membership number 1937634, enquired at what point it would be determined whether the person was fit and proper to serve on the Board of Trustees. The Chairperson explained that this would be determined after nomination as a Board member and prior to election or appointment to the Board of Trustees.
In response to an enquiry made by Mr André Boshoff, membership number 11217834, the Chairperson explained that the vetting process would be formally documented after the AGM should the majority of

members vote in favour of the proposed rule amendment.

Mr Percy Malatsi, membership number 15681756, asked whether Bestmed could issue a list of vetting criteria so that members would know beforehand what calibre of person was needed to serve on the Board of Trustees. The Chairperson thanked him for the constructive question asked and replied that the suggestion would be taken into consideration in future. It would be helpful to members to know what requirements should be met by Board members, when called for a nomination. No further questions were asked and members were requested to vote on Motion 3.

7. Approval of the Trustee Remuneration Policy

The CMS required that the Trustee Remuneration Policy be approved by medical scheme members at an AGM.

Bestmed's Trustee Remuneration Policy had been provided to all members prior to the AGM. The Principal Officer explained the guidelines for determining trustee remuneration as follows, based on the results of a survey conducted by the CMS:

1. The role of the trustees should be clearly defined. Trustees' role could be described as that of strategic oversight, dealing with long-term sustainability issues of the Scheme.

2. A clear policy, known as the Trustee Remuneration Policy (TRP) should be drafted and served before the Remuneration Committee of the Scheme and the Scheme itself prior to approval by the members at the AGM.

3. In the opinion of the CMS, it was not appropriate to use the remuneration of Board members of JSE-listed companies as reference point for determining trustee remuneration in the case of medical schemes, since medical schemes were not-for-profit organisations. In this regard, specialist advice had been obtained on calculating trustee remuneration for medical schemes.

4. Fees payable to trustees should be approved in advance. Should members approve the TRP, it would be valid until amendments would be approved by the AGM.

5. Trustee remuneration would be revised annually based on advice from trustee remuneration specialists.

The Principal Officer also referred the meeting to a journal, titled *A fine balance*, dealing specifically with trustee remuneration, which had been published by PwC based on the results of a survey:

1. In the complex environment of the medical schemes industry, the existence of risk should not be underestimated. As a result, the remuneration payable to trustees should take into account the level of risk assumed by the trustees in fulfilling their duties.

2. A fixed fee per meeting was the most common form of trustee remuneration.

3. A blanket approach towards trustee remuneration would not be appropriate for the medical schemes industry, while guidelines by the legislator would be welcome, the difference between open and restricted schemes, diversity, operating models and risk should also be considered by each Scheme before determining trustee remuneration.

The Principal Officer briefly explained the principles of Bestmed's TRP as follows:

1. The remuneration should be fair towards Board members and the members of the Scheme.

2. Board members were remunerated for their time and fiduciary duty and the risks taken on by the Board of Trustees.

3. Trustee remuneration would be revised annually based on advice from trustee remuneration specialists.

4. A fixed fee was payable for attending a Board meeting or strategic session, and this was increased annually by the same percentage as staff remuneration. A remuneration consultancy would be commissioned every three or four years, at considerable cost, to assess this fee against the market.

5. Time spent travelling to meetings was compensated.

6. The fee for meetings of under two hours was adjusted downwards.

7. In addition to the remuneration paid to Trustees, the Chairperson and Vice-Chairperson of the Board would receive a retainer fee of R3 500.00 and R2 500.00 respectively, since they were required to meet with the Principal Officer and Executive Committee on short notice to discuss urgent matters affecting the Scheme.

The Principal Officer also pointed out that the remuneration earned by Bestmed's Board of Trustees was the lowest of the 10 open medical schemes in the industry according to the CMS annual report. After explaining the principles of the TRP and the calculation of trustee remuneration for not-for-profit organisations, members were requested to vote on the Policy.

In response to an enquiry made by Mr Walter Mokotedi Maaba, membership number 10303303, on the average amount of Trustee remuneration paid and whether the Scheme would be able to afford this expense, the Chairperson explained that the actual payments made in any particular year were disclosed in the Scheme's annual financial statements. This expense was included in the normal operational costs budgeted for every year.

Mr André Boshoff, membership number 11217834, enquired about the process that would be followed should the Policy not be approved at the AGM. The Principal Officer explained that should the Policy not be approved at the AGM, members would be required to vote on the Policy again at a later stage.

Mr Percy Malatsi, membership number 15681756, raised the concern that, according to his knowledge, the Registrar of Medical Schemes was not satisfied with a number of amendments made after approval of this motion at the AGM in 2014, and he requested the Chairperson to provide clarification on the matter. The Chairperson corrected Mr Malatsi, explaining that the discussion was dealing with the Trustee Remuneration Policy and not a motion, and added that the principles of the TRP had been presented to and approved at the AGM in 2014. Subsequent to that, the CMS had

issued a requirement that the Remuneration Policy should be approved by members at an AGM. For this reason, the approval of the TRP, including the figures presented to the members, was tabled at the AGM. No further questions were asked and members were requested to vote on the TRP.

8. Financial statements and auditor's report

Members' attention was drawn to the full set of financial statements provided in the Annual Report and the accompanying comprehensive notes.

Auditor's report

The auditors advised that, in their opinion, the annual financial statements presented fairly, in all material respects, the financial position of Bestmed Medical Scheme as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Medical Schemes Act, 1998, as amended, section 33(2).

Synopsis: 2014 financial statements at a glance

In absolute terms, the Scheme had recorded 16.7% more income and had paid 17.5% more benefits in 2014 than in 2013, with a total cost increase of 9%. Expressed on a per member basis, average membership had increased by 9.75%, and risk contributions had increased on average by 6.3%. Benefits paid per member had increased by 7.1%, but the Scheme had achieved a cost reduction per member of 0.87%.

Highlights from the statement of comprehensive income

The Comprehensive Income Statement reflected a total gross contribution income of R3,9 billion for 2014. Although a net healthcare deficit of R27 million had been recorded for the year as a result of the higher expenditure on benefits, other sources had provided sufficient income to produce a net surplus of R85 million for the year. The real net surplus after adding other income (i.e. profits that had not yet been realised) was 66.8 million. "Other income" referred to largely investment income of R115 million, the sundry income of R8 million included unclaimed cheques to the value of R4.5 million.

The external investment funds were managed by asset managers at a fixed tariff determined by the Board's Investment Committee, based on advice received from

Towers Watson, an independent consultancy firm. In 2014, this tariff had amounted to R7 million.

"Other expenses" referred to the cost of running the medical facilities taken over from Minemed Medical Scheme following their amalgamation with Bestmed. This cost was offset by the fact that benefits could be provided more cost-effectively by those facilities to all members of the Scheme who chose to use them.

In contrast with companies that paid its shareholders dividends, Bestmed, as a mutual, not-for-profit organisation, returned most of its income to members in the form of benefits. Costs were, of course, involved, but it was pointed out that since returning to self-administration in 2012, significant cost reductions had been made.

Highlights from the statement of financial position

Available-for-sale investments had increased from R1.1 billion in 2013 to R1.2 billion in 2014, while total assets had increased from R1.7 billion in 2013 to R1.9 billion in 2014.

Loans and receivables referred to loans granted to employees in the past. This practice had, however, been discontinued. The statement of financial position reflected intangible assets to the value of R9 million as a result of the development of a new IT platform. With regard to long-term liabilities, the retirement fund obligations in respect of former employees were declining. The Scheme paid on average R11 million to R12 million towards benefits per day.

The Scheme's liabilities consist of R505 million of assets held in trust from members' savings accounts.

Solvency

The solvency ratio at 31 December 2014 was 26.97%, compared to the statutory requirement of 25%. This was a clear message that the Scheme was financially strong and well able to pay its dues on behalf of its members.

Investments

The Scheme's net worth now stood at R1.1 billion. Its investment strategy had been put in place 108 months ago and had yielded on average 4% above inflation over that period. The Executive Manager: Finance expressed his appreciation for the

dedication and hard work of his staff in preparing the documentation relating to the AGM. He thanked the auditors for their professional work, and the Chairperson of the Audit Committee and his team for their expert guidance.

Approval and adoption of the financial statements

In response to a question on why difficulties had been experienced with the issuing of tax certificates despite money invested in the development of an IT system, the CEO explained that the Board of Trustees would be approached on acquiring a new IT system to ensure effective administration of the business.

No further questions were raised and the annual financial statements presented to the meeting were unanimously adopted and approved.

Proposed: Name and membership number of the proposer not audible on recording
Seconded: Mr Johannes Schutte (membership number 6140845)

After approval of the annual financial statements, the discussion turned to the results of the voting on the proposed Rule amendments.

All of the matters listed in the agenda and set out in the notice regarding voting at the 2015 AGM were voted on by a poll and were duly passed. Details of the votes cast are as follows:

Motion 1: To amend the current Sub-rule 26.2.2 of the Scheme Rules
Votes in favour: 101
Votes against: 28
Abstain: 3
Spoilt ballot papers: 3
Total votes cast: 135
Motion 1 was approved with a majority vote.

Motion 2: To amend Sub-rule 20.4, dealing with the powers of the Board, specifically the powers to appoint an administrator
Votes in favour: 116
Votes against: 15
Abstain: 2
Spoilt ballot papers: 0
Total votes cast: 133
Motion 2 was approved with a majority vote.

Motion 3: To expand the existing rule to ensure only persons who had been properly evaluated as fit and proper to occupy the office of a trustee would serve or would be eligible to serve on the Board of Trustees

Votes in favour: 129

Votes against: 2

Abstain: 3

Spoilt ballot papers: 0

Total votes cast: 134

Motion 3 was approved with a majority vote.

Board of Trustees Remuneration Policy

Votes in favour: 118

Votes against: 13

Abstain: 2

Spoilt ballot papers: 0

Total votes cast: 133

The Board of Trustees Remuneration Policy was approved with a majority vote.

The Chairperson thanked PwC for managing the voting process.

9. Appointment of auditors for financial year ending 31 December 2014

The meeting was advised that the Board of Trustees and the Audit Committee had recommended that PwC be reappointed as

In response to a question asked by Mrs Hartzenberg, membership number 0337536, on the number of years PwC had been serving as the Scheme's auditors and how many times they had changed partners, the Chairperson responded that PwC had been serving as the auditors of the Scheme for at least the past 15 years. They had changed partners responsible for the Bestmed audit twice.

A motion was proposed that PwC be appointed as the Scheme's auditors for the financial year ending 31 December 2016. No objections were raised and the motion was unanimously accepted.

Proposed: Mrs Tersia Venter, membership number 0328944; Seconded: Mrs Hartzenberg, membership number 0337536

PwC was unanimously appointed as the Scheme's auditors for 2015-2016.

10. Proposed amendments to the Rules of Bestmed

Benefits for optometry

The Scheme's Trustees were requested to review the benefits for optometry. This was an important benefit for, in particular, elderly members of the Scheme.

The Principal Officer undertook to give attention to the optic benefits during the annual review of benefits that was due to commence soon.

Scheme's membership base

It was pointed out that the Scheme's membership consisted of different stakeholders, including pensioner members, active employees of participating employers, and individual members. During the previous session with the CMS, it was indicated that this should be revised. Bestmed had undertaken to discuss this specific stipulation with the CMS in order to clarify the rules in terms of standard practice in the industry in future.

Rule amendments for 2015

The rule amendments for 2015 were more of an operational nature, and involved the annual inflationary increases. The rule amendments were done prior to the end of the year for implementation from the beginning of the next financial year which correlated with the calendar year. As a result, the rule amendments had already come into force on 1 January 2015.

11. Other Bestmed matters dealt with at an Annual General Meeting

11.1 Announcement of Board members

The newly constituted Board of Trustees was introduced to members. The Board comprised 12 members, six of whom were elected by members and six trustees appointed by the elected members.

Elected member representatives

Mr Fred Camphor
Prof Piet Delport
Dr Joan Moncrieff
Mr Willem Myburgh
Mr Etienne Steenkamp
Rev Hannes Windell

Trustees appointed by the elected members

Mr Leo Dlamini
Mr Steyn du Plessis
Mr Peter Kennedy
Mr Colin Mowatt
Dr Leonard Petersen
Ms Suzanne Stevens

11.2 Marketing expenditure

In view of a routine investigation conducted in 2011, the CMS had issued certain directives pertaining to marketing expenses in 2013 in terms of the Medical Schemes Act, 1998. During discussions with the CMS in March or April 2015, the Board

had undertaken to disclose the marketing expenditure incurred in 2011. The Scheme had appealed against the rulings and the directives in terms of the Act, and had lodged a review application in the Gauteng North High Court in terms of the Financial Institutions (Protection of Funds) Act, 2013 (Act No 45 of 2013). Both the appeal and the review application had not yet been heard.

The specific directives addressing marketing expenses were as follows:

1. Directive 3.4, requiring Bestmed to develop a clear policy on marketing expenditure and to delegate authority specified in budget terms for marketing. Bestmed should review, where needed, and implement proper control systems on permitted use of medical scheme funds. The actions taken by Bestmed to prepare a Marketing Expenditure Policy that had been presented at the 2014 AGM, and the policy principles as tabled at the AGM in 2014, had been approved at the AGM, as recorded in the minutes of the previous year's AGM. A copy of the Policy had been submitted to the CMS for comments. Bestmed had also revised and approved the Delegation of Authority, reflecting specific limits of authority delegated to different levels of management by the Board. As a result, Bestmed had informed the CMS of its compliance with this specific directive.

2. Directive 4.4, requiring Bestmed to amend the audited financial statements for the period ending 31 December 2012, by adding a note disclosing Bestmed's contribution to the Botswana tour and the Neil Diamond concert, and specifically the expenditure incurred in favour of the Trustees. On advice of audit and legal teams, no amendments were required to the financial statements as they clearly represented the financial position in all material respects. Since the expenses had indeed been indicated in the financial statements, there was no need to review and change the statements. This information had once again been disclosed to members at the 2014 AGM and the CMS had been informed accordingly.

3. Directive 4.5, where Bestmed had resolved to sponsor only one golf day per year to which all stakeholders would be invited. The CMS had been informed accordingly.

4. Directive 4.8, requiring Bestmed to initiate and carry out all recoveries in respect of funds paid for or on behalf of all persons who had attended the Botswana tour, the Neil Diamond concert and the hunting trip. Bestmed had initially lodged an appeal and a review application against this directive, but subsequently had recovered a portion of the cost as explained below:
   - The total expenditure for the Botswana tour, all costs incurred, had amounted to R366 554.92. After reimbursement of a portion of the expenses, the net cost for Bestmed resulting from the Botswana tour amounted to R93 026.16, excluding the interest paid.
   - With regard to the expenses incurred in respect of the Neil Diamond concert and hunting trip, Management had offered to pay the cost with interest. An amount of R137 817.90, including interest, had been recovered in respect of the Neil Diamond concert, while R37 745.47 including interest, had been recovered for the hunting trip. This income was reflected as part of other income in the financial statements approved by members at the AGM.

The Chairperson informed the meeting that the CMS had instructed Bestmed to present all the directives associated with marketing expenses incurred in 2011 as well as all relevant information to members at the AGM. In response to an enquiry made by an eligible member whether a statement with this information would be issued to the press, it was indicated that more than one press statement had already been issued.

Following a request made by a member to ensure the Scheme's funds are spent in a sensible

manner, the Chairperson expressed the intention of the Board of Trustees to comply with the stipulations of the Marketing Expenditure Policy approved at the AGM in 2014.

In addition, the Chairperson indicated that he had received a letter from Mr Mmatli from the CMS, confirming that Bestmed had complied with all the directives.
In response to a question asked by the Chairperson, Mr Mmatli verbally confirmed that he was satisfied that Bestmed had met all the requirements after presenting the information on the marketing expenses incurred at the AGM. The Chairperson thanked the members for their support.

Closure

The Chairperson thanked those present for their keen interest in Bestmed and wished them well for the coming year.
The proceedings concluded at 14:32.
Signed in Pretoria on this _____day of _____ 2016.

_____

RF Camphor (Mr)
Chairperson
Bestmed Board of Trustees

Chairperson's Report

The International and South African Economy

On the economic front, 2015 was a difficult year both locally and globally. The local economy grew by only 1.3%, which is grossly insufficient to fund the growing needs of the country, and well below the growth target of 2.5% set by our National Treasury in order to finance all the priorities identified for South Africa. Low global growth and the ravages of the drought we suffered in 2015 both contributed to this poor performance. Unfortunately, the grim fact of not achieving this target, created a larger than anticipated budget deficit that further increased the already heavy burden of our national debt. As a result, instead of setting our sights on renewed growth this year, our government will have to concentrate on managing expenditure more prudently to ensure that it does not outstrip revenue in order to prevent an even bigger increase in the national debt in 2016. Violent protests at academic institutions and the replacement of the minister of finance towards the end of the year intensified the pervasive uncertainty in the national economy. The markets reacted strongly and the value of our currency plummeted against all other major currencies. Given that we import most of our technological and other capital equipment, the constraints arising from the additional expenditure we will have to incur because of the weak currency will endure for a considerable period of time.

These uncertainties certainly had a huge impact on the country's healthcare environment and on the medical scheme industry. In addition to a much bigger general demand for services by our members, we again witnessed an escalation in the cost of services rendered in respect of Prescribed Minimum Benefits, particularly in respect of those providers who charge in excess of Scheme tariffs for these services. It could be expected that the weakening of the

currency will also have an impact on the cost of hospitalisation as well as prescribed medicines over the longer term.

Governance

In order to comply with the stipulations of the Medical Schemes Act, No 131 of 1998, the Trustees who were appointed to fill the vacancies in November 2014, decided that it would be in the best interest of members to call an election for three additional Trustees to the Board, rather than continue with the members appointed in November 2014. Together with the three existing elected Trustees who remained on the Board in November 2014, this would ensure that six Trustees were elected by members as required by the rules of the scheme. The Rules of the Scheme addressing election of Trustees had to be amended to provide for this special election outside of the normal election cycle and thereafter appointment of six more Trustees, to bring the Board's composition to a total of twelve Trustees, 50% of whom were elected and 50% appointed as the rules of the scheme require.

The Trustee election process was finalised in May 2015 under the supervision of PricewaterhouseCoopers, which acted as an independent electoral body. The six elected Trustees then convened and agreed on a defined process to appoint the remaining six Trustees to the Board. Special attention was given to appointing persons with expertise in those areas where there were specific skills required. The newly constituted Board of Trustees, comprising the members listed below, was announced at the Annual General Meeting (AGM) held on Friday 26 June 2015:

Elected members of the Board

Mr RF Camphor (Chairperson)
Prof PA Delport (Vice-Chairperson)
Dr J Moncrieff
Mr WJ Myburgh
Mr E Steenkamp
Rev JH Windell

Appointed members of the Board

Mr L Dlamini
Mr GS du Plessis
Mr C Mowatt
Mr P Kennedy
Dr L Peterson
Mrs S Stevens

Soon after the reconstitution of the Board, all these Trustees participated in an induction course which provided material information on the healthcare industry, Bestmed as a scheme, as well as its organisation and operations. In addition, a strategic planning session was held

with the Scheme's Executive Management prior to drafting the business plans for 2016.
For strategic and practical reasons, the Board of Trustees decided to use the following subcommittees to assist the Trustees in fulfilling their responsibilities.

- Audit Committee (a statutory committee prescribed by the Medical Schemes Act and regulations)
- Investment Committee
- Risk Management Committee
- Remuneration Committee

All of the Committees identified above operate within a written mandate given by the Board that determines the membership, responsibilities, duties and authority.

The Board also decided that it may be necessary from time to time to establish non-standing committees to undertake a specific task. The Information Technology (IT) Subcommittee that was established close to the end of 2015 illustrates the need for such committees. This IT Subcommittee will have specific terms of reference and will guide the Board of Trustees during the period of strategic decision making on the migration of the Scheme's IT platforms going forward.

To our regret, Dr Peterson resigned from the Board at the end of 2015 due to ill health. The Board of Trustees will take a close look at its size and composition during the 2016 strategic planning session before considering the appointment of any additional Trustees.

The Board took the decision to assess progress made in the first six months of its term of office. The assessment of its performance was done towards the end of 2015. The results of this assessment will serve as a starting point to improve the functioning of the Board of Trustees in fulfilling the required role.

The White Paper on National Health Insurance

The Department of Health has finally released its White Paper on the envisaged National Health Insurance (NHI) plan for South Africa. The first impressions are that the Paper lacks the vital detailed information that would be expected on the proposed benefit package and on how government intends to finance the NHI. Without this information, it is extremely difficult to evaluate the proposed NHI or its sustainability. The Board of Trustees will instruct management to prepare a response to the information provided in the White Paper and will monitor any progress with keen interest.

The Competition Commission Inquiry into the Cost of Private Healthcare

Bestmed was invited, as a medical scheme, to participate in this public debate in 2015. The Inquiry's public hearings will now commence in 2016, and its first task is to identify the drivers of cost in private healthcare. For the average member it is of the utmost importance that, once this has been done, the Inquiry should also recommend remedial actions in this regard.

One of Bestmed's primary tasks is to offer affordable private healthcare to our members and we will do everything in our power to convey information to the Inquiry that may assist it in its quest to understand why the market in this industry is not functioning effectively and how it could possibly be remedied.

Council for Medical Schemes

The newly constituted Board of Trustees considered the outstanding matters flowing from the directives issued against the Scheme by the Council for Medical Schemes (CMS) as one of its priority tasks. The CMS instructed that the marketing expenses incurred much earlier on two different events should be reported to the AGM.

As Chairperson of the Board of Trustees at the 2015 AGM, I personally made a presentation on this matter at the AGM held on 26 June 2015. The AGM was attended by the General Manager: Compliance of the CMS. On completing the presentation I deliberately asked him whether he was satisfied that Bestmed had complied with all the directives issued against it by the CMS on 13 July 2013 in this regard, and he replied in the affirmative. Notwithstanding this public acknowledgement, the CMS, by the end of the financial year 2015, has yet to assure the Board formally that the Council's directives have been dealt with as instructed and that these matters may now be regarded as closed. This written confirmation was however received later on in 2016 just prior to this report being drafted.

Allegations of Contraventions of the Medical Schemes Act and Regulations

The Board was advised by the CMS in 2015 that a person had contacted the CMS and alleged that the Scheme had contravened certain provisions of the Medical Schemes Act. The Board of Trustees viewed these allegations as a serious matter and appointed KPMG to conduct a forensic audit in regard to the alleged contraventions. Management was instructed to provide whatever support KPMG required to undertake the investigation. The report was finalised by KPMG by the end of

the 2015 financial year and was forwarded to the CMS in 2016. The majority of the alleged contraventions were found not to be substantiated by KPMG. In a few instances specific problems were identified and a number of housekeeping matters were also found to be in need of review and adjustment.
On receipt of the report the Board of Trustees instructed its Audit Committee to review the findings and make recommendations to rectify any possible contraventions to ensure that the Scheme's activities are all fully compliant with the stipulations of the Medical Schemes Act.

Those findings flowing from the KPMG forensic audit that indicated possible contraventions, as well as the action taken are disclosed in full in the Board of Trustees Report. The reason is that the notes to the Annual Financial Statements only contains the wording of the Act and the actual finding, while the Report of the Board of Trustees is more detailed. Most of the matters have been finalised. In a few instances there may still be further action required.

The Board of Trustees' Continued Commitment to Bestmed's Members

It is once again my privilege to assure Bestmed's members that our first priority will always be to find the very best solutions to funding their healthcare needs. In attending to the governance matters that have taken centre stage in our report-backs to members over the past three years the Board of Trustees has steadfastly protected and strengthened the Scheme to ensure that this primary aim, of delivering excellent benefits and remarkable service to members, may proceed without interruption.

Conclusion

I would like to thank my colleagues, the members of the Board of Trustees, for their support and dedication to Bestmed and its members, their vigorous engagement with those grave issues they were confronted with during a difficult year, as well as for the energy and commitment with which they have taken up their tasks. Without your dedication and support this would have been much more difficult to bring Bestmed to where we are now.

To the CEO and his management team, and to every single employee of Bestmed, I wish to express my appreciation for their relentless, untiring pursuit of excellence in the service of our members. You do Bestmed proud and I wish to recognise that in public. Thank you for the work you do. I am confident that it is appreciated by the members as well as the Board of Trustees.

Highlights of the 2015 Annual Financial Statements

The financial information in the Highlights document has been extracted from and is in agreement with the audited Annual Financial Statements. The full set of Annual Financial Statements will be available on the Bestmed website no later than 3 June 2016.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2015

	2015 R	2014 R
ASSETS		
Non-current assets	**1 012 055 100**	**1 047 206 185**
Property and equipment	19 829 900	17 950 367
Investment property	1 500 000	1 500 000
Intangible assets	-	8 879 323
Available-for-sale investments	990 725 200	1 018 854 938
Loans and receivables	-	21 557
Current assets	**895 758 555**	**844 360 134**
Available-for-sale investments	626 144 474	561 297 835
Scheme	275 862 767	233 999 802
Personal medical savings account trust monies invested	350 281 707	327 298 033
Loans and receivables	21 558	97 815
Trade and other receivables	70 345 157	61 543 942
Assets held for sale	3 200 000	3 700 000
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
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	13 264 418	13 733 176
Finance lease liability	-	25 198
Current liabilities	**743 918 086**	**741 913 588**
Personal medical savings account trust liability	538 756 605	505 350 174
Outstanding claims provision	89 116 318	93 152 215
Trade and other payables	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

	2015	2014 Reclassified
	R	R
Risk contribution income	**3 552 873 295**	**3 252 291 798**
Relevant healthcare expenditure	**(3 242 230 477)**	**(2 957 675 327)**
Net claims incurred	(3 258 289 295)	(2 963 301 933)
Risk claims incurred	(3 175 860 316)	(2 886 722 081)
Third party claims recoveries	4 690 573	6 030 517
Accredited managed healthcare services	(87 119 552)	(82 610 369)
Net income/(expense) on risk transfer arrangements	16 058 818	5 626 606
Risk transfer arrangement premiums paid	(113 525 748)	(117 381 549)
Recoveries from risk transfer arrangements	129 584 566	123 008 155
Gross healthcare result	**310 642 818**	**294 616 471**
Broker service fees and other distribution fees	(70 010 411)	(62 249 860)
Administration and other operative expenses	(276 554 432)	(255 123 215)
Net impairment losses on healthcare receivables	(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	87 934 702	115 169 496
Personal medical savings account trust monies invested	26 445 389	23 178 461
Other operating income	3 077 849	8 329 014
Other expenditure	(39 164 215)	(34 352 823)
Interest paid on personal medical savings trust accounts	(26 445 389)	(23 178 461)
Interest paid	(42 790)	(180 061)
Asset management fees	(7 083 070)	(6 999 451)
Own facility net expenditure	(5 567 193)	(3 946 590)
Other losses	(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	(17 707 671)	(55 475 030)
Impairment recognised against revaluation reserve	(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

	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	-	(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	-	-	(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	-	(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	-	-	(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**

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
Unrealised loss on revaluation of investment property in the statement of comprehensive income.	-	-
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%**

OPERATIONAL STATISTICS PER BENEFIT OPTION

2015	Beat1	Beat2	Beat3
Members at 31 December	5 572	22 252	7 165
Average number of members for the accounting period	5 157	20 961	7 156
Dependants at 31 December	5 773	23 472	7 546
Average number of dependants for the accounting period	5 349	22 183	7 477
Average beneficiaries for the accounting period	10 506	43 144	14 633
Ratio of average dependants at 31 December	1,04	1,06	1,04
Average age of beneficiaries for the accounting period	34,57	29,35	37,81
Ratio of beneficiaries older than 65 years	6,31%	3,22%	13,15%
Risk contribution per average member per month	1 750	1 673	2 541
Risk contribution per average beneficiary per month	859	813	1 243
Healthcare expenditure per average member per month	1 374	1 399	2 122
Healthcare expenditure per average beneficiary per month	674	680	1 038
Relevant healthcare expenditure as a percentage of risk contributions	78,5%	83,7%	83,5%
Non-healthcare expenditure per average member per month	304	310	317
Non-healthcare expenditure per average beneficiary per month	149	151	155
Non-healthcare expenditure as a percentage of risk contributions	17,37%	18,53%	12,49%

2014	Beat1	Beat2	Beat3
Members at 31 December	4 854	19 038	7 134
Average number of members for the accounting period	4 560	17 732	7 128
Dependants at 31 December	4 912	20 051	7 539
Average number of dependants for the accounting period	4 576	18 639	7 408
Average beneficiaries for the accounting period	9 136	36 372	14 535
Ratio of average dependants at 31 December	1,00	1,05	1,04
Average age of beneficiaries for the accounting period	35,03	29,50	35,89
Ratio of beneficiaries older than 65 years	6,97%	2,85%	10,62%
Risk contribution per average member per month	1 582	1 512	2 313
Risk contribution per average beneficiary per month	790	737	1 134
Healthcare expenditure per average member per month	1 083	1 327	1 881
Healthcare expenditure per average beneficiary per month	540	647	922
Relevant healthcare expenditure as a percentage of risk contributions	68,5%	87,8%	81,3%
Non-healthcare expenditure per average member per month	294	298	305
Non-healthcare expenditure per average beneficiary per month	147	145	149
Non-healthcare expenditure as a percentage of risk contributions	18,58%	19,71%	13,17%

Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
5 578	27 385	10 876	6 552	3 614	4 263	1 009	94 266
5 700	27 324	11 009	6 589	3 686	4 439	1 045	93 066
6 344	38 922	9 805	6 997	2 457	3 019	304	104 639
6 484	38 697	10 007	7 137	2 565	3 181	320	103 400
12 183	66 022	21 015	13 726	6 251	7 620	1 366	196 466
1,14	1,42	0,91	1,08	0,70	0,72	0,31	1,11
42,25	33,68	49,64	48,62	57,00	39,05	73,47	37,57
15,09%	6,71%	29,25%	27,45%	39,07%	14,79%	81,93%	12,46%
3 765	3 157	4 698	5 170	7 162	2 054	4 566	3 181
1 762	1 307	2 461	2 482	4 223	1 197	3 493	1 507
4 001	2 700	4 493	4 991	7 008	1 772	5 698	2 903
1 872	1 118	2 354	2 396	4 132	1 032	4 359	1 375
106,3%	85,5%	95,6%	96,5%	97,8%	86,3%	124,8%	91,3%
288	330	305	323	298	300	264	314
135	137	160	155	176	175	202	149
7,64%	10,46%	6,50%	6,25%	4,17%	14,62%	5,79%	9,86%

Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
5 272	26 222	11 327	6 739	4 036	5 138	1 182	90 942
5 339	26 490	11 440	6 797	4 108	5 466	1 209	90 269
6 117	37 004	10 553	7 500	2 974	3 893	417	100 960
6 218	37 053	10 749	7 631	3 071	4 217	437	99 999
11 557	63 543	22 189	14 428	7 178	9 682	1 646	190 266
1,16	1,40	0,94	1,12	0,75	0,77	0,36	1,11
41,56	34,02	49,13	47,61	55,55	37,82	72,03	37,75
14,09%	6,78%	28,35%	25,63%	36,02%	13,00%	79,11%	12,54%
3 408	2 930	4 342	4 756	6 585	1 915	4 304	3 002
1 574	1 221	2 239	2 240	3 769	1 081	3 161	1 424
3 560	2 619	4 127	4 270	6 189	1 503	5 243	2 730
1 645	1 092	2 128	2 011	3 542	848	3 851	1 295
104,5%	89,4%	95,1%	89,8%	94,0%	78,5%	121,8%	90,9%
261	320	278	287	276	285	244	297
121	133	143	135	158	161	179	141
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%

INVESTMENTS OF THE SCHEME

	Fair value as at 31 December 2015 R	Average return for the 3 years ended 31 December 2015
The Scheme investments included above represent investments in:		
Segregated portfolio	670 960 388	12.9%
- Equity	204 322 860	
- Money Market funds	179 119 409	
- Bonds	185 524 412	
- SA Listed Properties	63 991 881	
- Commodities - Gold and Platinum	5 408 169	
- International Fixed Interest Instruments	32 593 658	
Linked Insurance Fund policies	319 764 812	9%
- Equity	82 179 557	
- Money Market funds	179 388 060	
- Bonds	28 778 833	
- SA Listed Properties	11 191 768	
- Commodities - Gold and Platinum	18 226 594	
Money Market funds	275 862 767	6.3%
	1 266 587 967	9.4%

	Fair value as at 31 December 2015 R	Average return for the 3 years since inception, ended 31 December 2015
Members' personal medical savings account trust monies invested		
Segregated portfolio	139 632 399	
- Money Market funds	139 632 399	
Money Market funds	210 649 308	
	350 281 707	6.73%

PERSONAL MEDICAL SAVINGS ACCOUNT

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 enrols in another benefit option or medical scheme without a personal medical savings account or does not enrol 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.

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

	Fair value as at 31 December 2015 R
Cash and Cash Equivalents	
Current accounts	176 597 212
Available-for-sale Investments	
Money Market funds	350 281 707
	526 878 919

NON-COMPLIANCE WITH MEDICAL SCHEMES ACT 131 OF 1998, AS AMENDED

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 a future recurrence. Also refer paragraph 10 below.

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.

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)(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.

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.

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 the governance section alongside.

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 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 form 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.

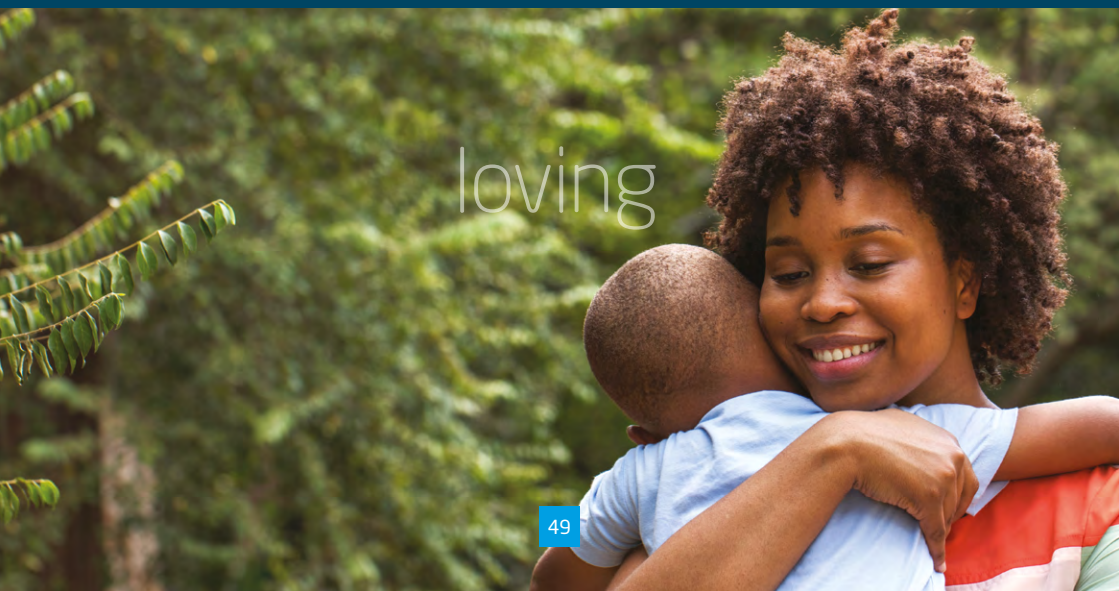
It was also found that subsequent to the initial conclusion of the contracts for non-broker services, some of the contracted parties may have registered as brokers with the CMS without disclosing this to the Scheme, which resulted in at least some of the payments to these parties possibly being in contravention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



AVERAGE CALL CENTRE RESPONSE TIME
17.5 HOURS

9.86%
NON-HEALTHCARE EXPENDITURE OF RISK CONTRIBUTIONS

INCREASE IN FACEBOOK LIKES
466%

562 912
WEBSITE VISITS
AVG MONTHLY 25 269

741
TWITTER FOLLOWERS

LOOK OUT FOR INFANT CARE
PROGRAMME 2016

2647
BESTMED BABIES BORN
1372 MALES • 1275 FEMALES

BE HAPPY

91.40%
RELEVANT HEALTHCARE EXPENDITURE AS A PERCENTAGE OF RISK CONTRIBUTIONS

1430 REGISTERED MOMS ON THE BESTMED MATERNITY PROGRAMME (20 WITH MULTIPLE PREGNANCIES)

3.66%
MEMBERSHIP GROWTH RATE

1.11
DEPENDANTS PER MEMBER

12.46%
OF BENEFICIARIES OLDER THAN 65 YEARS

29 PREFERRED SERVICE PROVIDER NETWORKS

1467
INDIVIDUAL CONTRACTED **BROKERS**

412 CONTRACTED BROKERAGES

BE SAFE

191 894
TOTAL LIVES COVERED

37.57
YEARS OLD
AVERAGE AGE OF BENEFICIARIES

3 097 302 236 CLAIMS PAID

THE TOTAL FLU VACCINES CLAIMED FOR 2015 = 18 906 UNITS

Bestmed in numbers 2015

18 HOSTED SPORTING EVENTS

28 635 PARTICIPANTS IN HOSTED SPORTING EVENTS

BE ACTIVE

370 EMPLOYEES (INCLUDING TEMPS)

9 EXECUTIVES • **21** MANAGERS

3 814 803 E-MAILS RECEIVED **3 709 751** E-MAILS SENT

25.58% SOLVENCY RATIO

BE FIN-FIT

PRINCIPAL MEMBERS **94 266**

104 639 NUMBER OF DEPENDANTS

BE NUTRI-WISE

R **11.15%** INCREASE IN RISK CONTRIBUTIONS

33 602 705 NETT SURPLUS FOR THE YEAR

9.80% INCREASE IN GROSS CONTRIBUTIONS

1021 AVERAGE NUMBER OF NEW MEMBERS PER MONTH

RESERVES **1 145 631 151**

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www.bestmed.co.za

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LOOK OUT FOR INFANT CARE PROGRAMME 2016

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